UNCLASSIFIED

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

HONDURAS

PROJECT PAPER

SHELTER FOR THE URBAN POOR II

AID/LAC/P-199

Loan Number:522-HG-008
Project Number:522-0206

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete)

Amendment Number:

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: HONDURAS

3. PROJECT NUMBER: 522-HG-008 522-0206

4. BUREAU/OFFICE: LAC 05

5. PROJECT TITLE (maximum 40 characters): SHELTER FOR THE URBAN POOR II

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 12 DD 31 YY 88

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

A. Initial FY 84 B. Quarter 4 C. Final FY 84

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

A. FUNDING SOURCE	FIRST FY B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total				600	100	700
(Grant)	( )	( )	( )	( )	( )	( )
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1. HG				25,000		25,000
Other U.S. 2.						
Host Country				--	4,700	4,700
Other Donor(s)						
TOTALS				26,500	4,800	30,400

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) SDA	720	860				700		700	
(2)									
(3)									
(4)									
TOTALS						700		700	

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

11. SECONDARY PURPOSE CODE

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

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To provide access to shelter to low income Honduran families through increased involvement by the Private Sector, and to generate employment opportunities to help stimulate the economy.

14. SCHEDULED EVALUATIONS

Interim MM 11 YY 86 MM YY Final MM 02 YY 89

15. SOURCE/ORIGIN OF GOODS AND SERVICES

[X] 000 [X] 941 [X] Local [ ] Other (Specify)

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

17. APPROVED BY

Signature

Title: ANTHONY J. CAUTERUCCI, MISSION DIRECTOR

Date Signed MM DD YY

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

Drafted:
DF:MJBaltodano

Cleared:
DF:WGKaschak

RHUDO:LHomo

CONT:PAmos

DMD:CLeonard

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

ASSISTANT
ADMINISTRATOR

GUARANTY AUTHORIZATION

PROJECT NO. 522-HG-008A

PROVIDED FROM: Housing Guaranty Authority

FOR: The Republic of Honduras

Pursuant to the authority vested in the Assistant Administrator, Bureau for Latin America and the Caribbean, Agency for International Development, 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 Million Dollars ($20,000,000) in face amount, assuring against losses (of not to exceed one hundred percent (100%) of loan investment and interest) with respect to loans including any refinancing thereof by eligible U.S. investors (Investor) acceptable to A.I.D. made to finance housing projects in the Republic of Honduras.

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 a grace period of up to ten (10) years on repayment of principal and a grace period on payment of interest. The guaranties of the loans shall extend for a period beginning with the disbursements of the loans and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loans.

2. Interest Rate: The rate of interest payable to the Investor pursuant to the loans shall not exceed the allowable rate of interest prescribed pursuant to Section 223(f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans made in the long-term U.S. capital markets.

3. The Republic of Honduras Guaranty: The Republic of Honduras shall provide for a full faith and credit guaranty to indemnify A.I.D. against all losses arising by virtue of A.I.D.'s guaranties to the Investor or from non-payment of the guaranty fee.

4. Fee: The fee of the United States shall be payable in dollars and shall be one-half percent (1/2%) per annum of the outstanding 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.

Victor M. Rivera
Assistant Administrator
Bureau for Latin America and the Caribbean

9/28/84
Date

Clearances:

PRE/H:SPWalsh
PVitale
GC/H:MGKitay
FM/LMD:HShropshire 9/25
SPapas
DAA/LAC:MDBrown
GC/LAC:RMeighan 9/27/84
LAC/DR:ILevy
RJordan 9/27/84
LAC/CAP/PAskin
PPC/PDPR:HTowsley

GC/H:BDavis:gjg 9/25/84 #1421P X23054

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

ASSISTANT
ADMINISTRATOR

GUARANTY AUTHORIZATION

PROJECT NO. 522-HG-008B

PROVIDED FROM: Housing Guaranty Authority

FOR: The Republic of Honduras

Pursuant to the authority vested in the Assistant Administrator, Bureau for Latin America and the Caribbean, Agency for International Development, 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 Five Million Dollars ($5,000,000) in face amount, assuring against losses (of not to exceed one hundred percent (100%) of loan investment and interest) with respect to loans including any refinancing thereof by eligible U.S. investors (Investor) acceptable to A.I.D. made to finance housing projects in the Republic of Honduras.

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

Victor M. Rivera
Assistant Administrator
Bureau for Latin America and the Caribbean

October 12, 1984
Date

Clearances:
PPC/PDPR:HTowsley
PRE/H:SPWalsh
PVitale 9/24/84
GC/H:MGKitay
FM/LMD:HShropshire
SPapas
GC/LAC:RMeighan
LAC/DR:ILevy
RJordan 9/27/84
LAC/CAP/PAskin 9/27/84
DAA/LAC:MDBrown
GC/H:BDavis:gjg 9/25/84 #1421P X23054

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LIST OF ABBREVIATIONS

AID	-	Agency for International Development
CDSS	-	Country Development Strategy Statement
DA	-	Development Assistance
DL	-	Development Loans
ENEE	-	National Electric Company
ESF	-	Economic Support Funds
FINAVI	-	National Housing Finance Agency
GOH	-	Government of Honduras
HG	-	Housing Guaranty
INVA	-	National Housing Institute
LA	-	Latin America
LAC	-	Bureau for Latin America and Caribbean
MOF	-	Ministry of Finance
OCM	-	Office of Contract Management
P.L. 480	-	Public Law 480
PRE/H	-	Bureau of Private Enterprise/Housing
RHUDO	-	Regional Housing and Urban Development Office
ROCAP	-	Regional Office for Central America and Panama
S&L	-	Savings and Loan
SANAA	-	National Water Supply and Sewer Company
UDA	-	Urban Development Assessment

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ANNEX TABLES

1'

1. SUMMARY AND RECOMMENDATIONS

A. Recommendation

USAID recommends the authorization of a $25,000,000 Housing Guaranty and a $700,000 development grant.

B. Summary Project Description

1) Background

Honduras has made significant progress in increasing the availability of housing for low income families. Much of this progress can be attributed to AID's active involvement in the country's shelter sector. In the late 1970s, AID persuaded the Government of Honduras to adopt a progressive national housing policy and institutional arrangements to carry out low-cost shelter programs. Over the years, AID has worked with all major institutions and key participants in the shelter delivery and finance sectors, bringing about institutional, programmatic and policy reforms which have increased the access to affordable and adequate housing by lower income families. AID's housing program in Honduras, representing a $45 million investment, is considered one of the most comprehensive and successful of AID's shelter programs.

The National Housing Institute (INVA) has introduced and gained acceptance for new shelter concepts, including wet cores, which enable the Government of Honduras (GOH) to reach many of the urban poor. Through the National Housing Finance Agency (FINAVI), over 3,000 low-cost housing solutions have been sold. By introducing the turnkey delivery system, both INVA and FINAVI have succeeded in increasing the potential for greater housing production by the private sector. However, most low income Honduran families are still unable to obtain decent housing due to the lack of mortgage financing and the low level of housing production. These problems are aggravated by a high level of population growth, especially in urban areas.

Private developers and bankers have long expressed their frustration regarding the lack of long-term mortgage financing for the private development of housing. This project will provide this needed financing by providing mortgage credit for units produced by both the public and private sectors which are targetted to lower income beneficiaries. The strategy of opening up housing resources to include new financial institutions such as commercial banks and expanding the role of private developers is expected to accelerate the absorption of resources. In addition, this project is expected to have a significant beneficial impact on the country's unemployment problem by creating 5,000 person-years of employment through direct on-site construction and an estimated 10,000 person-years in indirect employment opportunities.

This project will establish a strong basis for the allocation of further resources as they become available for investment in Central America under the Jackson Plan. The capacity of the public sector to produce low-cost housing more efficiently will be strengthened, and clear linkages will be established between private financial institutions, developers and the low-cost housing delivery system. As additional resources become available to USAID/Honduras, it is anticipated that other shelter and urban development projects aimed at creating new employment opportunities will complement this project.

During the implementation of 522-HG-005, INVA demonstrated its willingness and ability to make effective use of technical assistance, as exemplified by its initiation of the turnkey method of contracting in 1982 and its efforts to implement a full cost recovery policy. In building on its experience and success with the turnkey program, INVA will continue to address problems which hamper the efficient development of shelter for low income families.

The private sector financing to be provided under this project will build on and mobilize technical and personnel capacities which have been idled due to lack of resources resulting from economic stagnation in Central America.

Any long-term strategy for the Honduran shelter sector must address the need to generate domestic resources to sustain adequate levels of shelter financing. To this end, the establishment of a Social Housing Fund has been proposed. The Fund would significantly increase the availability of resources for housing investment. This project will enhance the production capacity of both public and private institutions, enabling them to employ effectively any such increase in financial resources. Since the enactment of the Social Housing Fund is still uncertain, the technical assistance to be financed under the proposed development grant will investigate other possibilities for establishing new or expanding existing resources for financing shelter development in Honduras, with particular attention to the savings and loan system.

2) Description

The project will provide increased access to shelter solutions for low income Honduran families through the expansion of public sector activities and the more active participation of the private sector. Roughly $15 million will be directed to INVA for the development of very low income projects in urban areas. The remaining $10 million will be channeled into a private sector component. Additionally, technical assistance will be provided to INVA to improve its administrative and financial management capabilities, and to the GOH to assist in the formulation of a medium- and long-term housing finance strategy, including the possible reorganization of the shelter sector.

The AID grant and Housing Guaranty funds of $25,700,000 will be matched by an additional $4,700,000 in local contributions consisting of public and private sector co-financing and beneficiary downpayments. These funds will be used to produce approximately 5,300 shelter solutions and to provide 2,600 home construction and improvement loans, as follows:

TABLE I

PROJECTED PROJECT OUTPUTS

Shelter Solution	Total #	Average Cost	Total Investment
Public Sector	3,919 1/	3,702	$ 14,508,000
Private Sector	1,425	8,561	12,220,000
Construction and Home Improvement Loans	2,648	1,122	2,971,600
Total Project	7,922	3,749	$29,700,000

1/ The number of construction and home improvement loans may be adjusted should project resources be required to finance necessary off-site infrastructure and/or community facilities.

The key elements of the program are as follows:

a. INVA and the private sector institutions will finance a range of low-cost units. INVA will expand its range of low-cost solutions to reach families whose incomes fall as low as the 5th percentile of urban income distribution, with the lowest cost solutions being serviced sites without a wet core. The testing of housing built with indigenous building materials such as bahareque and adobe will enable the lowest income families to build decent dwellings at affordable costs. INVA will expand and strengthen its shelter delivery capacity in secondary cities. Commercial banks will finance higher cost one-bedroom units affordable by families at or below the median income.

b. INVA will streamline its operations to reflect its reduced role in project construction, and INVA will adopt measures to cut operating expenses as well as to develop more efficient financial planning and operational procedures.

c. Private contractors will continue to refine the turnkey delivery system, obtain their own construction financing, and begin to market low-cost units, becoming significantly more involved and contributing to the more efficient delivery of low-cost housing.

d. Commercial banks will become a new financing channel through which low-cost housing will be developed.

e. Policy studies will be financed to support the development of a social housing fund or to identify other types of long-term internal financing.

3) Institutional Arrangements

The following institutions will be involved:

a. The Ministry of Finance (MOF) will contract for the $25 million in HG resources and it will guarantee the HG loan. In turn, the MOF will channel resources to the Central Bank for the private sector program (approximately $10 million) and to INVA for the modified public sector program (approximately $15 million).

b. The Central Bank will discount mortgages of low-cost housing projects financed by commercial banks and other financial institutions, using the same procedures it has used previously in setting up a line of credit to the construction sector.

c. INVA, like the Central Bank, will receive resources from the Ministry of Finance to discount mortgages in projects undertaken by private sector contractors. As prospective buyers of the units apply to INVA or are otherwise identified, INVA will direct them to the contractors who are constructing the units and are principally responsible for their sale. Only as a last resort will INVA play a role in marketing the units, and it is expected that private contractors will handle almost all aspects of marketing and sales.

d. Private banks will provide construction financing, service mortgages, and guarantee repayment to the Central Bank.

e. Private contractors will obtain construction financing, and build and market the units.

f. Beneficiaries will provide down-payments which will add to the total investment in housing construction.

4) Financial Plan Summary

The following summarizes financial plan of the proposed project:

a) A.I.D./US Investor	$25.0 million
b) Private Banks	1.0 million
c) INVA	1.5 million
d) Beneficiaries	2.2 million
Total Resources	$29.7 million

In addition, AID will provide $700,000 in technical assistance for two long-term technical advisors (program coordinator and local engineer), and a variety of short-term technical assistance in housing finance policy, low-cost housing marketing, market analysis, utilization of local construction materials, and an assessment of urban development trends and potentials.

C. Program Issues

1. Debt Risk

Historically, Honduras has met its overall external obligations on a timely basis. An increase in short-term debt contracted in the late 1970s, however, put pressure on the country's repayment abilities, and arrearages developed. In 1982, Honduras refinanced the principal due between 1981 and 1984, and contracted a $40 million loan. Though progress in some respects has been slow, overall improvements in the country's external debt position is already evident. The current account-to-exports ratio is the most favorable since 1973. Resumed economic expansion in the world's industrialized countries, coupled with the GOH's efforts to curb import growth, should result in further improvements on the current account.

Honduras has remained current on $43 million of contracted HG loans, and the impact of an additional borrowing in the amount of $25 million on the country's debt service ratio will be small, increasing it by only about .3 percent. The proposed HG loan is part of a larger assistance package designed to support Honduras' transition out of a difficult economic period. Since HG funds are offered at a lower rate of interest and for a longer term than most external financing which is available to the GOH, a HG loan can ease the country's external debt obligations while contributing significantly to the country's long-term economic stability.

The proposed HG borrowing will be structured in such a way as to minimize the risk to the AID Housing Guaranty Reserve Fund, as well as minimizing the government's outstanding indebtedness and repayment requirements. The loan is expected to be drawn down in three disbursements or tranches over a three-year period, thereby minimizing the amount of outstanding debt. A 10-year grace period on principal repayment would reduce payments, and consideration is being given to a 3- to 4-year grace period on interest repayment as well. Under this approach, interest would be rolled back into the amount of outstanding principal until interest payments commenced, but the overall impact of such a procedure would increase only marginally the cost of borrowing to the government. In fact, the ability to reinvest accruing interest in higher-yielding mortgages or other investments during the grace period would improve the GOH's overall capitalization. Since HG resources will not flow to the GOH until turnkey units are completed or Turnkey-Plus-Sales units are sold, the risk for both the GOH and AID under the proposed program will be reduced.

2. Employment Generation Estimate

Generation of new employment opportunities is estimated to total over 5,000 person-years of direct on-site employment, based on actual cash outlays and not including self-help activities. A total of 15,000 person-years of employment (including indirect employment) is projected for the first ten years of the project (see Annex M, "Economic Analysis"). Direct labor costs (payments) during the life of the project are estimated to total $4.3 million, resulting in increased personal income of $120 million in Honduras. In addition, it is estimated that the multiplier effect of a $25 million HG investment will result in long-term total investments in excess of $75 million. The impact of employment generation in the construction industry will have a positive effect on increasing wages among below median income workers by shifting unemployed individuals at the lowest income levels to employed persons earning wages at slightly above the minimum wage. One of the least quantifiable yet most important economic benefits relates to improved worker productivity resulting from better health correlated with improved living and shelter conditions.

The most directly measurable employment impact is the number of person-years of direct on-site employment. The Project Team reviewed the available studies which reflect a wide range of estimates for the cost per person-year of employment. In estimating the employment generation potential of this project, the team utilized 1984 estimates based on Honduras' experience in six completed Tegucigalpa upgrading projects for which monthly inspection reports provide an exact accounting of the total project costs and of the number of person-days of employment created. The estimates derived from this recent experience in Honduras falls at the conservative end of the estimates derived from studies in other countries; moreover, they are specific to the site where a significant proportion of the funds will be invested.

3. Contractor Participation

The Mission has determined that the participation of contractors should be left to market forces. Although promotion of the program will be structured to encourage the broadest participation of private contractors, the program will be initiated without regard for firm size or other special characteristics. Subsequently, any potential inequities in private sector participation in the program will be examined and remedied.

4. Imported Materials

The Project Paper Team examined various mechanisms to assure access to foreign exchange for imported materials. The materials import component for similar projects in Honduras is only 7 to 10 percent of the total cost of construction, principally electrical parts and toilets. While builders generally have enough lead time to initiate the procedures to obtain foreign exchange required to purchase these imported materials, construction materials only have third priority for obtaining hard currency (after food and medicines). Thus, developers/builders are likely to encounter difficulties. This problem will be reviewed with the Central Bank in the context of solving this problem by requiring the Central Bank to facilitate the approval of dollars for the small imported component of the total costs of construction. A covenant to this effect described in the section on Project Implementation will be included in the Implementation Agreement to be signed with the GOH.

5. Housing Strategy

Three previously-authorized Housing Guaranty Programs are in the final stages of implementation. A network for shelter delivery has been established through three institutional mechanisms: INVA, FINAVI, and the municipalities - all of which have developed the capacity to deliver shelter solutions. The municipal upgrading efforts have been successful in promoting improvements in squatter areas and dealing with land tenure problems on a cost recovery basis. The FINAVI project is in the final stages of implementation. FINAVI's involvement in AID's shelter programs came about in 1981 when it was decided to involve the savings and loan associations in lower income housing, and as a natural extension, the National Housing Finance Agency (FINAVI), which is the regulatory body for savings and loans, became involved. FINAVI's participation coincided with the government's launching of an emergency housing program designed to stimulate employment, thereby boosting economic growth. FINAVI achieved a significant level of production, exceeding 4,000 units in just three years, but the fact that a large number of the same types of units were placed on the market in a relatively short period during a period of worsening economic conditions resulted in FINAVI's inability to sell the completed units, creating financial problems for the institution. Subsequently, FINAVI has received technical assistance in marketing, and it is making progress in selling its inventory of about 3,000 housing units. Approximately $10 million of HG funds authorized for the FINAVI project have not yet been contracted, but there are more than enough complated housing units to absorb this undisbursed balanced once these units have been sold.

The key problem in housing remains the lack of long-term financing. This issue is being addressed in the Honduran Congress through the proposed Social Housing Fund. If this legislation is enacted, AID will continue to provide needed policy analysis as well as to advise on the fund's implementation. Studies of other potential sources for long-term housing finance will also be undertaken.

In the short-term, a two-fold strategy is envisioned: strengthening the existing shelter institutions and expanding the role of private commercial banks in lower income housing. In the past, INVA has successfully directed its efforts to financing innovative low-cost housing solutions, negotiated with private sector contractors to implement turnkey construction projects, and improved its own operations and systems. Though INVA has had programatic and operational problems, they have not always been of its own making: INVA's costs of borrowing increased dramatically in the early 1980s, promised loans failed to materialize, and GOH budget support was eliminated. As a result of this last factor, INVA is facing a difficult transition period, and this program is designed to address its need for long-term finance at this time. INVA will build on its past experience and gains with private contractors, and the marketing of completed units will become the responsibility of the contractors. In addition, INVA should benefit from the proposed technical assistance by reducing its operating costs and improving its financial management and planning capabilities.

6. Increased Private Sector Participation

The largest commerical bank in Honduras has expressed a strong interest in participating in the lower income housing sector, as provided for under this proposed HG program. We believe that other private banks and institutions will also be interested in developing and/or financing low-cost projects, particularly in light of the fact that many private firms have investments in land and construction companies which are presently under-utilized. It is anticipated that this project will significantly expand private sector involvement in low-cost housing by demonstrating its economic feasibility.

Both the public and private sector finance components of this HG program will be designed and constructed by private contractors. The contractors will secure construction financing from local financial institutions, thus sharing the risks of the program. Profit incentives will be employed to encourage developers to accelerate project delivery. Finally, the contractors will take the lead in marketing the completed units.

7. Project Financing

It is anticipated that the proposed HG loan will be amortized over 30 years, with a 10-year grace period on principal. Consideration will be given to a three-to-four-year grace period on interest, if warranted at the time of borrowing. Loans to beneficiaries of both the public and private sector will be offered at effective rates of between 17 percent and 19 percent, with 20-year terms for new houses and 10-year terms for construction and home improvement loans. Market studies indicate that these terms and rates are affordable by the intended beneficiaries.

8) Water and Electricity Hook-ups

The Project Paper Team reviewed the need for - and any problems associated with - ensuring the coordination of the provision of infrastructure with the completion of housing units. It was determined that the critical steps in this process of coordination are: (1) the review of project plans by the infrastructure authorities and their acceptance of the projects within the existing distribution network; (2) their commitment to invest in necessary off-site improvements on a feasible timetable; and (3) monitoring and supervision of the execution of commitments by the utility companies. Since accountability to a higher authority in meeting such commitments has been a problem in the past, AID will require the establishment of a coordinating committee to be chaired by the President of INVA's Board of Directors who is also Minister of Public Works. The AID technical advisor will act as secretary of this committee. While this committee cannot absolutely guarantee coordination, it will provide a mechanism at the higher levels of the government for addressing any problems which may develop.

Water problems in the Tegucigalpa metropolitan area are commonly a hindrance to all economic development, including shelter. The city's water sources have always been costly to develop and financing has been inadequate, with the result that very few Tegucigalpa homes have a continuous water supply throughout the year. Even those sources of water which are already developed have not been fully exploited due to the lack of financing to pay for expanding of the capacity of the existing major dams, neighborhood water tanks and pumps. Through the Mission's CDSS "First Offensive" on unemployment, the Ministry of Finance and the Mission have agreed to invest the equivalent of $6.5 million in local currency in long overdue pipe replacement or pipe upgrading projects, utilizing pipe already in-country which has been provided by the British government. A RHUDO consultant has also recommended to the National Water Supply and Sewer Company (SANAA) a $7 million emergency construction package which is now under consideration both by SANAA and the Mission for possible financing under the continuation of the Mission's "First Offensive" effort. The investments agreed upon or now under consideration by SANAA and AID will be effective short-term responses to water shortages in Tegucigalpa. Moreover, increasing the supply of water in certain areas of the city will transform useless land into prime sites for shelter development, especially in the city's southeast quadrant. Off-site investments may be required in secondary cities as well, but the scale of their problems is minor compared to those faced by Tegucigalpa, and there are many alternative opportunities for shelter investment in these other communities.

9) Women in Development

A large number of female-headed households are found within the low income population. These households will have equal access to homes under this project. First, there are no legal barriers to women owning property in their own name or obtaining credit. Second, it is apparent that women already receive a fair share of the benefits offered by INVA. A majority of the homes in recent INVA projects are titled in the woman's name, whether married, divorced or single. Conceivable explanations include the desire of mothers to provide security for themselves and their children regardless of their relationship with the father of the children, or the desire of fathers engaged in small-scale commercial enterprises to protect their families in case of business failure. Third, many low-income women have the economic capacity to pay for the homes. Female employment is high in Honduras, with over 45 percent of women over 15 years of age employed in Tegucigalpa and 40.6 percent in San Pedro Sula. Wages in centrally located neighborhoods where female headed households are concentrated are higher than in other marginal neighborhoods. A comparison of male and female headed households reveals that wages in female households are not significantly lower in these areas. (ASEPADE, 1982).

10. Grant Project Development: Gray Amendment and Payment Verification

Compliance with the payment verification policy and implementation guidance is to be found in the section on Project Implementation. Opportunities for groups covered by the Gray Amendment are described in the technical assistance section, and timing and contracting methods are discussed in the section on implementation. Part of the grant-funded technical assistance will be procured in Washington by the Office of Contract Management (OCM) and part by the Mission in Honduras. The Gray Amendment requirements are already being met by PRE/H and OCM in the periodic competitions for definite and indefinite quantity contracts. Gray Amendment requirements will also be incorporated into whatever contracting is performed by USAID/Honduras pursuant to Agency policy.

II. PROJECT DESCRIPTION

A. Background

1. Overview

Honduras' population in 1984 was estimated at 4.1 million, more than double the 1955 population of 1.6 million. The rate of annual population growth was 2.9 percent between 1961 and 1980, and 3.4 percent between 1970 and 1980. Well over half of the population increase in the last two decades has occurred in the urban areas.

In the country's two largest cities, Tegucigalpa and San Pedro Sula, population grew at an annual rate of 6.2 percent during this period, with marginal neighborhoods expanding at double that rate. Smaller cities (over 2,000 in population) grew by 4.2 percent annually, absorbing 22 percent of the nation's population growth. By 1980, almost one out of every five Hondurans was living in Tegucigalpa or San Pedro Sula, and one out of six in another of Honduras' secondary cities.

Continuation of these trends over another 20 years will increase Honduras' urban population to three times its 1980 level while the rural population will increase by scarcely more than one-fourth. In the year 2000, 55 percent of the nation's population will be living in urban areas, reversing the historical pattern of rural dominance.

The last national housing census, carried out in 1974, indicated that over 60 percent of the existing housing units in Honduras have structure deficiencies or inadequate services. According to the National Housing Plan for the 1982-1986 period, the need for new or improved housing is estimated at 450,000 units, of which 22 percent are located in urban areas.

A survey conducted in 1981 to determine living conditions in the low income areas of Tegucigalpa found that 60 percent of the Tegucigalpa housing stock is without indoor plumbing, water, or a flush toilet. Forty-four percent of the city's residents are without access to the potable water system; in San Pedro Sula, the level is 43 percent. Housing conditions in secondary cities are far worse.

In 1980, an AID-funded study estimated the level of investment required to provide at least minimum shelter for all families. During the 1981-85 period, the study projected the need for 20,700 new housing units to be produced each year requiring an investment of $46 million. Of this total, 11,000 units would be for families living in urban areas, requiring an investment of $41 million. In contrast, during the 1977-82 period, the public sector produced only 7,900 units. In the same years, the formal private sector produced 8,145 units, almost none of which were affordable by families at or below the median income. The problem of inadequate housing production, particularly in urban areas, continues to generate land invasions, especially in Tegucigalpa.

2. Rationale

The National Bipartisan Commission on Central America has recommended expanding housing and infrastructure construction programs in that region. The Commission identified the Housing Guaranty Program as one resource to be used in meeting the region's unmet shelter need while creating employment. The Commission has also recommended enhancing the role of the private sector in the shelter sector.

The proposed HG project will directly address many of the Commission's concerns and recommendations. Structural deficiencies in Honduras' shelter sector will be addressed, low-cost housing will be produced and employment opportunities will be generated. Housing finance institutions will be strengthened through technical assistance and training, and resources for long-term mortgage financing will be provided. The role of private sector contractors and commercial banks will be expanded. Finally, assistance will be provided in formulating a national shelter strategy and generating domestic resources for housing investment.

This shelter initiative is an integral part of the Mission's development strategy. By relying exclusively on the private sector for a part of the program and expanding its role in INVA's component, project implementation and job creation will be expedited. By eliminating distortions in the finance policies of INVA and increasing its effectiveness, the efficiency and absorptive capacity of the entire shelter sector will be improved, thus enhancing the sector's capacity to utilize efficiently greater levels of investment in future years.

The Jackson Plan, reinforcing the objectives of the National Bipartisan Commission, calls for a 25 percent increase in the coverage of water and sewerage services by 1989. This project will make a significant contribution to meeting this objective. Water and sewerage services are currently being financed as part of an upgrading program for over 20,000 low income households in Tegucigalpa and San Pedro Sula under 522-HG-C06. This program is considered very successful, and when the funds available under HG-006 are depleted, consideration will be given to a follow-on program to continue providing water and sewerage services to the poorest urban neighborhoods.

This program's objectives, which emphasize the participation of the private sector and the need for employment generation, are also central to the Mission's FY86 CDSS. In addition, the CDSS also supports strengthening the country's shelter institutions and developing sources of domestic financing. This latter objective will be supported by the technical assistance program described below.

Legislation for a Social Housing Fund has been under consideration by the Honduras Congress for the last two years. This legislation could make a substantial contribution in generating needed shelter resources as well as improving the coordination of the sector's activities. AID has provided technical assistance in support of this effort. The recommendations by AID have been effective in stressing the need to avoid creating new bureaucratic institutions and to ensure that invested resources will produce in an adequate return on investment. AID has recommended that mortgage interest rates reflect the country's market conditions and that the interests of the individuals contributing to such a fund be protected.

3. Other Donors/Other Resources

While the World Bank and the Inter-American Development Bank have recently increased financing for water and sewerage projects in San Pedro Sula (World Bank) and secondary cities (IDB), little funding is being made available for shelter programs apart from the Housing Guaranty Program. The financing that does exist is offered at very low interest rates and is directed at construction in some of the country's poorest rural areas. The Dutch Government has provided $3.5 million for projects through the national cooperative foundation in Honduras (FEHCOVIL), and the German Government is providing houses through INVA under a $2 million loan for campesino organizations. The European Community also has a special, highly-subsidized program of $1 million directed towards the Xicaques Indians. None of these donors has active plans for future programs, and if they did, the focus would continue to be the poorest rural areas.

4. Public Sector

The National Housing Institute (INVA) has made significant strides over the past few years to provide increased amounts of shelter for low income families. INVA has introduced new design concepts based on affordability. At the same time, it has adopted the turnkey delivery system as the most effective and efficient method of developing housing projects. Finally, the termination of the government's annual budget appropriation for INVA has forced the institution to sharpen the focus of its attention on its cost recovery while continuing to provide low-cost housing solutions.

AID has played an instrumental role in bringing about many of these improvements in INVA's operations, particularly through the technical and financial assistance provided under 522-HG-005 which has been documented in detail in a Project Evaluation (May 1983). With assistance from consultants, INVA has developed management and operational procedures and guidelines. However, recent staff turnover has had a somewhat deleterious effect on INVA's management capabilities, and one of the purposes of the proposed technical assistance under this program will be to train the present staff in the use of these procedures and guidelines.

The adoption of the turnkey delivery system gave INVA the capability to produce shelter solutions more rapidly and efficiently. The principal ingredient in this type of delivery system consists of a strong input from the private sector. As currently structured, the private sector developers/builders assume responsibility for assembling project sites, designing the projects, securing utility services, obtaining construction financing and building the projects, all of which were INVA functions in past projects (except for construction in some cases). Expanding on this concept will further improve INVA's capability to deliver low-cost shelter solutions.

The government's recent decision to cease annual budgetary contributions to INVA has forced INVA to implement a policy of full cost recovery. INVA must now incorporate all project costs into the sales price. Accordingly, INVA has increased the fees it will charge for development, sales and management. INVA has not tried to reduce its costs to compensate for lost government revenues, nor has INVA assessed the impact of those increased fees on the marketability of the units being developed and sold. With respect to these increased costs, INVA has not yet applied cost accounting techniques to determine if the fees charged are adequate to cover expenses. The proposed technical assistance will assist INVA in its financial planning and procedures in order to cope with such problems as it tries to attain self-sufficiency.

The loss of government subsidies, coupled with increasing interest rates and declining purchasing power on the part of beneficiaries, has resulted in INVA's promoting lower cost shelter solutions. In past projects, INVA has developed serviced sites with a wet core; under this proposal, INVA will develop sites and services without a wet core. In doing so, INVA will be able to reach families in Tegucigalpa earning as little as $110 monthly.

Inasmuch as a large portion of the nation's construction sector is idle, the project will create new business opportunities for construction companies, in both the formal and informal components of the construction sector.

For most low income families, the purchase of a serviced site or wet core represents a major improvement in their living standards, as well as an important source of equity and savings. As their incomes permit, homebuyers typically make improvements to their properties, making use of home construction or improvement loans to purchase materials. These activities have a positive multiplier effect on the economy by generating an additional flow of funds to the residential construction sector.

The National Housing Finance Agency (FINAVI) had considerable success in its early years in its role as a secondary financing institution, discounting over $50 million in low and moderate cost mortgages. In 1980, the Government of Honduras initiated a poorly structured emergency shelter program to stimulate economic growth, under which the government assumed all the risk and the profits went to the private sector. In 1981, AID agreed, after certain modifications, to support a portion of this program and authorized a total of $25 million in housing guaranty loans. FINAVI achieved a significant level of production, financing over 4,000 units in three years, but the failure to charge the private sector for the interim financing and the fact that a large number of the same types of units were placed on the market in a relatively short time in the same locations under worsening economic conditions created serious financial problems for FINAVI. The carrying costs on the unsold houses charged to FINAVI's interim financing diminished FINAVI's financial strength. FINAVI has received technical assistance in marketing from PRE/H and USAID, and it has made progress in selling its inventory of some 3,000 units. Special promotional efforts have been devised, including institutional sales of large blocks of units. Approximately $10 million of HG funds obligated to the FINAVI project remain undisbursed, but there are more than enough units to absorb these funds once the units are sold.

In the future, FINAVI could and probably should re-establish its original relationship with the savings and loan system, reduce its role in interim financing, and develop ways to leverage its portfolio to attract resources to be channelled to savings and loans. In the meantime, AID is making every effort to assist in effecting the prompt sale of FINAVI's units.

The Mission's Upgrading Program in Tegucigalpa and San Pedro Sula (522-HG-006) has successfully coordinated a large number of agencies to produce minimum cost shelter improvements for a large number of families. Beneficiary participation has been enthusiastic, with each neighborhood clamoring to be the next neighborhood to be included in the program. One constraint in the program's expansion has been the municipal government's lack of working capital. In Tegucigalpa, implementation of this program has been hampered by overall water shortages. While this program has been moving steadily, over $3 million remains available for investment in new neighborhoods.

INVA remains the logical choice for investment of resources in low-cost housing. INVA has successfully implemented earlier HG activities, and by continuing assistance to INVA under the project, it is expected that the institution will continue to improve its capacity to produce lower income shelter solutions. AID has made a substantial investment in INVA to date, which has resulted in a stronger institution, but there is still the need for further improvements and expansion. In the past, INVA demonstrated its willingness to adopt measures to improve its effectiveness, and every expectation is that it will continue to do so. Without AID's assistance, however, INVA will deteriorate and the future of an institution which has played a very positive role in developing low-cost housing will be jeapordized.

5. Private Sector Developments

The private sector has played a significant role in the production of housing. Private sector developers have packaged major housing projects, particularly in the larger cities. Both interim (construction) and mortgage loans have been originated by private savings and loan associations, and to a lesser extent, commercial banks. The beneficiaries of these projects have generally been middle income families, and loans have typically been amortized over 15 to 20 years with interest rates ranging from 14 to 19 percent per annum. In some cases, projects which were financed by external loans and channelled through the savings and loans associations have had relatively concessionary terms, and in turn they have been used to benefit lower income groups.

By and large, private sector developers/builders and bankers have not been interested in becoming involved in low-cost housing due to the perceived higher risk and lower profitability. However, the recent experience of private sector businessmen with INVA's turnkey program has demonstrated to them that the risk is lower than anticipated and the profits reasonable.

In recent months, the country's largest private bank has indicated a strong interest in becoming involved in the lower income housing sector. Moreover, some developers and builders have stated that they are willing to develop projects targeted to poorer families, assuming the availability of long-term mortgage financing. Generally, projects carried out by the private sector are both more efficient and less costly; therefore, increased involvement of the private sector in producing lower income housing would offer substantial long-term benefits.

The private sector component of this program is included to increase the pace of housing production and to demonstrate to the Government of Honduras the value and importance of expanding the role of the private sector in the production of lower income housing. As the private sector gains experience in this sector, and realizes that risks and profitability associated with lower income housing are within acceptable ranges, it is anticipated that private institutions will be increasingly prepared to direct additional resources to low-cost housing.

B. Detailed Project Description

1. Project Goals

The goals of this program are: to provide access to shelter to low income Honduran families through increased involvement by the private sector, and to generate employment opportunities to help stimulate the economy.

The goal of increasing private sector participation in lower income housing recognizes that the public sector can not be expected to provide for all housing needs. Increased involvement by the private sector is expected to yield the following benefits: (1) more efficient production of housing; (2) more efficient marketing and sales; (3) additional outlets to promote and finance the delivery of low-cost solutions; and (4) a more narrowly defined role of public sector agencies such as INVA in the shelter development process. Public sector institutions will increasingly restrict their involvement to the very lowest cost solutions, while private sector institutions begin to channel financing to somewhat higher income levels but still below the median income. The INVA component of the program also will stress institutional changes to improve management, reduce operating costs and more efficiently use its financial resources to strengthen its operations. The turnkey system will be expanded to include all INVA-developed projects.

2. Project Purpose

The project purpose is: a) to develop within INVA the added capability to produce low income solutions through collaboration with the private sector, and to assist INVA to become a financially self-supporting public housing agency; and (b) to increase the range of institutions which finance, produce, and deliver lower income housing solutions by involving private sector finance, construction, and marketing entities. Accomplishing these purposes will accelerate housing production and increase employment opportunities.

a. Enhance INVA Capability

INVA has embraced the concept of increased private sector involvement as part of its efforts to broaden the institutional and financial structure for housing in Honduras. INVA recognizes that the private sector efficiently produces housing, and thus private sector involvement will enable a higher level of shelter production on a more sustainable basis. By collaborating with the private sector, INVA will be able to expand government support and resources for low income housing, at little additional cost to the government. At the completion of this project, INVA will have established a strong working relationship with the private sector, through the turnkey delivery system, and the private sector will have taken the lead responsibility for marketing and selling housing units. These changes will enable INVA to reduce staff and accelerate the coordination between project completion and occupation of units.

INVA is committed to becoming a financially self-supporting institution so that it can continue to serve as the nation's public housing agency. The decision by the GOH to cease annual budgetary contributions to INVA has caused INVA to more accelerate implementation of its full cost recovery policy. INVA also recognizes the need to reorganize its internal organizational structure and to reform its financial management system. The Management Audit delivered to INVA on July 3, 1984, offers recommendations on how such management and operational changes can be accomplished. INVA will start to implement management reforms during the early stages of the project, with the expectation that many of these reforms will be in place either before the loan is contracted or before the loan proceeds are disbursed. By project completion, INVA will have made significant progress toward becoming a self-supporting agency with the organizational and financial management reforms in place. These changes will become evident as INVA improves its own financial planning and as the private sector increases its role in building and marketing lower cost projects.

b. Increase the Range of Involvement of Private Sector Institutions

For the past few years, private sector contractors have supported the turnkey system adopted by INVA. And in the last year, private finance institutions have relayed to the Mission their interest in greater involvement in low-cost shelter programs. The program will increase the range and involvement of private institutions in the following manner: (1) private financial institutions will finance construction and sales, and will service mortgages; (2) private contractors will build and market projects; (3) private real estate firms will be employed to sell low-cost projects; and (4) private sector architects and engineering firms will supervise the project development process.

