



Auditor General

AID SHELTER PROGRAMS

IN PORTUGAL

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Audit Report Number 3-150-81-01

Issue Date October 22, 1980

Area Auditor General East Africa
Agency for International Development

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EXECUTIVE SUMMARY

Introduction

During the two years immediately following the April 1974 revolution in Portugal, AID guaranteed and authorized a total of \$63.5 million in assistance to the Portuguese shelter sector, as follows: two housing guaranties (\$20 million each), two supporting assistance loans (\$13.25 and \$10 million) and supporting assistance grant funds (\$250,000). These funds were intended to improve housing stock which had suffered from decades of neglect under prior dictatorial regimes, and improve living conditions in the face of an influx of several hundred thousand refugees from Portuguese Africa. AID's loan contributions were planned to finance about 8,800 units of rental, cooperative and aided self-help housing projects at 54 sites throughout the country. Grant funds were to provide technical assistance advisory services on an as-needed basis in support of the AID financed construction program and focused on such areas as design standards, housing delivery systems, and financial cost recovery mechanisms. Other consulting services were provided by technical advisors under contract to AID's Housing Investment Guaranty Program whose regional office for the Near East Bureau, located in Tunis, Tunisia, (RHUDO/NE) shared in the management responsibilities of AID's shelter sector assistance to Portugal with USAID/Portugal.

Scope

Earlier stages of this program were included in the findings of Audit Report No. 77-23, dated May 13, 1977. The report contained one recommendation having to do with the need for guidelines in the comingled use of supporting assistance and housing guaranty loan funds. The recommendation was closed by AAG/Washington after receiving assurances from the AID Office of Housing (DS/H) that steps would be taken to establish adequate guidelines. Our work was not designed to cover the use of AID resources on all 54 project sites -- a task far beyond the limited time and staff available for this review. The main focus of our audit at this time was to measure construction quality and progress to date, ascertain that AID resources had been used to benefit eligible recipients, and gauge the effectiveness that employment of AID assistance has had in responding to the needs of the Portuguese shelter sector and the GOP in general.

We examined such books and records, made such site visits and interviewed such GOP and AID officials as we deemed necessary to the conduct of our review. At the conclusion of our stay in Portugal, a summary of our findings was transmitted to, and discussed at some length with, representatives of the Portuguese sponsoring institution, Fundo de Fomento da Habitacao

(FFH) as well as with USAID/Portugal and RHUDO/NE officials. Such comments on our findings and conclusions as we deemed appropriate to this review were accordingly included in our draft report.

Findings, Conclusions and Recommendations

AID's involvement in the Portuguese shelter sector is viewed as a positive contribution to the shelter needs of the country and the continuing spirit of friendship and goodwill between the United States and Portugal. A number of factors, most of them beyond the control of AID and Portuguese housing officials, have nevertheless limited the effectiveness of AID assistance in addressing the country's shelter needs and financial problems. Lessons learned from this investment of more than \$63 million in AID supporting assistance and housing guaranty loans should not be wasted as both the opportunities and resources for continued grant-funded technical assistance to this sector are available to enhance the post-occupancy effectiveness of AID's contribution to the Portuguese shelter sector.

Delays in project completion and unit occupancy were caused by an unavoidable set of circumstances having as their origin events in the troubled political and economic arenas of post-revolutionary Portugal. The principal effect of these problems has been to seriously delay the provision of shelter to several thousand families at a time when construction costs were rising very rapidly.

The supporting assistance objectives which underlay the provision of AID financial help to the Portuguese shelter sector were only partially met due to the seriously delayed disbursement of dollar loan funds to the GOP. Funds which remain unutilized as of September 30, 1980, the terminal loan disbursement date, should, however, be deobligated.

Residents of AID assisted housing in Portugal uniformly appear eligible to participate in the program. Although rental payments are generally being made in a timely fashion, we were unable to verify this situation due to a lack of data from the Portuguese sponsoring institution. We did find one instance of fairly serious rental payment arrearages, however. Local officials in larger cities appear reluctant to effect periodic adjustments of social (subsidized) rents in accordance with Portuguese regulations and changes in family income for reasons of political expediency. Certain resistance to such adjustments has been registered in towns where action was taken to increase rents. If this trend continues, the implications for recovery of investment expenditures and program replicability by the Portuguese program sponsor could be quite serious.

AID financing has contributed to the construction of attractive, well built dwellings in Portugal. However, project exteriors and public areas suffer from a lack of adequate landscaping and maintenance. A potentially serious problem lies with a lack of local willingness to assume responsibility for post-occupancy maintenance, a job the Portuguese sponsoring institution is neither funded nor staffed to carry out. Conversion of rental units to group ownership may offer a possible solution to this situation, and an opportunity for further U.S. assistance using grant funds which USAID/Portugal has available.

The GOP policy of constructing high quality, social interest housing makes full cost recovery difficult if not impossible under the existing subsidized rent structure. AID support for cooperative and aided self-help projects under the 1976 program appears to have provided greater subsidies to groups who are economically better off and less in need of them than other recipients of AID financing assistance under this program. As a result, program effectiveness has been somewhat impaired, in our opinion, due to the fact that economically better off owners of AID assisted housing are able to purchase larger and better units at relatively less cost than lower income renters are charged for their units.

We have made recommendations regarding the final drawdown of funds designed to protect the best interests of the United States and the GOP under loan agreement 150-K-008, the last of the four loans which provided financing under this program. Additionally, we have sought to generate through recommended requests for information from the Portuguese program sponsor, Fundo de Fomento da Habitacao (FFH), a data base from which a more in-depth knowledge and analysis of AID's investment and involvement in the Portuguese shelter sector may be derived. Once in hand, we believe that USAID/Portugal and RHUDO/NE will be able to offer the housing policy makers in Portugal appointed after the October 1980 general election further opportunities for technical assistance designed to enhance the post-occupancy effectiveness and utility of AID financed housing to the people and government of Portugal.

BACKGROUND

The Republic of Portugal

Portugal is a relatively small, rectangular shaped country occupying about one-sixth of the Iberian Peninsula at the southwest corner of Europe. It has a population of nearly ten million people and an area of approximately 35,510 square miles (including the Atlantic Ocean Azores and Madeira island groups). Until 1974, Portugal's form of government was decidedly autocratic. However, the internal pressures for social change and the country's long and ineffective struggle to retain its African colonies resulted in an armed forces-led revolution on April 25th of that year. The effects of that coup d'etat have worked significant changes in Portugal's form of government, political organizations, and the social and economic aspirations of her people. The years immediately following the revolution were marked by political turmoil and socio-economic upheavals which have seen a succession of twelve elected and provisional administrations take office in Portugal with another general election scheduled for October, 1980. During the year following the April 1974 revolution, the country's problems were compounded and its resources severely strained by the arrival of several hundred thousand refugees from the former Portuguese colonies of Angola and Mozambique. The shelter sector, already experiencing a severe shortage of housing units, quickly came to the forefront of Portugal's socio-economic needs.