3. Outputs

a. Physical Outputs

The design of the program and the solution typologies draw upon previous HG programs. INVA will offer serviced lots without any construction above grade as a new and additional shelter solution. (Previously, INVA has developed serviced lots with an above-grade wet core).1/ These serviced lots will be affordable to families with incomes as low as $110 per month. A home construction loan for materials will be offered to provide for the construction of an $18m^2$ core unit. The site and service/home extension loan solution is affordable to families earning as little as $200 monthly. In addition, INVA will continue to offer a wet core solution, consisting of a $3m^2$ sanitary core, which could be expanded by obtaining a home improvement loan, increasing the size of the solution to $18m^2$. A basic core of $18m^2$ will also be offered. Home construction and improvement loans will be offered initially only to families who purchase the two least expensive solutions, the serviced lot and the wet core solutions. Based on the experience of 522-HG-005, many of the eligible families will take advantage of this loan offer. In the event there is less demand for home construction and improvement loans than anticipated, unused funds may be used to provide loans to families wishing to expand the $18m^2$ basic unit or to make additional improvements to any of the other shelter solutions being planned.

The private sector will offer solutions affordable at or below the median income. Initially, the units developed by the private sector will be one-bedroom units, but smaller and/or less expensive units may be developed, depending on market conditions and construction costs. The private sector will be encouraged to build increasingly more minimal solutions, thereby reaching lower income groups, and both the Mission and proposed technical assistance advisors will work with the private sector to achieve this goal. The fact that low-cost units will be available through the private sector represents a new approach to and source of low-cost housing in the country.

The following table summarizes the program's projected physical outputs. Unit prices are based on actual sales prices as of June 1984. An inflation factor of 12% per annum is built into the calculations. The actual distribution of types and locations of units will be based on the evaluation of risk and market by the private sector income, and the results of INVA's market studies and evaluations of applicant waiting lists.

1/ In the annexes to this Project Paper, the term 'sites and services' has been used to refer to proposed shelter solutions under this program. In the Project Paper, however, this same solution is referred to as 'serviced lots' to make the distinction between what INVA is now proposing to develop and what INVA has developed in the past which were 'sites and services with wet core.'

TABLE II

Expected Physical Outputs

Types of Solution	1985	1986	1987	1988	Total
Serviced Lots	255	380	407	364	1,406
Wet Core	293	436	467	417	1,613
Basic Core	163	243	261	233	900
Home Construction/ Improvement Loans	480	718	766	684	2,648
1 Bedroom	325	581	519	-	1,425
Total	1,516	2,358	2,420	1,698	7,992 1/

1/ This represents the total number of physical outputs. However, since home construction and improvement loans are intended for beneficiaries of serviced lots and wet core solutions, the actual number of families to benefit is 5,344. The number of completed units may be adjusted should project resources be required to finance necessary off-site infrastructure and/or community facilities.

Precise unit costs will be determined on case-by-case basis. Data available on current low-cost shelter solutions in Honduras suggests that average costs for the proposed units will be those given below

TABLE III

SALES PRICES OF UNITS (US$)

Types of Solution	1985
Serviced Lots	2,050
Wet Core	2,950
Basic Core	4,800
Home Const. Loans	927
1 Bedroom	7,500 1/

1/ This cost represents the highest end of the scale for units to be developed by the private sector.

b. Institutional Outputs

1) The INVA outputs include the following:

i) organizational changes to reflect the greater participation of the private sector in building and marketing lower income housing;

ii) operational changes to maintain INVA's operating expenses at or below current levels;

iii) improvements in INVA's cost accounting system to enhance its monitoring and control of project development and costs;

iv) development of a financial planning and information system to make financial management decisions (e.g., setting interest rates);

v) improvements in INVA's market analysis capabilities; and;

vi) expansion of INVA's capacity to service mortgages, finance units, and promote the delivery of low-cost shelter in cities other than Tegucigalpa and San Pedro Sula.

2) The private sector outputs are as follows:

i) Involvement of private finance institutions in low-cost housing.

Currently, private finance institutions serve primarily the upper and middle income markets; their preference has been to make shorter-term investments which can be rolled over more quickly and to adjust interest rates based on market conditions. This program will make long-term funds available for lower income housing which will be a strong incentive for the private sector to originate mortgages for lower income families.

ii) Assumption of risk by private contractors.

Private contractors will construct projects with borrowed funds; they thereby assume the risk involved from the time a project is begun through the time the units are sold, rather than receiving advances for construction and guaranteed take-out financing regardless of sales performance.

3) Other outputs

Any long-term strategy for the Honduran shelter sector must address the need to generate domestic resources for shelter on a continuing basis. If the Social Housing Fund legislation is enacted, the Mission will continue studies that support its implementation in the context of building upon the existing network of shelter institutions, including the private entities which are being supported through this program. In addition, the Mission will help establish the organizational structure and procedures for handling the funds which will be generated under the legislation. However, as the fate of the Social Housing Fund is uncertain, technical assistance under the development grant will investigate other possibilities for establishing or expanding the shelter sector's resources, and recommendations will be made on appropriate mechanisms for directing investments into the shelter sector.

4. Project Inputs

a) Financial Inputs

Tables IV and V summarize the financial inputs and the distribution of resources for the project. The proposed HG loan in the amount of $25 million is currently expected to be drawn down in three disbursements or tranches over a 3-year period. In addition, approximately $5.0 million in ESF resources are being channeled into the Tegucigalpa water and sewer system to improve the capacity of the current system, which will complement other HG investments.

TABLE IV

FINANCIAL INPUTS (000's US$)

Public Sector	$17,480
HG	15,000
INVA	1,500
Beneficiaries	980
Private Sector	12,220
HG	10,000
Private Financial Inst.	1,000
Beneficiaries	1,220
Sub-Total Physical Investment	29,700
Technical Assistance	700
Total Investment Package	$30,400

1/ Beneficiary contribution includes downpayments, except in the cases of home improvement loans.

TABLE V

DISTRIBUTION OF RESOURCES TO PROJECT ACTIVITIES

Project Activity	AID	Host Country 1/	Total	Percentage
Serviced Lots	$ 2,929,000	571,000	3,500,000	12
Wet Core Units	4,853,000	947,000	5,800,000	19
Basic Core Units	4,518,000	882,000	5,400,000	18
1 Bedroom Units	10,000,000	2,000,000	12,000,000	39
Construction loans	2,700,000	300,000	3,000,000	10
Technical Assistance	700,000	.2/	700,000	2
	$25,700,000 (85%)	4,700,000 (15%)	$30,400,000 (100%)	100 %

1/ Including beneficiary down payments, INVA counterpart and private sector co-financing.

2/ The GOH will make an in-kind contribution which will include counterpart salaries, space, and the value of data processing equipment and software purchases in support of the technical assistance program.

b) Technical Assistance Inputs

1) Resident Advisors

Two full-time resident advisors will be assigned to this project. Their task will be to assist INVA in the development and delivery of shelter solutions, and to advise INVA on ways to improve its institutional capacity. The advisors will also assist USAID in overall project management.

i) A Project Manager, under supervision of RHUDO/ROCAP, will coordinate AID's technical assistance program. He/she will be responsible for providing assistance and advice to INVA in the design and implementation of INVA's component of the project. He/she will also advise USAID on the project status, monitor the use of funds, and help coordinate other technical assistance to be provided. The advisor will have a broad background in housing in developing countries. This Personal Services Contract will be let by USAID/Honduras.

ii) A Technical Advisor will be contracted by the Mission from the large inventory of competent bilingual, local engineers who have been evaluated by RHUDO and the Mission in recent procurements. The technical advisor will be supervised by RHUDO and will provide the following services:

- Assisting INVA in improving the internal management of its technical staff through implementation of organizational changes and other recommendations pursuant to the administrative audit. This will include improvement and streamlining of INVA's management of the turnkey process, with consideration of how turnkey inspection costs can be reduced and how INVA can be more prompt in responding to requests for inspections for final acceptance;

- Improving the coordination and monitoring of infrastructure construction necessary to the timely delivery and sale of completed units. The advisor will represent AID as an ex officio member of a working committee also to include INVA, the relevant municipality, SANAA and ENEE. As Secretary of this committee, the technical advisor will call regular meetings, prepare agendas, and keep notes of meetings to ensure follow-up on the issues discussed.

- Coordinating employment generation efforts under this project with other Mission efforts (especially with respects to SANAA);

- Carrying out the efforts to involve the private sector;

- Assisting INVA in designing efficient methods to manage its home improvement loan program and the promotion the use of indigenous construction materials such as bahareque and adobe; and,

- Providing RHUDO with the technical reviews required for approval and acceptance of projects.

2) Policy Studies

The general long-term housing strategy for Honduras requires further definition, meriting up to two months of consultant services on the following topics:

i) Mobilization of Resources

The Government of Honduras has largely relied on external sources for shelter financing, with little domestic funding made available. To sustain and expand the growth of the shelter sector, domestic resources must be identified and mobilized. The proposed Social Housing Fund represents a potential source of needed resources, but its enactment is uncertain and may not come about for some time. Accordingly, other possible mechanisms for mobilizing shelter resources need to be examined.

ii) Establishment of Appropriate Interest Rates

In the past, internal interest rates for housing have reflected the cost of external funds, and these rates have generally not reflected actual market conditions in the country. An analysis of the interest rate structure for the shelter sector should be made as part of a strategy to mobilize domestic resources for housing finance.

iii) Savings and Loan System

An integral part of the shelter finance system is FINAVI and the savings and loan system. FINAVI has made a major contribution to the shelter sector in Honduras, financing over $50 million in low and moderate income mortgages in the last six to seven years. However, FINAVI and its members are now faced with many of the same difficulties confronting savings and loan system in other countries: low-yields, fixed rate portfolios, disintermediation and increasing costs for borrowing, as well as disadvantages imposed by government regulations in competing with commercial banks. The GOH is concerned with these problems and has indicated it will welcome technical assistance which is proposed in this area.

Five person-months of technical assistance are provided under this project to the savings and loan system and FINAVI. The advisors will assist the S&L's to restructure existing loan portfolios and advise in ways to mobilize savings to be directed to the housing sector. In addition, the advisors will study FINAVI's regulatory framework and the need of the S&L's to diversify into other lending areas. Advice will also be provided to the GOH in the area of deregulation so as to permit the S&L's to be competitive with other financial institutions. Finally, advice will be provided in establishing an appropriate interest rate structure.

iv) Technically Efficient Solutions

INVA has implemented the wet core solution and plans to design and implement an even lower cost solution - the serviced lot. A study will be carried out to determine if these types of solutions are the most effective economic and social alternatives to solve lower income shelter needs, and what other options or improvements to these solutions could be offered.

v) Urban Development Strategy

An Urban Development Assessment (UDA) will be performed to identify and analyze key urban development issues and opportunities. This study draw on extensive research previously carried out and will result in an outline of a broad, economically achievable strategy, which defines the basic urban development parameters within which specific sectoral initiatives and priorities can be carried out.

The main product of the UDA will be a set of urban development strategy recommendations which can be considered by the Mission, donors and the GOH. These recommendations will address:

- Modifications in existing government policies, whether explicit or implicit, which will be needed to establish a coherent urban development strategy;

- New legislation or modifications to existing legislation or regulations needed to implement existing or proposed urban development policies;

- A suggested framework for public and private sector capital investments;

- Technical assistance, staff training and institutional modifications needed to implement the strategy proposed; and,

- Special studies or further analyses required to address issues, problems or opportunities identified.

It is anticipated that the UDA will assist the Mission in formulating an investment strategy for those sectors to which it accords high priority (i.e., infrastructure, housing, health, education and agriculture), culminating in future programs to be identified in the CDSS.

The result of this assessment will be short and long-term strategies for urban investment with a specific focus on the minimum social and physical infrastructure requirements to support further shelter and economic development. Special attention will be given to planning medium and long-term strategies for the financing and cost recovery of water and sewerage services in Tegucigalpa, and to the provision of primary streets which are essential to the social and economic integration of poorer neighborhoods. The analysis will also address national, institutional and financial capacities which are required to provide water and sewerage services in smaller urban areas, and it will propose a strategy for cost recovery. Focus will also be placed on issues which are critical to the Mission's overall development strategy.

3) Short-Term Advisory Services

During the life of the project, short-term technical assistance will be provided in a number of areas. All assistance will focus heavily on implementing the changes and recommendations made during the evaluation of HG-005 and the subsequent management audit. Both studies recommended that the technical advisors focus on designing systems that can be institutionalized, thereby minimizing the loss of continuity caused by staff turnover.

Technical advisors will involve INVA's staff in designing internal systems as well as teaching the proper use of the systems through "hands on" training. The assistance will reach as broad a range of staff as possible. Formal training in Honduras and other countries will be financed under the grant. Participant training in the United States or Puerto Rico will also be used as necessary to complement the technical assistance, and will be funded from separate resources such as the LAC Training Initiative Program.

i) Marketing

Market Surveys

Technical assistance will be needed to refine INVA's project selection techniques and design an overall methodology to allow INVA to estimate effective demand for housing in a given locality. This TA will be divided into two parts: sampling techniques and survey methodology. A specialist with demonstrated ability in selecting sampling frames for housing demand studies will assist INVA to review available data on the cities in which INVA projects are contemplated. This consultant will recommend the appropriate sampling techniques needed in order to define the size of the market for each city and the demand for each type of housing solution. The consultant will train the INVA staff by working with them to draw the sample for a first survey. The consultant will return at the start of the second study to work with INVA staff to reinforce the initial training and ensure that the sample survey method is appropriate and accurate.

During the second part of the TA, a social scientist with experience in the design and implementation of social surveys and market studies will provide guidance on all aspects of taking a survey, including designing the questionnaire, training interviewers, and using a computer for data processing and analysis. Technical assistance also will be given at this stage in alternative survey methods, such as the use of video techniques to present proposed housing solutions to the survey respondents.

At the end of the assignment, the specialists will have produced, jointly with INVA's staff, a questionnaire which will be used in subsequent studies, and three training manuals one manual will be designed for supervisors, a second for interviewers using the questionnaire, and a third for outlining procedures for coding the questionnaires. The specialists will train INVA staff in the use of these materials as well as in the use of the video materials developed as part of the survey methodology. Both phases of this assistance will build upon the initial aid to INVA provided in the course of preparing this project paper as well as on earlier technical assistance furnished in connection with HG-005.

Marketing Techniques

For the most part, INVA will be transferring to the private sector the responsibility for marketing finished units. However, it is still foreseen that INVA will continue to be involved in marketing units targetted to the lowest income groups, at least until such time that contractors have developed a track record in selling these units. Accordingly, technical assistance will be provided to INVA in the use of media techniques, model units and promotional ideas to ensure adequate marketing. At the same time, the technical advisor will be assisting in the transfer of these marketing efforts to private contractors and institutions.

Private Sector Marketing

While private sector enterprises exist in Honduras which are specialized in real estate sales, they are, for the most part, inexperienced with the below-median-income market. If the techniques for managing the sales effort by the private sector program prove to be lacking, resources would be reallocated to provide the needed technical assistance.

ii) Information System

Management Information Systems

Information system assistance will be provided in two phases. Phase I will consist of assistance in guiding a gene- ral review of INVA's long-range information system needs. The result of this phase would be an identification of the requirements of all offices of INVA, a description of the major systems and subsystems required to support management decisions, and a plan for developing the system that reflects the needs of INVA. Phase II will be a more detailed examination of specific sys- tems and subsystems identified as priorities in Phase I. The end result of this process will be a complete plan for a more effective management information system. This assistance is essential in establishing investment and training priorities for INVA's data processing system.

Data Processing

Data center operations and management assistance will also be provided in two separate phases. Phase I will include a combination of development and training efforts in which the data processing consultant will assist in developing adequate management and control procedures for the operations center, and adequate management procedures for processing applications. At the same time, practical training in these procedures will be provided by assisting in the analysis and quality testing of representative pending applications. A U.S. consultant will define scope(s) of work for local contracting of specific services, as appropriate and available. In Phase II, the performance of the data center will be evaluated and assistance will be provided in modifying or establishing new procedures as needed.

iii) Financial Planning

The purpose of this assistance will be to work with INVA staff to improve their capabilities in analyzing the impact of various resources on the financial conditions of the institution. The work will also require that financial costs be assigned to different lending activities and cost centers, taking into consideration costs and sources of financial resources. Key financial ratios and indices will be developed to monitor financial performance. A manual will be developed to demonstrate how to measure performance, including an analysis of what factors affect such performance and how financial results may be changed by various decisions. Such a system has been successfully developed for the savings and loan system in Costa Rica. A model will be developed to integrate financial information and to make short-, medium- and long-range projections.

Cost Accounting

The implementation of a full cost recovery policy requires the establishment of improved cost accounting procedures to ensure that project costs are fully covered by income. A Certified Public Accountant will be retained to set up within INVA a cost accounting system related to the allocation of financial costs of operating expenses. The Accountant will also assist INVA in establishing an accounting system that allocates construction cost information for projects under a construction management system.

Internal Auditing

A Certified Public Accountant familiar with internal audit procedures and methodologies will be contracted to prepare audit guidelines for INVA in the area of electronic data processing (in coordination with the development of the information system described above), financial accounting, and savings and loan operations. He/she will also establish and implement reporting procedures covering frequency of reports, areas to be covered, and conclusions and recommendations to management.

Grant Financial Inputs. The following table summarizes the allocation of the financial inputs for the Grant Project.

TABLE IV

SUMMARY OF TECHNICAL ASSISTANCE

		No. of Person-months	Cost	Subtotals
1.	Resident Advisors			$400,000
	a) Project Advisor	36.0	$ 300,000	
	b) Technical Advisor	36.0	100,000	
2.	Policy Studies			144,000
	a) Resource Mobilization	3.5	42,000	
	b) Urban Development Strategy	3.0	36,000	
	c) Assistance to the S&L System	3.0	36,000	
	d) Technically Efficient Solutions/Evaluation	2.5	30,000	
3.	Short term Advisors			156,000
	a) Marketing			
	Market Surveys	2.0	24,000	
	Marketing Techniques	2.0	24,000	
	b) Management Information System and Data Processing			
	Management Information System	2.0	24,000	
	Data Processing	2.5	30,000	
	c) Financial, Planning, Accounting and Auditing			
	Financial Planning	3.0	36,000	
	Cost Accounting	1.0	12,000	
	Internal Auditing	0.5	6,000	
4.	Training - Various		24,000	24,000
	Grand Total			$700,000

4. Training

Training resources will be set aside to provide in-country training or training of staff in other countries. Key officials in INVA, other GOH institutions and private sector institutions will be provided resources to attend courses at the Panama Latin American Training Center or travel to other countries to examine shelter finance and development institutions, policies and programs. In-country courses could be packaged on the design of low-cost projects, financial management, or financial planning, by such organizations as the Massachusetts Institute of Technology, Research Triangle Institute, Institute of Financial Education, and Center for Financial Studies.

Other training requirements will be identified during the planning and implementation stages of this project.

III. PROJECT ANALYSES

A. Social Soundness Analysis

The population of Honduras was estimated at 4.1 million in 1984, more than double the 1955 population of 1.6 million. With an annual growth rate of 3.47% per annum, the population is expected to reach 7 million by the year 2000. A high rate of rural to urban migration accounts for the more rapid increase in the urban population. The majority of urban dwellers live in the two major urban centers of Tegucigalpa (510,000 persons in 1984) and San Pedro Sula (323,000 in 1984).

The beneficiaries of the public sector project developed by INVA are low-income families between the 5th and 50th income percentile who do not own their own homes. At least two-thirds of the beneficiaries are expected to come from low income neighborhoods in Tegucigalpa and the remaining families from low income neighborhoods in secondary cities. Beneficiaries of the private sector project are expected to have incomes up to the 50th percentile, principally in Tegucigalpa.

The median income for Tegucigalpa is estimated at $498 as of midyear 1984. The comparable figure for San Pedro Sula is $424, while the average median income for other urban areas is $207, about half the median income level of the two major urban centers. Urban families earning the minimum wage will qualify for the lowest cost shelter solutions proposed under this project.

The housing solutions offered by INVA and the private sector provide the opportunity for low income beneficiaries who are currently renting to enter the housing market at an affordable price and expand their house over time. Experiences from 522-HG-005 in Hato de Enmedio and El Sitio in Tegucigalpa, El Carmen in San Pedro Sula, and the project in Comayagua have

TABLE VII

MONTHLY PAYMENT CALCULATION BY TYPE OF SOLUTIONS (in Lempiras)

Cost Item	S&S	LOAN	WET	LOAN	BASIC	I BR. 2/
Turnkey Cost	3,240	2,250	4,740	1,500	7,860	11,550
10% Escalation Clause	324	-	474	-	785	1,155
9% INVA Fee	291	-	425	-	705	1,040
Interest on Grace Period	256	-	374	-	621	-
Sales Price	4,111	2,250	6,013	1,500	9,971	13,925
Down Payment (10%)	(411)	-	(601)	-	(997)	(1,393)
Mortgage Loan	3,700	2,250	5,412	1,500	8,974	12,532
Monthly Payment:						
- P&I 1/	48.72	39.10	71.27	26.07	118.17	164.88
- Portfolio Mgt.	2.44	1.96	3.56	1.30	5.91	8.24
- Life Insurance	3.70	2.25	5.41	1.50	8.97	12.53
- Casualty Insurance	.	.	.-	.-	2.82	3.66
	54.86	43.31	80.24	28.87	135.87	189.31

1/ Terms are 15%, 20 years, except for home construction or improvement loans at 17%, 10 years.

2/ Estimated construction and financing costs if INVA were to build one bedroom units under turnkey. Actual private sector costs may be higher or lower. Size and quality may vary as well from INVA turnkey product described here.

TABLE VIII

AFFORDABILITY ANALYSIS, In Lempiras 1/

Type of Unit	Unit Cost	Mortgage	Loan Terms	Monthly 2/ Payment	Tegucigalpa 3/ Monthly Income	Tegucigalpa 3/ Percentile	San Pedro Sula 4/ Monthly Income	San Pedro Sula 4/ Percentile	Other Cities 5/ Monthly Income	Other Cities 5/ Percentile 6/
1. Sites & Services										
- with no loan for construction matls.	L4,347	L3,912	15% 20 years	L55	L 220	5th	220	5th	220	15
- with L2250 loan for construction matls.	L2,250	L2,250	17% 10 years	L43						
Total	L6,597	L6,162		L98	L 392	15th	392	15th	392	40
2. Wet Core										
- with no loan for construction matls.	L6,013	L5,412	15% 20 years	L80	L 320	10th	320	10th	320	30
- with 1500 loan for construction matls.	L1,500	L1,500	17% 10 years	L 29						
Total	L7,360	L6,773		L112	L 436	15th	436	15th	436	50
3. Basic Core	9,971	8,974	15% 20 years	L136	L 544	25th	544	25th	544	NA
4. 1 Bedroom (built by the private sector)	13,925	12,533	15% 20 years	L189	L 756	40th	756	45th (N/A)	756	NA

1. Exchange Rate $1.00=L.2.00.
2. Monthly payment includes principal plus interest, portfolio management fee, and life and casualty insurance.
3. Studies of low income populations in Honduras indicate that the lowest income groups pay between 15% and 18% of their income on housing. That proportion increases as income increases.
4. Also includes La Ceiba and Juticalpa, included as the CONSUPLANE, Household and Expenditure Survey's sample of cities considered to be Centers of Development. Other cities such as Puerto Cortés may also fall into this category.
5. Includes Comayagua, Santa Rosa, Danli and Choluteca, CONSUPLANE Household and Expenditure Survey's sample of "other urban areas".
6. Income in "other urban areas is one-half that in major urban areas.
7. The private sector will be required to demonstrate affordability at the median income of L996 per month (June 1984), but loan terms and actual price may vary within certain limits.

shown the high acceptability of the wet core and basic unit, and one-bedroom solutions. The new serviced lots will continue to offer lower income families access to basic shelter through INVA.

1) Affordable Solutions

The three solutions being offered by INVA will reach low income families within a wide income range in Tegucigalpa. The wet core solutions will reach families with incomes as little as $160 monthly, or families in the 10th income percentile. The wet core solution plus a home improvement loan will still be affordable to families in the 20th income percentile. The basic core unit is affordable to Tegucigalpa families whose income reaches as low as the 25th percentile. The newest solution, to be tested for the first time in Honduras with financing from this project, is the serviced lot solution without a wet core. Families with incomes as low as the 5th percentile in Tegucigalpa could qualify for this solution. Even adding a home construction loan to this solution, families in the 15th percentile qualify. Initially the private sector will offer one-bedroom units costing no more than $7,500 with monthly payments affordable to Tegucigalpa families earning $448 per month at the 50th percentile, and the private sector will be encouraged to construct even more minimal solutions.

2) Housing Need and Demand

The need for housing in all areas of the country continues to be very high. Figures from the National Development Plan for 1982-1986 indicate the need for 18,600 new houses annually to cover the demand created by population growth. Of these, an estimated 12,500 are projected for the urban areas and 6,100 are needed in rural areas. Furthermore, estimates provided by the National Development Plan indicate that two-thirds of the total population live in houses considered to be in very poor condition and in need of replacement. The deficit due to substandard housing is estimated at 450,000 units of which 22 percent (approximately 100,000) are found in the urban areas.

INVA conducted a market survey in Puerto Cortes in July, 1984, of lower income non-homeowners to determine the marketability of three housing solutions: the serviced lot, wet core and basic unit. Demand for housing is very high in Puerto Cortes, and the response to the survey was very favorable. The housing conditions of this group are very poor and housing production targetted to this income group is practically non-existent. Respondents indicated a strong interest and willingness to buy all three solutions in order to own a home with adequate services and to live in an area not subject to flooding. Of the 602 respondents, 79.1 percent indicated that they would buy the serviced lot, 61.5 percent would buy the wet core, and 76.7 percent would buy the basic unit. Of the three solutions, however, the basic unit was the most popular design. Among the same respondents, 59.3 percent of the households earn between $100 and $320 per month and therefore can afford the monthly payments for the serviced lot; 25 percent qualify for the wet core; and 13 percent qualify for the basic core.

3) Impact

The principal impact of this project on low income families will be felt in three areas: improved living conditions, secure land tenure and employment generation.

a) Improved Living Conditions

Families purchasing the housing units will be provided with access to basic infrastructure in the form of running water, electricity and sanitary facilities. The improved sanitary conditions will have a direct impact on the health conditions of the beneficiaries, which will result in a decrease in diseases stemming from unsanitary conditions. The quality of the housing unit will be significantly improved as a result of improved roofs, walls and floors, thus providing better protection against the elements. In addition, families will be able to separate children's and animals' sleeping areas. Family sanitary standards will improve and will contribute to a reduction in disease. Overcrowding in houses will not be as prevalent as that found in other low income neighborhoods, particularly for families moving away from the one room rentals (cuarterîas) where families of six and seven people live in a 10 m^2 space. Although the initial size of the basic unit will be small, the construction and lot size provide the opportunity to expand in the future. Experience from 522-HG-005 shows that the majority of families improve and expand their units within the first two years.

b) Secure Tenure

As in previous programs, this project will also provide for investment capitalization through homeownership which is a major improvement over renting, since rental payments are not recoverable by the renter. In addition, project beneficiaries will have clear ownership of the houses, which surveys indicate is a strong priority.

c) Employment Generation

An important impact of this project is employment generation. The direct impact is an increase in employment opportunities for construction workers at the sites, whether through developers who build the projects or from the individual homeowners who contract independently for workers to build the basic room or expand the basic unit. Experiences from 522-HG-005 show that the majority of families who purchased wet cores and basic units did not actually build their homes themselves. Rather, they contracted with private individuals to do work which the owners supervised. Frequently, these owners hired skilled and semi-skilled workers who also purchased an INVA unit or who live nearby. An indirect effect of self-directed construction is increased employment in the local construction materials industry. As the demand for construction materials increases, small businesses run by project families tend to be established to meet local needs for such materials as doors, windows, and bricks, or to provide transportation services for such items such as roofs and cement. The quantitative analysis of employment generation appears in Annex M, 'Economic Analysis'.

B. Technical Analysis

The concept on which this program is premised is that the shelter solutions must be affordable on a non-subsidized basis for a wide range of low income urban families. Accordingly, several prototype units were designed, including variations on two designs, to incorporate that concept. Illustrative cost estimates based on similar projects currently being implemented have been calculated to provide a better idea of expected costs, as well as to provide developers/builders with points of reference for designing their own projects. Unit designs and costs were studied in five typical cities, some of which (if not all) will participate in the program. Costs were calculated as of mid-1984. An allowance for inflation is included in the financial plan using these figures as the base.

The four design solutions suggested for this project are:

- Serviced lots, which consist of an urbanized lot with utilities, on which a home can be constructed immediately. Depending on the location and size of the lot, it will cost from L3,250 to L4,250. The serviced lot solution (without a wet core) will be tried here by INVA for the first time. A modification of this design using a flush-pour toilet to be tested in Danli has the potential for reducing the production cost of this solution to L2,064.

- Wet core units, which include the urbanized lot plus a $3m^2$ sanitary core. Construction of the wet core will add another L1,200 to L1,500 to the shelter solution, bringing the total cost of a wet core solution to L4,400 to L5,470.

- Basic core units, which consist of an $18m^2$ multipurpose room and bath on an urbanized lot. The cost of these solutions will vary from L7,560 to L,8350, depending on location and lot size.

- One-bedroom units, which contain the basic core unit plus an additional bedroom. The construction cost will be in the L11,000 to L12,000 range, with a selling price around L14,000.

INVA has also expressed interest in testing piso-techo solutions (houses with floor and roof but no walls) which are expected to be found eligible after more thorough technical study.

All solutions have been designed so that they can be expanded progressively. Home construction and improvement loans will be offered initially to all purchasers of the serviced lots and the wet core solutions. Funds not used for these home improvement loans will be made available to other project beneficiaries such as purchasers of the basic core or other families who have already completed the initial expansion.

The construction sector is ready and capable of carrying out this project. The recent economic downturn has left the construction industry in an under-utilized position. It is estimated that the construction industry is working at only one-third of capacity, which leaves considerable room for adding work to the sector. During normal times, there is an ample supply of both skilled and unskilled construction workers qualified to work on low income housing projects. Today, there is even a greater supply of such workers.

The supply of materials is not expected to cause a problem. The country is self-sufficient in basic materials such as cement, roofing, timber, etc., and only an estimated 7 to 10 percent of all materials, mostly hardware, are imported. To avoid foreign exchange difficulties, the Central Bank has agreed to establish procedures so that developers/builders can obtain dollars to purchase the necessary imported building materials.

INVA will employ the turnkey delivery system for the development of projects under this program. INVA recognizes that this system is the most efficient and effective method for a public housing agency to develop lower income housing units.

The availability of water and sewerage services and delays in installation of electricity are chronic problems for all developers. To minimize such problems, developers participating in this program will be required to show evidence of the availability of these services to the site in order to obtain approval, and they will carry full responsibility and risk for timely completion of the shelter solutions including infrastructure. AID will monitor delivery of infrastructure and will actively assist in coordinating construction of units and infrastructure by requiring the establishment of a GOH coordinating committee, as discussed earlier. The Central Bank's agreement on the provision of foreign exchange should ease the ENEE problems as delays in the past have been due in part to lack of foreign exchange for the purchase of transformers, public street lamps, and other imported necessities.

A negative recommendation based on the Initial Environmental Examination has been approved (see Annex P).

C. Financial Feasibility and Plan

1. Analysis of INVA

INVA is working towards improving its financial position by taking actions to: 1) revise its return on investments (yield on portfolio); 2) recover its investments (cost recovery); and 3) improve its collection procedures. INVA recently cooperated in the preparation of a management audit. If implemented, the consultant's recommendations will improve the institution's management procedures and financial position. An evaluation of INVA's financial statements for 1982 and 1983 shows a modest improvement in some aspects of its operations (e.g., return on investment). However, INVA's relatively high operating expenses relative to the net return on its portfolio creates a negative cash flow, and the average financial cost of debt has increased. Eventually, these higher costs could be covered by a reduction in operating expenses.

INVA's debt service ratio has shown some improvement, but the income generated by its operations is insufficient to enable it to continue acting as a housing developer without new sources of capital. Thus, it must become an institutional priority for INVA to develop a steady source of long-term financing which ultimately could come about through a number of mechanisms, including increasing the profitability of its operations or receiving funds from the proposed Social Housing Fund. Still other sources could be developed, and the technical assistance to be provided under this program will be used to investigate other possibilities. In the short-term, AID's continued assistance and support is important to ensure that INVA can continue to provide low-cost housing.

INVA has already taken steps to improve the soundness of its portfolio, but other actions should be taken in order to improve its collections and portfolio status. All of these efforts will benefit INVA by improving its cash flow and generating additional resources for investment. The management audit also recommends some changes in the Data Processing Department to assist INVA in improving its portfolio management.

2. Analysis of Private Sector Component

The $10 million of HG loan to be made available for the private sector component will be offered to private financial entities for long-term mortgage financing. The Central Bank will make the funds available to the private sector financial institutions at or below 15 percent plus a small spread. At these rates, the private sector will be able to charge its usual 2 to 4 percent spread. Builders, bankers and real estate representatives (including the country's largest commercial bank) have expressed interest in this program.

3. Feasibility

Financial analysis has been completed on the basis of an on-lending rate at or below 15 percent, which is consistent with the cost of funds in domestic financial markets. The Central Bank, for instance, has been issuing bonds at 12 and 13 percent to finance the deficit, and pass-book savings accounts currently pay between 8 and 9 percent. Institutional sources such as insurance companies and retirement funds charge somewhat higher rate: 14 percent to 16 percent, which is also the prevailing rate on certificates of deposit. Reasonable spreads for mortgage lending are estimated at between 2 to 4 percent, so effective interest rates to beneficiaries will be about 17 to 19 percent.

The MOF has indicated that it will require sub-borrowers to accept all costs associated with the HG loan, except those associated with the exchange rates. To minimize adverse impacts on the GOH in the HG transactions, it is expected that borrowings could be timed to coincide with the completion of eligible projects. This is made possible by reliance on the private banks to provide the required construction financing, both for the INVA turnkey and privately financed components of the program.

D. Institutional Analysis

1. INVA

The National Housing Institute or INVA is a semi-autonomous public corporation with the mandate to serve as the principal public sector housing institution in the country. Implicit in this mandate is that INVA direct the bulk of its financial and technical resources to serving low income families. INVA's annual production has been relatively low, due largely to its dependence on the availability of external funds for long-term financing. Annual production has averaged only a few hundred units, reaching as high as 1,378 units in 1974. In the past, projects have been subsidized by government appropriations to cover INVA's administrative costs, below market interest rates on loans to beneficiaries, and other forms of subsidies. In 1976, INVA began to take steps to improve its capability to provide low-cost housing, and more recently to eliminate subsidies. Advice and assistance were obtained from a variety of sources, and as a result INVA's management has improved. AID has been providing assistance to INVA, and in 1978 INVA received a housing guaranty (522-HG-005) and development grant. In the last two years, INVA's production levels have also increased.

522-HG-005 provided INVA with resources to develop approximately 4,500 low-cost shelter solutions. Funds were also made available for technical assistance. AID's evaluation of that program in May 1983 found that the program was successful, and that while some problems persist, INVA's managerial and financial management capabilities had improved considerably. Furthermore, INVA had introduced new low-cost shelter solutions and techniques as well as introduced and adopted the turnkey delivery system for producing housing. The evaluation did note that the recent high turnover in senior staff was beginning to create some institutional and management problems. This concern will be addressed through the technical assistance component of the proposed program.

A more recent management audit of INVA has been carried out by a local consultant with Mission support. The audit recommended organizational restructuring of INVA to reflect the changes in INVA's role and activities. The consultant noted that INVA was over-staffed and recommended that staff be reduced by 30 percent along the lines recommended in a modified organization chart and reorganization plan. While a reorganization will improve the administration of the institution, its most immediate effects will be in the improvement of INVA's financial condition by reducing in administrative costs.

Last year, the GOH decided to eliminate its annual budgetary contribution to INVA, effective January 1984, depriving INVA of the financial cushion that it had enjoyed since its creation. That policy change, along with the relatively high costs it must pay for resources has forced INVA to re-evaluate its financial management policies. Effective this year, INVA has implemented a full cost recovery policy, whereby all project costs must be included in the prices of the units it sells, and mortgage interest rates must exceed the cost of funds to INVA. These are major steps forward in putting INVA on a financially self-sustaining basis, thereby helping to ensure its future. From the production standpoint, INVA has accepted the turnkey delivery system, and proposes using this system for all urban projects, including the possibility of expanding the concept to provide greater efficiencies. INVA has also institutionalized the concept of minimum shelter solutions based on the principle of affordability. INVA plans to offer an even lower cost solution through this project - the serviced lot - which will permit it to achieve full cost recovery and still reach very low income families.

A number of additional areas remain which INVA must still address. The data processing system, which has been in operation for some five years, offers considerable opportunity to improve INVA's administration, yet it remains under-utilized. Over-staffing combined with high staff turnover is still a problem. Other problems of a lesser magnitude exist. Nevertheless, INVA has made substantial progress in the last five years. INVA is capable of carrying out a new housing guaranty program, and its capabilities will be enhanced by instituting the following policies:

- Design management and operational systems that will minimize the adverse effects of staff turnover;

- Implement the Management Audit recommendations, or address the organizational problems identified in the management audit by developing and implementing an alternative management reorganization to accomplish the same purpose;

- Improve its financial planning capability;

- Continue to use and expand upon the turnkey delivery system;

- Expand operations to a greater extent into secondary cities to provide more equal access to low-cost housing in all cities; and,

- Maximize use of its data processing capabilities.

The proposed AID technical assistance under this program will be directed to assisting INVA in instituting the above policies and recommendations.

2. <u>Private Sector</u>

This component is structured to provide the private sector with access to long-term financing, the major constraint that has prevented greater participation in low-cost shelter programs. The motivation for greater private sector involvement in low-cost housing stems from the recent economic downturn which has brought about a reduction in the level of construction activity, as well as the recognition that the private sector can efficiently produce housing. Little industrial construction is currently taking place, and the construction of the hydroelectric plant of El Cajon which generated considerable activity in the sector is now substantially completed. Residential construction, while lower than the boom years of 1980/81, still manages to provide some work for contractors. INVA continues to provide construction opportunities, while pension funds are financing homes for pension members. However, it is estimated that the construction sector is operating at about one-third capacity which affects all sectors of the industry, including general contractors, engineers and labor. Generating additional housing activities in the sector would cause no problems and in fact, new housing programs would provide a needed boost to the industry and general economy.

The Central Bank will approve projects using its own or contracted staff to review projects for program compliance, infrastructure considerations, guaranties, and the adequacy of interim financing. The Central Bank has served as a conduit for $7 million in shelter resources which have been directed in the past few years to stimulate construction investment. It has a small but competent staff capable of carrying out much more than the simple control functions required under this program.