United States Response

The response of the U.S. Government to these events has been in keeping with the traditional friendship which has characterized U.S.-Portuguese relations. While Portugal is not without certain strategic security interests to the United States, U.S. assistance to that country has served primarily to demonstrate U.S. Government support for democratic governments. AID grants and loans totaling over \$500 million since 1975 to date have come predominantly from AID's Security Supporting Assistance - now Economic Support Fund (ESF) - account, and have been concentrated in a number of social development areas, including housing, and distributed fairly evenly throughout the country. The \$40 million in housing guaranty loans which comprised about two-thirds of AID's contributions to the Portuguese shelter sector, however, originated from commercial sources.

While the social interest nature of AID activities in Portugal is readily apparent, quite clearly the U.S. Government also sought to provide the Government of Portugal (GOP) with budgetary and balance-of-payment support

at a time when political and economic conditions in the country were extremely unsettled. In fact, it can be fairly said that the social interest nature of AID programs provided urgently needed and appropriate vehicles by means of which U.S. Security Supporting Assistance has been provided. It is therefore important for the reader to realize that, without these underlying support concerns, AID assistance to the Portuguese shelter sector would not have taken place. Furthermore, AID's support for the GOP's highly subsidized shelter programs is clearly not in keeping with AID's emphasis on self-liquidating shelter projects which it supports in developing countries --a fact which confirms again the underlying security supporting assistance nature of this rather unique AID shelter initiative.

AID Housing Program Management

The majority of AID's shelter sector resource transfers are authorized in Foreign Assistance Act Sections 221, 222, 223 and 238 which provide for an AID all-risk (except against investor's fraud) full faith and credit guaranty on behalf of the U.S. Government to eligible U.S. investors on loans made in support of AID approved shelter projects in less developed countries. The program is intended to be financially self-sufficient, supporting itself from fee income associated with authorized loan guaranties. The Office of Housing is located within AID's Development Support Bureau (DS/H), and provides policy guidance and program support to six regional field offices worldwide. AID's regional office of housing with program cognizance for Near East Bureau AID housing projects (RHUDO/NE) is located in Tunis, Tunisia and is staffed by four U.S. direct-hire professionals. The responsibility for planning, design and implementation of Housing Guaranty (HG) projects normally lies with the RHUDO. This office has been active in Tunisia since 1977. Over the past several years, DS/H and USAID/Portugal have funded a series of studies dealing with general and specific Portugal shelter sector topics from which certain information presented in this report has been drawn. In general, housing program management responsibilities have been fairly evenly shared between RHUDO/NE and USAID/Portugal.

Funds Comingled

AID assistance to the Portuguese shelter sector came in two tranches authorized in 1975 and 1976, as follows: (in \$ millions)

<u>Year of AID Authorization</u>	<u>Supporting Assistance</u>		<u>HG Loans</u>
	<u>Grants</u>	<u>Loans</u>	
1975	\$0.250	\$13.250	\$20.0
1976		10.0	20.0
Totals	\$0.250	\$23.250	\$40.0

for a grand total of \$63.5 million. By mid-1980, all but about \$2.3 million supporting assistance loan funds had been disbursed to the GOP. Less than

one-third of the grant funds had been utilized for technical assistance in the shelter sector. The remainder had been put to other uses by USAID/Portugal. We were advised by USAID/Portugal, however, that funds for housing technical assistance continue to be available from substantial grant funds recently made available in fiscal year 1980.

Although the terms and conditions (interest rates, grace and repayment periods) for the two types of loan assistance differ considerably, no distinction has been made in the use to which these funds were put in support of GOP housing programs. Thus, while the supporting assistance loans were made for 25 years at 5% interest, the HG loans bear interest rates of 9.2% and 8.19% plus 0.5% AID fee, and are to be repaid in 30 years. The combined cost of AID assistance to the GOP does, however, roughly approximate the 7.5% annual rate the GOP uses in computing rentals in order to amortize its investment under the program, although such amortization is calculated over 50 years as opposed to the AID loan repayment periods described above.

The application of AID assistance varied somewhat between the 1975 and 1976 programs. Funds authorized in 1975 went to support one, two and three bedroom rental units sponsored directly by the GOP's Housing Development Fund (FFH-Fundo de Fomento da Habitacao). AID funds authorized in the subsequent year continued support for this direct sponsorship effort, but also assisted rental units co-sponsored by local authorities and the FFH, as well as two home ownership programs sponsored by local cooperative and aided self-help groups. (See map on Exhibit A for the location of some of these projects and those depicted in the following photographic Exhibit B.)

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Program Construction Status

Implementation of the AID housing program in Portugal has been seriously delayed for reasons beyond the control of AID and GOP project managers. As a result, several thousand families have not been provided with much needed shelter while inflation in Portugal has increased the cost of units considerably. AID's planned share of participation in unit financing has consequently diminished.

Delayed Project Completion

In the case of both the 1975 and 1976 project papers, which authorized AID assistance to the Portuguese shelter sector, statements were made to the effect that the funds authorized for the program would be utilized (drawn down) within 24 months of the first disbursement. Such a timetable would normally be considered unrealistic in view of the size of the program; however, the reader will recall that a rapid transfer of dollar resources was part of the dual purpose nature of this program.

The report of the most recent technical review submitted by a HG program consulting architect revealed that, as of the end of 1979, the following was the situation in both the 1975 and 1976 programs:

<u>AID Assisted Units</u>			
<u>Program</u>	<u>Total Planned</u>	<u>Completed</u>	<u>Occupied</u>
1975	4,066	2,862	1,732
1976	<u>4,756</u>	<u>2,694</u>	<u>1,446</u>
Totals	8,822	5,556	3,178
		63%	36%

Thus, one year after the program was to have ended, about one-third of the units remained to be completed and two-thirds had not been occupied.

We visited about one-third of the sites as part of our project review and were able to corroborate the existence of these conditions some of which are depicted in photographic Exhibit B appended to this report.

Several Causes of Delays

The HG program consulting architect reported the causes of delayed project completion to be:

- Lack of contractor solvency.
- Slow progress in completing infrastructure works.
- Legal complications affecting land acquisition.
- Dysfunctions in inter-GOP agency coordination.
- Inadequate funding of GOP program sponsor (FFH).

During our site visits and in our conversations with USAID, FFH and local officials we were able to confirm the accuracy of this analysis. As the scenes depicted in the photographic exhibit indicate, a number of competitively chosen building contractors were unable to complete the projects awarded to them by the FFH. FFH officials told us that they had in each case attempted to reach amicable, out-of-court settlements, but this had almost never proven feasible. A juridical process with its concomitant delays then became inevitable, after which the building site, equipment and works progress had to be surveyed, another bid package prepared and a replacement contractor selected. The process was further delayed during 1979, in which year, as part of the GOP/IMF stabilization program, the FFH was so inadequately funded that it was unable to begin any projects. However, FFH officials have now developed plans and allocated funding to

rebid and restart all the stalled direct FFH and co-sponsorship rental unit construction projects by the end of 1980. Most of this work has already begun since according to recent visits all projects but Almada are now underway.

The other principal factor delaying project completion has been the incapacity of local level authorities to provide the necessary infrastructure works and utility hookups without which occupancy is not possible. Our site visitations revealed that there is progress in this area as well with a move by the GOP to decentralize authority and accompany this with adequate funding. We also learned that the work of the local authorities is sometimes hampered by the lack of certain key materials. For example, in the case of Portalegre, underground electrical conduits cannot be installed (and, as a result, streets remain unpaved) due to the unavailability of certain transformer equipment, some of which is imported. In brief, it would appear that a series of complex variables which originated in the political and economic turmoil that occurred during the years immediately following the 1974 Portuguese revolution -- from which the country has yet to fully recover -- have combined to unavoidably delay the completion of many sub-projects for which AID funding has been allocated.

Effects of Delays

The principal effects of delayed project implementation have been to:

- Postpone occupancy of several thousand units in some cases for two years or more,
- allow inflation and construction costs to increase the cost of AID assisted units, and thereby
- diminish the proportion of planned AID financing from 85% to between 65% and 70%.

The effects of inflation are graphically demonstrated in the following table prepared with the able assistance of USAID/Portugal's FSN Engineer:

<u>Program</u>	<u>Average Unit Costs*</u>
1975 (Completed)	\$ 8,827
(Incomplete)**	14,362
1976 (Completed)	9,381
(Incomplete)**	14,683

* Excluding the value of land and infrastructure

** Estimates as of August 1980

In addition, officials of the following cooperative and aided self-help projects in the Algarve region provided us with the following estimates of completed unit cost:

Sagres	\$15,575
Quarteira-Loulé	21,425

The chart shown on Exhibit C demonstrates the toll inflation in Portugal over the past several years has taken in terms of the devaluation of the Portuguese escudo vis-a-vis the U.S. dollar. This exchange development has resulted in an increased yield in local currency produced by AID loans that has offset somewhat the effects of inflation in housing costs. However, inflation has nevertheless caused a decrease in AID's financial participation in each unit's cost. Additionally, over one thousand units are to be eliminated from AID funding because they will not be finished by the terminal drawdown date under supporting assistance loan 150-K-008. In this regard we view it important for the FFH to exert a maximum effort to accurately verify the status of construction progress prior to that date. We noted in a 1978 report by a HG program financial analyst that "due to a lack of reliable data at the beginning of the program, ...FFH did not submit (over \$2.5 million) of work-in-place."

The foregoing problems and delays notwithstanding, USAID and FFH officials hope that, with the progress made thus far this year, sufficient work-in-place will be available to complete disbursement of the remaining loan funds. The terminal disbursement date under supporting assistance loan 150-K-008 has now been twice postponed to September 30, 1980, and USAID/Portugal has advised the GOP that no further postponements will be approved.

The terms and conditions of Section 3.03(B) of the 150-K-008 loan agreement, however, appear to be worded in such a way as to permit ample flexibility in the documentation of work-in-place eligible for AID financing:

"SECTION 3.03. Release of Loan Funds. . . . Such disbursements shall consist of the following except as A.I.D. and the Borrower shall agree in writing: . . .

"(B). Additional disbursements equal to eighty-five percent of agreed construction costs pursuant to the Financial Plan, provided that Borrower has given to A.I.D. acceptable evidence of (i) satisfactory construction progress in accordance with the construction schedules, and (ii) timely and current contribution of Borrower's share pursuant to the Financial Plan and such other funds required for the Program. No more than 90% of the amount to be financed under the A.I.D. loan for any specific project site shall be disbursed prior to the Borrower and A.I.D. having agreed that the project has been completed and is acceptable."

Conclusion

Delays in project implementation were caused by an unavoidable set of circumstances which had their origin in events beyond the control of GOP or USAID project managers. The effect of these problems has been to seriously delay the provision of shelter to several thousand families at a time when construction costs were rising very rapidly in Portugal.

Recommendation No. 1

USAID/Portugal coordinate with RHUDO/NE and the Fundo de Fomento da Habitacao, GOP to (a) define in the light of the impending terminal disbursement date under loan 150-K-008 what will constitute mutually acceptable completed units for AID financing, and (b) ensure that FFH has taken steps to present all available units eligible for AID financing in accordance with the terms of subject loan agreement.

Financial Management and Reporting

Slow disbursement of loan funds under the AID housing program in Portugal has detracted considerably from meeting the supporting assistance objectives of this program. Financial reports required under certain program agreements have neither been requested nor submitted.

Delayed Loan Disbursement

The record of disbursement of monies, as of June 30, 1980, under the four supporting assistance and housing guaranty loans authorized to provide shelter assistance to Portugal is presented in the following table:

HG and Supporting Assistance Loan Funds Disbursed
30 June 1980
(in \$ 000)

<u>Year</u>	<u>1975 Program</u>		<u>1976 Program</u>		<u>Annual Sub-Total</u>	<u>% of Grand Total</u>
	<u>150-HG-001</u>	<u>150-K-005</u>	<u>150-HG-002</u>	<u>150-K-008</u>		
1976	\$ 5,300 4,700	\$ 4,950			\$14,950	24%
1977	10,000				10,000	16%
1978		6,975	\$ 5,000 5,000	\$2,300	19,275	30%
1979		1,325	5,000 5,000	1,316 289 3,062	15,992	25%
1980				728	728	1%
Loan Sub-Totals	\$20,000	\$13,250	\$20,000	\$7,695	\$60,945	96%
Undisbursed				\$2,305	-	4%

Thus, fully 60% of the authorized dollar loan funds remained undisbursed until the year the program was to have ended (1978) or later. Consequently, substantial amounts which were to be made available to assist the GOP during times of budgetary and balance-of-payments difficulties were seriously delayed in meeting this objective.