Private financial institutions such as commercial banks have previously financed housing only on a limited basis. The availability of long-term investment resources will attract such institutions into increasing their involvement in low-cost shelter delivery. The banks will provide construction financing, qualify buyers of units for mortgage credit, collect mortgage payments and guarantee repayments to the Central Bank. Guaranty agreements will be signed by the private banks participating in the program to assure the Central Bank of repayment by the financial institution, even if the mortgagors do not pay or pay late.

Private contractors or private voluntary organizations will build all the projects in the program and sell a majority of them. In addition, they will seek construction financing from private banks. Securing interim financing is not expected to be a problem as long as the take-out long-term financing is available to finance the sale of the units. This process represents a departure from the past in that contractors will sell low-cost units to the low income market with which they have had little experience. For this reason, technical assistance resources will be devoted to developing their capability to address a new target group. One of the major risks the contractors will assume is the potential for time delays from project initiation to the time units are sold, as the cost of financing during the construction period (until the time the mortgage is executed) will be borne by the contractor.

Important to the success of the private sector component will be the establishment of a foreign exchange window at the Central Bank to insure that builders/developers have timely access to the relatively small amount of foreign exchange required for the program. Since it is expected that the private financing institutions will require contractors to submit project proposals for approval in meeting eligibility criteria before construction loans are granted, this same approval documentation will serve as a means by which the Central Bank will insure that the foreign exchange is to be used for eligible HG construction activities in an expeditious and efficient manner.

The Central Bank has indicated its interest in relying on institutional guaranties from one of the major commercial banks to assure repayment of the HG resources. If the strongest banks in the country agree to this proposal, and since they will be the institutions at risk, their own reviews can virtually replace the rigorous reviews and controls by the Government which are normally required.

E. Economic Analysis and Country Risk Assessment

Both the financial and economic analyses of the project indicate that it is feasible and provides a positive benefit to the country. The calculated IFRR for the project was 6.3 and the IERR was 9.2, indicating both financial and economic feasibility (see Annex M). In addition, there are a number of quantifiable positive benefits that could be expected to result in additional economic benefits.

Employment opportunities, both direct and indirect, are expected to total at least 15,000 person-years of employment over the first ten years of the project. Direct labor costs (payments) during the life of the project are estimated to total $4.3 million, which will result in increased personal income of $120 million in Honduras. In addition, the multiplier effect of the $25 million HG investment is expected to generate total investments in excess of $75 million. The income distribution impact of employment generation in the construction industry will have a positive effect on increasing wages among below median income workers by shifting unemployed individuals at the lowest income levels to employed persons earning wages at slightly above the minimum wage. One of the least measurable, yet most important economic benefits, relates to improved worker productivity resulting from better health stemming from improved living conditions.

The Country Risk Assessment (Annex P) highlights the difficulties Honduras has had in meeting current debt service obligations. However, it also points out that careful management, along with supportive international credits and grants, can help Honduras overcome these problems. The proposed HG loan is part of a larger assistance package designed to support the short and long-term resolution of Honduras' current economic difficulties. It provides short-term foreign exchange, critically needed employment in the construction sector and private international credits to Honduras at a time when no other private funding is available. As a result, the proposed HG Loan will contribute positively to Honduras' long-term financial stability.

The loan will provide Honduras with badly needed foreign exchange under terms and conditions which are preferable to current terms and conditions on the margin, taking into consideration interest rates and repayment periods. It is part of a U.S. aid package to help Honduras through a period of economic difficulty. Moreover, ESF, DA, DL and P.L. 480 resources are being provided each year in support of Honduras. This program will support structural improvements in the shelter sector. Progressive housing and a policy of full cost recovery will be reinforced. These are policies which, without continued AID assistance, the government might otherwise abandon under increasing economic and political pressures which current economic conditions have caused.

4. PROJECT IMPLEMENTATION

A. Implementing Plan

1. Participating Entities

The institutional arrangements are specifically designed to promote rapid disbursements in order to be responsive to the shelter deficit and employment generation needs in Honduras. Moreover, they are designed so that the private sector assumes a substantial part of the risk in developing program solutions.

a) The borrower will be the GOH, acting through the Ministry of Finance. The Ministry will guaranty repayment in dollars. It will pass disbursements in local currency to the sub-borrowers, INVA and the Central Bank, under sub-borrower agreements. These internal GOH agreements will include the terms on 30-year loans to be made available to the sub-borrowers. The Ministry of Finance has offered to assume the risk of the variable rates as well as the exchange risk.

b) INVA will implement one component of the program. INVA will establish financing policies and criteria, and it will solicit and award development contracts to developers/builders and private voluntary organizations for turnkey or turnkey-plus-sales solutions for lower income families. Private developers, or in rare instances INVA, will sell units produced under the turnkey program. INVA will provide long-term mortgage financing under both the turnkey and turnkey-plus-sales program. INVA will service mortgages it finances and be responsible for monitoring repayment of obligations.

c) The Central Bank will pass resources to the private sector participants in the program. The Central Bank will announce the program, promote the involvement of the private sector, establish long-term lending criteria and other program requirements as necessary, accept and rate technical proposals, and award projects; and discount mortgages or other guaranties of loan repayments from participating private financial institutions.

d) Private banks will provide construction financing for both the public and private sector programs. Under the private sector program they will also qualify buyers for mortgage credit, service mortgages and guarantee repayments to the GOH.

e) Under the private sector component of the program, private developers and private voluntary organizations will assemble land, arrange for permits, obtain infrastructure, secure construction financing, complete construction, market and sell units, and present mortgages to banks or INVA for reimbursement. With the INVA program, some sales may be arranged by INVA under its turnkey program if necessary, due to the private sector's lack of experience with a location, solution type, or INVA's lower income clientele.

2. Project Documentation

An Implementation Agreement to be signed by the Ministry of Finance, INVA and the Central Bank will be negotiated shortly following project authorization. The Agreement will outline the expected project outputs and project implementation. A Loan Agreement will follow. This Agreement will be signed by the GOH and the U.S. Investor and will set forth the terms of the HG loan. A Guaranty Agreement will be signed by AID assuring the U.S. Investor against any loss. A Host Country Guaranty will be signed by the GOH providing a similar assurance to AID.

Signing of the Implementation Agreement as soon as possible following project authorization will permit the GOH to search for a U.S. investor and negotiate a loan in early 1985, barring any major difficulties in U.S. financial markets or other unforeseen circumstances. The Implementation Agreement will include language which provides assurance that GOH will be able to address the short-term effects of rescheduling debts and/or the risk of foreign exchange.

B. Disbursement Procedures

1) HG Funds

The Housing Guaranty funds will be disbursed over a period of three to four years, possibly in three disbursement or tranches. The Ministry of Finance will act as borrower, and will seek and enter into contracts with an eligible U.S. investor. AID will concur in the final selection of the investor.

The Ministry of Finance will develop a contracting schedule based upon the Project Delivery Plan and the need for resources to discount mortgages.

In any case, the drawdown of HG funds will be supported by evidence of completed investments, that is, by the presentation of either eligible mortgages or acceptable sales contracts and fully-disbursed home construction and improvement loans. It is not now anticipated that HG funds will be used to provide interim construction financing under the program.

2) Parastatal and Private Sector Counterpart

INVA will provide $1.5 million in long-term mortgage financing as counterpart investment. (There is no GOH counterpart contribution to this project.) Private financial institutions participating in the program will provide the interim construction financing. In addition, institutions engaged in the private sector component of the project will be requested to provide between 5 and 15 percent of the long-term financing of houses that they finance. Project beneficiaries will provide an estimated 10 percent in cash downpayments on the units purchased.

3. ESF

The Mission will consider an allocation of ESF resources in support of this program, up to $5 million, if the need arises for back-up assistance in the shelter program.

4. T.A. Funds

Grant funds will finance the technical assistance to be contracted from AID's fixed and indefinite quantity contractors or to be contracted locally on the basis of competitive bids from qualified firms. Personal Services Contractors for the long-term advisor positions will be contracted by the Mission.

TABLE IX

a) Summary of Methods of Implementation and Financing of Technical Assistance

	Method of Implementation	Method of Financing	Approximate Amount US$000
Resident Advisors	PSCs contracted locally (candidates identified as a result of PRE/H talent searches will be considered.)	Direct Pay	400
Policy Studies	PRE/H fixed and indefinite quantity contractors	Direct pay	144
Other short-term TA and training	PRE/H contractors and/or Honduran firms	Direct pay	156
	TOTAL, DA		700

Mission payment verification policy and audit practices will be observed for the technical assistance contracting.

b) Program for Contracting

Resident Advisors	January 1985
Policy Studies	
Shelter Strategy	November 1985
S&L Assistance	October 1985
Technical efficient solutions	October 1986
Urban Development Strategy	March 1985
Short-term Advisors	
Marketing	January-August 1985
Management Information System	April 1985
Data Processing	October 1985
Beneficiary Selection	October 1985
Financial	May 1985 and October 1987
Training	As appropriate to complement TA and as training opportunities are available

C. Conditions Precedent and Covenants

1) Conditions Precedent to Signing the Loan Agreement and Housing Guaranty

Prior to the signature of the Loan Agreement, INVA and the Minister of Finance shall submit to AID in form and substance satisfactory to AID:

a) A plan approved by the MOF which details how INVA will restructure itself and carry out other needed reforms to reduce overhead costs and to streamline its operations, as well as a plan for implementing a financial planning capacity in the institution.

b) A plan which illustrates the procedures between INVA and developers, a list of projects, construction plans for projects, eligibility criteria for projects (e.g. costs, infrastructure requirements, beneficiaries, financial terms, etc.), completion dates of units and sales, and when disbursements are required.

c) The Central Bank and private sector participants will also present a plan which describes in detail the criteria for approving projects and other program regulations, guaranties from banks to assure repayment, list of projects in execution, arrangements for provision of infrastructure, marketing plans of developers to sell units, projected disbursements for mortgage financing, and contracting schedule recommended to MOF.

2) Conditions Precedent to Disbursement of HG Funds

Prior to the first disbursement of HG funds for the public sector portion of the project, INVA shall submit to AID in form and substance satisfactory to AID:

a) A Project Delivery Plan which shall include documentation on each project for which shelter loans are to be presented (e.g., market study results, plans and specifications, updated infrastructure construction schedule, and prices and financing terms).

b) Evidence of satisfactory action to implement the reforms and restructuring outlined in the plan previously submitted, based on financial objectives and specific actions agreed upon by the parties to the Agreement.

c) Evidence of its effort to promote turnkey-plus-sales.

d) Evidence that the developers, INVA, and the Ministries of Finance and Education have developed a specific program for the construction of primary schools to serve project beneficiaries. The program shall indicate the party responsible for carrying out the construction, how the schools will be financed and who will pay the cost.

e) Evidence of the functioning of the infrastructure coordinating committee chaired by the president of INVA's Board of Directors.

f) Evidence that all key INVA management positions are filled.

Prior to each subsequent disbursement of HG funds, INVA shall submit an update of its project delivery plan and its report of satisfactory progress on its plan for management reform.

Prior to the first disbursement of the HG funds for the private sector component, the Central Bank shall submit to AID in form and substance satisfactory to AID:

a) Evidence of the Central Bank plan described above.

b) Brief Program regulations issued to promote the objectives of the project (see Annex O for current regulations). These must include the top selling price for the unit, top downpayment and monthly payments, assuring affordability at the median income (adjustable each June based on the GOH official Consumer Price Index).

3. Covenants

a. INVA will use its best efforts to continue to develop affordable solutions for low income families without recourse to subsidies.

b. INVA will seek to improve its management and its financial position by maintaining a well-organized professional staff at the minimum level required to promote its operations.

c. The chairman of INVA's Board of Directors will chair and assure the functioning of a coordinating committee to assure cooperation in the approval of projects and the timely delivery of infrastructure for shelter to be financed under this loan.

d. The Central Bank will maintain an effective mechanism to assure the timely availability of foreign exchange to the private entities for purchase of construction materials needed for the shelter to be financed under this project. This mechanism shall cover a maximum of foreign exchange of $1,250,000, or 5 percent of the Housing Guaranty Loan.

e. The Central Bank will provide foreign exchange within thirty (30) days after presentation of the amount in Lempiras to permit the prompt repayment of all outstanding Housing Guaranty Loans for Honduras, whether or not guaranteed by the Government of Honduras.

D. Project Monitoring and Evaluation Plan

The technical assistance plan calls for assistance to RHUDO/ROCAP to manage the project. RHUDO/ROCAP will be supported by RHUDO/LA which has additional technical and financial analysis capabilities which will be used to support the monitoring and evaluation effort.

The Mission will monitor the impl mentation and performance of the project particularly as it relates to AID's overall strategy for Honduras to generate employment, rapidly disburse external and internal resources, and achieve project objectives and outputs.

RHUDO/ROCAP will be responsible to the Mission for monitoring the performance of INVA and the private sector organization participation in this project. This activity will include maintaining the schedule for the technical assistance inputs and assuring that investment and production targets are met. An evaluation will be conducted 24 months after authorization of the project, or sooner if necessary, to examine the objectives and outputs of the project. INVA's Project Delivery Plan will be used to assure the timely development of the various tasks associated with the institutional development plan. A key element in the evaluation will be to examine the relative effectiveness of the private and public sector programs based on results such as the pace of shelter construction, target groups reached, private sector bank financing of lower cost solutions, the INVA turnkey-plus arrangements, quality of construction, and the relative efficiency of the parallel systems based on actual production and overhead costs.

dbj

shelter for the urban poor ii pid (522-0206/ 522-hg-008)

1. the daec reviewed the subject pid on june 8,1984. a/aid approved the pid on august 27, 1984.

2. the following points were discussed and agreed to by the mission in the issues meeting:

a] employment generation: the mission will discuss further with the bureau's economists the methodology used to estimate employment generation resulting from the project; any revisions in this methodology will be reflected in the analysis included in the pp.

b] contractor participation: the pp will examine a variety of alternatives to make it easier for small and medium sized contractors to bid on construction contracts covered by the subject guaranty.

c] imported materials: the mission will look at different mechanisms which will assure access by contractors to foreign exchange to import materials needed for the construction of shelter solutions fiananced under the project.

3. after discussing and resolving several issues during the daec review the following guidance is provided for pp preparation.

a] country risk/debt servicing capabilities: the pid provides debt service information and notes the the goh has continued to meet its debt servicing obligations to the usg and world bank. the pp should bolster the case for positive projections on the debt repayment outlook by elaborating on the short- and long-term risks involved concerning the debt servicing capability, exchange rates and impact on goh financial reserves. the pp should also discuss the appropriateness of a grace period for interest payments and its cost implacations for debt repayment. work here should be coordinated with usaid/honduras economist to ensure that the best debt service data available is obtained.

Finally, the pp should establish that the goh is willing to accept the maintenance of value exchange risk on repayments and what safeguards it will require from sub-borrowers before passing project resources to participants.

b] housing strategy and increased private sector participation: the daec felt that while the project-specific strategy was clear, a sense of the general, long-term housing strategy for honduras was lacking. the pp, therefore, should discuss a.i.d.'s overall housing strategy for honduras and the long-term strategy for coordinating the activities of the various housing entities. it was the sense of the daec that the scope of the pid's strategy should be broadened to allow the private sector to play a more active role in attacking honduras' housing problem. to this end, approximately dols 10 million of the proposed dols 25 million project should be allocated to a pilot program that will test alternative arrangements for increasing private sector participation and identify appropriate channels for such activities.

c) project financing: the pid proposes hg resources for 100 percent of project financing, and also mentions capitalization targets for inva. however, hg interest rates reflect rate changes in the u.s. which are presently increasing. the pp should analyze how the project will adjust for rising/fluctuating interest rates, and discuss interest rates, and discuss interest rate alternatives and the implications for the goh and inva, particularly as they relate to the capitalization targets to be set by the mission. the analysis of demand for hg resources in the face of rising rates should be carried out on the assumption that rates to be charged borrowers would be more or less commensurate with prevailing rates for mortage rates for mortage loans in honduras.

d) water and electricity hookup: a major bottleneck for new residential construction (and upgrading) has been the lack of access to water and sewers. under shelter for the urban poor i (522-0135), inva was responsible for coordinating construction activities with sanna and enee to provide water and electricity. the pid indicates in broad terms that a new mechanism will be developed for ensuring that inva, sanaa and enee coordinate their efforts under the project. the pp should specify how this mechanism will operate to ensure timely completion of the utility hookups is accomplished.

e) women in development: the pp should assess the project factors which will ensure access to project resources by households headed by women.

4. for the purposes of grant project development the following points should be noted:

a) gray amendment: the pp should describe in detail opportunities for participation by groups covered by the gray amendment. if this material is ready earlier than the date of submission of the pp, it should be transimitted to aid/w for distribution in advance of the pp.

b) payment verification: the mission is reminded that all project papers must follow the payment verification policy implementation guidance provided on december 30, 1983 by aa/m rollis to mission directors. your attention is drawn particularly to pages 6-8, which deal specifically with pp's and paad's.

AID 1020-28 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

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

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

Project Title & Number: ________

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: GOAL: To provide access to shelter to low-income Honduran families through increased involvement by the private sector and to generate employment to help reactivate the economy.	Measures of Goal Achievement: Private sector institutions accept responsibility for an increasing proportion of the shelter solutions and financing needed by low-income families. Unemployment levels in the construction sector are reduced.	Comparison of low-cost shelter production figures with respect to percent of INVA turnkey and private sector produced projects vs other types of financing.	Assumptions for achieving goal targets: 1. Private banks and contractors are willing to take risks implied in this program. 2. Financial plan of program is not adversely affected by substantial upward drift of cost of HG resources thereby exceeding what the market is willing to bear and legal limits for mortgage lending. 3. Economic deterioration of the economy does not affect market for low-cost shelter. 4. Dollars to finance the limited import component for shelter projects can be obtained. 5. A.I.D. support of expanded water supply and small scale project sites with infrastructure can be found.

AID 1020-28 (7-71)
SUPPLEMENT I

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

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

Project Title & Number: ________

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Purpose:	Conditions that will indicate purpose has been achieved: End of project status.		Assumptions for achieving purpose:
a) To develop within INVA added capacity to produce low income solutions through collaboration with the private sector, and to strengthen INVA to become a financially self-supporting public housing agency.	A. Conditions that will indicate purpose has been achieved: End of project status. INVA begins to produce affordable units through the following measures: 1) better control of its own operations and expenses; 2) establishing financial planning and policy framework that addresses its need to capitalize its resource base; 3) relying more on the private sector to carry on functions that it can perform more efficiently (e.g. building and marketing units) and providing solutions at real costs.	INVA mortgage and financial records.	1. INVA's Board recognizes the need and will adopt organizational restructuring along lines that will improve efficiency and cut costs.
b) To increase the range of institutions who finance, produce, and deliver low income housing solutions by involving private sector finance, construction, and marketing entities to accelerate unit production and increase employment opportunities.	B. INVA has developed systems to address problems of coordination of infrastructure, affordable design, and promotion of units at market prices to enhance its role in promotion of units at market prices to enhance its role in production of minimal shelter.	Financial Audit reports, semiannual financial analysis, and financial projections in end-of-project evaluation.	2. Cost of HG resources are more or less in line with financial plan or measures are available to assure flow of resources.
	C. Private sector is participating fully in the production of low income housing.	Records on date of advertising, date of completion, and date of sale and location of INVA units. Records on foreclosure and/or reassignment of solutions.	3. Technical assitance resources are available to establish necessary mangement and promotion
	D. Private sector banks are engaged in lending for low cost units, servicing mortgages, and guarantying repayments.		4. Private contractors can make sufficient profit in low cost construction to override risks involved.
			5. Construction financing is available from financial institutions despite new reserve requirements imposed by Central Bank.

AID 1020-28 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

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

Project Title & Number: ____________

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs: 1) A broad range of private sector institutions are more involved in the finance, production and delivery of shelter solutions for low income families. 2) INVA has undergone an organizational restructuring and has established a number of management and operational systems to help provide continuity in light of high staff turnovers.	Magnitude of Outputs: 1) Banks help finance approximately 4,000 low cost shelter units. cost accounting controls established 2) Private sector contractors produce approximately 4,000 units and market 50% of the same. talizaton targets. 3) INVA has implemented an organizational restructuring with the objective of reducing staff and operating costs. 4) INVA has established a cost acacounting system to better control project development costs vis a vis private sector production. 5) INVA is carrying out effective market surveys to encourage low cost unit construction on a nation wide basis (in secondary cities) whereby 15% of projects are built. outside of SPS/CMDC. 6) INVA has implemented a financial planning capacity and interest rate policies are established to operate on a cost recovery capitalization sis. 7) INVA is using its new management information system to improve operation efficiency and collection system whereby delinquencies are held to % 8) INVA has introduced lower cost shelter alternatives such as sites and services, bahareque, and adobe. B. Physical 1) 4,000 new shelter solutions. 2) 1,900 home extension loans.	Comparison of end of project performance with productivity measures and will enable units to be built. as part of 1984 management audit. Performance measured against est capiduce physical outputs. Increase in savings. Production record and delinquency ratios.	Assumptions for achieving outputs: Assumptions for achieving outputs. A.I.D. support of expanded water system Inflation in construction costs is kept to a reasonable level so as not to re- Technical assistance is available to support the phases of program development. INVA Board will support principles and recommendations of reorganization presented in A.I.D. HG-005 Evaluation and subsequent TA efforts.

AID 1025-28 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

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

Project Title & Number: ________

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Inputs:	Implementation Target (Type and Quantity)		Assumptions for providing inputs:
Financial:			
- HG Loan	$25.0 M	Project Monitoring	HG will be available in U.S. Market and local institution will make financial contributions.
- A.I.D. DG	0.7 M		
- INVA contribution	1.5 M		
- Private sector co-financing	1.0 M		
- Beneficiary Downpayments	2.7 M		
	30.4 M Total		
TA			
- Resident Advisors			
a) Project Advisor	0.3 M (36 MM)	Contract records and related supervision.	Appropriate technicians are available and procurement regulations permit contracting within the time they are available.
b) Technical Advisor	.1 M (36)		
- Policy Studies	.1		
- Short-term TA & Training	.2		

THE HOUSING GUARANTY PROGRAM · ANNEX C

STATUTORY CHECKLIST

HONDURAS

PROJECT NO. 522-HG-008

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

A. General Criteria Under HG Statutory Authority.

Section 221(a)
Will the proposed project further one or more of the following policy goals?

(1) is intended to increase the availability of domestic financing by demonstrating to local entrepreneurs and institutions that providing low-cost housing is financially viable; — Yes

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

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

(4) is intended to have a long run goal to develop domestic construction capabilities and stimulate local credit institutions to make available domestic capital and other management and technological resources required for low-cost shelter programs and policies? — Yes

Section 222(a)
Will the issuance of this guaranty cause the total face amount of guaranties issued and outstanding at this time to be in excess of $1,718,000 — No

Will the guaranty be issued prior to September 30, 1984? — Yes

Section 222(b)
Will the proposed guaranty result in activities which emphasize:

(1) projects providing improved home sites to poor families on which to build shelter and related services; or — Yes

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

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

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

(5) community facilities and services in support of projects authorized under this section to improve the shelter occupied by the poor? — No

Section 222(c)
If the project requires the use or conservation of energy, was consideration given to the use of solar energy technologies, where economically or technically feasible? — Yes

Section 223(a)
Will the A.I.D. guaranty fee be in an amount authorized by A.I.D. in accordance with its delegated powers? — Yes

Section 223(f)
Is the maximum rate of interest allowable to the eligible U.S. Investor as prescribed by the Administrator not more than one percent (1%) above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development? — Yes

Section 223(h)
Will the Guaranty Agreement provide that no payment may be made under any guaranty issued for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible? — Yes

Section 223(j)

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

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

(3) Is the project designed and planned by A.I.D. so that at least 90 percent of the face value of the proposed guaranty will be for housing suitable for families below the median income, or below the median urban income for housing in urban areas, in the host country?

Yes

(4) Will the issuance of this guaranty cause the face value of guaranties issued with respect to the host country to exceed $25 million in any fiscal year?

No

(5) Will the issuance of this guaranty cause the average face value of all housing guaranties issued in this fiscal year to exceed $15 million?

No

Section 238(c)
Will the guaranty agreement provide that it will cover only lenders who are "eligible investors" within the meaning of this section of the statute at the time the guaranty is issued?

Yes

Criteria Under General Foreign Assistance Act Authority.

Section 620/620A

1. Does the host country meet the general criteria for country eligibility under the Foreign Assistance Act as set forth in the country eligibility checklist prepared at the beginning of each year?

Yes

2. Is there any reason to believe that circumstances have changed in the host country so that it would now be ineligible under the country statutory checklist?

No

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. <u>GENERAL CRITERIA FOR COUNTRY ELIGIBILITY</u>

1. <u>FAA Sec. 481</u>. Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?

No such determination has been made.

2. <u>FAA Sec. 620(c)</u>. If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?

2. <u>FAA Sec. 620 (c)</u>.
The GOH is not liable as a debtor under these conditions.

3. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

There is no evidence of such action.

4. FAA Sec. 532(c), 620(a), 620(f), 620D; FY 1982 Appropriation Act Secs. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver?

NO, Honduras is not a communist country, and no assistance is provided under this project to the specified countries.

5. ISDCA of 1981 Secs. 724, 727 and 730. For specific restrictions on assistance to Nicaragua, see Sec. 724 of the ISDCA of 1981. For specific restrictions on assistance to El Salvador, see Secs. 727 and 730 of the ISDCA of 1981.

N/A

✓6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property?

6. FAA Sec. 620 (j).
In the past there have been incidents where the GOH has been unsuccessful in constraining demonstrations against the U.S. Embass[y] but this has not been the case for over fourteen years.

7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC?

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

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

(b) If so, has any deduction required by the Fishermen's Protective Act been made?

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

9. FAA Sec. 620(q); FY 1982 Appropriation Act Sec. 517. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds?

(a) No.

(b) No.

10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into

N/A

Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No.

12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)

Honduras is not in arrears as per Article of the U.N. Charter. This was taken into consideration by the Administration in determining the current AID OYB.

13. FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or

No.

abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime?

14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No.

15. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

No.

16. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed

16. ISDCA of 1981 Sec. 720. This has been taken into consideration by the Administration at the time of approval of the Agency OYB.

to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)	Disbursements for construction will not be made until construction is complete and mortgages or other loans are presented.
17. ISDCA of 1981 Sec. 721. See special requirements for assistance to Haiti.	N/A

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?	No such determination has been made.

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?	N/A

b. <u>ISDCA of 1981, Sec. 725(b).</u> If ESF is to be furnished to Argentina, has the President certified that (1) the Govt. of Argentina has made significant progress in human rights; and (2) that the provision of such assistance is in the national interests of the U.S.? N/A

c. <u>ISDCA of 1981, Sec. 726(b).</u> If ESF assistance is to be furnished to Chile, has the President certified that (1) the Govt. of Chile has made significant progress in human rights; (2) it is in the national interest of the U.S.; and (3) the Govt. of Chile is <u>not</u> aiding international terrorism and has taken steps to bring to justice those indicted in connection with the murder of Orlando Letelier? N/A

5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only: B.1. applies to all projects funded with Development Assistance Funds, B.2. applies to projects funded with Development Assistance loans, and B.3. applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? Yes HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT? Yes

A. GENERAL CRITERIA FOR PROJECT

1. FY 1982 Appropriation Act Sec. 523; FAA Sec. 634A; Sec. 653(b).

(a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that amount)?

(a) The assistance is within the A.I.D. allocation reported to Congress.

(b) Yes

2. FAA Sec. 611(a)(1). Prior to obligation in excess of $100,00, will there be

Yes. Detailed estimates of technical assistance costs are provided in the section relating to project inputs.

(a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

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

No legislative action will be required within recipient country.

4. FAA Sec. 611(b); FY 1982 Appropriation Act Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973? (See AID Handbook 3 for new guidelines.)

N/A

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

N/A

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.	The projects is not suitable for execution as part of a regional or multilateral project.
7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	The project will marginally contribute to increasing international trade due to import component of construction. Bidding procedures plus small scale home improvement construction will discourage monopolistic practices. Technical efficiency of formal housing sector to be improved.
8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	A portion of training may be condu in the U.S.

9. FAA Sec. 612(b), 636(h); FY 1982 Appropriation Act Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

The Government of Honduras and beneficiaries are contributing $4.7 million in local currency to help defray cost expenditures.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

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

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

Yes.

12. FY 1982 Appropriation Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

N/A

13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16? Does

Yes

the project or program take into consideration the problem of the destruction of tropical forests?

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?

N/A

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and

Shelter solutions will be offered to the poor, who could not otherwise afford their own homes; employment benefitting low-income families will be generated by the construction activities; the feasibility of low-cost labor intensive appropriate housing construction technologies will be assessed; and the Project will promote the expanded delivery of low-cost shelter to secondary cities in Honduras as well as assist the GOH to develop appropriate urban development policies to stimulate investment in a range of urban settlements. Individual and group initiative will be encouraged given the technology of the solutions offered, and the Project will provide substantial benefits to women.

otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?

Yes

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

Yes

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activitiy with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

Under the Grant portion of the Project the counterpart contribution represents more than 25% of the D.A. total.

e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"? (M.O. 1232.1 defined a capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than $100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character.	N/A
f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?	Yes
g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage	The Project is designed to provide Honduras with the wherewithall to address its serious low-income housing needs. It will contribute to strengthening and mobilize the position of public and private institutions to participate in addressing these shelter needs.

institutional development; and supports civil education and training in skills required for effective participation in governmental processes esential to self-government.

2. Development Assistance Project Criteria (Loans Only)

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

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan? — N/A

c. ISDCA of 1981, Sec. 724 (c) and (d). If for Nicaragua, does the loan agreement require that the funds be used to the maximum extent possible for the private sector? Does the project provide for monitoring under FAA Sec. 624(g)? — N/A

3. Economic Support Fund Project Criteria

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

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

c. FAA Sec. 534. Will ESF funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives? N/A

d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? N/A

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

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

   Yes

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

   Yes

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

   3. FAA Sec. 604 (d).

   Honduras does not practice such discrimination.

4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be

   N/A

financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one or these areas? N/A

6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates? N/A

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Yes

Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? — Yes

9. FY 1982 Appropriation Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? — Yes

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services to be used? — N/A

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — N/A

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP)? — N/A

C. Other Restrictions

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

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administed by an internatioal organization, does Comptroller General have audit rights? — N/A

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

4. Will arrangements preclude use of financing:

a. FAA Sec. 104(f); FY 1982 Appropriation Act Sec. 525: (1) To pay for performance of abortions as a method of family — Yes planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?

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

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

d. FAA Sec. 662. For CIA activities? Yes

e. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? Yes

f. FY 1982 Appropriation Act, Sec. 503. To pay pensions, annuities, retirement pay, or Yes

adjusted service compensation for military personnel?	
g. <u>FY 1982 Appropriation Act, Sec. 505</u>. To pay U.N. assessments, arrearages or dues?	Yes
h. <u>FY 1982 Appropriation Act, Sec. 506</u>. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)?	Yes
i. <u>FY 1982 Appropriation Act, Sec. 510</u>. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields?	Yes
j. <u>FY 1982 Appropriation Act, Sec. 511</u>. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?	No such assistance will be provided.
k. <u>FY 1982 Appropriation Act, Sec. 515</u>. To be used for publicity or propaganda purposes within U.S. not authorized by Congress?	Yes

ANNEX D

SECRETARIA DE HACIENDA Y CREDITO PUBLICO

REPUBLICA DE HONDURAS

Tegucigalpa, D.C. Septiembre 14, 1984. Nº S-179-84

Señor Director
Agencia Internacional para el
Desarrollo (A.I.D.).
ANTHONY CAUTERUCCI
Su Despacho.

Señor Director:

Conscientes del grave problema que representa el fuerte déficit habitacional que existe en Honduras y de la necesidad de impulsar programas tendientes a su solución, la Secretaría de Hacienda y Crédito Público y el Banco Central de Honduras, en nombre y representación del Gobierno de la República de Honduras, por este medio solicitamos que se asigne a Honduras un monto total de -- US $25.0 millones, bajo el Programa de Garantías Financieras para Vivienda (HG) y fondos de asistencia técnica en forma de donación por un monto de US $ 700,000.00.

Tomando en cuenta el bajo nivel de ingresos de población y los problemas que plantea para la economía hondureña el déficit de su Balanza de Pagos, el Gobierno de Honduras se reserva el derecho de negociar con AID la utilización de estas garantías de tal manera que se pueda evitar que el costo financiero de los recursos a obtenerse tenga un efecto adverso sobre las posibilidades de adquisición de viviendas y sobre los esfuerzos que el Gobierno actualmente realiza para moderar el impacto del servicio de la Deuda Externa sobre la futura capacidad de pagos del país.

Nos es grato suscribirnos del Señor Director con muestras de nuestra consideración y estima.

MANUEL FONTECHA F.
Ministro de Hacienda y
Crédito Público.

GONZALO CARIAS PINEDA
Presidente, Banco Central
de Honduras.

ANNEX E

DRAFT OF PROJECT DESCRIPTION FOR PROJECT GRANT AGREEMENT

AMPLIFIED PROJECT DESCRIPTION

Project Goal. The overall goal of this Project is to provide access to shelter to low-income Honduran families through increased involvement by the private sector and to generate employment to help reactivate the economy.

Project Purpose. The purpose of the Project is: (1) to develop within INVA the added capability to produce low-income solutions through collaboration with the private sector and to strengthen INVA to become a more financially self-supporting public housing agency; and (2) to increase the range of institutions who finance, produce, and deliver low-income housing solutions by involving private sector finance, construction, and marketing entitiies. This will accelerate unit production and increase employment opportunities.

Project Outputs. The outputs of the Project are divided into physical and institutional outputs as follows:

Physical Outputs. A estimated total of 8,000 shelter solutions will be produced, consisting of: (a) serviced lots; (b) 3m^2 wet core units; (c) 18m^2 basic core units; (d) one-bedroom units; and (e) home construction and improvement loans to upgrade sites and services and core units. The distribution of numbers of solutions among these activities will be conditioned on the results of detailed market demand studies.

Institutional outputs will consist of:

INVA: (a) a reorganization plan for INVA reflecting its greater reliance on the private sector and to imporve its management of operating expenses; (b) an improved cost-accounting system to monitor and control project development and institutional costs; (c) an improved financial planning system to monitor the INVA portfolio and develop the informational base to establish interest rate policies and to implement financial management decisions; (d) development of a basic information base to determine market potentials for the development of low-cost projects; and (e) an expanded capacity in INVA to service mortgages, finance units, and promote the delivery of low-cost shelter in cities other than Tegucigalpa and San Pedro Sula.

Private Sector: (a) the involvement of private sector finance institutions in the production of low-cost shelter, including mortgage and construction financing; and (b) the assumption of construction and marketing risks by the private construction contractors involved in low-cost shelter.

Policy Studies will be conducted in the following areas to support the GOH in development of strategies for shelter and urban development: (a) resource mobilization; (b) urban infrastructure development; (c) the role of the savings and loan system; (d) technically efficient solutions; and (e) evaluation.

Project Finance. The Project will be financed with a $25,000,000 Housing Guaranty Loan to provide the long-term financing for the physical outputs. Of these resources, $15,000,000 will finance the public sector solutions consisting of sites and services, wet cores, basic cores, and home construction/improvement loans; $10,000,000 will finance the private sector program of one-bedroom units. Reallocations of these resources will be permitted with the prior approval of AID as may be required by market conditions. Counterpart contributions of $4,700,000 will be provided by INVA ($1,500,000), private financial institutions ($1,000,000), and beneficiaries ($2,200,000). To support the institutional and policy outputs, $700,000 in development assistance grants will be provided. Also, up to $5,000,000 in ESF may be made available to support the program implementation.

TABLE I

FINANCIAL INPUTS (000's US$)

Public Sector		$ 17,480
HG	15,000	
INVA	1,500	
Beneficiaries 1/	980	
Private Sector		12,220
HG	10,000	
Private Financial Inst.	1,000	
Beneficiaries	1,220	
Sub-Total Physical Investment		29,700
Technical Assistance		700
Total Investment Package		$ 30,400

1/ Beneficiary contribution includes downpayments, except in the cases of home improvement loans.

TABLE II

DISTRIBUTION OF RESOURCES TO PROJECT ACTIVITIES

	Project Activity	AID	Host Country 1/	TOTAL	%
-	Sites and Services	$ 2,929,000	571,000	3,500,000	12
-	Wet Core Units	4,853,000	947,000	5,800,000	19
-	Basic Core Units	4,518,000	882,000	5,400,000	18
-	1 Bedroom Units	10,000,000	2,000,000	12,000,000	39
-	Construction loans	2,700,000	300,000	3,000,000	10
-	Technical Assistance	700,000	.2/	700,000	2
		$ 25,700,000	4,700,000	$ 30,400,000	100 %
		(85%)	(15%)	(100%)	

1/ Including beneficiary down payments, INVA counterpart, and private sector cofinancing.

2/ The GOH will make an in-kind contribution which will include counterpart salaries, space, and the value of data processing equipment and software purchases in support of the technical assistance program.

3/ The allocation of resources to sites and services, wet core and basic core solutions is illustrative and subject to verification of market demand.

THE GRANT COMPONENT OF THE PROGRAM

Objectives of the Grant Project. The Grant funds obligated in this Project Agreement will be utilized to finance technical assistance considered necessary for the implementation of the Shelter for the Urban Poor II Project and to do policy studies in support of the shelter sector and urban development. The principal specific objectives of the Grant are: (1) to assist INVA and the private sector to improve the development and delivery of low-cost shelter solutions; and (2) to assist the GOH, through a series of policy studies, to develop shelter and urban development strategies to deal with the provision of adequate levels of low-cost housing and related infrastructure.

Grant Outputs. The expected outputs in the area of technical assistance to INVA are: (1) improvement in the internal management of its technical staff, its management of the turnkey construction system, and its inspection system; (2) improved coordination and monitoring of insfrastructure construction for the timely delivery of completed units for sale; (3) improved promotion of the sales of solutions under INVA's turnkey program and of locally appropriate materials such as bahareque and adobe; (4) improved efficiency of INVA's management of its home improvement loan program; (5) training and short-term technical assistance for INVA's staff in the areas of marketing surveys and techniques; information management systems and data processing; and financial planning, cost accounting and internal auditing; and (6) to assist RHUDO, BCH, and INVA to promote private sector involvement in low-cost shelter finance, production, and marketing including, where appropriate, training and technical assistance to participating private sector entities. The technical assistance will be structured to provide RHUDO with the technical input required for approval and acceptance of projects.