Standard Disbursement Criteria

The disbursement format followed under the above loans was similar to that used in other construction projects where rapid transfer of hard currency resources is not part of the underlying objectives of the project. The method employed permitted certain construction advances to be made, although the amount of these advances was minor in relationship to the program total. Subsequent disbursements were based on periodic reviews of construction work-in-place against which drawdowns were then authorized. AID financing was not to exceed 85% of unit costs. However, of the total amount of AID financing available for any one of the 54 subprojects included in the program, not more than 90% could be disbursed until the project was completed in accordance with the terms and conditions quoted in the previous section of this report. In one sense, this method provided adequate, normal controls

over the progress of construction. On the other hand, it seriously hampered the flow of dollar resources to the GOP at a time when they were urgently needed, and when the GOP was expending considerably more than the normally required minimum counterpart contribution in addressing its shelter problems. In 1976 alone, for example, the FFH program development and capital investment budget, to which AID contributed \$30 million, totaled over \$163 million.

Had the delays described in the previous section not occurred, the record might have been different. However, delays in programs of this magnitude are not uncommon -- especially during periods of social, political, and economic upheaval, as was the case in Portugal. Although little can be done at this point to correct this situation, a valuable lesson for the future may be derived from this experience. The record, in our opinion, suggests inclusion of more liberal construction advance provisions as a part of those AID-housing programs which have supporting assistance to the government of the host country as one of their major objectives.

Disposition of Undisbursed Loan Funds

As noted in the foregoing table, over \$2.3 million remained undisbursed under supporting assistance loan 150-K-008 on June 30, 1980. The original implementation plan presented in the project paper which served as the basis for authorizing the 1976 program indicated disbursements would end in October of 1978. Because of delays, this deadline was subsequently extended by more than one year. As a result of a technical status review of the program in 1979, the then AID Representative formally notified the Director General of the Treasury, GOP Ministry of Finance in a letter dated June 26, as follows:

"...it is necessary to extend (the terminal disbursement date) from December 31, 1979 to September 30, 1980.

"Since this is the second extension granted by AID on this program, no further extensions can be approved. Loan funds not expended by September 30, 1980 will have to be cancelled."

While the GOP is not entirely responsible for program delays, it is clear that AID has been more than reasonable by (a) permitting complete drawdowns of three of the four loans authorized to date, despite the fact that more than one thousand units from the 1975 program remained to be completed, and by (b) extending the fourth loan disbursement schedule by two years.

Conclusion

The supporting assistance objectives which underlay the provision of AID financial help to the Portuguese shelter sector were only partially met due to the seriously delayed disbursement of dollar loan funds to the GOP. Given the fact that the economic conditions which motivated AID supporting

assistance have since improved, disposition of undisbursed loan funds as of September 30, 1980 should be made in accordance with the terms and conditions of the 150-K-008 loan agreement as amended.

Recommendation No. 2

USAID/Portugal deobligate any amounts under AID supporting assistance loan 150-K-008 which cannot be disbursed in accordance with the terms and conditions of the loan agreement as of September 30, 1980.

Financial Reports Not Submitted

In reviewing the terms and conditions under loans 150-HG-001/002, we noted provisions in both Implementation Agreements which require "financial reports in form and substance satisfactory to AID on each semi-annual date on which an installment payment of a Note is due until such Note is fully repaid." We found no such reports in USAID/Portugal files nor was there any record that such reports had been requested by the USAID. Consequently, we are making the following recommendation.

Recommendation No. 3

USAID/Portugal, in consultation with RHUDO/NE, (a) devise a reporting format which will meet the requirements of the Implementation Agreements under loans 150-HG-001/002, and (b) request the appropriate GOP agency to submit such reports in a timely fashion.

Rental Payments and Adjustments

While persons who reside in AID assisted housing in Portugal appear to be uniformly eligible to participate in the program, we were unable to verify the status of residents' compliance with the rental payment obligation due to a lack of data from the GOP sponsoring institution. Although it is our impression that rental payments are generally being made in a timely fashion, one instance of fairly serious payment arrearages was found. Also noted was reluctance on the part of some local authorities to make social (subsidized) rent adjustments while, in another case, significant resistance to adjusting social rents had been offered by residents of AID assisted units.

The Payment Obligation

According to GOP regulations issued in 1977, rental payments under projects directly sponsored by FFH or co-sponsored with local authorities are based on a formula which comprises amortization of the capital investment in buildings at 7-1/2% over 50 years plus 5% for administration and 15% for maintenance and repairs. The amount which results from this calculation is known as the "technical rent." However, relatively few residents of AID assisted units actually pay this amount.

The rental amount actually assessed is based not on the cost of the unit and its amortization plan, but rather on the ability of the family assigned a unit under the program to make rental payments. Since the technical rental amount is directly related to income eligibility limits, which, we note, have been rigorously observed in allotting units, perhaps only 10% of families are required to pay this amount. Most pay far less. These lesser amounts are known as "social rents" and begin at the equivalent of about \$8 per month ranging up to the technical rent, which is, to date, an unadjusted limit on the payment obligation regardless of the rate of inflation or the value of the Portuguese escudo in relation to other currencies.

To demonstrate this distinction further, we present in the following table the results of a random sample of twenty families who reside in an AID assisted, FFH sponsored rental complex in the south-central town of Evora.

Average technical rent*	\$64.50 month
Average monthly rental payment	28.50 month
No. families paying the technical rent	2
No. families paying the minimum social rent	3
No. families paying less than the average rent	15

*A simple average for two and three bedroom units assuming U.S.\$1.00 = E⁰49.

Thus, it may be seen that a large majority of residents in the number sampled pay subsidized rental amounts. At least 75% of residents sampled currently pay less than half the amount calculated by the GOP as necessary to amortize the cost of the units in which they live. Consequently, it is most unlikely that, without inputs of GOP general funds, the FFH will be able to replicate this program to benefit other lower income families also in need of housing.

Rental Arrearages

At least two program consultants have made statements regarding the payment of rents. In the report of a 1978 financial review, the consultant found:

"The total amount in arrears was 7.02% of the total accumulated billing as of December 31, 1979."

And the May 1980 report on a comprehensive evaluation of AID Shelter Programs in Portugal stated:

"It is estimated that the current delinquency rate is approximately 6 percent. Delinquency does not appear to be a problem. There is a 'hard core' of about 2 percent in uncollected rents."

Both at the beginning of our review and at the exit conference with FFH officials several days prior to our departure from Portugal, we requested information on rental payments from FFH; however, this was not forthcoming. The USAID has followed up in this regard and, after our departure, requested a comprehensive rental payment report by letter to the GOP Secretary of State for Housing and Urban Development.

Results of Field Visits

We visited with local officials in four towns which have participated in the AID housing program in Portugal (either in direct FFH or co-sponsorship projects). Two were from large coastal cities and two from smaller interior towns. The results of these conversations as regards payment of rentals varied considerably. In Oporto, Portugal's second largest city on the north coast, we discovered that 24% of the residents had rental arrearages equal to 2-1/2 months' technical rent payments. Given the low average payment described above, the average arrearage on actual rentals owed was likely to be on the order of six months' payment delinquency. In the smaller towns, officials seemed better able to cope with the problems of non-payment and few cases of delinquency were noted in their records. In Lisbon, the Director of Municipal Housing Services was admittedly unaware of rental payment details, although it was his impression that residents were making regular rental payments.

Adjustment of Social Rents

The same GOP regulations of 1977 provide for an annual adjustment of social rent amounts based on changes in family income. Officials we spoke with in the two large cities stated they had taken no action to implement this provision because they regarded such a move as politically sensitive. One of the small towns was just preparing to implement the adjustment provision

while, in the other (Portalegre), serious resistance to a February 1980 adjustment was registered. This resistance took the form of a rent strike which saw more than half the residents of the AID-assisted, FFH-municipality co-sponsored project refusing to pay the adjusted rents. Instead, these persons began paying their original unadjusted rent amounts to the local branch of a state bank (this is the procedure followed in FFH direct sponsorship projects). Several months after the initiation of this alternative payment method, local officials said they were beginning to see a growing number of striking residents paying their adjusted rents to the city cashier. FFH officials stated that resistance of this sort had been felt nationwide wherever social rent adjustments had been undertaken. It is not clear to us why the state bank (Caixa Geral de Depósitos) continues to accept such payments when residents should instead be referred to the city cashier. Such lack of coordination is seen as a remnant of the generalized confusion which ensued in GOP affairs as a result of the 1974 revolution.

Conclusion

We found no residents who had been selected to benefit from AID assistance to the Portuguese shelter sector who were ineligible to reside in AID financed units. Although it is our impression that rental payments are generally being made in a timely fashion, the absence of firm data from FFH on this matter prevented us from verifying the situation. Clearly, our site visits revealed the importance of local enforcement of payment obligations. Finally, local officials in large cities appear reluctant to carry out annual social rent adjustments for fear of political repercussions. This fear appears to be borne out by the resistance to such adjustments registered in those towns where rent adjustments have been attempted. The implications for cost recovery of investments made by FFH under the program are considered potentially serious in terms of FFH's not being able to fund more housing units from the timely receipt of adjusted rental income if this trend continues.

Recommendation No. 4

USAID/Portugal obtain from the Fundo de Fomento da Habitacao (FFH) a comprehensive report on all rental payments made to date under AID assisted projects, together with the record of social rent adjustments due, whether or not effected, and the results thereof for analysis; and in conjunction with RIUDO/NE, study the opportunities which this information offers for providing technical assistance to FFH and local authorities to achieve maximum investment cost recovery.

Physical Appearance and Maintenance

AID financial assistance to the Portuguese shelter sector has contributed toward the construction of attractive, well built dwelling units. However, maintenance of unit exteriors and public areas is in need of strengthening. Furthermore, upkeep of buildings offers the potential for serious future problems because of a lack of willingness and capacity to undertake this responsibility. Conversion of rental units to group ownership is consequently viewed as a possible solution to the post-occupancy maintenance problem.

GOP Construction Standards

As the reader will note in Exhibit B, AID assisted housing in Portugal has been constructed in keeping with European standards. In fact, GOP officials have steadfastly refused to consider a reduction in these standards as a way to reduce costs. A good deal of experience which AID has gained in developing countries in terms of expandable "core" housing and "sites and services" construction techniques has therefore not been accepted to date by GOP housing officials. Preferring European models, these officials have availed themselves only sparingly of the technical assistance resources which AID has made available in conjunction with this program, as noted in the Background section of this report.

Results of Site Visits

AID financed rental units, whether directly sponsored by the FFH or co-sponsored by the FFH and local authorities, take the form of multi-story, walk-up apartment blocks. Construction is of cement block walls, poured cement floors, tile roofs, and aluminum window frames. Interiors feature parquet wood floors and marble staircases, countertops and sills. All the foregoing materials are of local origin and their use is generalized throughout the country. As to size, AID assisted rental units vary in gross area from about 600 to 850 square feet, depending on the number of bedrooms. Units constructed under the cooperative and aided self-help programs were seen to take the form of one or two-story row houses or semi-detached dwellings constructed with similar materials (although tile floors appear to be preferred to parquet wood). The size of these homes is significantly larger than the rental units, varying in size from about 950 to 1100 square feet. Construction of AID assisted units is in keeping with local housing standards and with similarly sponsored, albeit locally financed, units which often share the same sites with AID assisted units. Sites under construction were seen to display signs identifying the project as partially financed by a loan from the United States Government.

Post-Occupancy Maintenance

We visited a number of rental project sites which had been occupied for some time. Although interiors were found to be generally in keeping with

the income levels of the residents, project exteriors uniformly suffered from a lack of landscaping and maintenance which local authorities had failed to provide. Trash collection also appeared to be inadequate on certain sites, while, in other locations, site extensions or the non-completion of infrastructure works had prevented street paving or landscaping entirely.

Building Upkeep

All the buildings occupied and visited were relatively new; therefore, maintenance did not appear to be an immediate problem. However, conversations with FFH and local officials revealed a potentially serious situation in this regard. We were advised that rents in Portugal had been frozen for many years. At the same time, inflation and devaluation of the local currency have taken their toll on the value of rents paid. Consequently, we were informed by local housing officials that rents on many thousands of units (in the larger cities) at this point hardly cover the cost of their collection (amounts equating to \$4 per month were mentioned in Oporto and Lisbon), much less contribute to defraying maintenance and repair expenses. Thus, we were further advised that Oporto had declined to accept responsibility for maintaining AID assisted, FFH sponsored units. In Lisbon we were advised that despite the fact one large FFH project had been occupied for some time (although less than the one-year warranty period), responsibility for project maintenance remained a matter of negotiation between city and FFH officials. Clearly, local authorities were seen to be increasingly unwilling to undertake project physical management responsibilities due to the losing proposition this constitutes in the present rent-controlled environment. Furthermore, a lack of adequate maintenance is seen as potentially exacerbating the reluctant attitude demonstrated by residents at having their rents adjusted.

For their part, FFH officials stated that their organization was neither staffed nor funded (nor for that matter, established) to undertake a project maintenance responsibility. It was their opinion that legislation was required to address this situation. However, legislative initiatives had been effectively postponed pending the outcome of this year's general elections and the emergency of the elected administration's economic and social policies as regards housing.