The expected outputs in the area of policy studies are: (1) a study of the proposed structure of the Social Housing Fund and alternatives to mobilize domestic resources for the long-term financing of the shelter sector; (2) an analysis and recommendations on the savings and loan system to make it more competitive with other financial institutions; (3) an analysis of wet-core and sites and services solutions to determine their technical efficiency, and the social and economic efficacy of these alternatives vis-a-vis other alternatives to solve low-income shelter needs; (4) an Urban Development Assessment to outline an economically achievable short- and long-term strategy for urban investment with a specific focus on the minimum social and phsycial infrastructure requirements to support further shelter and economic development, with particular emphasis on water and sewerage infrastructure; and (5) an evaluation of the program to provide guidance on follow-on activities.

Grant Financial Inputs. The following table summarizes the allocation of the financial inputs for the Grant Project.

TABLE III

SUMMARY OF TECHNICAL ASSISTANCE

		No. of Person-months	Cost	Subtotals
1.	Resident Advisors			$400,000
	a) Project Advisor	36.0	$ 300,000	
	b) Technical Advisor	36.0	100,000	
2.	Policy Studies			144,000
	a) Resource Mobilization	3.5	42,000	
	b) Urban Development Strategy	3.0	36,000	
	c) Assistance to the S&L System	3.0	36,000	
	d) Technically Efficient Solutions/Evaluation	2.5	30,000	
3.	Short term Advisors			156,000
	a) Marketing			
	Market Surveys	2.0	24,000	
	Marketing Techniques	2.0	24,000	
	b) Management Information System and Data Processing			
	Management Information System	2.0	24,000	
	Data Processing	2.5	30,000	
	c) Financial, Planning, Accounting and Auditing			
	Financial Planning	3.0	36,000	
	Cost Accounting	1.0	12,000	
	Internal Auditing	0.5	6,000	
4.	Training - Various		24,000	24,000
	Grand Total			$700,000

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

ANNEX F

ASSISTANT
ADMINISTRATOR

GUARANTY AUTHORIZATION

PROJECT NO. 522-HG-008A

PROVIDED FROM: Housing Guaranty Authority

FOR: The Republic of Honduras

Pursuant to the authority vested in the Assistant Administrator, Bureau for Latin America and the Caribbean, Agency for International Development, 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 Million Dollars ($20,000,000) in face amount, assuring against losses (of not to exceed one hundred percent (100%) of loan investment and interest) with respect to loans including any refinancing thereof by eligible U.S. investors (Investor) acceptable to A.I.D. made to finance housing projects in the Republic of Honduras.

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 a grace period of up to ten (10) years on repayment of principal and a grace period on payment of interest. The guaranties of the loans shall extend for a period beginning with the disbursements of the loans and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loans.

2. Interest Rate: The rate of interest payable to the Investor pursuant to the loans shall not exceed the allowable rate of interest prescribed pursuant to Section 223(f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans made in the long-term U.S. capital markets.

3. The Republic of Honduras Guaranty: The Republic of Honduras shall provide for a full faith and credit guaranty to indemnify A.I.D. against all losses arising by virtue of A.I.D.'s guaranties to the Investor or from non-payment of the guaranty fee.

4. Fee: The fee of the United States shall be payable in dollars and shall be one-half percent (1/2%) per annum of the outstanding 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.

Victor M. Rivera
Assistant Administrator
Bureau for Latin America and the Caribbean

9/28/84
Date

Clearances:

PRE/H:SPWalsh 9/24/84
PVitale 9/24/84
GC/H:MGKitay
FM/LMD:HShropshire 9/25
SPapas 9/25/84
DAA/LAC:MDBrown
GC/LAC:RMeighan 9/27/84
LAC/DR:ILevy
RJordan 9/27/84
LAC/CAP:PAskin 9/27/84
PPC/PDPR:HTowsley

GC/H:BDavis:gjg 9/25/84 #1421P X23054

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

ASSISTANT
ADMINISTRATOR

GUARANTY AUTHORIZATION

PROJECT NO. 522-HG-008B

PROVIDED FROM: Housing Guaranty Authority

FOR: The Republic of Honduras

Pursuant to the authority vested in the Assistant Administrator, Bureau for Latin America and the Caribbean, Agency for International Development, 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 Five Million Dollars ($5,000,000) in face amount, assuring against losses (of not to exceed one hundred percent (100%) of loan investment and interest) with respect to loans including any refinancing thereof by eligible U.S. investors (Investor) acceptable to A.I.D. made to finance housing projects in the Republic of Honduras.

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 a grace period of up to ten (10) years on repayment of principal and a grace period on payment of interest. The guaranties of the loans shall extend for a period beginning with the disbursements of the loans and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loans.

2. Interest Rate: The rate of interest payable to the Investor pursuant to the loans shall not exceed the allowable rate of interest prescribed pursuant to Section 223(f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans made in the long-term U.S. capital markets.

3. The Republic of Honduras Guaranty: The Republic of Honduras shall provide for a full faith and credit guaranty to indemnify A.I.D. against all losses arising by virtue of A.I.D.'s guaranties to the Investor or from non-payment of the guaranty fee.

4. Fee: The fee of the United States shall be payable in dollars and shall be one-half percent (1/2%) per annum of the outstanding 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.

Victor M. Rivera
Assistant Administrator
Bureau for Latin America and the Caribbean

October ~~10~~ 2, 1984
Date

Clearances:
PPC/PDPR:HTowsley
PRE/H:SPWalsh 9/24/84
PVitale 9/24/84
GC/H:MGKitay
FM/LMD:HShropshire 9/25
SPapas 9/27/84
GC/LAC:RMeighan 9/27/84
LAC/DR:ILevy
RJordan 9/27/84
LAC/CAP/PAskin 9/27/84
DAA/LAC:MDBrown
GC/H:BDavis:gjg 9/25/84 #1421P X23054

ANNEX G

DELIVERY PLAN

The project will be implemented over a 4 year period beginning in 1985 It will consist of the production of shelter solutions to be implemented through two separate programs:

- A public sector program developed by INVA --generally sites and services, wet core units, and basic units-- all of which will be developed by the private sector under the turnkey delivery system.

- A private sector program, whereby qualified financial institutions will finance development and construction of units affordable at the 40th percentile. The Central Bank will disburse long-term loans against mortgages, and private banks will guaranty repayment of mortgages.

The location, size, and ultimate composition of the various projects developed with INVA financing will be predicated on market studies to be carried out by INVA, prior to project design and developer/builder participation. Private-sector promotors and banks will decide whether or not to participate in the program, with the locations and sizes of their projects based on their own judgements and studies of the market. The speed at which the individual projects will be implemented will depend on the efficiency of the implementing agencies as well as the capacity of developer/builders participating in the program. The programs designed in this paper are illustrative, based on the best information available as to the probable program design. Guidelines will be prepared for both programs; in the INVA program by INVA, and in the private sector program by the Central Bank. They will be based on criteria contained in this Project Paper and the Implementation Plan.

Depending upon actual implementation experience, resources will be reallocated as appropriate to facilitate timely implementation. For example $5 million might be transferred to the private sector program if it were completed before INVA committed its first $10 million.

In addition to the physical production and delivery of units, the technical assistance program --in the form of both resident and short term advisors, studies, and participant training-- will form an integral part of the delivery plan.

1. INVA Program

All Implementation Agreement negotiations should be completed and documents finalized by January 1985. INVA will advertise for proposals on or before that date for developer/builders who are interested in participating in the program through the turnkey delivery system or turnkey-plus-sales (wherein the promotor takes the sales risk as well). The invitation to bid will clearly state the criteria under which interested developer/builders may participate. INVA will be ready to award turnkey contracts on or about the time the final contract and guaranty documents are signed. The first disbursement should occur before the end of the year and the total amount disbursed that year should be approximately $2.25 million. At the same time, applications for home-extension loans will have been received and, based on the assumed breakdown of solutions built under this program, about $382,500 will be disbursed for this purpose. Based on these assumptions, INVA will produce about 711 solutions and make about 480 home extension loans in 1985.

In the three subsequent years, production under this program is expected to increase, ranging from about $3.1 million in 1986 to $3.7 million in 1988. The number of units produced will also increase; however, due to the effects of inflation, the increase in the number of units will only average slightly over 1,000 units annually. By the end of 1988, all funds will have been disbursed and the project completed.

2. Private Sector Program

This program should begin at about the same time as the INVA program; however, due to the expected higher level of production by private sector, this component should be completed by late 1987. In the first year, 1985, about $2.0 million will be disbursed, which will finance about 325 units. Over the next two years, the level of disbursements will be at $4.0 million per year, with 1,100 units being built.

3. Technical Assistance

a. Long Term Advisors

The resident advisors are expected to take up their position during the first quarter of 1985, remaining in Honduras for a three year period, or until early 1988. Therefore they will be able to provide advice and assistance to INVA from the early beginnings of the program through the period when most of the projects will have begun or been completed. They will also be assigned to the project during the entire life of the Private Sector Program.

b. Studies

The studies will be carried out during the life of the program depending on the recommendation of the resident advisor.

c. Short-Term Advisors

A major part of the short term technical assistance will occur during the first two years of the project, so as to assist INVA in establishing the programs and systems necessary to implement the program.

d. Participant Training

Timing for participant training will be determined in connection with the studies and short-term advisor components of the Technical Assistance and will be based in part on the availability of appropriate opportunities in Spanish.

4. Total Investment Program

The following table shows the breakdown of investment by type of solution over the life of the project. The investment figures take into account the expected effects of inflation.

TABLE G-I

INVESTMENT SCHEDULE
(Thousands of $)

INVESTMENT (000's $US)

Type of Solution	1985	1986	1987	1988	TOTAL
Site and Services	524.4	874.0	1,048.8	1,048.8	3,496.0
Wet Core	865.3	1,442.1	1,730.5	1,730.5	5,768.4
Basic Core	786.6	1,311.0	1,573.2	1,573.2	5,244.0
Home ext. loan	445.7	742.9	891.5	891.5	2,971.6
1 bedroom	2,444.0	4,888.0	4,888.0	.	5,244.0
Sub-Total	5,066.0	9,258.0	10,132.0	5,244.0	29,700.0
Technical Assistance	250	250	100	100	700
T O T A L	5,316	9,508	10,232	5,344	30,400

TABLE G-II

PROJECTED TOTAL DISBURSEMENT
HOUSING GUARANTY RESOURCES
(Thousands of $)

Program	1985	1986	1987	1988	Total
INVA					
- Construction	1,867.5	3,112.5	3,735.0	3,735.0	12,450
- Loans	382.5	637.5	765.0	765.0	2,550
Sub-total	2,250.0	3,750.0	4,500.0	4,500.0	15,000
Private Sector	2,000.0	4,000.0	4,000.0	-	10,000
Total	4,250	7,750	8,500	4,500	25,000

TABLE G-III

POSSIBLE STRUCTURE OF HG BORROWING
(Thousands of $)

May 1985	February 1986	December 1987	Total
5,000	15,000	5,000	25,000

A N N E X   H

CHARACTERISTICS AND STRUCTURE OF THE PRIVATE SECTOR PROGRAM

The proposed HG-008 program earmarks US$10 million for low-cost housing program involving the private sector (it should be noted that even the "public sector" portion of the project to be implemented by INVA will rely extensively on private sector developers and builders). This would allow private banks and developers to plan, develop, finance, construct, and sell low income housing with relatively few bureaucratic controls or supervision. Private market conditions rather than government supervision would determine the characteristics and success of the subprojects.

The major benefits from such an approach are that (a) private capital will be invested in the low-cost housing sector, especially in interim financing; (b) there will be a lower overhead cost involved in administering the projects; (c) a positive experience for the private sector might result in additional, autonomous investments in low-cost housing solutions by that sector; and (d) selling and credit risks will be borne by the private sector.

The private sector component of the project will involve several institutions: the Central Bank, private commercial banks, savings and loan associations, private developers and builders, and real estate companies. The Central Bank of Honduras will be the administrator of the program. The Ministry of Finance will pass funds with no markup to the Central Bank. These funds will be deposited in a trust account already established in the bank for the exclusive purpose of providing low income housing loans through the private sector.

The Central Bank will announce and promote the program among the major private banks and developers, and will accept and review proposed projects submitted by these for financial and technical feasibility and adherence to program guidelines. The major criteria for approving projects will be (a) availability of urbanization services; (b) a cost per unit, including land, urbanization and construction, affordable by below median-income families; (c) down payment requirements no greater than 15%; and (d) monthly mortgage payments (including all commissions, fees, insurance, principal and interest) no greater than 25% of the calculated median monthly family income of families as approved by A.I.D. for that community. Projects will be submitted by private financial institutions ready to accept the risks of construction, sales, and mortgage servicing.

On approving a project for financing under the program, the Central Bank will make a commitment to provide the long term take-out financing of mortgages that will be held and serviced by the private banks or savings and loan associations. The developer is responsible for securing interim construction financing, utility services, and other improvements for constructing the houses. Minimal supervision of the project will be provided by the Central

Bank. It is the responsibility of the respective private financial institutions and local municipal authorities to provide technical supervision of the construction. The Central Bank, in coordination with the Ministry of Finance, will require such guarantees and controls as it deems necessary to protect the interests of the GOH in the private sector of the program. These may include institutional guarantees for the private financial institutions, limitation of the offer to financially sound institutions and selected builders, FHA mortgage insurance or other acceptable insurance, on-site inspection, or other controls as required.

Upon completion of the units, the private developer is responsible for selling them, and the private bank or S&L responsible for developing adequate and binding mortgage documents. Houses accepted for long-term financing under the program must have been sold for an amount no greater than that specified in the implementation agreement, and the use of commission, fees, multiple loan instruments, or other service charges may not raise payments or the total value of the house above that limit.

The Central Bank will disburse funds to the holders (commercial banks or savings and loan associations) upon presentation of acceptable mortgages up to a pre-determined percentage. The commercial bank or savings and loan association will continue to hold and service the mortgage in its own portfolio, giving the Central Bank an institutional or other satisfactory guaranty for repayment of the Central Bank loan.

For its administrative services the Central Bank will charge a spread of 1/2 to 1% on the funds it loans to the private financial institutions.

It is expected that between 2 to 4 projects, encompassing some 1,200 housing solutions, will be financed through this portion of the program.

A N N E X I

DETAILED SOCIAL SOUNDNESS ANALYSIS

I. Detailed Social-Cultural Analysis

A. Population Characteristics and Urban Distribution

The population of Honduras was estimated at 4.1 million in 1984, more than double the 1955 population of 1.6 million. With an annual growth rate of 3.47% per annum, the population of Honduras is expected to reach 7 million by the year 2000. (USAID, Population Strategy Paper, 1984). This growth rate has been the second highest in the western hemisphere over the last 25 years. The high fertility rate means that a very large percentage of the Honduran population is young. As of 1982, 47.5% of the population was under 15 years of age and only 3% were over 65. Even with reduced fertility, the momentum of population growth will continue as these young people enter their reproductive years.

Approximately 64% of the population, (2.6 million) live in rural areas, at or near subsistence level. Approximately 39% live in urban areas. The urban areas are growing at a faster rate (4.5% per annum) than the non-urbanized areas (2.8% per annum), but in absolute numbers the rural population will continue to predominate giving rise to continued rural-urban migration with all the concomittent pressures on the urban areas to absorb the migrants. Urban population is estimated to reach 2,240,000 by the year 2000, but the rural population will grow from 2,211,200 to 4,631,300 people in the same time period. The majority of the urban dwellers live in the two primary cities, Tegucigalpa with an estimated population in 1984 of 510,000, and San Pedro Sula, estimated population in 1984 of 323,500. (Central Bank of Honduras, 1984). In the ensuing years, it is estimated that Tegucigalpa will grow at a slightly slower rate than San Pedro Sula, (4.58% compared with 5.42%) and that Tegucigalpa will actually lose in share of total urban population accounting for 42%, compared with 43% in 1974. In terms of absolute numbers of people, however, Tegucigalpa will continue to be the primary city. (Urban/Regional Assessment Report, USAID, 1983).

Secondary cities are assuming an increasingly important role, however. The number of people living in urban areas tripled from 1950 to 1980 and the proportion of the population living in urban areas rose from 10% to 24% in 1960 to the current 36%. This increase occurred primarily in the number of cities with a population of between 10,000 and 20,000 and from 20,000 to 50,000. By 1980 the number of secondary cities with a population between 10,000 and 20,000 people increased by one-third, to a total of nine. Estimates indicate that the number of rural centers which will increase their population to over 10,000 by 1990 is 29.

The secondary cities are projected to grow at over 4.0% per year, a rate which is higher than the projected national average. At the same time, the number of smaller settlements will also be increasing rapidly. The entry of new cities (those increasing to more than 10,000 inhabitants) in the 1950-1980 period is 31%, considerably larger than any of its Central American neighbors, Panama 10%, Costa Rica 13%, El Salvador 15%).

The largest cities are listed by rank order and total population below:

Ten Major Cities in Honduras by Population

City	1983
Tegucigalpa	509,000
San Pedro Sula	323,500
La Ceiba	57,900
Choluteca	50,700
El Progreso	50,000
Puerto Cortés	37,600
Comayagua	26,400
Tela	25,600
Danlí	16,900
Juticalpa	13,400

Source: Honduras en Cifras, 1981-1983. Banco Central de Honduras, May, 1984.

B. Beneficiary Population

1. Identification of Target Population

The beneficiaries of the public sector (INVA) project are low income households between the 5th and 50th percentile who do not own their homes. At least two thirds of the beneficiaries are expected to come from the low income neighborhoods in Tegucigalpa and the remaining families from low income neighborhoods in secondary cities. Beneficiaries of the private sector project will come from the 40th-50th percentile, principally in Tegucigalpa.

2. Need for Housing

The need for housing in all areas of the country continues to be very high. Figures from the National Development Plan, 1982-1986 indicate the need for 18,600 new houses annually to cover the demand created by population growth. (The growth rate was estimated at 3%, a lower rate than estimated by A.I.D.'s recent estimate.) 12,500 of these houses are projected for the urban areas; 6,100 new houses are needed in the rural area.

Further, estimates provided by the National Development Plan indicate that two-thirds of the total population live in houses considered to be in very poor condition and in need of replacement. The deficit due to sub-standard housing is estimated at 450,000 units of which 22% (100,000) are found in the urban areas. Seventy-eight percent (350,000) are located in rural areas.

The number of houses needing upgrading was estimated to be even higher by the 1980 Office of Housing study, Basic Shelter Needs in Central America, (USAID) which updated these 1974 figures. According to this projection, 547,000 houses need upgrading, 205,000 in rural areas, 174,000 in non-metropolitan urban areas and 168,000 in the metropolitan urban areas.

A disproportionate number of substandard units are found in the neighborhoods where the target population is currently living. An earlier study done by PADCO in 1978 indicated that as much as 65% of housing in low income neighborhoods in the two primary cities was constructed by the informal sector of substandard materials in marginal neighborhoods. A clearer picture of the need for housing and the living conditions in these neighborhoods is provided below.

3. Living Conditions of the Urban Poor

Four major studies of marginal neighborhoods in Honduras have been completed in recent years. Two studies were undertaken by USAID in 1981 and 1982 to determine the ability of low-income families to pay for home improvement loans, Informe Final de la Encuesta Sobre Viviendas y Servicios, Judith F. Laird, and Análisis del Impacto del Programa de Mejoramiento de los Barrios Marginados en Tegucigalpa y San Pedro Sula, by Joseph F. Lombardo. Ingreso, Gasto, Barrio y Familia: Estrategias de los Pobladores de Barrios en Tegucigalpa was completed in 1982 by ASEPADE. In March, 1984, selected low-income neighborhoods in Tegucigalpa and San Pedro Sula were studied by ASEPADE as part of a feasibility study for a USAID-sponsored program to help industries in Honduras. This latter study was entitled Estudio de Diagnóstico de la Población de los Barrios Chamelecón, Suyapa, Fé y Esperanza. The following description is taken from all of the above sources.

a) Overview of Marginal Neighborhoods: It is estimated that approximately 75 percent of the population of Tegucigalpa lives in low-income barrios (neighborhoods). While there is no complete list, approximately 84 of the total of 191 barrios can be considered marginal. The formation of marginal barrios has been underway for over 20 years. Many of these originated in spontaneous land invasions of ejidal (communal) and private lands. Others are sub-divisions developed by private real estate companies, often in violation of municipal ordinances, as they do not provide adequate services. The growth of the marginal barrios in Tegucigalpa, as well as in San Pedro Sula, has been spurred by the continuing influx of rural migrants.

The low-income neighborhoods in which beneficiaries of the project currently live have been divided into three distinct types: centrally located barrios, marginal areas on the periphery of the cities, and squatter settlements. As they differ in terms of the composition of the population, economic activity, and housing conditions, each is described separately below.

The centrally located barrios such as Sipile and Las Crucitas in Tegucigalpa have been formed around the market, which provides the major source of employment for residents. They are generally the oldest and the most densely populated neighborhoods, and overcrowding is severe, with 6-10 people occupying a single room. Estimates in 1980 reached as high as 855 persons per hectare for downtown Tegucigalpa (ASEPADE: 1982). Over sixty percent of the residents in these areas live in one room (cuarterías), located in long shed-like buildings which are divided into 8-10 one-room units on deep lots. Across a narrow open yard are rows of temporary shacks used as kitchens, as well as toilet or latrine. While some residents have lived in the same room for 10 years or more, most residents are transient, and finding employment is their primary concern. Many seek to improve their living environment and move into one of the other types of neighborhoods. Ninety percent of the population rents, incurring a monthly expense of L60-L80 per month. Those who do own their homes, however, generally have secure title and land tenure.

The marginal areas on the periphery of the cities are often the result of the sub-division of former haciendas (farms). Originally they were the sites for the farm workers, but increasingly have been the site for rural migrants looking for increased opportunities in the capital. Many of these areas are semi-rural, with little access to urban infrastructure, but they offer larger land areas with room for small amounts of livestock and agriculture. Density is low, with 39.9 people per hectare (ASEPADE: 1982). Approximately 60 percent of the people owned their home, but did not have secure title, due to the fact that much of this land was sub-divided and sold by people who themselves did not have formal title.

Squatter settlements are the result of illegal invasions of urban land, characterized by a near total lack of urban services. Population density is low but the housing conditions are among the poorest of the low-income areas. The majority of the residents live in individual mud huts, built as quickly as possible to avoid the possibility of being kicked out before they are firmly established on the land. Eighty percent are owners, who either bought a shack from a previous owner, or who built one at the time they invaded the land, but tenure is insecure as they have no title to the land. Renters pay between L38 and L50 per month. The number of squatter settlements has increased significantly in the last five years, accounting for much of the growth in Tegucigalpa.

In general, the rental housing which is within the means of marginal families is badly deteriorated due to lack of maintenance. In centrally-located cuarterías, infrastructure services are inadequate while in peripherally located cuarterías, these are generally non-existent. Unsanitary conditions are prevalent in both central and peripheral marginal barrios, and the latter are often subject to flooding, soil erosion, and landslides.

b. Characteristics of Population: The characteristics of the low-income populations are very similar in the two principal cities of Honduras, with the exception that the low income housing in San Pedro Sula is generally of better quality than the housing in Tegucigalpa. This is a result of flat land being available in San Pedro Sula which lowers the cost of housing construction and allows more room for expansion. The majority of the low-income neighborhoods in Tegucigalpa are located on the hillsides surrounding the city, making it very difficult and costly to build even the smallest shack.

The population in marginal neighborhoods is very young. The most recent ASEPADE study found that 56 percent of the population was under 19 years old and that 75.6 percent was below 30. Thirty-seven percent of the population was of school age, but nearly one-half of this group was not enrolled in school at the time of the study. Employment opportunities were not growing fast enough to provide jobs for the large young population and evidence was found of social problems among the youth, including alcoholism, drug addiction, and prostitution. Literacy rates were generally lower among the marginal population as well.

Families in the marginal neighborhoods are larger than the average, with households composed of a nuclear family and other family members and friends as well. Family sizes range from 5-8 members with an average of 1.06 families per household. The percentage of families headed by women varies by neighborhood, ranging from a low of 27 percent in the peripheral neighborhoods to a high of 43 percent in the centrally located areas. More women live alone with children in these areas as it is both close to their place of employment (the market) and because the proximity of neighbors in the cuarterías allows for sharing of child-care responsibilities. As a result of overcrowding and inadequate sanitary facilities in the majority of the marginal areas, infant mortality is high from dysenteries, enterities, and other diarrhea-related diseases.

4. Employment

The occupations of the residents of the marginal areas vary by neighborhood. Those living in the centrally located barrios work as vendors in the market, as ambulatory street vendors, or in low level civil service positions and report the highest earnings. In the peripheral neighborhoods, employment is less stable, with many people running a business from their homes. The 1984 ASEPADE study confirmed a much larger number of small industries located in the peripheral neighborhoods than elsewhere. These included occupations such as tailors, shoemakers, and carpenters. Many also work as day laborers in construction. Due to the nature of their employment, however, the wages are very irregular and a common strategy for many is to go into debt for housing and pay several months at once.

Sixty-four percent of the families had more than one person working, and many had three and four wage-earners, resulting in an average number of 1.5 wage-earners per family. This is substantiated by the high rate of female employment in the country. Forty-five percent of the women over age 15 are employed in Tegucigalpa; 40.6 percent of the women in San Pedro Sula are employed. The majority are employed in commerce (21 percent) domestic service (31 percent), or as factory workers (10.5 percent).

5. Income Levels

As no wage survey has been conducted in Honduras since 1978, data on annual income from the 1978 CONSUPLANE Household Expenditure survey is used as a basis for estimating current wage levels. The factor of 1.77 that was used to update income figures was based on a number of considerations. Average annual inflation from 1978 to 1983 was 11.4%. Annual wage surveys of top companies conducted by the U.S. Embassy have shown an average annual wage increase of 13.7%. This figure is high for the society as a whole, and is particularly high for unskilled and low-skilled worker levels. IMF estimates indicate that wages kept pace with inflation through 1980-1981, but dropped off sharply after 1981, with real wages declining significantly during the past two and a half to three years. The factor of 1.77 represents, therefore, the annual rate of inflation through 1981 and a significant deflation of the rate of inflation from an average of 8.45% to 6.50% representing the best estimate of actual nominal inflation of wages from 1982 to 1984. This results in an overall annual average wage increase of 10%.

Using these assumptions, a median income of $498 is estimated for Tegucigalpa, and $424 for San Pedro Sula. A decile distribution through the fifth decile for both cities is shown below:

TABLE I

MONTHLY INCOME DISTRIBUTION
IN U.S. DOLLARS FOR TEGUCIGALPA

Household Monthly Income	% of Population
$ 0-148	5
149-185	10
186-222	15
223-258	20
259-295	25
296-332	30
333-369	35
370-406	40
407-443	45
444-498	50

Source: Patrón del Gasto y del Consumo de Alimentos en los Hogares en Honduras, CONSUPLANE, 1978, tabulation of annual income question, updated by project paper team, 1984.

TABLE II

MONTHLY HOUSEFOLD INCOME IN U.S. DOLLARS
SAN PEDRO SULA

Household Monthly Income	% of Population
$ 0-148	5
149-185	10
186-227	15
228-257	20
258-276	25
277-313	30
313-331	35
331-368	40
368-387	45
387-424	50

Source: Patrón del Gasto y del Consumo de Alimentos en los Hogares en Honduras, CONSUPLANE, 1978, tabulation of annual income question, updated by project paper team, 1984.

The monthly income levels of the major urban areas (Tegucigalpa, San Pedro Sula, La Ceiba and Juticalpa) are compared with the income in the "other urban areas" (Comayagua, San Rosa, Danlí, and Choluteca) in the CONSUPLANE study, Household Expenditures and Consumer Patterns in Honduras, Oct. 1982. Income was highest in Tegucigalpa. The average income of the major cities was $418 while the average income in the other urban areas was $207, nearly half that of the major centers.

Income levels will vary considerably among the smaller cities as well, depending upon their size and economic base. Puerto Cortés, for example, with an industrial free zone and port can be expected to have higher incomes than other towns of similar size which function as market towns or rural service centers. The wide variation in economic strength among the urban areas in Honduras underlines the importance of careful analysis of the potential demand for housing in each area prior to undertaking a project.

The daily minimum wage, last increased in 1981, varies by sector, ranging from a low of L4.60 a day to a high of L7.10 for dock workers, railroad workers, and oil refinery workers. Construction workers, factory employees earn a minimum wage between L5.30 and L5.50. An additional 20% is added to the wages of workers paid on a weekly basis, however, raising the daily wage to between L5.50 and L8.50. Domestic workers earn between L100-200 per month. Thus, for example a semi-skilled construction worker earning L170 a month with a second wage earner in the household (calculated at one-half the primary wage worker) would earn L255 and qualify for the lowest priced solution.

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C. Beneficiary Participation

1. The progressive housing solutions offered by the project (sites and services, wet core, and basic core unit) provide the opportunity for low income beneficiaries who are currently renting to enter the housing market at an affordable price and expand their house as time and personal preference permit.

The experiences from 522-HG-005 in Hato de Enmedio and El Sitio in Tegucigalpa, El Carmen in San Pedro Sula, and the projects in El Progreso and Comayagua have shown the high acceptability of the wet core and basic unit. Families purchased units and immediately began construction of basic rooms for the wet core and additions to the basic 18 m^2 core. A large number of families have used part of the house for small businesses. A year after sales families in both Hato de Enmedio and El Carmen were beehives of construction activity. Today they are functioning communities with few houses left to be constructed. This same process is beginning in El Sitio, the latest project being constructed and it can be expected that this will continue in projects built in the future.

INVA architects and planners are receptive to beneficiaries desires and have made design changes based upon their comments. For example, for projects on the North Coast, kitchens will be located outside in keeping with local customs. Similarly, the placement of the bathroom on the lot has been changed to make the house design more acceptable. This information is being conveyed to private developers.

2. Market Studies

Beneficiary participation in the design of future projects will increase substantially as a result of the efforts of the INVA Planning Department to develop an in-house capability to carry out housing market studies prior to implementing specific projects.

This need was identified in the HG-005 evaluation (National Savings and Loan League, June 1983) as a necessary step, heretofore over-looked, in the process of improving INVA's ability to deliver affordable houses to the low income population. Since then, the Planning Department has undertaken three market surveys, in La Ceiba (Oct. 1983), San Pedro Sula (Dec., 1983), and Choluteca (May, 1984). A fourth study was completed in July, 1983, in Puerto Cortés with technical assistance from the project paper team. The results of the Puerto Cortés study are discussed below.

The first three studies showed a willingness on the part of INVA to undertake market surveys, but the results indicated a weakness in several areas, including knowledge about overall methodologies for measuring effective demand, questionnaire design, sampling techniques and data processing. Data processing, for example was done by hand, severely limiting the type of analysis that could be done. Some of these problems stemmed from a lack of coordination between the Planning Department and other departments within INVA which have expertise in certain areas such as the Data Processing Department (analysis) and the Department of Social Promotion (questionnaire design). Others stemmed from a lack of understanding of the basic methodology for completing market studies.

While the initial institutional analysis indicated the weaknesses mentioned above, technical assistance provided through the intervention of the sociologist on the project paper team resulted in a vastly improved study. Staff members from four departments participated in the design of the survey. (Planning, Social Promotion, Data Processing, and Engineering.) The questionnaire was re-written to measure effective demand more precisely and was pretested prior to use in the field. The description of each housing solution being tested was standardized and presented visually as well, with three dimensional models provided by INVA architects. INVA's computers were used to process the survey data and a more sophisticated analysis of effective demand was obtained.

The minimal time invested in this effort produced excellent results and indicates that INVA staff have both a strong capacity and a willingness to learn. Thus, technical assistance will be provided during the life of the project to continue improving INVA's ability to design and implement market studies for each project. The TA described represents a reduced amount of time from that originally estimated and focuses on areas still considered weak, such as sampling techniques, interviewer preparation, and analysis of survey results. These subsequent surveys will allow INVA to project global demand in a given area, obtain beneficiaries' preferences on a range of solutions and determine the affordability of these solutions for the target group. This information will also serve the private sector in the case that private firms accept responsibility for sales.

3. <u>Affordability of Solutions</u>

The INVA program is aimed at creating new shelter solutions affordable to low income families, reaching from the 50th to as low as the 5th percentile. Three solutions are proposed to reach this wide range of beneficiaries; sites and services, wet cores, and basic core units. INVA has successfully built and marketed the basic core and wet core in Tegucigalpa and El Progreso under HG-005, and will continue providing these units. The wet core, priced at $2,930 will reach Tegucigalpa beneficiaries between the 10th and 20th percentile; the basic core costs $4,785 and is affordable for beneficiaries in the 25th percentile.

A site and services component is being added to this project in order to reach a target population not now being serviced by INVA. The site and services solution priced at $2,038 will allow beneficiaries from the 5th to 15th percentile to participate in the program. A further modification of this alternative for smaller towns with a pour flush (water-seal) toilet will be tested. Preliminary cost estimates reflect a significantly lower price of $1,032 for Danli, at least, where flat building sites also contribute to reduction of the estimated cost. This alternative will be affordable at the 10th percentile in Danli.

The decision on the exact number of each solution to be built in each city will be based on the results of the market studies and the decisions of individual private sector promotors. Appropriate solutions may vary from the smaller 65 m^2 lots in Tegucigalpa with 18.30 m^2 of concrete block construction to larger more rural 120 m^2 individual lots offering pour-flush latrines and a water tap designed for traditional local construction using wood and mud.

Construction loans, in the form of building materials, will be offered by INVA to purchasers of the sites and services solution and the wet core. A loan for $1,125 is estimated to be sufficient to allow for a 18m^2 room and bath to be built on the lot. A loan for $750 will allow a 18$m^2$ room to be added to the wet core. Use of traditional building materials will permit construction of a larger living area.

An evaluation of the INVA's home construction loan program in Hato de Enmedio showed that two years after the project was begun, 15% (158 people) of the recipients of the wet core found the additional monthly payment for the home improvement loan too expensive. 85 of the units have been resold, through INVA, to other people. The rest of the owners continue to live elsewhere, while continuing to make payments to INVA for their lots.

In order not to exclude the lowest income group from participating in the program, INVA will consider permiting families who cannot immediately afford the construction loan to build temporary shelters for a limited period of time. Experience in other countries with sites and services projects has taught that this group, although slower, does succeed in building a permanent structure which complies with standards. This solution will permit families to reduce expenditures by not paying rent elsewhere while they build, and to save time by not commuting long distances between construction site, work and rental home. The positive element in this solution is that interchange among residents of varying economic levels takes place immediately, providing examples and incentives for the lower income population to build quickly.

Beneficiaries will pay between 15% and 25% of their incomes for the shelter solutions. Expenditure studies have shown that the proportion of family income paid for rent varies according to the family's income level and the geographic location. In Tegucigalpa, 26% of families income is spent on rent, compared with 23% in San Pedro Sula, La Ceiba, and Juticalpa, and 17% in smaller urban areas. Further, families with a very low income (L100-L300 per month) pay between 10% and 15% of their income for housing whereas families with an income between L500 and L1,000 a month pay between 18% and 25%. (CONSUPLANE, Household Expenditure and Consumer Pattern Study, 1982). Downpayments and closing costs will represent approximately 10% of the purchase price.

D. Demand for Solutions

Some indicators suggest that the demand for the INVA solutions may be weaker than has been projected in the past. Also, current growth projections for urban areas indicate that Tegucigalpa is growing more slowly than previously. While the city continues to predominate in terms of absolute numbers and the need for housing continues to be high, it will be as important to estimate effective demand carefully in Tegucigalpa as in the secondary cities. At the time of project design, INVA had a Tegucigalpa waiting list of 3,000 people in Tegucigalpa, whose applications had been completed and approved for a house. Included in this group, however, are people who had been offered a house and turned it down, people who were awarded a house but did not respond within the time limit, and people who may have already solved their housing problem since their applications dating from 1981. Furthermore, the number of people in 1984 who have initiated the application process with INVA is smaller than in two of the last three years.

TABLE III

NUMBER OF PEOPLE WHO HAVE INITIATED THE INVA APPLICATION PROCESS, 1981-JUNE 84.

Year	Number of People Initiating Applications for INVA housing 1/
1981	5,293
1982	2,632
1983	3,647
1984 2/	1,492
TOTAL	13,064

Source: INVA records, reviewed for project paper, June 1984.

1/ The application process is initiated when the "pre-qualifying form" is completed. The applicant must then submit document, and have two interviews with INVA social workers before final approval is given and his/her name placed on the waiting list.

2/ Represents total number of initial application from January-June, 1984.

b. Results of the Market Study in Puerto Cortés

Puerto Cortés, located on the north coast, is a medium sized city with an estimated population in 1984 of 41,514 (Consuplane estimate, 1984), and an approximte growth rate of 3.0%. The city is one of several in the central urban corridor which are experiencing gains from migration. With an estimated gain of 2.2% per year, however, the increase is much slower than in the major cities of Tegucigalpa (37%), San Pedro Sula (18.9%) and Choloma (17.9%). Puerto Cortés is no longer the strong growth pole it once was as a result of the activity generated by the banana industry, but rather a city which may serve as a focal point in the step migration process. The economic base of the area has diversified since the decline of the banana industry, providing a variety of employment opportunities in the Free Zone, the Port Authority, a Government agency, and some national industries. In addition, the area surrounding the city continues to provide jobs in agriculture. Due to its proximity to San Pedro Sula, many people travel daily to work in San Pedro Sula.

Puerto Cortés was selected by INVA as a potential site for a housing project, and thus, during the months of June and July, the Planning Department at INVA, conducted a market study in Puerto Cortes. The objective of the study was to determine the marketability of three housing solutions (serviced lot, wet core, and basic unit) at a non-subsidized price.

A non-random sample of 602 low income individuals who are not homeowners was selected. 200 interviews were conducted at 10 places of employment (Free Zone factories, Port Authority and the Cervecería Hondurena). 402 were conducted in 13 low income neighborhoods and at the Mayor's office (of people who came in response to announcements on the radio about the study.) The team economist also gathered information from a variety of instutitions to ascertain the current supply for the target population. The response to the survey was very favorable. Interviewers experienced a low rate of refusals within the low income neighborhoods and considerable cooperation from employees.

Characteristics of the Population

The respondents currently live in rented houses, the majority of which are located in neighborhoods subject to flooding. Housing conditions are poor. Only 21% have running water in their homes; 30% are connected to the city's sewer system. 43% have latrines, and the remaining 27% have less than adequate sanitary facilities. Rents are very high. Thirty percent of those living in cuarterias pay over L150 per month. 58.5 percent living in houses defined as detached pay over L150 per month. 40 percent pay more than L300 per month.

Housing construction for this income group is practically non-existant. A local service club has sponsored a project of less than 150 houses, financed by an European Development Foundation, and Vivienda de Sula is building a housing project for middle income families. Teachers in the area have formed a cooperative and applied for financing to their retirement fund (IMPREMA) to build housing for teachers.