Rental Conversions: A Possible Solution

During our review of rental project sites we noted that some units (in fact entire buildings on some sites) had been built for sale. We were advised by USAID/Portugal officials, however, that these were not included in AID financing arrangements. Nevertheless, the units are identical to rental units on the same site (although they normally seem to have four bedrooms as opposed to the three-bedroom limit imposed for AID financing eligibility),

and are known locally as propiedade resolvel (sale units). One such block has been included in photographic Exhibit B. Not only do such blocks offer a welcome precedent for group ownership, but they also encompass an innovative (albeit optional) method of financing which could enhance any future conversion process. Thus, sale units may be purchased for the equivalent of the technical rent amount paid monthly over twenty-five years or through an accelerating payment schedule which encompasses payment increases at either two or five year intervals, at the buyer's option. Given the continuing rate of inflation in Portugal and worldwide, conversion of rental units to ownership could, in our opinion, offer one possible solution to the problems posed by maintenance of rent-controlled units. Given the high rate of conversion of units in the United States over the recent past, this area suggests itself as one in which further AID technical assistance could be of use to the GOP.

Conclusion

Although AID financing has contributed to the construction of well-built dwellings in Portugal, project exteriors and public areas suffer from a lack of landscaping and maintenance. Building upkeep offers a potentially serious problem for the future due to the lack of local willingness and FFH capacity to undertake post-occupancy maintenance responsibilities. Conversion of rental units to ownership appears to offer a possible solution to this situation and an opportunity for further AID technical assistance to the Portuguese shelter sector.

Recommendation No. 5

USAID/Portugal, in conjunction with RHJUDO/NE, study the feasibility of making available to the Fundo de Fomento da Habitacao (FFH) grant-funded technical assistance in the area of rental unit conversions to group or cooperative ownership.

Extent of Subsidies

The heavily subsidized nature of AID assisted housing built in Portugal will render full cost recovery by the FFH difficult if not impossible. AID has not studied the subsidy elements under the cooperative and aided self-help group ownership projects as opposed to the subsidies afforded renters of units which it has assisted under the program authorized in 1976. Based on our observations, it would appear that residents of these projects have benefited from greater subsidies than families assigned rental housing supported by AID, despite the fact that owners are economically better off than renters. Consequently, we feel the effectiveness of AID assistance has been somewhat impaired through support of these programs.

Program Replicability Doubtful

In preceding sections of this report mention has been made of the subsidized nature of this program. The major subsidy elements of the rental program in our view encompass:

- a below-market rate of interest attributed to a 50-year amortization schedule which exceeds supporting assistance and housing guaranty terms by 10 and 20 years, respectively, and whose relationship to the FFH's overall cost of funds is not clear;
- charging rental amounts based on residents' ability to pay which yields social rents in amounts estimated to average far below the technical rent calculated by the GOP to amortize AID assisted units;
- non-enforcement of, and resistance to, adjustment of social rents based on changes in family income for reasons of political expediency;
- non-inclusion of the value of land and infrastructure works in the cost of most projects (where these have been donated by local authorities - estimated value of from 14% to 31% of total unit cost);
- no provision for "indexing" either social rents or technical rents to rises in the cost of living or other economic indicators.

The foregoing conditions are exacerbated by the long delays experienced in opening completed units to occupancy because of incomplete infrastructure works and utility hook-ups. Thus, units remain empty at a time when residents should be making rental payments and thereby contributing to FFH's return on investment and cash flow to fund new projects. As we read it, our conclusions are generally borne out by the exhaustive financial analysis of the AID rental housing program in Portugal made by a HG Program consultant in 1978.

Ownership Subsidies

Not included in the foregoing 1978 analysis was a study of subsidies provided under the cooperative and aided self-help programs. We visited a total of four such projects during our stay in Portugal and spoke with residents and directors of those groups. In summary, we found that these projects had been seriously delayed due to a lack of adequate FFH financing and technical assistance. FFH regulations make both groups responsible for finding their

own builders, contracting with them, and overseeing their work. The major distinction at the present time between these two forms of group project development lies with a direct grant subsidy of about \$1,800 equivalent per unit in the case of aided self-help projects. Other subsidies common to both programs take the form of low-interest financing terms (3% over 24 years) and donations of land and infrastructure works by local authorities.

In touring these projects we were struck both by the quality of construction and the size of the units which varied from about 950 - 1100 square feet - considerably larger and somewhat better appointed than the rental units sponsored directly by FFH or in conjunction with local authorities. Also noted was the fact that family incomes among these groups, while still within program limits, on average considerably exceeded those of rental unit residents. The original objective of the aided self-help program was to assist residents of shanty towns, and facilitate the process of slum clearance. However, FFH officials admitted to us that adequate controls had not been exercised over this program which was not without certain political motivation at its origins. We derived a similar impression from our talks with residents and directors of "low-cost" cooperative housing groups (Cooperativas de Habitacao Económica), as is borne out in the 1980 evaluation report mentioned earlier herein:

"As they have evolved, the majority of the cooperatives have been organized among lower middle and middle income families."

Conclusion

The GOP policy of constructing high quality social interest housing makes full cost recovery difficult if not impossible under the existing subsidized rent structure. Furthermore, in its support of cooperative and aided self-help programs, AID appears to have contributed to the provision of greater subsidies to groups who are economically better off and less in need of them than to residents of AID assisted rental housing. In our view, this differential subsidy was unintended by AID, nor was an adequate study made of benefits provided to owners of cooperative or aided self-help housing. Consequently, program effectiveness has been somewhat impaired, in our opinion, due to AID support for these eligible, albeit economically better off, beneficiaries of housing assistance.

Our draft report at this point contained a recommendation which would have had USAID/Portugal obtain from the FFH a comprehensive report on the income characteristics of beneficiaries of AID assisted home ownership programs, and the details of construction costs and financing terms of ownership units. This information would then be available for analysis and discussion during the colloquium proposed in Recommendation No. 6. USAID/Portugal demurred at this draft recommendation because, with the final disbursement having taken

place on September 30, 1980, the implementation phase of the program was considered complete. Furthermore, it was the USAID's position that such an analysis would more appropriately fit into a future program evaluation once all the units were occupied.

We believe the unacceptability of the home ownership subsidy programs needs to be further analysed by the Portuguese housing authorities. However, we defer to the USAID's judgment as to the method and timing of achieving this objective and therefore have eliminated our proposed recommendation.

Attainment of Program Objectives

AID's involvement in the Portuguese shelter sector is viewed as a positive contribution to the shelter needs of that country and the continuing spirit of friendship and goodwill between the United States and Portugal. A number of factors, most of them beyond the control of AID and FFH program managers, have nevertheless limited the effectiveness of AID assistance to the country's shelter needs and financial problems. Lessons learned from this investment of more than \$63 million in supporting assistance and housing guaranty loans should not be wasted as both the opportunities and resources for continued AID technical assistance to this sector have been identified.

Limiting Factors

It is our view that AID assistance to the Portuguese shelter sector has met the dual purposes of providing much needed shelter and budgetary and balance-of-payments support to the GOP. Furthermore, the quality of the structures and their identification with U.S. Government post-revolutionary assistance to Portugal are seen as extremely positive factors both in terms of shelter assistance and in the maintenance of goodwill between the two nations.

The preceding sections of this report do, however, deal with certain areas which, in our opinion, have limited the effectiveness of AID assistance:

- Delayed project completion and occupancy.
- Delayed disbursement of dollar loan funds.
- Rental payments and adjustments in arrears.
- Project maintenance and repair.
- The extent of subsidies under rental and group ownership programs.

We believe that we have explained that not all these limiting factors to the achievement of the AID housing program's objectives could have been avoided by FFH and AID management officials. Furthermore, we have noted that programs of this size and complexity normally register implementation difficulties of one sort or another, even in the best of times. And the

past half-decade in Portugal was a time which saw a succession of national crises in both the political and economic spheres which had very serious inhibiting effects on the progress of any development project including this ambitious shelter program.

Future Prospects

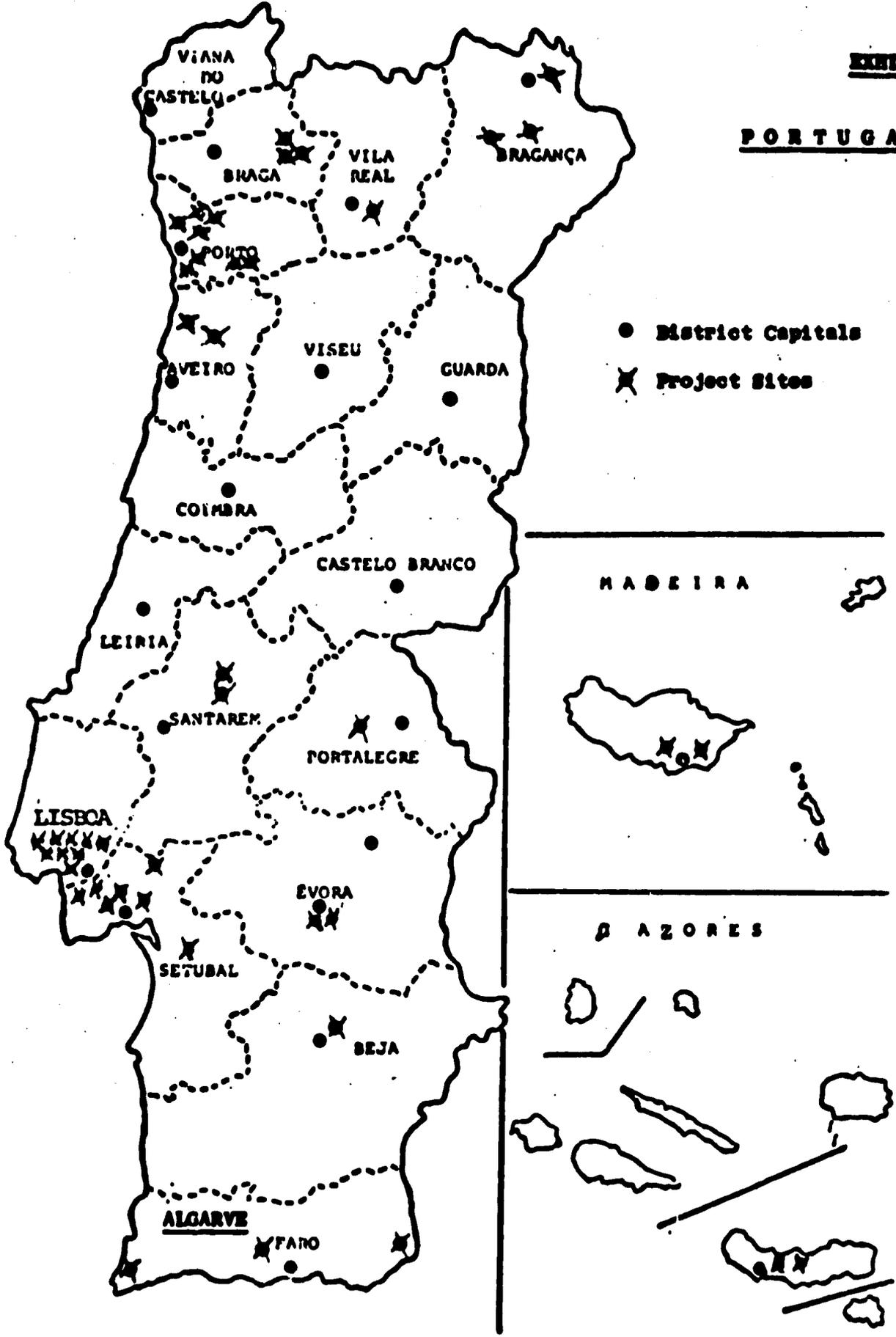
During our stay in Portugal we were pleased to note the progress being made in getting stalled shelter projects restarted. From newspaper articles (proclaiming idled construction sites a cause for "national shame") to televised news reports, the subject of shelter sector needs and delays being experienced in responding to them appeared to be constantly in the forefront of public attention. We therefore believe that the lessons learned from AID's involvement in this sector over the past half-decade will be of continuing value to the housing policy makers who take office after the October general elections in Portugal. Moreover, it is our view that the results of prior evaluations and the findings of this audit report could form the basis for continued contact and technical assistance, especially in the fields of finance, project management and rental conversions. It is our further impression from contacts with Portuguese housing officials that they (and presumably those appointed after the upcoming general elections) have yet to become aware of the full complexities and scope of present and potential problem areas described in this and prior consultants' reports. Consequently, we are making the following final recommendation.

Recommendation No. 6

USAID/Portugal, in conjunction with RHUDO/NE, consider sponsoring a colloquium with newly appointed Portuguese housing officials to review the experience of AID's involvement in the Portuguese shelter sector and the possibilities this participation could offer for AID technical assistance inputs in the future.