Solution Preference

The demand for housing is so great in Puerto Cortés that the initial reaction of many respondents to the three alternatives (serviced lot, wet core, and basic core) was that any solution would be acceptable if it would allow them to purchase a home with adequate services in an area that was not subject to constant flooding. Respondents were asked, however, to express their opinion on the desirability and willingness to purchase each type of housing solution separately (Table IV), and they were also asked to select one of the three as their preferred solution (Table V). A close examination of the responses to these questions shows that definite preferences exist.

The serviced lot, a new housing solution being introduced by INVA in Puerto Cortés, was favorably viewed by 80.6% (Table IV) of the respondents, nearly all of whom (79.1%) found the unit affordable at the quoted prices. Individuals currently living in a house tended to dislike the serviced lot, more than those living in cuarterias. The most frequently cited reason was that it was unfinished.

86.2% of the respondents liked the basic core unit noting that it was complete and ready to occupy. 10% of this group, however, said they could not afford to buy the unit because of the price. Of those who disliked the unit (13.6%), many rejected it because they also felt they could not afford it. Some, with larger families, said the unit was too small.

TABLE IV

PERCENTAGE OF RESPONDENTS WHO LIKE 1/
AND WOULD BUY 2/ HOUSING SOLUTIONS

Desirability of Solution	Sites & Services		Wet Core		Basic Core	
	No.	%	No.	%	No.	%
LIKES SOLUTION	485	80.6%	387	65.9%	519	86.2
Would buy	476	79.1	369	61.3	462	76.7
Would not buy	9	1.4	28	4.6	57	9.5
DISLIKES SOLUTION	117	19.4	205	34.1%	83	13.8
Would buy	1	.2	1	.2	1	.2
Would not buy	116	19.2	204	33.9	82	13.6
TOTAL	602	100%	602	100%	602	100.0

The wet core was the least favorably received, although over sixty percent (65.9%) liked the solution. 61.5% indicated they would buy the unit at the prices quoted. Those liking this solution commented that it was more hygenic and complete than the serviced lot. Nevertheless, many felt the difference between the serviced lot and wet core was minimal given the difference in price and suggested that they could build their own sanitary services cheaper.

These preferences are even more apparent in the respondent's selection of their preferred solution. Over half (58.3%) of the respondents preferred the basic core. Nearly a third (30.6%) preferred the serviced lot and slightly more than ten percent (11.1%) chose the wet core. Unexpectedly, the lowest income groups preferred the wet core. Over 55 percent of those preferring the wet core earned less than L 300 per month.

Source: INVA Market Study in Puerto Cortés, July, 1984.

1/ Respondents were asked to give their opinion on the desirability of each housing solution separately.

2/ Respondents were asked in a second question if they would purchase the house at a given price.

TABLE V

Percentage of Sample
Choosing Each Solution
as Their Preferred Solution 1/

Type of Solution	Number	%
Serviced lot	184	30.6%
Wet Core	67	11.1%
Basic Core	351	58.3%
Total	602	100.0

Source: INVA Market Study in Puerto Cortés, July, 1984.

1/ These data represent interviewees' responses to the question "Which of the three housing solutions do you prefer?" The response, "none of the above" was not included as an alternative.

TABLE VI

HOUSEHOLD INCOME DISTRIBUTION
FOR SURVEY RESPONDENTS, PUERTO CORTES 1/ MARKET STUDY

Income in Lempiras	Number	%	% Cumulative
Less than L 100	36	6.0	6.0%
101-200	86	14.3	20.3%
201-300	113	18.8	39.1%
301-400	96	16.0	55.1%
401-500	68	11.3	66.4%
501-600	61	10.1	76.5%
601-700	49	8.1	84.6%
701-800	32	5.3	89.9%
801-900	14	2.3	92.2%
More than 900	47	7.8	100.0%
	602		

Source: INVA Market Study in Puerto Cortés, July, 1984

1/ The Median Income for Puerto Cortés was estimated at L 639 ($320) in 1984. Since data were not available for Puerto Cortés, the median income was assumed to be the same as that for La Ceiba, defined by Consuplane as a development center. It was updated to 1984 from the 1978 figure.

Affordability

Over half of the respondents (59.3%) reported a household income between $100 (L 200) and $320 (L 639), and therefore can afford the monthly payments for the serviced lot; 25 percent qualify for the wet core and approximately 13 percent qualify for the basic core. Twenty percent (20.3) do not qualify because their incomes are below the minimum needed $100, (L200) for the serviced lot. Twenty percent do not fall within the target group because they earn above the estimated median income of $320 (L 639) for the area.

TABLE VII

PERCENTAGE OF RESPONDENTS WHO LIKE 1/ AND COULD BUY 2/ HOUSING SOLUTIONS

Affordability of Solutions	**Serviced Lot 1/**		**Wet Core 3/**		**Basic Core 3/**	
	No.	%	No.	%	No.	%
Can afford	357	59.3%	148	24.6%	80	13.3%
Income too low 4/	122	20.3%	331	55.0%	399	66.3%
Income too high 5/	123	20.4%	123	20.4%	123	20.4%
TOTAL	602	100.0%	602	100.0%	602	100.0%

Source: INVA market study in Puerto Cortes, 1984.

1/ Respondents earning more than L200 can afford the serviced lot, assuming a loan of L3,665 at 15% for 20 years.

2/ Respondents earning more than L400 a month can afford the wet core, assuming a loan of L5,273 at 15% for 20 years.

3/ Respondents earning more than L500 a month can afford the basic unit assuming a loan of L8,600 at 15% for 20 years.

4/ Assumes respondents earn less than L200 could not meet monthly payments.

5/ Assumes the respondents earn above the median of L639 per month and thus do not fall within target group.

E. Spread Effect

Increased private sector involvement in providing shelter to the low income families is anticipated. The turnkey concept, which allowed private developers to increase their role in low income construction, has been successfully implemented. Private sector involvement in the turnkey operation will continue, and increase throughout the life of this project. As more construction firms realize the potential of the market for this target population, it can be expected that these firms will continue providing these type of solutions with their own interim financing and will accept the responsibility and risk for sales of the solutions as well. This project introduces the sites and services solution as a new solution for low income Hondurans. As this solution proves acceptable and affordable to the lowest income groups, replication will occur through other public and private non-profit organizations which work with the target group.

F. Impact

1. The direct beneficiaries of this project are the 4000 low income families who will purchase the housing solutions. The principal impact will be felt in three areas, improved living conditions, secure land tenure and employment generation.

a. Improved Living Conditions

Families will purchase homes in urbanized areas which will provide them with access to basic infrastructure in the form of running water, electricity, and sanitary facilities. The improved sanitary conditions will have a direct impact on the health conditions of the beneficiaries which will result in a decrease in diseases stemming from unsanitary conditions.

The quality of the housing unit will be significantly improved as a result of improved roofs, walls, and floors, thus providing better protection against the elements and a greater likelihood of being able to separate children's and animals' sleeping areas, also increasing family sanitary standards and contributing to reduction of disease.

The current overcrowding in houses will be reduced from the excessive density found in low income neighborhoods. This will be particularly true for families moving away from the one room rentals (cuarterías) where families of 6 and 7 people live in a 10 m^2 space. Although the initial size of the basic unit will be small, the construction and lot size provide for the opportunity to expand in the future. Experience from HG-005 shows that for the majority of families, this occurs within the first two years.

b. Secure Tenure

As stated in HG-007, this project will also provide for investment capitalization through home ownership, one major improvement over renting, since rental payments are not recoverable by the renter. In addition, project beneficiaries will have clear title and rights with regard to the ownership of the houses, indicated by surveys as a strong priority .

G. Employment Generation

The generation of employment is an important area of social impact from this project. The direct impact is an increase in employment opportunities for construction workers at the sites through the developers and from the individual homeowners who will contract independently for workers to build the basic room or add on to the basic unit. Experiences from 522-HG-005 show that the majority of families who purchased wet cores and basic units did not actually build their homes themselves. Rather they contracted with private individuals to do the work which the owners then supervised. Further, an indirect effect will be to increase employment in the local construction materials industry, as the demand for construction materials increases.

Based on the analysis provided in the Economic Annex M, direct on-site employment is estimated at over 5,000 person-years.

H. Issues

Honduras is currently experiencing high unemployment and underemployment which affects the poor more severely. This program of new construction is designed to reach the upper strata of the lower income through the INVA program and the lower middle class through the private sector program. This population typically has a source of steady, verifiable income and secondary wage earners in the household. Experience has shown that it is very difficult to reach the very poor (0-15th percentile) with a program of new construction. Upgrading programs will be continued as the most appropriate vehicle with which to reach the very poor.

A high number of women headed households are found within the low income population. There are no legal barriers to women owning property in their own name, or obtaining credit. Further a majority of the homes in recent INVA projects are titled in the woman's name, whether married, divorced, or single. Conceivable explanations include the desire of mothers to provide security for themselves and their children regardless of their relationship with the father of the children, the desire of fathers engaged in small-scale commercial enterprises to protect their families in case of business failure, and the result of a traditional pattern of material favors offered by higher status, wealthier men to lower-income women. From the motivational nature of these possible explanations, it would be extremely difficult to measure the relative importance of each, but it does appear clear that women are offered at least their fair share of the benefits offered by INVA.

A N N E X   J

DETAILED TECHNICAL ANALYSIS

I. Introduction

This program promotes the production of low-cost, basic shelter solutions for the urban poor. It contemplates the development of a variety of solutions, all planned to meet the financial capacity of low-income families. Each solution is designed so that it can be expanded or improved upon, taking into account the purchasers improved financial position over a number of years. The end product will consist of a standard shelter solution, adequate to accomodate the immediate shelter needs of the purchaser.

Several prototypes have been designed to serve as a point of reference for this project, as well as to aid prospective promotors of individual projects financed under this program. Illustrative cost estimates based on similar projects now being undertaken have been prepared to give a better idea of unit costs, and to analyse the affordability of the units. Finally, five cities have been studied to give more concrete examples of how low costs vary from area to area. In no way does this imply that other urban areas are not qualified to participate in this program. Also, it should be pointed out that all costs are calculated with mid-1984 prices. Projections as to future cost or price increases are incorporated in the financial analysis using an estimate of inflation of 12%.

The four prototype units expected to be built under this program are shown in the sketches attached at this end of this technical analysis. They are:

1. Sites and Services
2. Wet Core Unit
3. Basic Core Unit
4. One Bedroom Unit

In addition, home expansion loans will be extended to purchasers of the site and service solution and the wet core unit.

A. Site and Services

This solution which is essentially an urbanized lot is targeted to reach the lowest income family. It consists of a level lot with facilities that will include most if not all of the following improvements and public services:

1. Electricity (light and power)
2. Water supply.
3. Sewer system.
4. Surface drainage
5. Leveling and earth movement.
6. Road ballasting.
7. Access road pavement.
8. Access sidewalks to housing.

Sizes of lots and itemized costs are shown in the following table:

TABLE J-I

COST ITEMIZATION OF URBANIZED LOTS
EXAMPLES IN FIVE CITIES
(In Lempiras)

City	Dimen.	Area	Land Cost	Electricity	Infra Struct.	Design Superv.	Administ. Final/C.	Total
Tegucigalpa	6x12.0m.	72m^2	226.80	162.00	2,316.60	191.16	343.44	L 3,240.00
San Pedro Sula	7x12.0m	84m^2	235.20	168.00	2,402.40	198.24	356.16	3,360.00
Pto. Cortés	8x12.5m	100m^2	297.43	212.45	3,038.04	250.69	450.39	4,249.00
La Ceiba	8x12.5m	100m^2	280.00	200.00	2,360.00	236.00	424.00	4,000.00
Danlí I	8x12.5m	100m^2	280.00	200.00	2,860.00	236.00	424.00	4,000.00
Danlí II*	8x12.5m	120m^2	199.76	200.00	1,261.24	102.50	300.00	2,064.00

* The Danlí II solution estimate is based on a specific site which will minimize development costs and provides for an individual waste disposal system, rather than water borne.

Land costs for housing development vary because of a number of factor including: a) topography, b) distance to public services, c) level of those public services, d) the level of development of adjacent areas, e) marked demand for buildable sites and f) clearity of ownership. With respect to the last factor it should be enphasized that over the past ten years, there have been many instances of squatters settling on vacant private lands. While the government has tried to impede squatter settlements, landowners of properties adjacent to such settlements have often sought to speedup formal site development to prevent loss of these lands through invasions. Such rushed private sector development can distort land prices.

The cost of land normally comprises about 7% of total urbanization costs for low-income housing developments. This percentage figure can be adopted for all such projects, although the costs may be lower in secondary cities and towns. Land costs are still a minor component of low-cost developments.

Design costs generally run about 3% of the total cost of the urbanized lot. Supervision of projects include the cost of supervision of construction, any lab tests required, and certain administrative costs, and generally total about 2.5% to 3.3% of total land development costs. General administrative costs, as calculated by INVA, include such item as costs resulting from processing change orders, additional supervision expenses, other contingencies, and general overhead. These costs generally run about 10.5% of total costs. Profits would be additional.

Provision of electrical power to a development is a function of ENEE, the sole supplier of this service. Based on similar projects currently being developed, the cost of this service would equal about 7% of land development costs. It should be noted that individual hook-up of water, sewerage, and electricity is an additional expense paid directly by the homeowner at settlement.

Infrastructure costs comprise the bulk of land development costs, typically running to 71% of total costs. This percentage is broken down as follows:

- Off-site water installation	2.0%
- On-site " "	7.7
- Off site sewage works	16.2
- Water and sewer conections on site	9.5
- Drainage	6.4
- Earth movements	11.2
- Streets	10.3
- Paths and sidewalks	8.2
Total	71.5%

In the preceeding estimates the overall cost of an urbanized lot is somewhat higher for secondary cities due to larger lot sizes than in Tegucigalpa. The level of infrastructure improvements are basically equal in all cities, with one exception. The use of smaller lot sizes in secondary cities would reduce total lot costs. In general, larger lot sizes are suggested for secondary cities for environmental reasons and because lots are traditionally larger both in coastal cities and smaller cities. The final shelter cost and other caracteristics will be decided after assessing affordable alternatives. Changes will be introduced in the base components of the projects to obtain the best solution. INVA will provide a home extension loan for the purchase of sufficient materials to construct a bath plus an 18m multipurpose room.

2. Wet Cores

Wet core units consist of a $3m^2$ bath including flush toilet and shower, and an outside concrete wash basin (pila) located on the urbanized lot. The solution is designed so that gradual expansion can take place following approved development patterns.

TABLE J-II

COST ITEMIZATION FOR WET CORE UNITS
(In Lempiras)

Ciudad	Lot Area	Lot Cost	House Area	House Cost	Total Cost
Tegucigalpa	$72m^2$	3,240.00	$3m^2$	1,500.00	4,740.00
San Pedro Sula	$84m^2$	3,360.00	$3m^2$	1,200.00	4,560.00
Puerto Cortés	$100m^2$	4,249.00	$3m^2$	1,400.00	5,469.00
La Ceiba	$100m^2$	4,000.00	$3m^2$	1,200.00	5,200.00
Danlí I	$100m^2$	4,000.00	$3m^2$	1,200.00	5,200.00
Danlí II	$100m^2$	3,200.00	$3m^2$	1,200.00	4,400.00*

The cost of the $3m^2$ sanitary units in the five cities will vary from L1,200 to L1,500, depending on location. Costs are generally lower in secondary cities due to lower labor costs. The cost breakdown for a sanitary core costing L1,500 in Tegucigalpa is as follows:

	Cost Item	Percent	Amount (L)
1.	Site Preparation	2.8	42.0
2.	Foundation	5.5	82.5
3.	Sewer Drainage	19.6	294.0
4.	Water installation	8.3	124.5
5.	Walls	18.0	270.0
6.	Roof	5.1	76.5
7.	Floor	2.6	39.0
8.	Doors and Windows	12.7	180.5
9.	Sanitary fixtures	11.3	169.5
10.	Outside sink	6.3	94.5
11.	Electrical fixtures	6.8	102.0
12.	Painting	1.0	15.0
		100.0	1,500.0

As in the case of the site and services solution, INVA will make a material loan to upgrade the wet core to an 18m^2 unit.

3. Basic Core

This solution is a progressive improvement on the wet core unit. It consists of an 18m^2 multipurpose room and a bath, all built in the lot in such a way that additional rooms can be added following any of the designs approved by the developer.

TABLE J-III

COST ITEMIZATION FOR BASIC CORE UNITS
(In Lempiras)

City	Lot Area	Lot Cost	House Area	House Cost	Total Cost
Tegucigalpa	72m^2	3,240.00	18m^2	4,349.00	7,589.00
San Pedro Sula	84m^2	3,360.00	18m^2	4,349.00	7,709.00
Puerto Cortés	100m^2	4,249.00	18m^2	4,500.00	7,749.00
La Ceiba	100m^2	4,000.00	18m^2	4,349.00	8,349.00
Danlí I	100m^2	4,000.00	18m^2	4,349.00	8,349.00

Construction costs do not vary significantly from city to city. The expected cost of L4,349 includes the multipurpose room and the sanitary core, but excludes the lot cost. The breakdown of units costs is as follows:

Cost Item	Percent	Amount (L)
1. Site Preparation	4.2	140.88
2. Foundation	10.6	462.34
3. Sewer Drainage	9.2	398.69
4. Water installation	3.5	150.00
5. Walls	23.1	1,002.76
6. Roof	12.7	551.57
7. Floor	7.2	313.14
8. Doors and Windows	16.2	706.45
9. Bath Finish	1.4	61.84
10. Sanitary Fixtures	6.5	283.65
11. Electrical fixtures	4.5	194.68
12. Painting	0.6	25.87
	100.0	L 4,349.00

4. One Bedroom

One bedroom units will be developed under the private sector component of this project. As produced by INVA, a one bedroom unit would consist of a 30m^2 structure that will enclose living area, kitchen space, one bedroom, and a bathroom. INVA's sales price of that unit today would be in the L14,000 range. Promotors who participate in the private sector program may use INVA's one bedroom unit as a point of reference, as shown in the attached unit plan.

II. Proposed Locations By City

Projects may be developed in any city or urban area in Honduras. The following five cities are illustrative of the situation and costs in all Honduran cities.

A. Tegucigalpa

Indications are that there are a number of sites, both large and small, that are suitable for development. In many instances, plans and designs have been prepared, indicating a willingness by developers to develop those sites. The major handicap to developing those sites has been the lack of long-term financing. The availability of water service is a major criteria in selecting a project site in Tegucigalpa. Preliminary investigations by SANAA and the Municipal Government has concluded that sites in the eastern sector of the city are more likely in the short run to have access to an adequate supply of water supply and sewerage.

Water Supply Projects such as Upgrading of Tatumbla-Sabacuente, Jutiapa, Chimbo, and Grillal, Sabacuante and Chimbo, Nivel 11 and Cedrillal will bring more water to the storage and distribution centers that feed the eastern sector. Most of the materials required to build these projects are in place. While decisions on financing the cost of constructing these projects is still pending, these projects are likely to be financed as part of the Mission "First Offensive" to create employment.

B. San Pedro Sula

Acceptable sites are located in two areas of the city, the northwest corridor along the Puerto Cortés road and the eastern sector. Both areas are served by water and sewer main lines, with adequate capacity. These lines will need to be extended a short distance to bring service to the prospective sites. City wide, however, the level of water and sewer services is deficient due to rapid urbanization.

San Pedro Sula is governed by an Urban Development Master Plan that regulates growth of the city. It also indicates those sites designated as appropriate for residential construction. No project, however, will be financed in San Pedro Sula until the existing inventory of unsold units has been sold.

C. Puerto Cortés

The old city was developed on a low tract of land extending toward the wharf. Over the years, infill has been carried out in order to continue to increase the amount of land above sea level. Recently, the construction of new wharf installations in this area has raised land levels to such a height that natural land drainage has been interfered with. This has caused flooding in the central area of town when heavy rainfall occurs. Therefore, the need for landfill and adequate drainage must be taken into account when developing projects in the low lying areas. This in turn leads to increased infrastructure costs.

More recently, new residential developments have begun to extend toward the southwest end of the city where projects are being located on higher ground with no drainage problems. Water service is now available to that section of the city, although the current lack of a water-borne sewage system requires that developers install local sewage systems in residential developments.

D. La Ceiba

This town has a recently improved water supply system and a sanitary sewerage system not as extended as the water network. Sites with good drainage are available for residential construction.

It is worthwhile to note that in La Ceiba there are many low cost housing projects that have been promoted by worker unions, cooperatives, teachers associations and other institutions strongly subsidized and financed at rather low interest rates (8-12%).

E. Danlí

The smallest city of the initially selected group of towns to be considered as a beneficiary of this program, is located east of Tegucigalpa over 70 miles of paved road. Public utilities are available being operated by SANAA and ENEE. A small project, "Las Brisas" was recently built on the southern edge of the city. As all services are available on the same side of town as "Las Brisas," it is most likely that this area will be the choice for new projects. A market survey completed in August 1984 confirmed that there is demand and affordability for solutions funded under this project.

III. CONSTRUCTION SECTOR

A. Capacity

The recent economic downturn has caused a reduction in the level of construction activity. Little industrial construction is taking place, and the construction of the hydroelectric plant of El Cajon which generated considerable activity in the sector is now substantially completed. Residential construction, while lower than the boom years of 1980/81, still manages to provide some work for contractors. INVA continues to provide construction opportunities, while pension funds are financing homes for pension members. However, it is estimated that the construction sector is operating at about one-third capacity. This affects all sectors of the industry, including general contractors, engineers, and labor. Generating additional housing activities in the sector would cause no problems and in fact, any new housing programs would provide a needed boost to the industry.

B. Labor and Materials

During normal times, there is an ample supply of skilled labor for the construction of low-income housing projects. Most of these skilled workers are found in Tegucigalpa and San Pedro Sula. Due to the compactness of the country, however, relocating these workers to other cities poses no problem. Unskilled workers are in more than adequate supply. Again the recent downturn in economic activity has increased the supply of both skilled and unskilled labor.

Materials are generally available. Except for electrical components, some plumbing fixtures and sanitary ware, and door and window hardware, all materials required to produce low-income units are produced locally. Locally produced material include cement, wood, rails, roofing, floortile, PVC pipe and aggregates. All are produced in adequate quantity for the expected demand from this project. The economic recession has increased the unused capacity of these producers, which gives further assurance that building materials will be readily available.

C. Bottlenecks

The primary block to residential construction in Honduras has been the lack of long-term financing. This financing will be a major contribution of this project. Construction financing is available at the present time but is not easy to obtain as Honduran lenders are quite conservative and impose stiff collateral requirements. Based on the recommendation of the Project Paper team private sector consultant1/ that the remedy could be worse than the disease, no interim financing by the government is planned under this program.

In Tegucigalpa, there has been a serious problem of overall water supply for many years which is discussed in more detail in the section on infrastructure.

Other elements such as land, labor, standards, capacity of the industry and materials have not been problems in the past. The limited availability of dollars to pay for the few essential imported construction materials has potential to slow implementation and, therefore, will be provided as described below.

D. Availability of Foreign Exchange

The availability of foreign exchange is crucial to the development of this project. While the percentage of imported materials for, this project is minimal about 7 to 10% of the total cost of materials for an average unit or 5% of the total HG financing, the lack of foreign exhange to purchase those few materials could jeopardize the completion of the project. The Central Bank has established a list of import priorities with construction materials third on the list, after food and medicines.

For this reason, the Central Bank has recommended that it be required to provide the necessary dollars for purchase of the essential imported materials. Therefore, such a provision has been included in the covenants recommended for the Implementation Agreement. Specific procedures acceptable to A.I.D. will be defined by the Central Bank.

E. Use of Local Materials - Adobe and Bahareque

This program gives consideration to the use of available indigenous materials employed to obtain cost reductions, to avoid a drain on the limited supply of hard currency, and to increase local labor participation. Earth and wood are the most wide-spread and abundant construction materials in the country.

1/ Herbert Adelman, Report on Private Sector Program (preliminary draft) dated July 2, 1984, available from RHUDO/ROCAP, Tegucigalpa.

1. Methods of Use

The principal house construction methods using this materials are: adobe bricks, soil-cement blocks, and wattle and daub (bahareque). Adobe bricks or blocks are molded from a clay-based mixture reinforced with straw or other fibers. Mixture should have a high enough water content to render it plastic and workable to be formed in simple molds in sizes that vary in width (0.35 - 0.40m), height (0.10 - 0.15m), and length (0.35 - 0.50m).

Soil-cement bricks are cast in forms set in mechanical rams. They are made out of a mixture of soil and 5-10% cement. This brick size is generally 0.08 x 0.15 x 0.20m.

Bahareque (wattle and daub) is a framework of posts and poles supporting an assemblage of horizontal wooden members forming the inner and outer faces of walls. Soil and stones mixed with water to the proper consistency fill in the framework. Wall width varies from 0.15 to 0.20m.

A mix of dirt, sand, and lime covers the surface. Usually a finish of sand and lime is applied to improve appearance and hardness.

2. Ongoing Experience

INVA is experimenting through its Rural Housing Division with projects using adobe at Jamastran and with soil-cement in El Pate, Yoro. Other institutions have developed small projects in bahareque.

Reports on costs show marked differences in favour of these construction methods when compared with concrete block or clay brick construction costs. However, as information used comes from subsidized government projects, adjustment of complementary cost components would be necessary to develop comparable figures.

INVA is in the process of building a prototype with bahareque in Santa Cruz de Yojoa to test acceptance and gather reliable, up-to-date cost information.

3. Project Execution

Thre are two ways to implement these types of projects:

a. Give the promoter's function to a Cooperative or other qualified organized civic group, technically assisted by INVA, to build the project, or

b. Finance a turnkey wet core and/or site and services project, build a model, and offer technical assistance in connection with the home extension loan program. Both alternatives may be tested in this project.

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IV. Infrastructure Considerations

A. Availability of Services

A major problem that affects all housing developments in Tegucigalpa and San Pedro Sula as well as many other cities is the availability of water and sewage service to the project. In order to overcome this problem, housing developments built under this project must be shown to have ready access to an adequate supply of water and sewage system, water-borne or local, in order for the project to receive approval. As a first step, SANAA, the national water company, has provided INVA, and will provide the private sector, with full information on the status of water and sewage supplies throughout Tegucigalpa. The San Pedro Sula water supply agency -DIMA- has done the same. Moreover, SANAA expects to receive additional funding shortly to improve and its Tegucigalpa water supply system, and it is expected that funds will be reserved to help ensure that projects financed under this project will benefit from overall improvements in the system.

The provision of electrical power, which is provided nationwide by ENEE, is more a problem of delays in installation of service than one of availability. Prior to initiation of construction of a project ENEE must approve the electrical plans, and the developer must pay ENEE in advance for the cost of providing this service. Advance payment does not ensure prompt service; in fact, delays are chronic. The only recourse to this problem is removal of INVA from the process to permit direct coordination between the developer and ENEE. We expect a more aggressive stance by the developer to obtain timely receipt of the service for which he has paid.

The timely delivery of electricity, water, and sewerage services will be the direct responsibility of the private sector developers. However, A.I.D., through its technical advisor, will require periodic discussions with ENEE and SANAA to ensure better coordination for this project.

B. Standards

For many years, infrastructure construction standards were set to U.S. standards, due to the fact that engineers often received their education from U.S. textbooks, even in Honduras. This led to the overdesign of infrastructure, with concomitant high costs. With AID's encouragement and assistance the design level of water and sewer supply for housing projects has been reduced to reflect actual needs. This is the case for off-site infrastructure improvements made by SANAA, and on-site improvements by the developer. Subsequent evaluation of these minimum standards indicate that they are being applied to all of INVA's projects. Currently standards are set as low as technically feasible.

Other standards have been reduced also. Reflecting the income status of the inhabitants of INVA's projects, the number of units fronting on streets has been minimized, and instead units are accessible by pathways. Lot sizes have also been reduced and in certain projects lots of $65m^2$ are being sold. Given expected family size and space needed, this is probably the minimum necessary for single family dwellings. The reduction in all these standards reduce costs and thereby make INVA's solutions more affordable for low-income families.

5. Home Extension Loans

The provision of incomplete shelter solutions, such as the site and services solution and the wet core unit, offers very low income families access to a housing opportunity. Additional resources must be found immediately to expand that solution, at least to the level of a minimal or basic unit of 18 to $20m^2$, which, while crowded, will accomodate the average family. Over the years the unit can be expanded to provide adequate space for the family. The rationale for the use of this technique is that the purchaser can pace his investment to this own financial situation and may accomplish an equal amount of construction at a lower cost through self-help and elimination of general contractor overhead and costs. Under this proposed project, INVA will make material loans of up to $750 for purchasers of wet core units and $1,125 for the site and service solutions. The purchaser will cover the cost of erecting the units. If most construction is carried out by the purchaser, however, the extra expense will be minimal. Studies have indicated that the level of construction knowledge necessary to build an additional room is low and that the purchaser, perhaps with friends and relatives, is capable of carrying out that activity. Experience with earlier projects in Honduras indicates that much of the expansion work is successfully contracted out to individuals and very small firms.

In previous projects where the concept of home extension or improvement loans was applied, INVA employed two methods of administering the loan program. In both cases the loan was made in the form of vouchers, which were used to purchase the amount of materials required up to the maximum. In larger projects in Tegucigalpa, INVA has erected a materials warehouse on-site, where both the loan application is made and the materials disbursed. In smaller towns INVA has contracted with local building material suppliers and has selected a supplier on a competitive basis to exchange the vouchers for the supplies listed. No comparison of cost or efficiency between these two methods has been made. INVA expects to evaluate those two methods and concentrate on applying the one that is most effective in projects developed under this program.

Most purchasers of these two solutions obtain part or all of the cash resources needed to expand the solution from other sources. It is probable therefore that not every purchaser will wish to obtain a home extension loan. Funds are reserved in this project to satisfy about 70% of the purchasers with a maximum loan. In the event that the allocation for this purpose is not fully used the surplus may be used to make loans to families to expand a basic unit or, conversely, additional solutions of any of the three types contemplated may be built.

Technical assistance will be provided to INVA to analyse the concept of incomplete shelter solutions, and to develop alternative solutions in the event charges are desirable.

6. Turnkey System - A Description

The purpose of the turnkey system is to accelerate the development and construction of housing, while at the same time producing housing at a lower cost. By joining the resources and experiences of builders with the knowledge and ideas of developers and designers, improvement can be made in the delivery of finished units.

The turnkey system is defined as a procedure for acquiring housing units whereby the private sector developer/builder assembles a site, designs the project, obtains construction financing, and builds the project. INVA receives the completed projects, sells the units to qualified purchasers, provides long term financing, and services the mortgage. The procedures for developing a turnkey project are precise. Initially, the role of INVA consists of program design. INVA identifies localities for prospective projects, including type and number of units to be built. It then advertises that it will accept proposals from developer/ builders to develop a project along the lines advertised. These proposals include the following information:

- Project site
- Ownership of site
- Type of units to be build
- Development plan
- Financial plan
- Type of construction
- Project cost
- Infrastructure plan
- Topographic conditions
- Financial condition and project experience of the developer/ builder
- Construction financing arrangements

INVA evaluates the proposal or proposals, and then selects one proposal for implementation. A contract between INVA and the developer/ builder is negotiated, which stipulates the terms and conditions under which the project is developed and built. When the project or a project section is completed it is turned over to INVA; that is, the keys are handed to INVA. The developer/ builder's role is then completed. INVA takes the responsibility for selling the units and provides the long-term mortgage financing. INVA then services the mortgage loan.

The experience in HG-005 demonstrates that the turnkey delivery system is superior to the previous delivery systems used by INVA. Accordingly, INVA's management has accepted this system as the most appropriate way to develop housing projects.

7. Turnkey -Plus- Sales - As Proposed for this Project

To extend further the responsibility of the private sector developer, INVA will promote as a part of every Turnkey offering the option of Turnkey-Plus-Sales. The private developer will meet not only all the normal Turnkey requirements but will accept the responsibility and risk of sales in return for a higher margin on the project. In Tegucigalpa where there is now a strong market and yet INVA is not able to coordinate delivery of the units and sales to its waiting list, delegation of this responsibility to the private sector will eliminate a significant financial drain from INVA's operations. In secondary cities, in addition to developers who know their market and could expect to pre-sell the project, there may be considerable interest by private voluntary organizations who could be expected to build on existing programs and communications to minimize the sales price for their beneficiaries.

TABLE J-IV

PROJECT SHELTER SOLUTIONS

Shelter Solution	Number	Average Costs 1/	Total Invvestment
Sites and Services	1,406	2,486	$ 3,496,000
Wet Core Units	1,613	3,576	5,768,400
Basic Core Units	900	5,827	5,244,000
1 Bedroom Units	1,425	8,561	12,220,000
Home Extension Loans	2,648	1,122	2,971,600
			$ 29,700,000

Total Shelter Investment	29,700,000
Technical Assistance	700,000
Total Program Investment	$ 30,400,000

1/ Investment costs per activity includes the 12% per annum inflation factor over the life of the project.

ANNEX K

DETAILED FINANCIAL FEASIBILITY ANALYSIS

This financial analysis was prepared for INVA only, and takes into consideration the public sector component of the project that will be implemented by that institution. No analysis was prepared by A.I.D. of the private sector of the project, but no private financial institution will enter into the program without its own careful analysis. The financial rates of return given in this analysis include only the INVA component of the project and are calculated only varying assumptions. The financial rate of return for the entire project, including both the private and public sector components, and based on a single set of assumptions, is given in the Economic Analysis Section of this PP.

I. Financial Analysis - Years 1982 and 1983

A. Balance Sheet

In order to analyze INVA's financial position, financial ratios and percentage variances in the balance sheet from the end of 1982 to the end of 1983 have been taken into consideration with respect to liquidity, leverage, activity, and profitability. Liquidity ratios show the institution's ability to meet cash demands. Financial leverage refers to an institution using borrowed funds to finance an operation which will earn enough to cover the financial cost and an additional amount of return to equity. The activity ratios are designed to indicate the asset and resources utilization. The profitability ratios indicate the institution's performance. Following are percentage variances on the basic assets and liabilities, and income and expenses.

	'000 of Lempiras		
	1983	1982	% Variance
Loan Portfolio	L53,500	L38,530	+39%
Total Assets	81,335	65,760	+24%
Loans Payable	26,698	19,212	+39%
Government Contributions	53,357	49,084	+9%
Capitalization	67,972	56,478	+20%

The above variances indicate the following:

1. The net increase in long-term debt was invested in income generating portfolio.

2. The increase in assets was financed by an increase of the capitalization (long-term debt + net worth) and other debts.

3. Government contributions increased by 9% (positive) and the accumulated deficit by 23% (negative) thus leaving a net increase of 7% in net worth as a result of the decrease in accumulated losses of 42%.

4. The increase in resources was allocated as follows:

Increase in net worth	7%
Increase in long-term debt	39%
Increase in other liabilities	54%
	100%

Increase in portfolio	39%
Increase in liquid assets	63%
Decrease in other assets	(2%)
	100%

B. Income Statement

The income statement for the same period shows the following variances:

Decrease in net financial income	1%
Increase in other income	173%
Increase in operating expenses	29%
Increase in other expenses	56%
Decrease in net loss	16%

The above variances show:

1. Minimal increase in productivity (return on investment versus financial cost.)

2. Increase in other income due to adjustment of insurance premiums (life insurance).

3. Increase in net operating expenses (29%) due to an increase in actual expenses of 18% and a reduction in the overhead allocation of 30%, due to a reduction in work in progress of 15%.

C. Financial Ratios

Financial ratios shown in Exhibit 4 for 1982 and 1983 show the following:

	1983	1982
Return on portfolio	8.92%	7.90%
Interest paid/Portfolio	5.32%	2.14%
Operating Expenses/Portfolio	8.08%	7.45%
Negative	4.48%	1.69%

Basically, the increase in operating expenses to portfolio and the cost of debt (HG-005) affects the net return on the portfolio. The return on the portfolio in 1983 and 1982 should have been 9.17% and 8.72% respectively in order to break even. The actual return was 8.92% and 7.90% respectively.

Otherwise, a portfolio of L54.9 million as compared with L53.5 and L42.5 with L38.5 million would have been necessary in order to break even in 1983 and 1982 respectively.

The average financial cost of the long-term debt is 10.64% as of December 31, 1983. The ratio of Portfolio to Long-term debt is 2:1 at an average rate of 8.92%, thus leaving a net spread of L2 million. The debt service ratio is 2.09 in 1983; therefore, the portfolio generates enough cash flow to service the debt and make investments; however, INVA's high level of operating expenses is preventing INVA from reinvesting at reasonable levels to keep the same sound debt service ratio, as can be seen in Projection No. 1 (EXHIBIT 4). Other financial ratios (EXHIBIT 4) indicate INVA's slow decapitalization, e.g. Operating Expenses/Total Income .95:1; Return on Net Worth (0.64%).

In general, INVA's financial position is slightly deteriorating due basically to: 1) low financial return on investment which does not correspond to the financial cost of debt; 2) high percentage of operating expenses over portfolio; 3) ratio of almost 1:1 of operating expenses to total income.

II. Financial Projections

Projection No. 1 - Exhibits 1, 2, 3 & 4

This projection takes into consideration only those resources already committed to INVA by donors, including the Government of Honduras. Since INVA cannot count on additional capital contribution from the Government of Honduras after 1985, no additional resources are taken into account. The projection was carried through 1993 only to show the investment capacity for L26.3 million in 10 years or L2.6 million per year. Under the assumptions and actual financial status, INVA will have to use capital resources to cover the deficit from operations which reflect on its investment potential.

The financial ratios (EXHIBIT 4) show that: 1) by 1986 INVA will have reduced its net worth by 11% or L7.3 million; 2) the return on investment to a break even point would be 10.62% versus projected 9.34% or a portfolio of L98.9 million versus projected L46.8 million and; 3) the return on assets is projected to be 4.06% when the average debt financial cost is 10.77%.

It is not necessary to elaborate further on this projection since there is no basis for believing that the institution will continue its normal operations under such unsound conditions.

Projection No. 2 - Exhibits 1A, 2A, 3A and 4A

This projection assumes the same conditions as Projection 1, plus an HG loan for $15 million (L30 million) at 15% payable in 30 years, 10 years grace period, and L3 million in counterpart contribution at no cost. The average interest rate of the total financing would be 13.64%, and the average financial cost of the long-term debt, including HG-008, is projected at 12.39%.

The cash flow projection shows a negative flow from operations in all 10 years of the projection; therefore, capital resources must cover the deficit reducing INVA's investment potential. The total investment projected in 10 years is L65.3 million with the highest investment in 1988 with L10.4 million and the lowest in 1990 with L.4 million. A slow recuperation starts in 1991 through 1993 as follows:

Year	Increase	% Increase
1990	L0.42	
1991	L1.40	233%
1992	L1.60	14%
1993	L1.90	19%

The negative cash flow from operations represents between 21% in 1984 and 66% in 1993 of the positive flow from capital resources and recuperations.

The basic key financial ratios show a slow decapitalization starting in 1989.

Ratios of:	1989	1993
Interest Paid/Interest Earned	.81	.92
Operating Expenses/Total Income	1.83	3.96
Return on Assets	5.81%	3.75%
Return on Net Worth (Negative)	(7.21%)	(23.93%)
Long term Debt/Capitalization	.69	.80

The above ratios are conditioned by: 1) the average cost of the HG-008 of 13.64% and the average return on investment (1:10:1) of 15.36% (1.72% spread); 2) high operating expenses that do not correspond to the level of investment and; 3) low growth of investment due to the negative flows from operations.

Under this projection, it can be assumed that INVA would continue to operate even with a reduction of its capitalization, although its net worth will decline from L37.3 million in 1982 to L16.2 million in 1993 or a 57% reduction. But, can be also assumed that it would be difficult for INVA to continue in business successfully after 1993 when an average return on investment of 17.61% on a portfolio of L126.7 million is required just to break even.

The Financial Rate of Return is 0.74% which is low due to the INVA's lack of resources for investment at the early stages of the project thus reducing substantially the reflows for additional investment.

Projection 3, Exhibit 5 - Reduction of Operating Expenses

This projection includes the previous assumptions, plus an increase of 5% annually of the operating expenses, but also reflects a modest allowance for inflation. In addition, it assumes that INVA will reduce gradually its administrative costs.

Year	Reduction in Administrative Costs	Adjusted Reduction after 5% adjustment for inflat.
1985	10%	5.49%
1986	15%	10.75%
1987	20%	15.99%
1988/1993	25%	21.25%

This projection shows that a return on portfolio of 14.02% is necessary to break even as opposed to 17.61% without the reduction of operating expenses (see previous projection). As a result of the reduction in operating expenses, the institution improves its financial position for the following reasons:

1. Additional portfolio resources of L19.8 million generated at the same terms as HG-008.

2. Increase in the return on investment by 1.10% relative terms.

3. Reduction in the operating expenses over average portfolio of 27% in relative terms.

4. Improvement in the debt service ratio of 1.14 in relative terms.

5. Increase in the percentage of operational expenses over total income of 25% in relative terms.

Despite the improvement shown when assuming a reduction of the operating expenses, the financial position improvement does not maintain the same trend after 1993.

Change Index:	1991	1992	1993
Return on Investment	+1.06	+1.07	+1.01
Operating Expenses/Average Portfolio	-.68	-.66	-.67
Portfolio/Long term Debt	+1.15	+1.15	+1.15
Portfolio/Capitalization	-.98	-.98	-.98

The above financial indicators show that while a reduction in operating expenses at an average of L1.3 million per year and invested at an average of L2.2 million per year financially assists INVA it is not sufficient to generate the necessary investment funds. Therefore, additional fresh capital or debt at soft terms would be required in 1988/1989, in order to keep the institution in a sound financial position and maintain its production capability.

The Financial Rate of Return under this assumption is 9.84% due to a reduction of the operating expenses, the investment of those savings, and investment of reflows.

III. Portfolio Status

A review of INVA's portfolio status shows the following:

	5/31/84	12/31/83	12/31/82
Total Loans	13,188 100%	12,354 100%	9,070 100%
Current	7,108-54%	7,813-63%	6,577-72%
Payment Status:			
1 month in arrears	2,499-19%	1,979-16%	1,093-12%
2 & 3 months in arrears	2,104-16%	1,459-12%	613-7%
4 + months in arrears	1,477-11%	1,103-9%	787-9%

If the year ended on December 31, 1982, is used as the base year, the uncollected accounts status should have been as follows in order to maintain the same position without any improvement:

	5/31/84	12/31/83	12/31/82
Total Loans	13,188 100%	12,354 100%	9,070 100%
Current	9,636-82%	8,959-72%	
1 month	1,589-12%	1,488-12%	
2 & 3 months	891-7%	835-7%	
4 + months	1,072-9%	1,072-9%	

Variance based in 1982:

Current	-2,528	26% -	1,146	13%
1 month in arrears	+910	57% +	491	33%
2 & 3 months	+1,213	136% +	624	75%
4 + months	+405	38% +	31	3%

The variance between the actual uncollected accounts as of the given dates and the base year (1982) is large. This reflects a substantial deterioration. INVA's management should take the necessary actions to improve the portfolio status since the present situation adversely affects the Institution from the cash flow standpoint and the financial return on the investment.

Projection No. 1

Assumptions

Inflow

1. Amortization of the loan portfolio as of 12/31/83 at an average rate of 9.50% - 15 years average remaining term.

2. Loans Payable

522-HG-005	16.50%	L 11.4 million
CABEI-3-008-00	5.%	2.5 million
CBH	5%/10%	6.5 million
Government of Germany	2%	4.2 million

3. New portfolio recuperation:

Average interest rate		12.25%
Average term		17 years
Downpayments		10%
Costs in addition to direct cost:		
Price-escalation adjustment	10%	
Operating costs (indirect)	9%	

Outflow

1. Long-term debt repayment
2. Interest on long-term debt
3. New construction in progress/turnkey projects
4. Operating expenses and salaries and fringe benefits adjusted by 5% per annum based in 1983 expenses.

Projection #1
EXHIBIT 1

INSTITUTO NACIONAL DE LA VIVIENDA (INVA)
Cash Flow Projection
Year 1984 through 1993

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Cash on hand	5,405	6,392	6,508	5,087	5,527	5,772	5,816	5,637	5,081	4,396
Operations										
Interest earned	3,838	7,000	7,823	7,280	6,903	6,491	6,042	5,548	5,010	4,420
Interest paid	4,674	4,962	5,224	5,134	5,044	4,955	4,866	4,776	4,622	4,471
Net	(836)	2,038	2,599	2,146	1,859	1,536	1,176	772	388	(51)
Commissions and other income	306	559	573							
Total Income	(530)	2,597	3,172	2,146	1,859	1,536	1,176	772	388	(51)
Operating expenses	1,955	2,052	2,154	2,261	2,374	2,493	2,618	2,749	2,886	3,030
Salaries and fringe benefits	2,450	2,572	2,700	2,835	2,976	3,125	3,281	3,445	3,618	3,799
Total	4,405	4,624	4,854	5,096	5,350	5,618	5,899	6,194	6,504	6,829
Net flow from operations	(4,935)	(2,027)	(1,682)	(2,950)	(3,491)	(4,082)	(4,723)	(5,422)	(6,116)	(6,880)
Capital Resources and Rècuperations										
Principal Recuperations	2,558	3,376	3,850	4,393	4,770	5,182	5,631	6,125	6,663	7,253
Reserves	427	522	506	490	470	460	440	420	400	380
Long term debt	20,186	4,400								
Government (Contributions)		2,600								
Total	23,171	10,898	4,356	4,883	5,240	5,642	6,071	6,545	7,063	7,633
Less: Principal repayments-Long term debt	1,026	1,304	1,482	1,493	1,504	1,516	1,527	1,679	1,632	1,672
Net	27,145	9,594	2,874	3,390	3,736	4,126	4,544	4,866	5,431	5,961
Total amount available	17,210	7,567	1,192	440	245	44	(179)	(556)	(685)	(919)
Investments	16,223	7,451	2,613							
	987	116	(1,421)	440	245	44	(179)	(556)	(685)	(919)
Availability at the end of the year	6,392	6,508	5,087	5,527	5,792	5,816	5,637	5,081	4,396	3,477

Projection #1
EXHIBIT 2

INSTITUTO NACIONAL DE LA VIVIENDA (INVA)
Balance Sheet Statement
As of December 31, 1982 through 1993
In thousands of Lempiras

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Assets												
Cash	3,306	5,405	6,392	6,508	5,037	5,527	5,772	5,816	5,637	5,081	4,396	3,477
Loan portfolio	38,530	53,500	80,931	87,175	86,808	82,415	77,645	72,463	66,832	60,707	54,044	45,791
Less: Provision for doubtful accounts	947	1,141	1,141	1,141	1,141	1,141	1,141	1,141	1,141	1,141	1,141	1,141
	37,583	52,359	79,790	86,034	85,667	81,274	76,504	71,322	65,691	59,566	52,903	45,650
Long-term investments	4	4	4	4	4	4	4	4	4	4	4	4
Other receivables	1,222	1,292	1,292	1,292	1,292	1,292	1,292	1,292	1,292	1,292	1,292	1,292
Construction in progress	16,689	14,144										
Land	3,852	3,447	3,447	3,447	3,447	3,447	3,447	3,447	3,447	3,447	3,447	3,447
Inventory of units	1,443	3,066	3,066	3,066	3,066	3,066	3,066	3,066	3,066	3,066	3,066	3,066
Fixed assets net of depreciation	1,170	1,222	1,222	1,222	1,222	1,222	1,222	1,222	1,222	1,222	1,222	1,222
Other assets	491	396	396	396	396	396	396	396	396	396	396	396
Total Assets	65,760	81,335	95,609	101,969	100,181	96,228	91,703	86,565	80,755	74,074	66,726	58,554
Liabilities and Net Worth												
Savings	776	785	785	785	785	785	785	785	785	785	785	785
Loans Payable	19,212	26,698	45,858	48,954	47,472	45,979	44,475	42,959	41,432	39,753	38,121	36,449
Construction Contracts Payable	2,751	7,957										
Interest and Accounts Payable	1,148	992	1,852	1,852	1,852	1,852	1,852	1,852	1,852	1,852	1,852	1,852
Retention to Builders	1,157	272	272	272	272	272	272	272	272	272	272	272
Reserves	3,450	3,357	6,242	7,592	8,398	8,398	8,398	8,398	8,398	8,398	8,398	8,398
Total Liabilities	28,494	40,061	55,009	59,455	58,779	57,286	55,782	54,266	52,739	51,060	49,428	47,756
Net Worth												
Government Contributions	49,084	53,357	53,357	55,957	55,957	55,957	55,957	55,957	55,957	55,957	55,957	55,957
Accumulated Deficit	11,818	12,083	12,757	13,443	14,555	17,015	20,036	23,658	27,941	32,943	38,659	45,159
	37,266	41,274	40,600	42,514	41,402	38,942	35,921	32,299	28,016	23,014	17,298	10,798
Total Liabilities and Net Worth	65,760	81,335	95,609	101,969	100,181	96,228	91,703	86,565	80,755	74,074	66,726	58,554

Projection #1
EXHIBIT 3

INSTITUTO NACIONAL DE LA VIVIENDA (INVA)
Income Statement
Years ended December 31, 1982 through 1993
In thousands of Lempiras

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Income												
Interest earned	3,046	4,639	6,376	7,595	8,123	7,280	6,903	6,491	6,042	5,548	5,010	4,420
Interest paid	826	2,450	4,674	4,962	5,224	5,134	5,044	4,955	4,866	4,776	4,622	4,471
Net Financial Income	2,220	2,189	1,702	2,633	2,899	2,146	1,859	1,536	1,176	772	388	(51)
Other Income	632	1,725	2,029	1,305	843	490	470	460	440	420	400	380
Total Income	2,852	3,914	3,731	3,938	3,742	2,636	2,329	1,996	1,616	1,192	788	329
Operating Expenses												
Salaries and fringe benefits	2,147	2,334	2,450	2,572	2,700	2,835	2,976	3,125	3,281	3,445	3,618	3,799
Other operating expenses	1,413	1,862	1,955	2,052	2,154	2,261	2,374	2,493	2,618	2,749	2,886	3,030
	3,560	4,196	4,405	4,624	4,854	5,096	5,350	5,618	5,899	6,194	6,504	6,829
Less: Construction cost allocation	689	480										
	2,871	3,716	4,405	4,624	4,854	5,096	5,350	5,618	5,899	6,194	6,504	6,829
Other expenses	297	463										
Net Profit or (Loss)	(316)	(265)	(674)	(686)	(1,112)	(2,460)	(3,021)	(3,622)	(4,283)	(5,002)	(5,716)	(6,500)
Accumulated Deficit Previous Year	11,502	11,818	12,083	12,757	13,443	14,555	17,015	20,036	23,658	27,941	32,943	38,659
Accumulated Deficit-Balance Sheet	11,818	12,083	12,757	13,443	14,555	17,015	20,036	23,658	27,941	32,943	38,659	45,159

Projection No.1
EXHIBIT 4

TYPE		RATIO	1982	1983	1984	1985	1986
	FINANCIAL RATIOS AND PERCENTAGES						
A	Debt-Service Ratio	1		2.09	1.60	1.75	1.73
A	Portfolio/Long term debt	2	2.0	2.0	1.8	1.8	1.8
A	Long term debt/Capitalization	3	.34	.39	.53	.54	.53
A	Portfolio/Capitalization	4	.68	.78	.94	.95	.98
A	Debt-to-Equity Ratio	5	.67	.89	1.55	1.40	1.41
A	Portfolio/Net Worth	6	1.03	1.30	2.19	2.05	2.10
B	Return on assets	7	0.78%	2.69%	4.32%	4.32%	4.06%
B	Return on net worth	8	(0.84%)	(0.64%)	(1.64%)	(1.69%)	(2.61%)
A	Times interest earned	9	.62	.89	.86	.86	.78
C	Interest earned/average portfolio	10	7.90%	8.92%	8.96%	9.04%	9.34%
C	Interest paid/average portfolio	11	2.14%	5.32%	6.57%	5.90%	6.00%
C	Iperating expenses/average portfolio	12	7.45%	8.08%	6.19%	5.50%	5.58%
C	Interest paid/interest earned	13	.27	.53	.73	.65	.64
C	Operating expenses/total income	14	1.00	.95	1.20	1.17	1.30
	Return on Portfolio to break even		8.72%	9.17%	10.49%	9.85%	10.62%
	Average portfolio needed to break even		L 42,557	L 54,977	L 78,683	L 91,603	L 98,875

A Leverage

B Activity

C Profitability

Projection 2

Assumptions

Inflow

1. Projection 1
2. HIG 522-HG-008 — L 30 million
3. Local participation — L 3 million
4. Recuperation of investment
   - 82% = 15% - 20 years
   - 18% = 17% - 10 years

Outflow

1. Projection 1
2. HIG 522-HG-008

Interest Rate	15%
Grace period	10 years
Amortization period	20 years

3. Investment
   - 82% = 15% - 20 years
   - 18% = 17% - 10 years

Other financial data

Investment at 15%:

Overhead	9% over direct cost
Escalation adjustment	10% over direct cost
Downpayment	10% of final cost

Investment at 17%:

Loan amount includes 7% margin to INVA.

Projection #2
EXHIBIT I A

INSTITUTO NACIONAL DE LA VIVIENDA (INVA)
Cash Flow Projection
Years 1984 through 1993

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Cash on hand	5,405	6,392	6,335	4,685	5,552	6,211	6,908	8,743	9,465	10,119
Operations										
Interest earned	3,838	7,455	9,026	9,498	10,664	11,643	11,147	10,727	10,272	9,777
Interest paid	4,674	5,369	6,294	7,096	8,357	9,455	9,366	9,276	9,122	8,971
Net	(836)	2,086	2,732	2,402	2,307	2,188	1,781	1,451	1,150	806
Commissions and other income	306	559	573	706	794	874	877	889	902	918
Total Income	(530)	2,645	3,305	3,108	3,101	3,062	2,658	2,340	2,052	1,724
Operating expenses	1,955	2,052	2,154	2,261	2,374	2,493	2,618	2,749	2,886	3,030
Salaries and fringe benefits	2,450	2,572	2,700	2,835	2,976	3,125	3,281	3,445	3,618	3,799
Total	4,405	4,624	4,854	5,096	5,350	5,618	5,899	6,194	6,504	6,829
Net flow from operations	(4,935)	(1,979)	(1,549)	(1,988)	(2,249)	(1,556)	(3,241)	(3,854)	(4,452)	(5,105)
Capital Resources and Recuperations										
Principal recuperations	2,558	3,419	3,974	4,638	5,210	5,836	6,405	7,053	7,775	8,588
Reserves	427	527	549	555	593	633	620	580	570	540
Long term debt	20,186	7,119	4,418	5,947	9,005	7,911	7,911			
Government Contributions		2,600								
Total	23,171	13,665	8,941	11,140	14,808	14,380	7,025	7,633	8,345	9,128
Less: Principal repayments-Long term debt	1,026	1,304	1,482	1,493	1,504	1,516	1,527	1,679	1,632	1,672
Net	27,145	12,361	7,459	9,647	13,304	12,864	5,498	5,954	6,713	7,456
Total amount available	17,210	10,382	5,910	7,659	11,055	10,308	2,257	2,100	2,261	2,351
Investment	16,223	10,439	7,560	6,792	10,396	9,611	422	1,378	1,607	1,874
Net flow	987	(57)	(1,650)	867	659	697	1,835	722	654	477
Availability at the end of the year	6,392	6,335	4,685	5,552	6,211	6,908	8,743	9,465	10,119	10,596

Projection #2
EXHIBIT 2 A

INSTITUTO NACIONAL DE LA VIVIENDA (INVA)
Balance Sheet Statement
As of December 31, 1982 through 1993
In thousands of Lempiras

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Assets												
Cash	3,306	5,405	6,392	6,335	4,685	5,552	6,211	6,908	8,743	9,465	10,119	10,596
Loan portfolio	38,530	53,500	80,931	90,120	93,706	96,730	101,916	105,691	99,708	94,033	87,865	81,151
Less: Provision for doubtful accounts	947	1,141	1,141	1,141	1,141	1,141	1,141	1,141	1,141	1,141	1,141	1,141
	37,583	52,359	79,790	88,979	92,565	95,589	100,775	104,550	98,567	92,892	86,724	80,010
Long term investments	4	4	4	4	4	4	4	4	4	4	4	4
Other receivables	1,222	1,292	1,292	1,292	1,292	1,292	1,292	1,292	1,292	1,292	1,292	1,292
Construction in progress	16,689	14,144										
Land	3,852	3,447	3,447	3,447	3,447	3,447	3,447	3,447	3,447	3,447	3,447	3,447
Inventory of units	1,443	3,066	3,066	3,066	3,066	3,066	3,066	3,066	3,066	3,066	3,066	3,066
Fixed assets net of depreciation	1,170	1,222	1,222	1,222	1,222	1,222	1,222	1,222	1,222	1,222	1,222	1,222
Other assets	491	396	396	396	396	396	396	396	396	396	396	396
Total Assets	65,760	81,335	95,609	104,741	106,677	110,568	116,413	120,885	116,737	111,784	106,270	100,033
Liabilities and Net Worth												
Savings	776	785	785	785	785	785	785	785	785	785	785	785
Loans Payable	19,212	26,698	45,858	51,673	54,609	59,063	66,564	72,959	71,432	69,753	68,121	66,449
Construction Contracts Payable	2,751	7,957										
Interest and Accounts Payable	1,148	992	1,852	1,852	1,852	1,852	1,852	1,852	1,852	1,852	1,852	1,852
Retentions to Builders	1,157	272	272	272	272	272	272	272	272	272	272	272
Reserves	3,450	3,357	6,242	8,938	9,487	10,912	11,505	12,138	12,757	13,337	13,907	14,447
Total Liabilities	28,494	40,061	55,009	63,520	67,005	72,884	80,978	88,006	87,098	85,999	84,937	83,805
Net Worth												
Government Contributions	49,084	53,357	53,357	55,957	55,957	55,957	55,957	55,957	55,957	55,957	55,957	55,957
Accumulated Deficit	11,818	12,083	12,757	14,736	16,285	18,273	20,522	23,078	26,318	30,172	34,624	39,729
	37,266	41,274	40,600	41,221	39,672	37,684	35,435	32,879	29,639	25,785	21,333	16,228
Total Liabilities and Net Worth	65,760	81,335	95,609	104,741	106,677	110,568	116,413	120,885	116,737	111,784	106,270	100,033

Projection #2
EXHIBIT 3 A

INSTITUTO NACIONAL DE LA VIVIENDA (INVA)
Income Statement
Years ended December 31, 1982 through 1993
In thousands of Lempiras

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Income												
Interest earned	3,046	4,639	6,376	7,455	9,026	9,498	10,666	11,643	11,147	10,727	10,272	9,777
Interest paid	826	2,450	4,674	5,369	6,294	7,096	8,357	9,455	9,366	9,276	9,122	8,971
Net financial income	2,220	2,189	1,702	2,086	2,732	2,402	2,307	2,188	1,781	1,451	1,150	806
Other income	632	1,725	2,029	559	573	706	794	874	877	889	902	918
Total Income	2,852	3,914	3,731	2,645	3,305	3,108	3,101	3,062	2,658	2,340	2,052	1,724
Operating Expenses												
Salaries and fringe benefits	2,147	2,334	2,450	2,572	2,700	2,835	2,976	3,125	3,281	3,445	3,618	3,799
Other operating expenses	1,413	1,862	1,955	2,052	2,154	2,261	2,374	2,493	2,618	2,749	2,886	3,030
	3,560	4,196	4,405	4,642	4,854	5,096	5,350	5,618	5,899	6,194	6,504	6,829
Less: Construction Cost Allocation	689	480										
	2,871	3,716	4,405	4,624	4,854	5,096	5,350	5,618	5,899	6,194	6,504	6,829
Other expenses	297	463										
Net profit (loss)	(316)	(265)	(674)	(1,979)	(1,549)	(1,988)	(2,249)	(2,556)	(3,241)	(3,854)	(4,452)	(5,105)
Accumulated Deficit Previous Year	11,502	11,818	12,083	12,757	14,736	16,285	18,273	20,522	23,078	26,318	30,172	34,624
Accumulated deficit-Balance Sheet	11,818	12,083	12,757	14,736	16,285	18,273	20,522	23,078	26,318	30,172	34,624	39,729

Projection 2
EXHIBIT 4 A

TYPE	Financial Ratios and Percentages	RATIO	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
A	Debt Service Ratio	1		2.09	1.60	1.64	1.67	1.65	1.61	1.59	1.61	1.62	1.68	1.73
A	Portfolio/Long-term debt	2	2.00	2.00	1.8	1.7	1.7	1.6	1.5	1.4	1.4	1.3	1.3	1.2
A	Long-term debt/Capitalization	3	.35	.39	.53	.55	.58	.61	.65	.69	.71	.73	.76	.80
A	Portfolio/Capitalization	4	.68	.78	.94	.97	.99	.99	.99	.99	.98	.98	.98	.98
A	Debt to Equity Ratio	5	.67	.89	1.55	1.54	1.69	1.93	2.28	2.63	2.94	3.33	3.98	5.16
A	Portfolio/Net Worth	6	1.03	1.30	2.19	2.19	2.36	2.57	2.88	3.21	3.36	3.64	4.12	5.00
B	Return on Assets	7	0.78%	2.69%	4.32%	3.38%	4.48%	5.36%	5.38%	5.81%	5.15%	4.97%	4.28%	3.75%
B	Return on Net Worth	8	(0.84%)	(0.64%)	(1.64%)	(4.87%)	(3.76%)	(5.01%)	(5.96%)	(7.21%)	(9.85%)	(13.00%)	(20.86%)	(23.93%)
A	Times Interest Earned	9	.62	.89	.86	.63	.75	.72	.73	.73	.65	.58	.51	.75
C	Interest Earned/Average Portfolio	10	7.90%	8.92%	8.96%	8.72%	9.82%	9.98%	10.73%	11.22%	10.85%	11.07%	11.29%	11.73%
C	Interest Paid/Average Portfolio	11	2.14%	5.32%	6.57%	6.28%	6.85%	7.45%	8.41%	9.10%	9.20%	9.57%	10.02%	10.76%
C	Operating expenses/Average Portfolio	12	7.45%	8.08%	6.19%	5.40%	5.28%	5.35%	5.39%	5.41%	5.74%	6.39%	7.15%	8.19%
C	Interest Paid/Interest Earned	13	.27	.53	.73	.72	.70	.75	.78	.81	.84	.86	.88	.92
C	Operating Expenses/Total Income	14	1.00	.95	1.20	1.75	1.47	1.64	1.73	1.83	2.22	2.65	3.17	3.96
	Return on portfolio to break even		8.72%	9.17%	10.49%	11.03%	11.51%	12.06%	13.00%	13.68%	14.00%	15.05%	16.19%	17.61%
	Average portfolio needed to break even		L42,557	L54,977	L78,683	L108,188	L107 688	L115,090	L120,344	L126,550	L132,608	L131,716	L130,415	L126,871

A Leverage

B Activity

C Profitability

EXHIBIT 5

INSTITUTO NACIONAL DE LA VIVIENDA (INVA)
Summary of Key Financial Ratios

Type		Ref.	1985	1986	1987	1988	1989	1990	1991	1992	1993
A	Debt Service Ratio	1									
	Projection 1		1.75	1.73							
	2		1.64	1.67	1.65	1.61	1.59	1.61	1.62	1.68	1.73
	Operating Expenses Reduction										
	3		1.64	1.70	1.70	1.70	1.69	1.75	1.80	1.92	1.98
A	Portfolio/Long Term Debt	2									
	Projection 1		1.8	1.8							
	2		1.7	1.7	1.6	1.5	1.4	1.4	1.3	1.3	1.2
	Operating Expenses Reduction										
	3		1.8	1.7	1.7	1.6	1.5	1.5	1.5	1.5	1.5
A	Portfolio/Capitalization	3									
	Projection 1		.95	.98							
	2		.97	.99	.99	.99	.99	.98	.98	.98	.98
	Operating Expenses Reduction										
	3		.97	.99	1.00	.99	1.05	.97	097	.96	.96
A	Long-Term debt/Capitalization	4									
	Projection 1		.54	.53							
	2		.55	.58	.61	.65	.69	.71	.73	.76	.80
	Operating Expenses Reduction										
	3		.55	.57	.59	.62	.65	.64	.64	.64	.64
A	Portfolio/Net Worth	5									
	Projection 1		2.05	2.10							
	2		2.19	2.36	2.57	2.88	3.21	3.36	3.64	4.12	5.0
	Operating Expenses Reduction										
	3		2.19	2.38	2.59	2.89	3.19	3.26	3.39	3.55	3.83
C	Interest Earned/Average Portfolio	6									
	Projection 1		9.04%	9.34%							
	2		8.72%	9.82%	9.98%	10.73%	11.22%	10.85%	11.07%	11.29%	11.73%
	Operating Expenses Reduction										
	3			9.94%	10.17%	11.02%	11.56%	11.33%	11.69%	12.07%	11.86%

C	<u>Operating Expenses/Average Portfolio</u>	7									
	Projection 1		5.50%	5.58%							
	2		5.40%	5.28%	5.35%	5.39%	5.41%	5.74%	6.39%	7.15%	8.19%
	Operating Expenses Reduction										
	3			4.44	4.20	3.91	3.86	4.02	4.35	4.70	5.06
C	<u>Operating Expenses/Total Income</u>	8									
	Projection 1		1.17	1.30							
	2		1.75	1.47	1.64	1.73	1.83	2.22	2.65	3.17	3.96
	Operating Expenses Reduction										
	3		1.53	1.18	1.17	1.07	1.05	1.11	1.14	1.13	1.30

Exhibit No. 6

Brief Description of the Financial Indicators used in this Analysis and Projections

1. Debt Service Ratio

   Ratio of principal recuperations plus interest earned to principal repayments plus interest paid.

2. Portfolio/Long-Term Debt

   Measures the relationship between long-term debt and loan portfolio.

3. Long-Term debt/Capitalization

   The contribution of long-term debt to the total capitalization (long-term debt + net worth.)

4. Portfolio/Capitalization

   Measures the use of capitalization to generate portfolio as an income generating asset.

5. Debt-to Equity Ratio

   Measures the financial resources supplied by the creditors in relation to equity holders.

6. Portfolio/Net Worth

   Indicates the position of net worth invested in portfolio. It maintains certain relationship with the ratio of Portfolio/Capitalization.

7. Return on Assets

   This ratio reflects the productivity of a firm in generating returns to both creditors and equity holders. The return should be greater than the cost of debt; otherwise, the firm is having losses, and, therefore, capital resources are being used to service the cost of debt.

8. Return on Net Worth

   Measures the return on net worth.

9. Times Interest Earned

   This ratio measures the amount by which earnings can decline before the firm will no longer be able to meet interest costs; therefore, a ratio below 1 is not a good indicator.

10. Interest earned/Average Portfolio

Average return on portfolio.

11. Interest paid/Average Portfolio

Indicates what percentage of portfolio is used to cover cost of debt.

12. Operating expenses/Average Portfolio

Indicates what percentage of portfolio is used to cover operating expenses. If the difference between interest earned and interest paid is greater than operating expenses, it is an indication that a profitability exists regardless of whether it should be improved.

13. Interest paid/Interest earned

Measures the amount of interest earned to cover the financial cost of debt.

A N N E X L

DETAILED ADMINISTRATIVE ANALYSIS

1. Institutional Analysis - INVA

The National Housing Institute was created in January, 1957 by Decree Law No. 30 of that year. It is a semi-autonomous public corporation whose mandate is extremely broad. The twelve objectives specified in the authorizing legislation include all conceivable shelter activities from direct construction to policy development. INVA's powers are equally broad, encompassing not only direct or indirect construction and financing of shelter but also promotion of a savings and loan system, drafting of laws and regulations for the shelter sector, promotion of a secondary mortgage market, support of the construction sector, training, etc.

During INVA's first twenty years of existence, its impact on the housing sector was not substantial. INVA focused on production, and even so, only several hundred units were produced annually by INVA during that period, with production ranging from of a low of 4 units in 1962 to a high of 1,378 units in 1974. Many of the units were built directly by INVA -rather than using private contractors- and production was both slow and relatively expensive. Until January, 1984, the Government of Honduras made an annual grant to INVA, which was used to produce some housing, as well as help cover administrative and operating costs. In keeping with the traditional role of public housing agencies, INVA produced housing solutions at subsidized rates, offering interest rates below market rates, and setting the prices of units below their full cost.

In the mid 1970s, A.I.D. began providing more assistance to INVA, which led to the approval of a housing guaranty loan and technical assistance grant in 1978. The purpose of this assistance was to provide INVA with the funds to develop and build 4,500 plus low income housing solutions, and to assist INVA to improve its managerial capabilities. In the first two years, the program consisted principally of technical assistance, as INVA strived to upgrade its capacity to undertake the proposed massive housing production program. By 1981 construction began on several housing projects and by the beginning of 1985 it is expected that almost the units will be completed and occupied. While certain problems within INVA remain, it is clear that INVA is a better organization than it was at the onset of AID assistance.

Experience with HG-005

The lessons learned from INVA's performance in implementing 522-HG-005 are crucial to the design of future AID technical and financial assistance to that organization. During the implementation of 522-HG-005, two evaluations were performed; one just prior to initiating project construction, and the second in May 1983, when most of the technical assistance had been provided and the construction of shelter solutions well underway. The latter evaluation, being the more comprehensive, attempted to measure INVA's progress in improving its institutional capabilities as well as its performance in implementing that project. In general, the evaluation concluded that INVA had improved considerably its capabilities and had succeeded in carrying out the goal and purpose of the loan. Furthermore the evaluation reported that, in addition to the planned results, INVA had developed the new turnkey delivery system, that private sector bankers had begun to participate in INVA-produced projects by providing interim financing for turnkey projects, and that INVA had identified and tapped additional sources of financing from several local pension funds.

On the other hand, the evaluation noted that certain problems persisted and that INVA still needed to implement many practices and procedures that were suggested by previous advisors. Specific areas of managerial deficiency were identified as: a) the persistent problem of weak policy direction and control of operations, b) under utilization of its data processing capability, c) lack of coordination with the utility companies, d) delays in processing loan applications and awarding units, e) problems in internal information management and management decision making, and f) inadequate and insufficient market demand studies and forecasting.

A most serious concern highlighted in the evaluation was the high turnover of INVA's staff, particularly in light of the strong AID input in technical assistance and training during the previous years. At present, only one senior staff member out of twelve fills the same position he filled in January 1983. Such staff changes decrease the institution's efficiency and effectiveness. While A.I.D. cannot eliminate political decision-making in selection of high-level personnel, we expect to lobby for more professional personnel management and to structure the technical assistance to develop systems which in themselves provide continuity.

Organizational Patterns

The organization of INVA since 1976 reflects a full-service organization providing all the services required to develop housing projects. In the past few functions were contracted out to third parties. In 1984 the adoption of the turnkey delivery system, the reduction in the number of projects built by force account, and other internal changes in purpose and role, dictated reevaluation of the institution's organizational framework.

Recognizing the need for a reorganization to reflect the impact of the changes in INVA's role and direction, a management audit by Morales Palao William y Asociados, the Honduran agent of Arthur Anderson & Co., was undertaken in the first half of 1984. It recommended major charges in INVA's organizational structure including a staff reduction of about 30%. Major recommendations were made in the following areas.

- Improve inter-institutional coordination among institutions involved in providing services to INVA projects.

- Define more clearly the responsibilities and authority of each division and section.

- Restructure the organization to reflect the responsibilites and authority, as well as the intended purpose, of INVA.

- Reduce the number of employees from 265 to 182.

It is not certain that INVA will adopt any or all of these recommendations. The recommendations on inter-institutional coordination and definition of responsibilities have been made previously, at least as early as 1976, and often, yet the situation has improved little. After the earlier audit, staff was cut by 25%, yet within a few years, the staffing level had returned to the previous level and from then on, the staff continued to grow.

Nevertheless, it is clearly in INVA's interest to adopt and implement the audit, particularly the recommendation regarding staff reductions. At present, investment per employee declined in 1983, after having shown a major improvement in 1982. Administrative costs, of which salaries and wages constitute some 86 %, are excessive and cause a real drain on capital. A reduction in staff as suggested in the audit would lead to a decrease in administrative costs by as much as L 1 million, which could then be used for a number of purposes including reduction of decapitalization of the institution and investing in new shelter solutions. The audit suggests that reductions in staff positions most likely would be through attrition, assuming that voluntary departures would occur in adequate numbers. Given the current status of the economy as well as the public profile of INVA, voluntary reductions in the quantity needed are highly unlikely to be used to accomplish this goal. No doubt reducing staff will be the hardest recommendation for INVA to accept.

Institutional Capability

Various studies and evaluation carried out over the past few years, but particularly in 1983, have attempted to analyse the capability of INVA to fullfil its role as the nation's public housing agency. The Project Evaluation in 1983 emphasized that INVA had shown considerable progress and in general INVA had been able to implement 522-HG-005, but that improvements still were required to make INVA a truly effective organization. Taking that evaluation as a point of reference, INVA has both progressed and regressed in the past year in its efforts to improve its institutional capability.

a) Areas of General Improvement

In general, INVA's policy was to fix interest rates and terms to borrowers without consideration of the cost of money obtained for relending. This often resulted in a negative spread and INVA lost money. In effect, INVA was subsidizing borrowers at the expense of decapitalizing the institution. This cost recovery problem was pointed out in the Evaluation, and subsequently technical assistance from AID convinced INVA to reverse that policy. Effective in 1984, INVA's adopted a new policy, whereby the interest rate spread in all cases must be positive, regardless of the ultimate cost to the homebuyer. As a result, interest rates on loans to homebuyers since that date were increased to reflect the real cost of those funds to INVA. INVA has also decided to charge a 9% fee -rather than 3%- as its mark-up for administration costs.

The adoption of the turnkey delivery system for some of the projects developed under 522-HG-005 has been recognized in INVA as a success. In a policy statement to AID in March of 1984, INVA's General Manager states that the turnkey system is the most appropriate method for the production of housing, and that the system is more economical in that INVA's does not incur design and interim financing costs, which instead are passed on to the developer, nor does INVA become involved in land purchuse, which often involves land speculation.

INVA adopted a new design concept for the implementation of projects financed under 522-HG-005. The wet core design solution permitted INVA to reach much lower income families than previously. This was particularly important in secondary cities and towns, where a much lower income scale excluded an ever greater percentage of the population from participating in INVA's projects. INVA is now entertaining the adoption of another solution that will probably reach even lower income families - the site and service solution. Moreover the lower construction costs of the new solution will help INVA to continue to offer a solution affordable to the lower income families, even in face of to increased interest rates and higher costs. Adoption of these low income solutions also will reenforce INVA policy of "vivienda progresiva," the concept of incremental improvement in shelter solutions, a major step forward if low-income families are to have access to formal sector housing solutions.

b) Areas Still Needing Improvements

In the last few years, INVA has expanded its production, begun to work in secondary cities and towns, and introduced new design solutions. Accordingly, INVA needs to develop and carry out market surveys as well as design forecasting techniques in order to be able to identify market demand.

The loan application and beneficiary selection process is both disorganized and inefficient. The Social Soundness Analysis goes into more detail on this subject.

The establishment of a data processing system offers the opportunity to institutionalize many administrative functions that not only improve the efficiency and productivity of an institution, but also mitigates against the adverse effects of high staff turnover and frequent management changes. However, no progress appears to have been made in this area since the Evaluation, and in fact, due to a complete turnover of staff in the data processing department, that department may be less effective than it was one year ago.

Loan arrearages or delinquencies have plagued INVA in the past. The acquisition of a data processing system substantially reduced arreages, but arrearages increased unacceptably with the increasing size of its portfolio in 1983. In the past few months, INVA has reduced the total amount outstanding, in spite of the addition of significant numbers of new units, but further progress is required.

When INVA recently raised the fee it charges for administrative costs from 3% to 9% of the turnkey cost, no cost analysis was prepared by INVA to ascertain if the 9% was justified. Better cost analysis capacity is essential to support staff reduction decisions and pricing decisions to enable INVA to conserve its capital. Financial planning capacity must also be reinforced.

A chronic problem for years has been a lack of coordination between INVA and the utility companies. Under this program INVA will have no direct responsibility for coordinating with the utility companies once projects have been accepted, but its President, the Minister of Public Works, will serve as the Chairman of a committee whose purpose will be to coordinate delivery of infrastructure with completion of units.

Assessment of Management Capability

The development of this housing guaranty project will not impose an additional workload on INVA. It is expected that some 2,800 housing solutions and 1,900 home expansion loans will be made over a four year period beginning in 1985. Given the paucity of other financial resources, it is unlikely that INVA will produce more than an average of 1,200 units per year, even with the housing guaranty program. In comparison, 3,400 units were produced by INVA in 1982.

The effectiveness and future of INVA as a financial institution for low-cost shelter as well as its efficiency as a producer will depend on improvements in the areas of weakness identified as targets for technical assistance:

a) Adequate market studies,
b) Efficient beneficiary selection;
c) Institutionalization of management control systems through data processing;
d) Reduction of arrearages; and
e) Improved financial planning and cost analysis capacity.

As indicated in the two previous sections, INVA has deficiencies in the managerial and organizational areas. Regardless, INVA's management is capable of undertaking a housing guaranty project as described in this paper, although it may not be undertaken as efficiently as desired.

ANNEX M

ECONOMIC ANALYSIS

1. Summary of Current Economic Situation

Honduras has experienced negative real rates of economic growth during the last three years. Declining export earnings as well as depressed investment levels have been largely responsible for the decline. During the same period, Honduras faced unusually large deficits in the budget and the balance of payments which, until this year, have been accomodated but not solved. Isolated tax measures and heavy domestic and external borrowing have financed the budget deficit, and have had the effect of increasing liquidity in the banking system. A combination of external borrowing, restrictions on imports and the introduction of parallel foreign exchange market covering "non-essential" imports have relieved some of the pressure on the balance of payments.

The deterioration of the economic situation in 1983 (particularly public finances and the balance of payments), combined with the lack of timely corrective policy reform, resulted in GOH non-compliance with the IMF Agreement in early Novemver of that year. In accordance with the terms of the bilateral ESF agreement, A.I.D. stopped disbursements of $38 million remaining in FY83 assistance.

Subsequently, the GOH and the Mission agreed to establish a GOH Economic Working Group, with USG participation in an advisory capacity, to develop a comprehensive economic program which could be supported on an interim basis with ESF funds and eventually lead to a new arrangement with the IMF. The program's goal was to stabilize the economy by arresting and reversing the balance of payments and fiscal disequilibria, and laying the basis for a resurgence in economic growth. New conditions for disbursement of the remaining $38 million were agreed to in February, 1984. These were keyed to quantifiable targets aimed at bringing overall GOH fiscal and monetary performance in line with what might be required to negotiate a 1984 Stand-By Arrangement with the IMF. Specific targets included reducing the 1984 central government's overall fiscal deficit to the equivalent of 8% of GDP, implementing monetary policy measures designed to reduce liquidity in the banking system, and limiting the net domestic banking system financing available to the consolidated public sector.

Public Finance. Honduran public finances have undergone a substantial transformation over the last ten years. Before the coffee boom of the second half of the 1970s, public sector expenditures (consumption and investment) constituted only 18% of GDP. By 1978, these expenditures had grown to account for over 25% of GDP, and remain near that level today. The marked expansion of public sector expenditures was fueled by the sudden availability of government revenues derived from taxes on coffee, which permitted a major expansion of public sector investment through autonomous institutions.

As coffee prices crashed in 1979-80, followed by a decline in other export earnings, the pace of tax revenue growth fell behind projections. The GOH and public sector agencies, however, attempted to maintain the pace of their investment program by continuing to borrow heavily from domestic sources and abroad. During this period evidence of mismanagement in the autonomous institutions began to surface as many of the investment projects undertaken by the autonomous institutions became serious liabilities to the public sector. These developments were partly responsible for the spectacular growth of the central government's fiscal deficit which went from $90 million in 1979 to almost $300 million in 1983.

As the deficit ballooned, sources of financing changed as the GOH became increasingly dependent on domestic borrowing. Between 1979 and 1983, the portion of the central government's overall fiscal deficit financed from domestic sources went from 1% of GDP to almost 5% of GDP. GOH bond issues fueled a monetary expansion which increased the monetary base beyond a level consistent with containing the price level and demand for imports.

Foreign Trade Position. Honduras' foreign trade position, as reflected in its balance of payments accounts, has deteriorated substantially over the last four years. After maintaining an overall surplus position for the second half of the seventies, as a direct result of the coffee boom, the balance of payments recorded an overall deficit (losses in net international reserves of the Central Bank) of $64.6 million in 1980, $106.5 million in 1981, $90.6 million in 1982 and $1.4 million in 1983. Honduras' major export commodities experienced a sharp reductions while petroleum as well as other import prices increased. Between 1978 and 1983, Honduras' terms of trade deteriorated 17 percent. For the 1980-83 period, the Central Bank's net international reserve position went from $181.5 million as of December 31, 1979, to a negative $81.6 million as of December 31, 1983, an overall drop of $263.1 million.

Year	Balance of Payments 1/	Net International Reserves 1/
1979	363.0	181.5
1980	233.8	116.9
1981	20.8	10.4
1982	(160.4)	(80.2)
1983	(163.1).	(81.6)

1/ In millions of $.

External Debt Service. Throughout the 1978-83 period, the country's debt service obligations, resulting mainly from private sector borrowings with public sector guarantees and the borrowings of autonomous institutions during the second half of the seventies, began to grow substantially. Between 1979 and 1982 annual interest obligations went from $72 million to $173 million and eventually forced the GOH to initiate discussions with private foreign banks seeking the renegotiation of a portion of the public sector debt ($121 million), a debt which the GOH simply could not service. External private sector capital became less available. After reaching a peak level of $122 million in 1980, private capital inflows declined to $19 million in 1981, became negative in 1982 and remained so in 1983. Neither growing official capital inflows nor financial system capital inflows have been able to counteract the steady decline in the private capital account.

Exchange Rates and Import Restrictions. The monetary authorities' response to the growing balance of payments problem was not to adjust the exchange rate but to introduce, in mid-1982, an import control system whereby the Central Bank allocates foreign exchange on the basis of a priority scheme. This innovation was based on the belief that the current account deficit and lower capital inflows resulted from temporary phenomena (temporary low export prices, political turnmoil, etc.) as distinct from structural weaknesses. While the import control system has been effective in containing the import bill, it has done so by restricting production in those sectors heavily dependent upon imported inputs such as the industrial sector and non-traditional export sector with a resulting increase in the level of unemployment.

Internally, demand continues to be fueled by an excessive monetary expansion resulting from the continued emission of GOH bonds and mounting fiscal deficits. Monetary expansion and the resultant inflationary pressures have resulted in the overvaluation of the Lempira, which the IMF estimates at approximately 35%, over the last 2-3 years

Stabilization Program. In late May 1984, the GOH obtained congressional approval for Decree Law 85-84 which constituted a comprehensive stabilization package desgined to reduce the central governments's fiscal deficit and excess liquidity in the banking system. The first objective is to be achieved through the implementation of tax increases which should yield L37 million for the rest of 1984, administrative measures designed to increase revenues by L17.6 million and expenditure reduction measures on budgeted expenditures combined with reductions in extrabudgetary demands on the budget which should limit net expenditure increases to L24 million. Excess liquidity is to be reduced through the implementation of increases in the reserve requirement of some banking system deposits and sharply curtailing the programmed levels of credit growth for the private and public sectors. The package also contains a series of measures designed to increase central government control over the financial affairs of decentralized institutions which are in large part responsible for the fiscal disequilibrium. Based on the progress the GOH made in developing and approving these measures, a decision was made to disburse the remaining $38 million in FY83 ESF assistance.

With the fiscal package and the banking system credit limits established by the Central Bank, the projected 1984 Central Government Budget shows an overall deficit of L513.5 million with an unfinanced projected gap of L103.3 million. The gap can only be financed with measures that do not expand domestic credit if the fiscal component of the stabilization program is to reduce the expansionary impact of the fiscal deficit.

Fiscal prospects for 1984 and the domestic election year of 1985 have been improved with the recently passed stabilization package. Nevertheless, the complete success of the program is dependent upon the extent to which the exchange rate problem is managed. Larger foreign exchange inflows stimulated by foreign exchange reform should result in increased revenues as import restrictions are lifted. The options, however, for financing/accommodating the balance of payments deficit without devaluation have narrowed considerably. Over $120 million in foreign commercial borrowing guaranteed by the GOH has been in renegotiation for the last two years. Even a successful debt renegotiation is unlikely to spur significant new loans from the foreign banking community. Foreign borrowing from commercial sources is not available to cover the balance of payments, and domestic borrowing cannot substitute for foreign borrowing to meet foreign exchange requirements.

While the GOH package, if fully implemented, represents a substantial economic policy effort, it will not be sufficient to ensure the fiscal, monetary, and balance of payments performance from the Honduran economy that will bring a Fund-supported stabilization program. The most glaring omission in the stabilization program is the absence of a significant effort to address the overvaluation of the Lempira and there is little likehood of a new fund agreement without action in this area.

2. Country Risk Assessment

The Honduras Country Risk Assessment indicated that, while there is a cause for concern in Honduras' debt service capacity and internal economic conditions, adjustments suggested by the IMF, ESF support by USAID and internal actions taken by the GOH should maintain the debt service ratio within manageable levels. Conditions are expected to improve slightly over the next few years. (See Annex N).

The proposed HG Loan is an integral part of an overall package of financial assistance designed to help Honduras meet its short-term international financial obligations and achieve internal reforms that are needed to achieve a long-range solution to these problems. Other elements of the package include the extensive use of ESF grant and loan funds and projects designed to increase non-traditional exports. The HG loan will contribute favorably to the debt service capacities of the GOH over the critical short run because of the low requirement for foreign exchange in the program itself (estimated at less than 10%), resulting in the availability of substantial foreign exchange to the GOH. The longer grace period on principal repayments will also free substantial amounts of foreign exchange to meet short-term needs.

3. Financial Viability

The proposed loan provides long-term mortgage financing for shelter solutions financed through two discrete subprojects: a private sector subproject administered by the Central Bank of Honduras and a turnkey private sector sub-project administered by INVA.

A financial analysis of 522-HG-008 results in a positive net present value of US$5,426,000, a positive benefit/cost ratio of 1.07 and a positive internal financial rate of return of 6.3% (See Table M-1). These indicate that the project is feasible for the Government of Honduras from a financial standpoint. In this connection, however, it should be emphasized that the GOH has acquired an obligation in Dollars and its receipts will be in Lempira. If there is a devaluation of the Lempira over the course of the repayment period, the GOH will be in an exposed position because its Lempira receipts will be based on mortgage terms that are independent of changes in the exchange rate. Given the possibility of a devaluation, it will be incumbent upon the GOH to assure that the 90-93% of the Housing Guaranty dollar reflows are invested in foreign exchange-earning activities.

4. Economic Viability

The financial cash flow projection needs to be adjusted to assess the economic feasibility and value cf the project to Honduras. Substantial adjustments to financial mangnitudes must be undertaken to perform an analysis of the economic viability of the project. The purpose of these adjustments is to correct financial magnitude for any distortions that make financial benefits and costs diverge from economic benefits/costs. Obviously, virtually anything can be made financially viable if costs are sufficiently subsidized and/or output, prices are set at artificially high levels. Typically, performing an economic analysis requires the following adjustments to the financial cash flows: (1) adding subsidies to costs; (2) adjusting unskilled labor costs; (3) eliminating taxes and import duties; (4) eliminating debt-service charges on the HG loan, the interest costs of subprojects, and capital inflows provided by external sources; (5) adjusting for currency overvaluation; (6) adding to costs and benefits the value of any inputs or outputs that happen to have zero value in the calculation of financial rates of return but non-zero value from an economic point of view.

Adding subsidies to Costs. There are no apparent direct subisidies for this program. All inputs are valued at market value. Private rather than public land is being used for project sites and is priced at market value in the developers' profits. There is no GOH counterpart subsidizing the project. INVA's contribution and downpayments are valued in the economic analysis at the current rate of inflation.

The only three implicit subsidies in the financial calculations are the understated interest rates associated with the 10% INVA counterpart contribution (valued in the financial analysis at 9.2%, the official rate of inflation), the exclusion of participant downpayments as a cost, and the GOH contribution to cover negative margins. Valuing these at the estimated rate shadow of inflation of 12% raises estimated costs by 6% over the life of the project.

Adjusting Labor Costs. Unskilled labor costs account for an estimated 18% of direct construction costs in labor-intensive infrastructure works in Honduras. Assuming that unskilled workers employed in the projects would be unemployed otherwise, the labor component of construction costs is overvalued for purposes of economic analysis. Given the high rate of unemployment and the unskilled nature of the labor involved, it seems reasonable to value labor at 70% of financial cost for the purpose of the analysis. Using a conservative deflator that values unskilled labor at 70% of financial costs reduces the economic costs of the project by 3.5% over the life of the project.

Eliminating Taxes and Import Duties. Taxes and import duties have very little impact on the economic analysis of the project. Imported commodities amount to less than 10 percent of the total cost of the project. Assuming an average import duty on the commodities that would be imported for this project of 50%, total cost estimates would be reduced by 33% over the life of the project. Sales taxes are 5% on all materials except lumber. An estimated 25% of each project consists of materials purchases that are subject to sales tax. Eliminating sales taxes reduces economic costs over the life of the project by 0.8%.

Eliminating Interest and Debt Service Items. As internal transfers rather than economic costs, all internal interest payments, input of external capital and debt service charges were eliminated from the financial projections for purposes of the economic analyisis.

Currency Valuation. The official exchange rate is 2 Lempiras to 1 US$. At this rate, however, the GOH has had to impose a variety of strict foreign controls that contain import demand to foreign exchange availability. Informal parallel market exchange rates suggest that the restriction-free exchange rate would be 2.6 to 1. To the extent that the currency is overvalued by as much as 35% of the economic benefit of this project is understated by the finncial analysis. This does not have a major inpact on the project, as only 10% of costs represent imported items, but over the life of the project does reduce estimated costs by 0.8%.

With these adjustments, which include an adjustment for the opportunity cost of funds, the net present value of the project is calculated at US$12,997,000, the benefit cost ratio at 1.3 and the internal economic rate of return at 9.2 percent.

5. Unquantified Costs and Benefits

In addition to the specific adjustments in the financial cash flows that were incorporated in the quantified economic analysis, there are a number of unquantifiable considerations that affect the overall economic evaluation of the project. While these cannot be precisely quantified, the nature of their contribution to the economic viability of the project is ascertainable.

Devaluation. The financial analyses is sensitive to changes in the exchange rate. As noted above, since the HG loan is denominated in Dollars and internal loans to INVA, private banks and homeowners are denominated in local currency, a devaluation of any magnitude would lower the relative rate of return on internal loans relative to external repayment, and reflows would not cover the debt service on the HG loan, requiring GOH budget allocations to cover the deficit.

Employment Generation. Employment generation is a major concern in Honduras as the economic stagnation of the past few years has led to widespread unemployment. The construction industry has been one of the hardest hit sectors of the economy, with year-end 1983 unemployment estimated at 60 percent of regular workers in the sector. With normal employment in construction industry estimated at 45,000, some 27,000 workers are currently unemployed.

A recent review of six specific shelter construction projects in Honduras indicated that one person-day of work was created for each 48 Lempiras of construction costs. During the first ten years of the HG loan investments in housing construction costs will total $36,900,000. At an average rate of 48 Lempiras per person/day of work, some 1,537,000 person/days of work will be created during this period of time or over 5,000 person-years of employment.

Because of the strong forward and backward linkages of the construction sector, the indirect employment effect will be even greater. Previous estimates of this indirect effect, indicate that two offsite jobs are created for every on-site job. Using these ratios, total employment generation for the first ten years of the program would be over 15,000 person years with 69 percent occurring during the first six years and 27 percent during the peak year. The $43 million of direct labor costs during the life of the project would eventually result in increased personal income of $120 million in Honduras.

Multipliers. Housing construction projects, because of their strong forward and backward linkages and employment effect, have a high multiplier effect. As noted in the documentation for 522-HG-007, estimates of the overall multiplier effect of a project have ranged from 3.12 to as high as 6.67 times the initial capital investments. In the absence of more recent studies or analyses, we have adopted the more conservative ratio for projecting project benefits. At this rate, the $25 million invested through 522-HG-008 will generate a long-run total investment in the country in excess of $75 million.

Income Distribution. The impact of employment generation in the construction industry will have a positive effect on increasing wages among below-median-income workers by shifting unemployed individuals at the lowest income levels to employed persons earning wages at slightly above the medium day wage. Current estimates of wage levels for unskilled workers in the construction industry is approximately 6-8 Lempiras per day, which is slightly above median individual income levels for the country as a whole (including rural areas), but well below individual median income levels for the economically active population. Thus the project will have a positive effect on income distribution objectives.

Effective Demand. The effective demand for progressive solutions (wet core, site and services, basic cores and low-cost one bedroom houses) at the prices and interest rates that would result from this loan greatly exceed the resources available. A study of housing needs in Central America conducted in 1981 conservatively placed the total 1985 need for housing among AID's target population in metropolitan and other urban areas at approximately 21,000 units. INVA currently has an unfilled backlog over 3,000 completed applications for housing solutions. Housing demand studies conducted in Puerto Cortes and La Ceiba, have indicated that solutions offered would be acceptable at rates and prices above those proposed in this loan. As a consequence, the financial analysis understates the economic value of shelter solutions provided through HG-008 and economic benefits are thus higher than measured financial benefits. Taking this adjustment into account would produce an even higher internal economic rate of return than that shown in the calculations.

Least-Cost Solutions. HG funds will provide no interim construction financing: builders and developers must secure their own interim financing in the local market at prevailing interest rates. Individual subprojects accepted for long-term financing will be selected from a list of proposals submitted by private developers based on cost, value, and performance. While these do not guarantee least-cost solutions, they do assure that the most economic projects will be initially selected, cost increases will be minimized, the private builders will build in the most efficient manner possible for them, the program will incur no expenses until completed units are presented within budgeted cost guidelines, and public sector administrative costs associated with the program will be minimized. Projected unit costs are constant with actual unit costs achieved during HG-005 and HG-007 when adjusted for inflation. And, the ability to reach as low as the 15th percentile with completed solutions (sites and services or wet core with a home extension loan or a basic core) indicates that the program will be meeting its goals of providing truly low-cost solutions.

Improved Health. As cited in the social soundness analysis, improved housing is a key element in improving health. While it is not possible to quantify in a rigorous fashion the impact of improving housing under this project on the health of new occupants, and the consequent improvement of their productive capacity, it should be noted that this is a positive economic benefit of the program.

6. Conclusions

The project is economically justificable. The IERR of 9.2 is higher than the estimated IFRR of 6.3. Furthermore, unquantified factors would, if measured, further increase the economic rate of return on the project.

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

LAC/DR-IEE-84-32

ENVIRONMENTAL THRESHOLD DECISION

Project Location	:	Honduras
Project Title and Number	:	Shelter for Urban Poor II 522-HG-008
Funding	:	$25,000,000 (L)
Life of Project	:	One year (FY'84)
IEE Prepared by	:	Jeffrey Boyer & Lee Homo RHUDO/Honduras
Recommended Threshold Decision	:	Negative Determination
Bureau Threshold Decision	:	Concur with Recommendation
Copy to	:	Anthony Cauterucci Mission Director USAID/Tegucigalpa
Copy to	:	Lars Klassen, LAC/DR
Copy to	:	Jeffrey Boyer RHUDO/Honduras
Copy to	:	IEE File

James S. Hester Date JUN - 5 1984
James S. Hester
Chief Environmental Officer
Bureau for Latin America
and the Caribbean

Banco Central de Honduras
Secretaría del Directorio

ANNEX O

BANCO CENTRAL DE HONDURAS
Crédito y Valores

Tegucigalpa, D.C.,
8 de Noviembre, 1982.

CIRCULAR No. D-23/82

Señores
SISTEMA BANCARIO NACIONAL y
ASOCIACIONES DE AHORRO Y PRESTAMO
Toda la República.

Estimados señores:

Nos permitimos comunicarles que el Directorio del Banco Central de Honduras, con fundamento en su RESOLUCION No. 336-7/82 de fecha 29 de Julio de 1982; Decreto No. 69 aprobado por el Congreso Nacional el 16 de Agosto de 1982; Artículos 2, 16 letras a) y b), 47 y 48 de la Ley del Banco Central de Honduras; y Artículos 49 de la Ley para Establecimientos Bancarios reformado por Decreto No. 29 de fecha 5 de Febrero de 1965; en su sesión celebrada el 28 de Octubre de 1982, mediante RESOLUCION No. 490-10/82, resolvió aprobar el "REGLAMENTO PARA LA CONCESION DE CREDITOS DEL FONDO PARA REACTIVAR LA INDUSTRIA DE LA CONSTRUCCION", el cual le adjuntamos.

Atentamente.

CARLOS GUILLERMO ZUNIGA
Secretario.

/mb.

REGLAMENTO PARA LA CONCESION DE CREDITOS DEL FONDO PARA REACTIVAR LA INDUSTRIA DE LA CONSTRUCCION

OBJETO

1.- El presente Reglamento tiene por objeto regular la concesión de los créditos que se otorguen con recursos del FONDO PARA REACTIVAR LA INDUSTRIA DE LA CONSTRUCCION, creado por Resolución No.336-7/82 de fecha 29 de Julio de 1982, emitida por el Directorio del Banco Central de Honduras y autorizado por Decreto No.69 de fecha 16 de Agosto de 1982 aprobado por el Congreso Nacional.

REQUISITOS

2.- Los créditos se concedrán por intermedio del sistema financiero nacional y del Instituto de la Vivienda, a través de su Departamento de Ahorro y Préstamo, en proyectos elegibles de financiamiento, los cuales deberán reunir los requisitos siguientes:

a) Los fondos deberán ser destinados a la construcción de viviendas familiares nuevas. No se concederán préstamos para financiar el costo de viviendas ya construídas o en proceso de construcción a la fecha en que se otorgue el crédito.

b) El valor de cada vivienda tendrá un costo para el adquirente no mayor de L40,000.00, excluyendo el valor del terreno, con área de construcción no menor a 40 M^2.

c) Los usuarios del crédito deberán justificar ante el intermediario financiero participante y éste ante el Banco Central de Honduras, que no poseen vivienda familiar a la fecha de la solicitud;

d) Los créditos a los adquirentes de vivienda deberán ser pactados a la tasa de interés vigente en el momento de celebración del Contrato, conforme a la que fije el Directorio del Banco Central de Honduras, la cual regirá durante la vigencia del préstamo. La tasa de interés que el Banco Central de Honduras aplique en las operaciones que realice con estos fondos, será igualmente determinada por el Directorio;

e) Los créditos podrán concederse a un plazo máximo de veinte (20) años, incluyendo hasta seis (6) meses de gracia. La amortización del préstamo se hará mediante cuotas mensuales niveladas que comprendan capital e intereses;

f) La amortización de los créditos que el Banco Central de Honduras conceda a los intermediarios financieros, se hará mediante cargos a las cuentas de depósitos que estos mantengan en el Banco Central de Honduras, por el valor de las cuotas correspondientes.

Los intermediarios financieros podrán recibir del prestatario pagos mayores a los pactados, en cuyo caso estarán obligados a transferir de inmediato la parte proporcional que corresponda al Banco Central de Honduras; y,

g) El Banco Central de Honduras otorgará créditos a los intermediarios financieros por el 70% del costo de las viviendas bajo este programa. El resto será financiado en un 20% por el intermediario financiero y en un 10% por el adquirente de la vivienda.

3.- <u>DOCUMENTOS QUE DEBEN ACOMPAÑARSE A LAS SOLICITUDES DE CREDITO</u>

a) Planos y especificaciones de las construcciones a realizar, debidamente aprobados por la autoridad competente, así como constancia de que los predios en donde se construirán las viviendas, cuentan con los servicios de energía eléctrica, agua potable y alcantarillado sanitario o permiso de la autoridad respectiva para la construcción de pozos sépticos;

b) Presupuesto de la obra a construirse y cualquier otra información de carácter financiero que se requiera;

c) Información completa sobre el número de viviendas a construirse, por tipos de construcción, programas de desembolso, calendario de entrega de unidades y demás información relativa al proyecto;

d) Copias de las escrituras de posesión plena de los terrenos en los cuales se llevará a cabo la construcción de las viviendas; y

e) Información sobre las condiciones económicas del núcleo familiar del solicitante del crédito.

4.- CONDICIONES ESPECIALES.

a) Las viviendas se diseñarán y construirán de acuerdo con sistemas técnicamente apropiados, y que utilicen mayor cantidad de mano de obra y materias primas locales;

b) Los constructores deberán estar legalmente habilitados para dedicarse a esta actividad.

c) El costo de las viviendas con cargo a este Fondo, que un constructor podrá ejecutar, no excederá la cantidad de CUATROCIENTOS MIL LEMPIRAS (L400,000.00) y solamente podrá ser aumentada en el caso de que hubiese cumplido satisfactoriamente su primera asignación, siempre que de acuerdo con los compromisos del Fondo existan disponibilidades;

d) Los créditos serán pactados en documentos otorgados por los intermediarios financieros y el Banco Central de Honduras, especificando en los mismos las fechas y formas de amortización del financiamiento para la construcción de las viviendas. En dichos documentos se autorizará al Banco Central de Honduras, para que efectúe el cargo en las cuentas de depósitos del intermediario financiero, al vencimiento de las amortizaciones;

e) Los intermediarios financieros remitirán al Banco Central de Honduras, una copia de la escritura de compra-venta de cada vivienda familiar.

5.- ANALISIS Y RESOLUCION DE LAS SOLICITUDES DE CREDITO

a) El Departamento de Crédito y Valores del Banco Central de Honduras analizará las solicitudes de crédito y aquellas que cumplan con los requisitos establecidos en este Reglamento, serán presentadas a la Comisión de Cartera, la que en definitiva aprobará o denegará los créditos solicitados por los intermediarios financieros. La Comisión de Cartera procurará la participación del mayor numero de constructores y de instituciones financieras intermediarias;

b) La Comisión de Cartera podrá autorizar a los intermediarios financieros, una vez aprobada la solicitud de créditos, adelantos interinos para la construcción de viviendas bajo este programa.

c) Aprobadas o denegadas las solicitudes de crédito, hará la comunicación respectiva a los intermediarios financieros solicitantes.

6.- Este Reglamento entrará en vigencia el Cinco de Noviembre de mil novecientos ochenta y dos.

HONDURAS

ACTUAL AND PROJECTED

ECONOMIC AND FINANCIAL STATISTICS

A N N E X P

COUNTRY RISK ANALYSIS

(June 1984)

THE ECONOMY

With a per capita income below $600 a year, Honduras is one of the poorest countries in the Hemisphere. Most of the 4.4 million population is engaged in agriculture, which accounts for about two-thirds of employment, a third of GDP, and 80 percent of exports. Export growth potential is principally in agricultural--lumber, beef, sugar, and cotton, in addition to bananas and coffee, the nation's main export. All of the agricultural export products are vulnerable to world market price fluctuations, but prices are expected to at least remain stable and, more likely to improve as the global economy emerges from the recession of the past few years.

The manufacturing sector employs about 10 percent of the labor force and accounts for 15-20 percent of GDP. Growth is constrained by the small domestic market and by limited comparative advantages in potential export articles. Real manufacturing costs are burdened by the lack of infrastructure, especially power and transportation facilities.

After a good record of 7 percent annual economic growth in the late 1970's due to favorable terms of trade and sound internal economic management, growth rates declined sharply beginning in 1979. GDP was stagnant in 1980 and 1981 and declined in absolute terms in 1982 and 1983. Average per capita income fell by about 12 percent between 1979 and 1983. The new government which took office in January 1982 faced one of the worst financial and economic crises in the history of Honduras.

With exports and imports each accounting for over 30 percent of GDP, foreign trade is a dominant aspect of the economy of Honduras. Thus when export earnings began their decline and imports followed this trend, the result was a reduction of GDP in real terms during the period of 1981-1983.

In general terms, the drop in exports can be attributed to two factors which are exogenous to Honduras. These are the deep worldwide economic recession which has resulted in historically low commodity prices, and adverse climatic conditions. Because Honduras' major exports are agricultural commodities (in fact they account for 80 percent of total exports) the demand and prices of these products depend on world economic conditions. Thus in the case of coffee and sugar, while production capacity has been high, the historically low prices of these commodities and the quotas of the international agreements have resulted in the reduction of revenues. In the case of bananas, Honduras' major export, international prices have been relatively high, yet production has dropped as a result of heavy winds experienced in March of 1983.

The expected recovery of the industrialized economies will lead to a recovery of the prices of commodities such as coffee, sugar and refrigerated meat and to the improvement of Honduras' terms of trade since these commodities represent 62 percent of total Honduran exports. Therefore, export earnings are expected to gradually increase in the short to mid-term. In fact, despite the adverse climatic conditions experienced in 1983, export revenues increased by 6 percent thus reversing the trend initiated in 1981. The Government of Honduras recognizes the disadvantages of overdependence of the economy on one or two products. To correct this imbalance it has requested a structural adjustment loan from the World Bank which will allow Honduras to diversify its export base and effectively insulate its economy from adverse economic and climatic conditions. However, consideration to this request will not be made until an agreement with the IMF is reached on an economic adjustment program.

With respect to imports, Honduras has been able to reduce its imports since 1980 in order to maintain stability on its current account. However the current account deficit remained high until 1982 but improvement was evident in 1983. Import reduction has been achieved through the implementation of a strict exchange control policy enacted in 1981, and resulted in the 21 percent drop of imports since 1980. Further import reduction is not expected beyond 1984 since imports of capital goods, which have been drastically reduced, must increase in order to reactivate the economy particularly the non-traditional export sector.

The decline in export earnings also resulted in large deficits in the balance of payments. Furthermore, to meet the government budget deficit the GOH opted to finance it through the banking system as well as via external financing and the drawdown of international reserves. However Honduras was unable to secure sufficient external financing to also service all of its public debt and built up arrears. A major reason for Honduras' inability to obtain sufficient external credits was its falling out of compliance with an IMF program. In general terms the IMF program called for the reduction of public debt and to the adjustment of fiscal, monetary and exchange policies to reflect the changes in internal and external economic conditions. Specifically the terms of the IMF program are as follows:

1) The reduction of the budget deficit from 10-10.5 percent of GDP to a figure around 5-7 percent;

2) Limit growth of the money supply in order to reduce inflationary pressures; and

3) To legitimize the parallel exchange rate market;

Because of its policy of encouraging foreign investment, Honduras has been able to attract foreign investment and capital during the last four years. However, as a result of deteriorating economic, social and political conditions in the region, investment and capital inflows have been on a declining trend since 1980. This has also been a result of the termination of the IMF stand-by agreement which resulted in the inability of Honduras to withdraw the full amount of funds allocated and to obtain additional credits.

Long range development plans call for significant investments in infrastructure, thus Honduras will likely maintain its policies aimed at attracting foreign investment. Since agreement on an IMF program will lead to additional credits from various official and private sources, among these the U.S. Government, Honduras is expected to take steps that will lead to the implementation of this program.

HONDURAS: INTERNATIONAL ACCOUNTS

Current Account

Historically, since 1974, as a percentage of exports, Honduras has experienced high current account deficits. The deficit on the current account of the balance of payments jumped sharply in 1974 to $105.7 million from $34.6 million in 1973. The current account deficit as a percentage of total exports increased at that time from 11.8 percent to 31.9 percent. This was attributable in large part to Hurricane Fifi which in 1974 devastated banana plantations and to a 149 percent increase in the cost of fuel imports. The current account deficit averaged 9.3 percent of exports during 1971-1973, 29.4 percent during the following 3 years. During the period 1977-1979, the ratio was reduced considerably as export growth exceeded the rise in imports. In 1980, however, as a result of the steep rise of oil imports the deficit exceeded $300 million (or 32 percent of exports). Since 1981, imports have been on a downward trend while exports dropped in 1981, amd 1982 but recovered slightly in 1983. This resulted in the reduction of the current account deficit as a percentage of exports to 19 percent in 1983, the first time since 1973 that this ratio has been below the 20 percent mark. It is anticipated that this ratio will improve further over the next three years as export prices and volume increases (see current account projections).

International Reserves

Because of the chronic current account deficits experienced during the last nine years, the level of international reserves has, by international standards, been extremely low. In terms of the number of months of imports, reserves have not exceeded three months (a measure considered acceptable) in the last seven years. In fact, prior to the imposition of exchange controls in 1982, reserves reached an alarmingly low level of .95 months of imports. Since then international reserves have recovered slightly although they remain at a low level of 1.4 months of imports as of December 1983. The slight recovery of reserves has been in part the result of the moratorium on debt repayments of principal due in 1981, 1982 and 1983.

Inflation and Exchange Rate

The currency of Honduras is the lempira. The exchange rate is pegged to the dollar and has been 2 lempiras per dollar since 1931. As a result of the higher domestic inflation rates relative to those of the U.S. (average domestic inflation 1977-1982 has been 10.73 percent; while the U.S. average for the corresponding period has been 8.56 percent). The lempira has become overvalued. This overvaluation has resulted in the development of a parallel market which presently trades at 2.4 -2.5 lempiras/dollar. Because the official exchange rate market is strictly controlled and is rather inefficient, the illegal parallel market rate is believed to have increased in volume. The fact that domestic inflation is expected to be in the 15-20 percent during 1984 will result in further erosion to the competitiveness of the lempira. The shortage of foreign exchange will result in increased pressure to devalue the currency or more likely to legitimize this parallel market; an effective devaluation of 25 percent which will bring the currency to its free market rate.

Import Incompressibility

Lacking indigenous petroleum resources, Honduras' fuel bill has represented a substantial portion of the country's import bill. However, with a 300 mw hydro electric power station coming on line in 1985, a reduction in demand for fuel will be evident. Moreover, a Mexican-Venezuelan Petroleum facility is available which provides concessionary financing on 30 percent of purchases. Thus petroleum import costs are expected to stabilize. Imports of food which had been on an upward trend (in absolute terms and as a percentage of total imports) through 1980, have decreased considerably over the last three years. Further reduction is not expected but the emphasis placed in the production of import substituting corps, by way of providing price supports, should maintain food imports constant as a percentage of total imports.

Debt Service

Through 1981, Honduras' debt service burden has been substantial, although not unmanageable. From 1977 through 1981, the debt service ratio averaged less than 20 percent. In 1982, as a result of the trend continued drop in exports the index role to 26 percent. This deteriorating trend continued in 1983 although this was the result of increased debt repayments.

Total external debt amounted to $1.54 billion at the end of 1982 and due to Honduras' inability to reach an agreement with the IMF and its creditors on the debt in arrears, external debt growth in 1983 was not substantial. Projections of principal and interest payments that Honduras must make to maintain its 1983 position current will cause this index to exceed 30 percent. As exports continue to grow over the next 3 years, we anticipate a slight decline in this ratio (see debt service projections). The impact of an additional $25 million AID-HG loan on the debt service ratio is very small. The debt service ratio would increase by about 1/3 of one percent. Honduras presently has $185 million in outstanding loans from AID. Arrears are quite small at $172,000 of principal and $177,000 of interest. Honduras has contracted some $43 million of AID-HG loans. Honduras is current on HG loans .

Honduras presently must pay 2 1/4 - 2 1/2 above LIBOR if private funds were available to it. The $25 million AID-HG loan represents 15-17 percent of 1983's current account deficit and would help Honduras's present foreign exchange needs and the loan's lower interest rates would save this nation about $550 -$700,000 a year in foreign exchange.

Honduras is presently in arrears on nearly $90 million owed to commercial creditors. This represents principal payments due in 1981, 1982 and 1983. Negotiations with the creditor banks are in effect but progress has been slow since Honduras is also involved with negotiations with the IMF concerning an economic adjustment program which is tied to a stand-by agreement.

The successful negotiation of the debt in arrears and the signing of an agreement with the IMF will allow Honduras access to additional sources of financing, and to reduce its debt service burden. However, even in the event of the successful outcome of these negotiations, the debt service ratio will remain in the 25-30 percent range although the expected increase in exports will cause this indicator to exhibit an improving trend during the next 3-4 years.

Historically, Honduras has met its external obligations on a timely basis. However, a build-up of short-term debt contracted during the late 1970's by private entities with the guarantee of state agencies resulted in the build-up of arrears. Negotiations on the refinancing of principal due between 1981 and 1984 and for an additional $40 million dollar loan have been in effect since 1982. However, progress has been slow as Honduras has fallen out of compliance on a 1982 IMF program and drawdowns were suspended in December 1983.

Despite these difficulties Honduras' vulnerability index - an index derived by the Federal Reserve Bank of New York to track countries facing foreign exchange difficulty - has improved over the past two years.

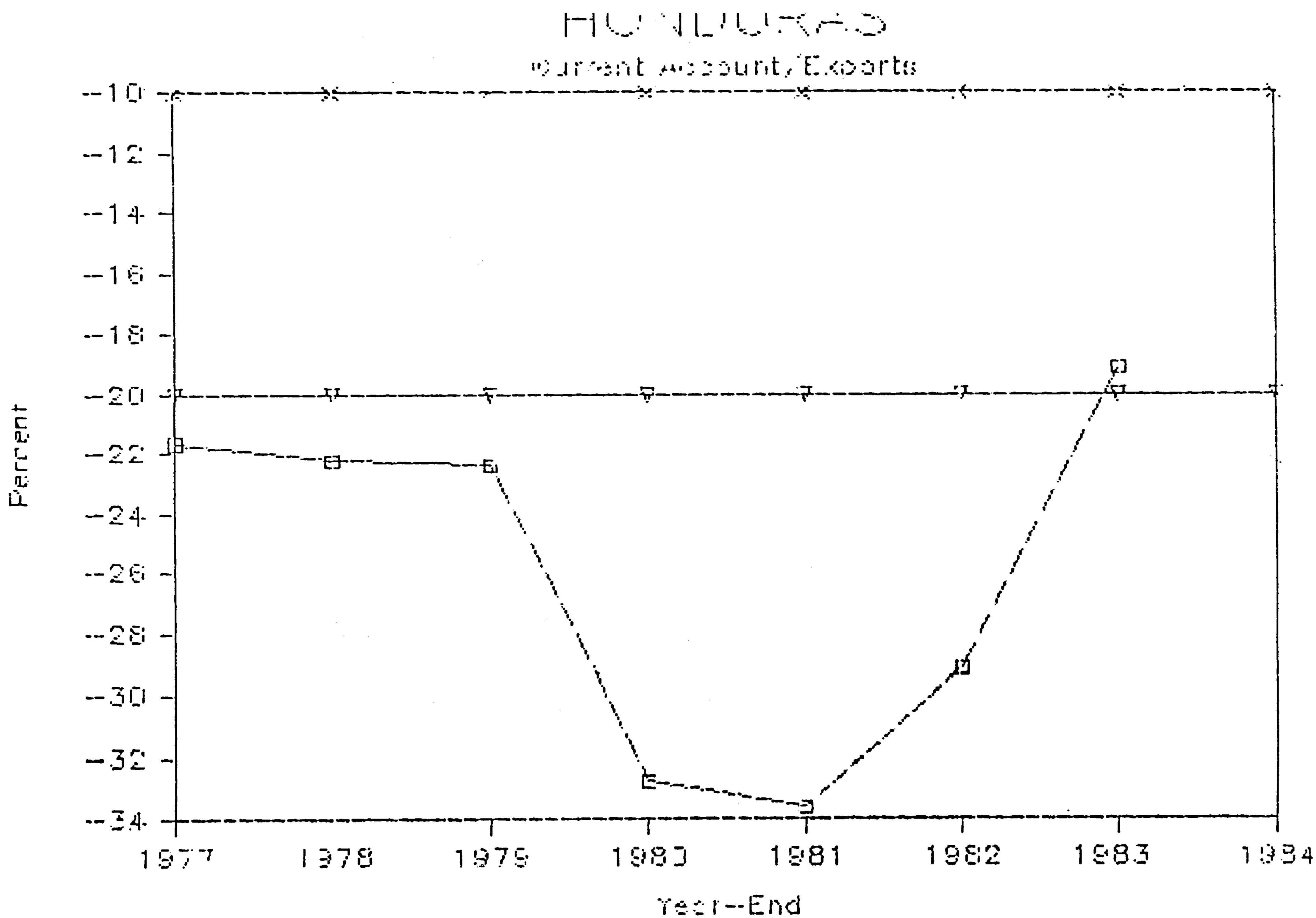
SUMMARY

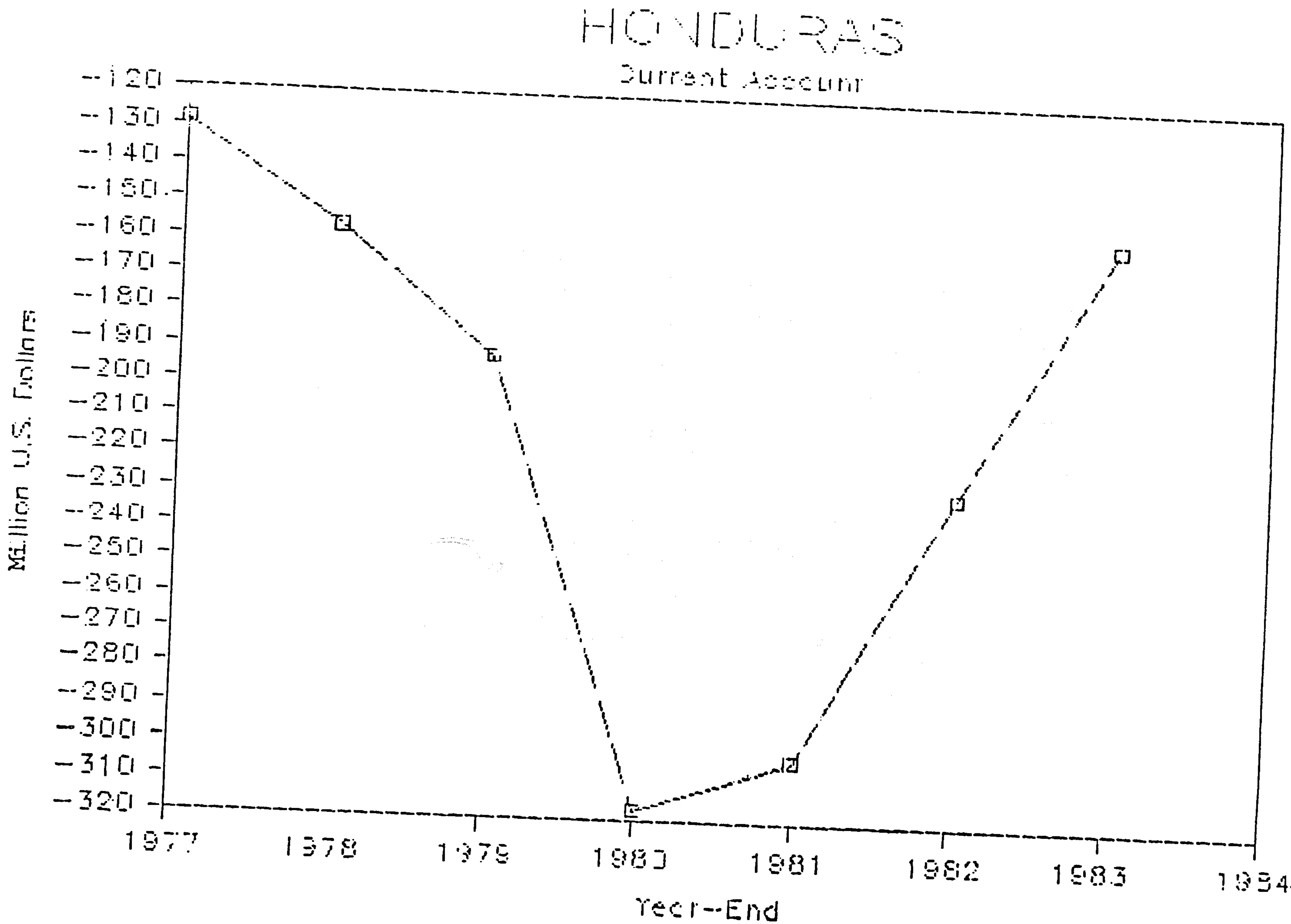
The last four years have been a difficult period for Honduras. Export earnings had been on a downward trend until 1983 while its debt service increased by 50 percent between 1979-1983. This resulted on the current account deficit rising to 33 percent of exports in 1981 before improving modestly in 1982 and 1983, while the debt service ratio continued on a deteriorating trend that resulted in a high level of over 30 percent of exports in 1983. This ratio, however, does not take into account the debt repayment arrears which have built up since 1981.

The inability of the government of Honduras to reach an agreement with the IMF on an adjustment program is a major obstacle preventing the long-term adjustment of the Honduran economy. An agreement with the IMF would pave the way for Honduras to receive credits from an IMF stand-by agreement, reschedule principal payments due in 1981-1984, and qualify for a structural adjustment loan from the World Bank. Despite the fact that negotiations with the IMF have been slow and that the reaching of an agreement in the short-term is not expected, overall improvement is already evident. The current account/export ratio in 1983 is the best since 1973. The resumed growth of the economies of the industralized nations will result in increased export revenues. This development combined with the government's continued efforts to control import growth will result in the improvement of the current account. Although current account balances are difficult to estimate beyond a 12 month period, it is projected that the current account deficit will decrease during the next 2-3 years and will be near balance by 1986. The rise in exports will also lead to the slight improvement of the debt service ratio in the next 2-3 years, although the performance of this indicator also depends on the successful rescheuling of the external debt which remains in arrears. This indicator, however, should remain in the 25-30 percent range.

As noted earlier, although possible, a devaluation of the official rate is not anticipated. It is more likely that a shift in the number and value of transactions to the parallel market rate can be expected, thus resulting in the effective devaluation of the lempira. Inflation, which has averaged around 11 percent during the last 7 years is expected to increase as the effects of the fiscal deficits are reflected in the consumer prices. If an agreement on an economic adjustment program is reached with the IMF it will include austerity measures such as the elimination of price controls and subsidies. The short-term effects of these may result in an increase in consumer prices. Therefore, we expect inflation to be in the 15-20 percent range during the next 2-3 years. Inflation rates of this size will put added pressure on the exchange rate.

The implementaton of an IMF economic adjustment program is essential as it will allow Honduras access to several sources of financing. The USG is tying ESF disbursements to conditions which will relieve the fiscal and external account deficits. These efforts are a prerequisite to and will complement the conditionality terms of an IMF agreement. The inflow of capital is necessary for the long-term improvement of the economy. With additional capital the government will find it extremely difficult to achieve the export diversification plans that will free Honduras from its dependence on the prices of a few agricultural commodities. However, because conditions have improved marginally over the last year, the urgency of the situation is somewhat mitigated. Nevertheless, for long-term improvement of the economy to take place the measures suggested by the IMF should be adopted. In the absence of these adjustments the economy of Honduras will not be able to record rates of growth sufficiently large to meet the needs of its growing population. It is recommended however that new loans to Honduras consider the difficult present conditions and have a sufficient grace period (3-4 years) to allow for the adjustments to its economy to take effect.


HONDURAS
Current Account/Exports
-10
-12
-14
-16
-18
-20
-22
-24
-26
-28
-30
-32
-34
Percent
1977
1978
1979
1980
1981
1982
1983
1984
Year-End


HONDURAS
Current Account
Million U.S. Dollars
-120
-130
-140
-150
-160
-170
-180
-190
-200
-210
-220
-230
-240
-250
-260
-270
-280
-290
-300
-310
-320
1977
1978
1979
1980
1981
1982
1983
1984
Year-End

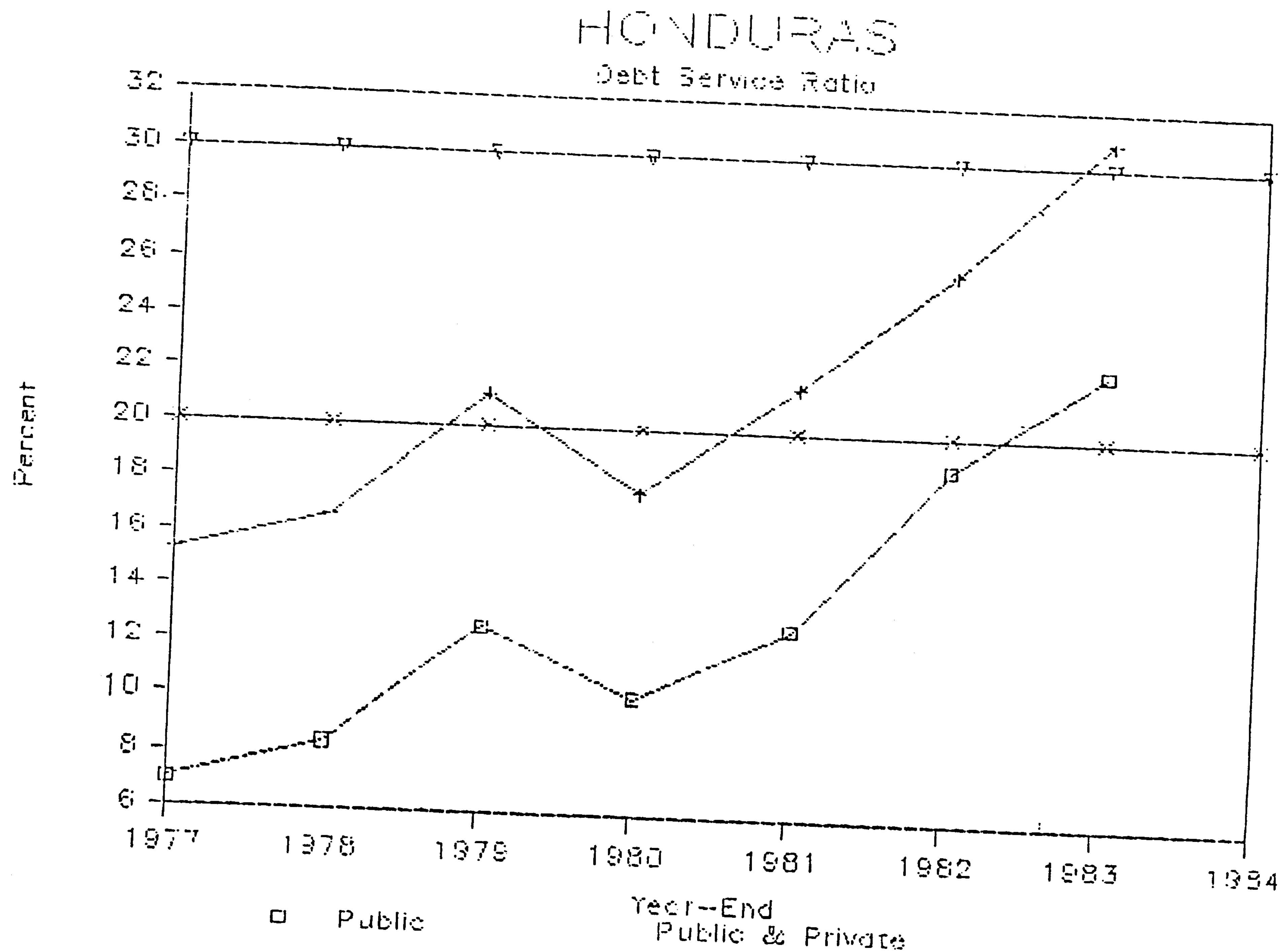
182

HONDURAS

CURRENT ACCOUNT
(MILLIONS US $)

YEAR	EXPORTS FOB	IMPORTS FOB	TRANSFERS NET S-T	CURR. ACCT. BALANCE	CURR. ACCT./ EXPORTS %
1977	593.90	736.70	14.20	-128.60	-21.65
1978	706.60	881.00	17.40	-157.00	-22.22
1979	859.20	1071.00	20.50	-192.10	-22.36
1980	967.50	1305.00	21.50	-316.00	-32.74
1981	982.60	1233.40	27.50	-303.30	-33.68
1982 1ST H.	430.93	500.86	15.00	-108.28 (a)	-12.56
1982 2ND H.	352.58	541.74	15.00	-348.32 (a)	-49.40
1982	783.50	1041.00	30.00	-228.30	-29.14
1983 1ST Q.	236.00 (e)	267.78 (e)	11.25 (e)	-82.12 (a)	-8.70
1983 2ND Q.	231.00 (e)	245.82 (e)	11.25 (e)	-11.08 (a)	-1.20
1983 3RD Q.	175.00 (e)	254.60 (e)	11.25 (e)	-273.40 (a)	-39.06
1983 4TH Q.	185.00 (e)	262.53 (e)	11.25 (e)	-265.12 (a)	-35.83
1983	827.00 (e)	1029.93 (e)	45.00 (e)	-157.93 (e)	-19.10
1984	900.00	1000.00	50.00	-50.00	-5.56
1985	940.00	1035.00	55.00	-40.00	-4.26
1986	975.00	1050.00	60.00	-15.00	-1.54

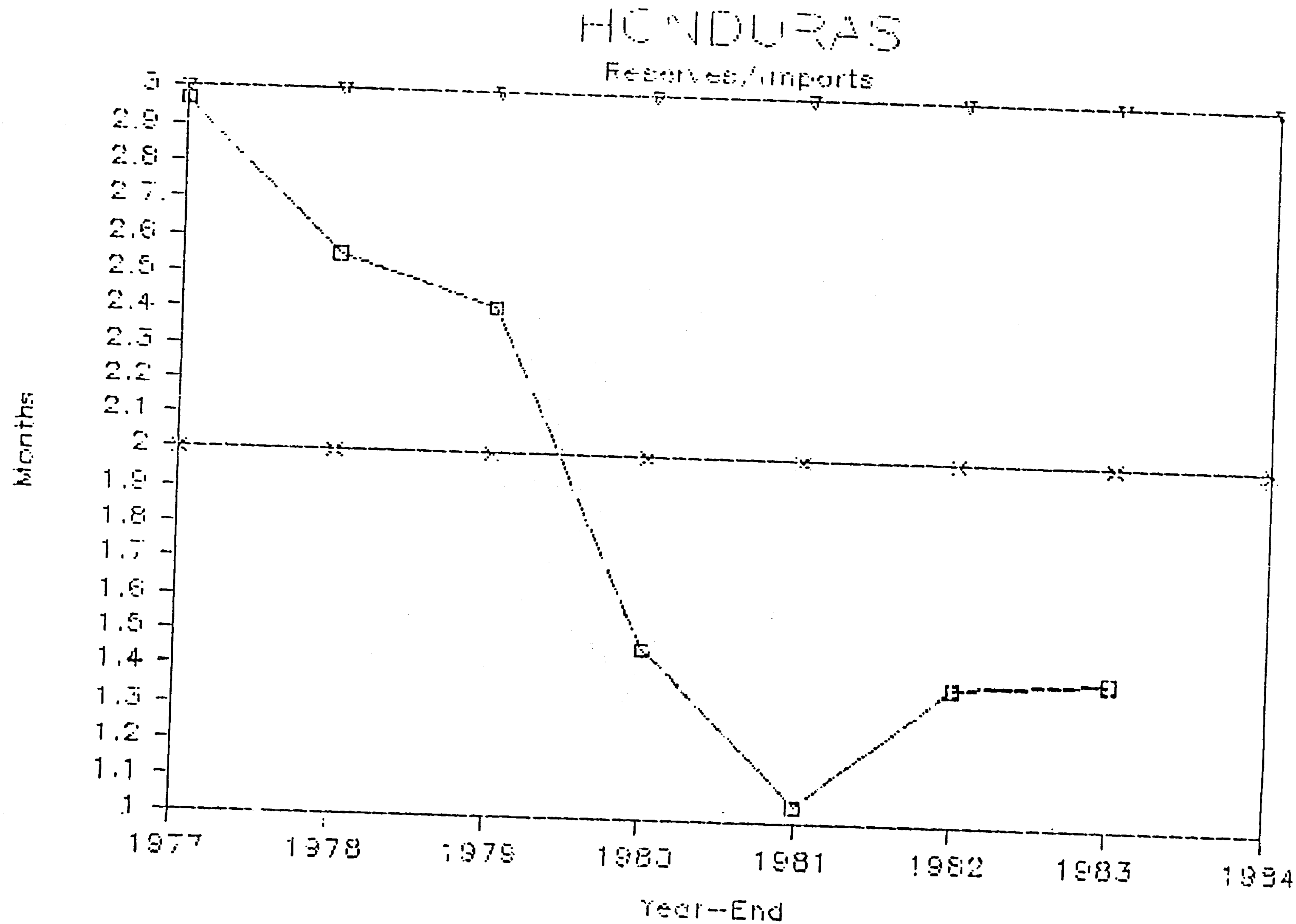
All data from IFS, May 1984.
1984-86 figures are projections.
(a)=annualized
(e)=estimate


HONDURAS
Debt Service Ratio
Percent
32
30
28
26
24
22
20
18
16
14
12
10
8
6
1977
1978
1979
1980
1981
1982
1983
1984
Year--End
Public
Public & Private

ONDURAS

YEAR	DEBT SERVICE RATIO PUBLIC ONLY (MILLIONS US $)					DEBT SERVICE RATIO -PUBLIC AND PRIVATE (MILLIONS US $)				
	PRINCIPAL PAYMENTS	INTEREST PAYMENTS	TOTAL DEBT SERVICE	EXPORTS	DEBT SER RATIO	PRINCIPAL PAYMENTS	INTEREST PAYMENTS	TOTAL DEBT SERVICE	EXPORTS	DEBT SERV RATIO
1977	19.80	21.90	41.70	593.90	7.02	28.60	62.10	90.70	593.90	15.27
1978	28.10	31.30	59.40	706.60	8.41	40.10	77.70	117.80	706.60	16.67
1979	62.60	45.90	108.50	859.20	12.63	76.70	105.40	182.10	859.20	21.19
1980	39.20	58.90	98.10	967.50	10.14	63.70	107.20	170.90	967.50	17.66
1981	37.80	77.50	115.30	902.60	12.77	55.30	140.10	195.40	902.60	21.65
1982 1ST H.	25.30	48.35	73.65	430.93	17.09	33.00	68.85	101.85	430.93	23.64
1982 2ND H.	25.30	48.35	73.65	352.58	20.89	33.00	68.85	101.85	352.58	28.89
1982	50.60	96.70	147.30	783.50	18.80	66.00	137.70	203.70	783.50	26.00
1983 1ST Q.	24.50	21.93	46.43	236.00 (e)	19.67	29.50	34.43	63.93	236.00 (e)	27.09
1983 2ND Q.	24.50	21.93	46.43	231.00 (e)	20.10	29.50	34.43	63.93	231.00 (e)	27.67
1983 3RD Q.	24.50	21.93	46.43	175.00 (e)	26.53	29.50	34.43	63.93	175.00 (e)	36.53
1983 4TH Q.	24.50	21.93	46.43	185.00 (e)	25.09	29.50	34.43	63.93	185.00 (e)	34.55
1983	98.00	87.70	185.70	827.00 (e)	22.45	118.00	137.70	255.70	827.00 (e)	30.92
1984	111.30	87.40	198.70	900.00	22.08	131.30	137.40	268.70	900.00	29.86
1985	107.00	85.60	192.60	940.00	20.49	127.00	135.60	262.60	940.00	27.94
1986	123.30	81.60	204.90	975.00	21.02	143.30	131.60	274.90	975.00	28.19

1977-82 public and private debt service from World Debt Tables. 1982-83.
1983-86 public debt service figures are World Debt Table projections.
1983-86 private debt service are estimates.
1984-86 figures are projections.
(e) =estimate

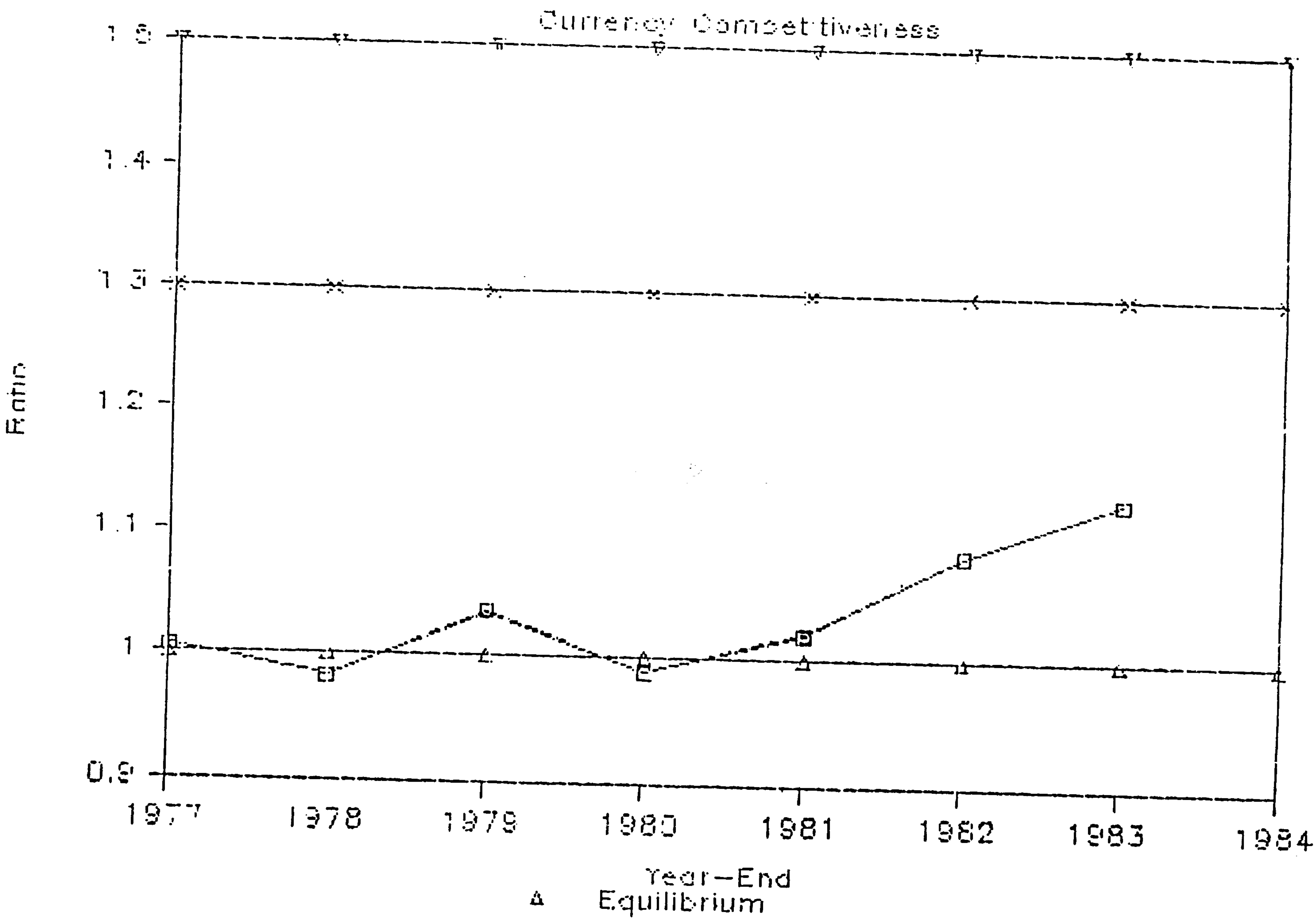

HONDURAS
Reserves/Imports
Months
3
2.9
2.8
2.7
2.6
2.5
2.4
2.3
2.2
2.1
2
1.9
1.8
1.7
1.6
1.5
1.4
1.3
1.2
1.1
1
1977
1978
1979
1980
1981
1982
1983
1984
Year--End

HONDURAS

RESERVES / IMPORTS
(MILLIONS US $ END OF PERIOD EXCEPT IMPORTS)

YEAR	RESERVES LESS GOLD	GOLD-MILLION TROY OUNCES	GOLD-MKT PRICE EOP LONDON	GOLD RESERVES	TOTAL RES. INCL. GOLD	IMPORTS	RES. AS % OF IMPORTS	RES. IN MOS OF IMPORTS
1977	179.77	0.014	160.60	2.25	182.02	736.70	24.71	2.96
1978	184.44	0.014	208.20	2.91	187.35	881.00	21.27	2.55
1979	209.17	0.014	455.20	6.37	215.54	1071.00	20.11	2.41
1980	149.83	0.016	595.20	9.52	159.35	1305.00	12.20	1.46
1981	101.02	0.016	410.70	6.57	107.59	1233.40	8.72	1.05
1982 1ST H.	74.81	0.016	314.90	5.04	79.85	1008.13 (a)	7.90	0.95
1982 2ND H.	112.23	0.016	444.00	7.10	119.33	1083.47 (a)	11.01	1.32
1982	112.23	0.016	444.00	7.10	119.33	1041.00	11.45	1.37
1983 1ST Q.	102.25	0.016	419.90	6.72	108.97	1071.12 (a)	10.17	1.22
1983 2ND Q.	98.36	0.016	413.00	6.61	104.97	980.00 (a)	10.71	1.29
1983 3RD Q.	97.95	0.016	405.30	6.48	104.43	1018.40 (a)	10.25	1.23
1983 4TH Q.	113.62	0.016	385.10	6.16	119.78	1050.12 (a)	11.41	1.37
1983	113.62	0.016	385.10	6.16	119.78	1029.93 (e)	11.63	1.40
1984	125.00	0.016	380.00 (e)	6.08	131.08	1000.00	13.11	1.57
1985	125.00	0.016	380.00 (e)	6.08	131.08	1035.00	12.66	1.52
1986	125.00	0.016	380.00 (e)	6.08	131.08	1050.00	12.48	1.50

All reserve data from IFS. May 1984.
1984-86 figures are projections.
(e)=estimate
(p)=projection



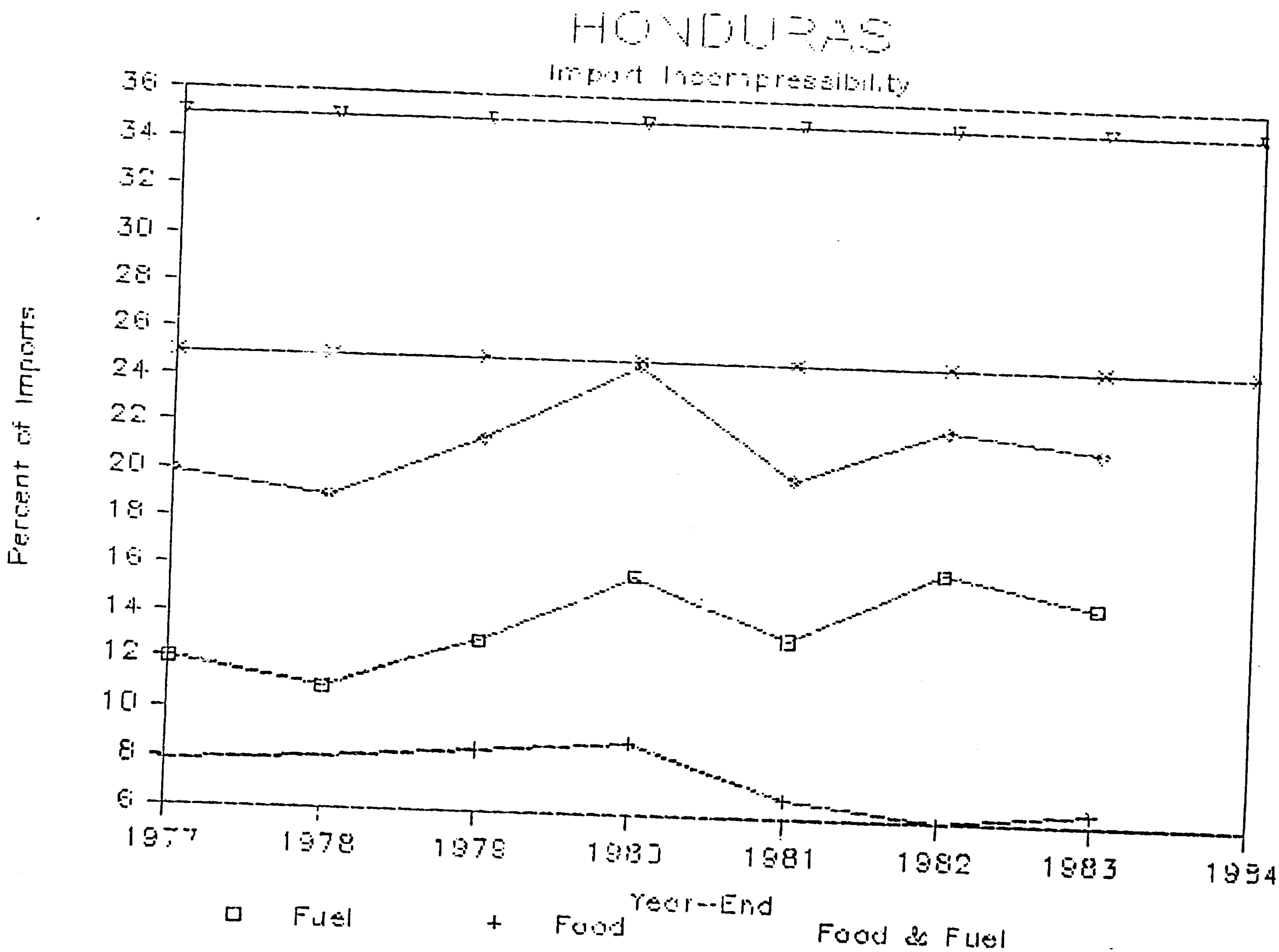
Currency Competitiveness
1.5
1.4
1.3
1.2
1.1
1
0.9
Ratio
1977
1978
1979
1980
1981
1982
1983
1984
Year-End
Equilibrium

HONDURAS

CURRENCY COMPETITIVENESS
CHANGE IN INFLATION / CHANGE EXCHANGE RATE

YEAR	CONSUMER PRICE INDEX-HONDURAS 1975=100	EXCHANGE RATE*	CONSUMER PRICE INDEX-USA 1975=100	RATIO
1977	116.10	2.00	115.40	1.01
1978	123.70	2.00	125.90	0.98
1979	147.60	2.00	142.60	1.04
1980	158.50	2.00	160.30	0.99
1981	178.10	2.00	174.60	1.02
1982 1ST H.	189.50	2.00	180.16	1.05
1982 2ND H.	196.80	2.00	181.39	1.08
1982	196.80	2.00	181.39	1.08
1983 1ST Q.	202.30	2.00	182.00	1.11
1983 2ND Q.	209.29	2.00	184.91	1.13
1983 3RD Q.	213.60	2.00	187.20	1.14
1983 4TH Q.	213.05	2.00	188.27	1.13
1983	213.05	2.00	188.27	1.13
1984				
1985				
1986				

All data except estimates from IFS, May
1975 CPI (US and Honduras) = 100.
1975 exchange rate: 2 lempiras/dollar
CPI and exchange rate are end of period figures.
(e)=estimate



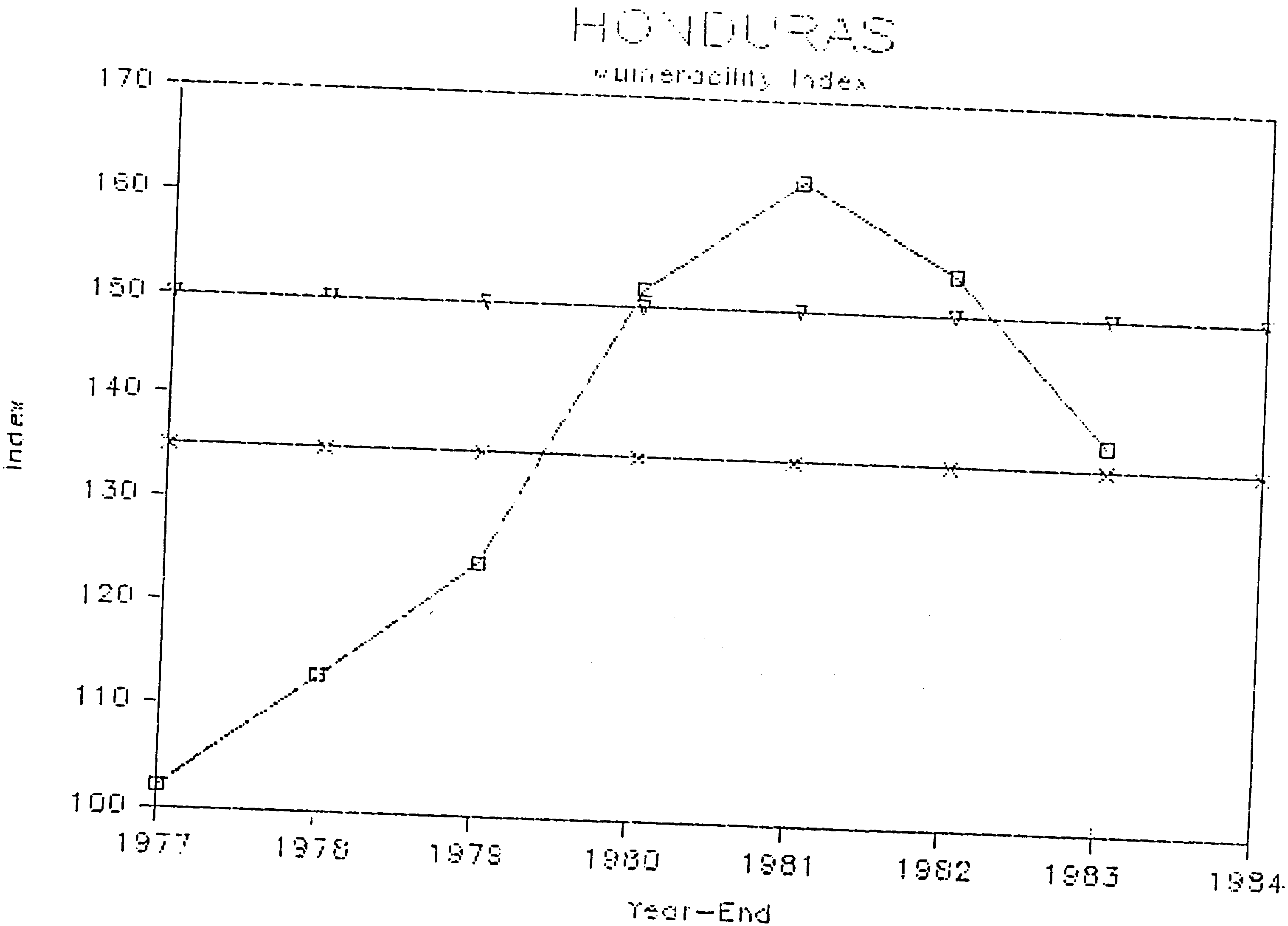
HONDURAS
Import Incompressibility
Percent of Imports
36
34
32
30
28
26
24
22
20
18
16
14
12
10
8
6
1977
1978
1979
1980
1981
1982
1983
1984
Year--End
Fuel
Food
Food & Fuel

HONDURAS

IMPORT INCOMPRESSIBILITY

YEAR	FUEL IMPORTS % OF IMPORTS	FUEL IMPORTS US$ MILLIONS	FOOD IMPORTS % OF IMPORTS	FOOD IMPORTS US $ MILLIONS	FOOD AND FUEL AS % OF TOTAL IMPORTS
1977	12.00	88.40	7.90	58.20	19.90
1978	10.90	96.03	8.10	71.36	19.00
1979	13.00 (e)	139.33	8.50 (e)	91.10	21.50
1980	15.90	207.62	8.90	116.22	24.80
1981	13.30	164.04	6.80	83.87	20.10 (e)
1982 1ST H.	16.30 (a)	163.02	6.00 (a)	60.01	22.30 (a)
1982 2ND H.	16.30 (a)	176.61	6.00 (a)	65.01	22.30 (a)
1982	16.30 (e)	169.81	6.00 (e)	62.51	22.30 (e)
1983 1ST Q.	15.00 (a)	160.67	6.50 (a)	69.62	21.50 (a)
1983 2ND Q.	15.00 (a)	147.01	6.50 (a)	63.71	21.50 (a)
1983 3RD Q.	15.00 (a)	152.76	6.50 (a)	66.20	21.50 (a)
1983 4TH Q.	15.00 (a)	157.52	6.50 (a)	68.26	21.50 (a)
1983	15.00 (e)	154.49	6.50 (e)	66.95	21.50 (e)
1984	16.00	640.00	7.00	280.00	23.00
1985	16.00	662.40	7.00	289.80	23.00
1986	16.00	672.00	7.00	294.00	23.00

All data except estimates from IMF Supplement on Trade Statistics. 1982.
1984-86 figures are projections.
(e)=estimate
(a)=annualized



HONDURAS
Vulnerability Index
Index
170
160
150
140
130
120
110
100
1977
1978
1979
1980
1981
1982
1983
1984
Year-End

191

HONDURAS

VULNERABILITY INDEX

YEAR	IMPORTS	SHORT-TERM DEBT	RESERVES	EXPORTS	INDEX
1977	736.70	50.00 (e)	179.77	593.90	102.19
1978	881.00	100.00 (e)	184.44	706.60	112.73
1979	1071.80	205.00	209.17	859.20	124.26
1980	1305.80	311.00	149.83	967.50	151.62
1981	1233.40	333.00	101.02	902.60	162.35
1982 1ST H.	1000.13 (a)	276.00 (a)	74.01	861.85 (a)	139.48
1982 2ND H.	1083.47 (a)	276.00 (a)	112.23	705.15 (a)	176.88
1982	1041.80	276.00	112.23	783.50	153.87
1983 1ST Q.	1071.12 (a)	220.00 (a)	102.25	944.00 (a)	125.94
1983 2ND Q.	980.00 (a)	220.00 (a)	98.36	924.00 (a)	119.23
1983 3RD Q.	1018.40 (a)	220.00 (a)	97.95	700.00 (a)	162.92
1983 4TH Q.	1050.12 (a)	220.00 (a)	113.62 (e)	740.00 (a)	156.28
1983	1029.93	220.00	113.62 (e)	827.00	137.40
1984	1000.00	225.00 (e)	125.00	900.00	122.22
1985	1035.00	225.00 (e)	125.00	940.00	120.74
1986	1050.00	225.00 (e)	125.00	975.00	117.95

All data except short-term debt from IFS, May 1984.
Short-term debt from BIS Maturity Distribution of International Bank Lending, July 1983.
Reserves do not include gold.
1984-86 figures are projections.
(e)=estimate
(a)=annualized