EXHIBIT A

PORTUGAL

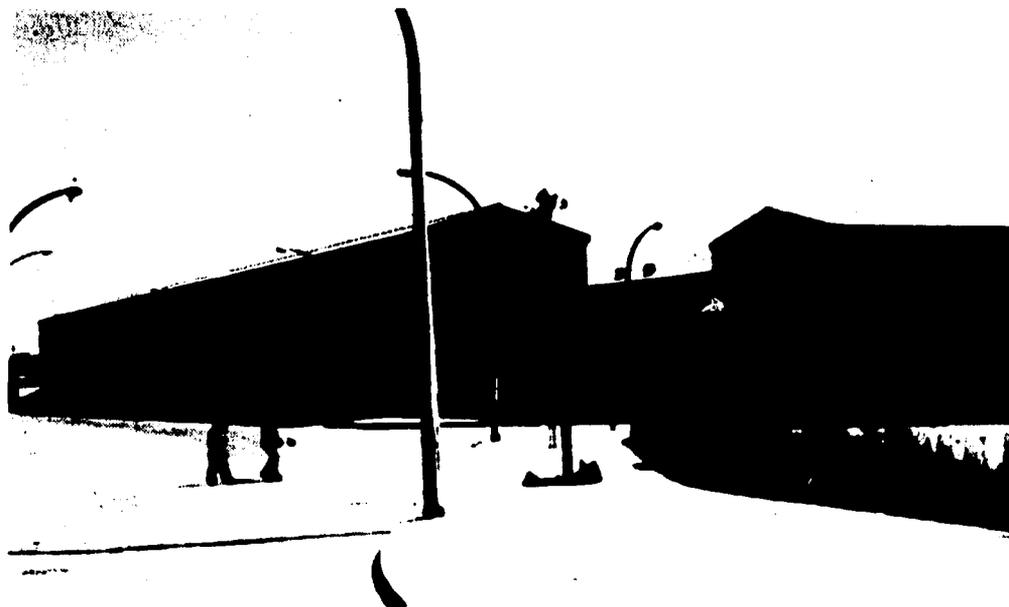


AID SHELTER PROGRAMS IN PORTUGAL

PHOTOGRAPHS OF PROJECT SITES

August 1980

Note: Scenes depicted in the following photographs represented site conditions during August 1980. Since then, USAID/Portugal reports that Araucaria and Monte Gordo have been eliminated from the program, the underground electrical conduit at Portalegre has been completed and the power hook-up at Sagres has been accomplished.

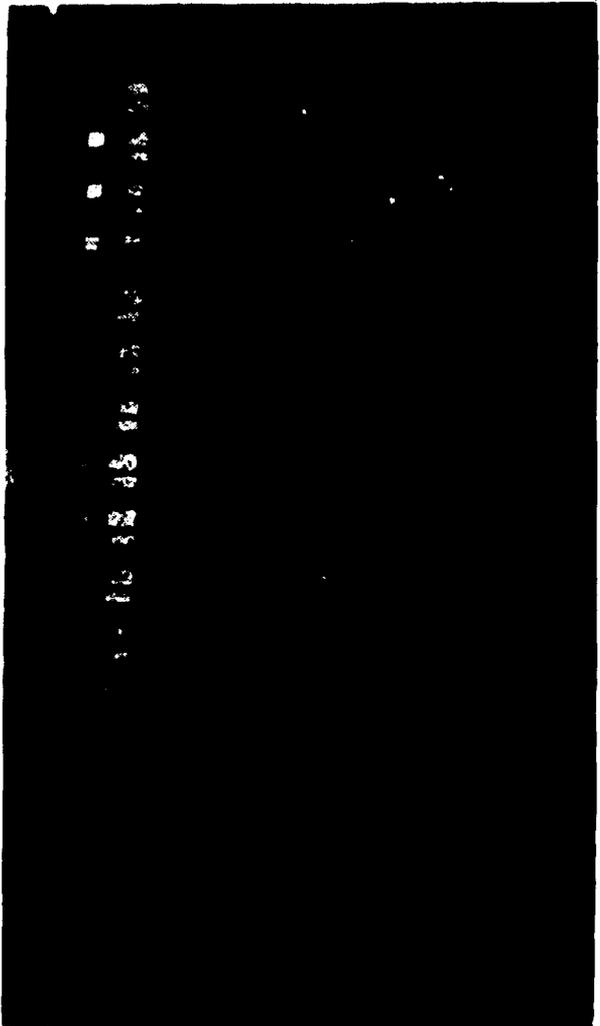
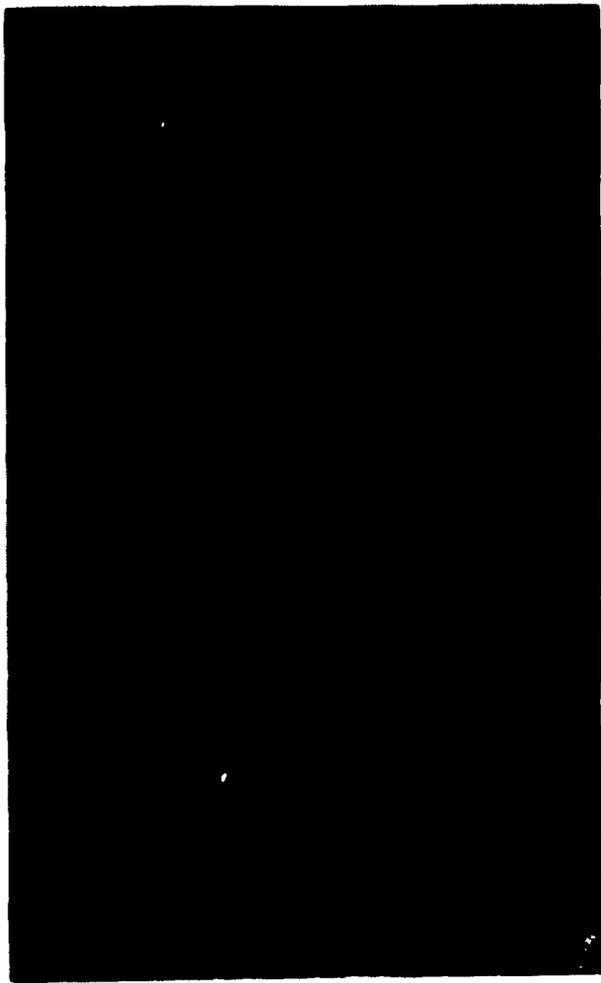


OPORTO: Young residents of this large, imposing project known as VISO practice soccer outside their apartment buildings.



PORTALEGRE: Streets remain unpaved and power lines temporarily festoon apartment buildings due to delays in installation of underground electrical conduits.

MAIA (OPORTO): Trash and building debris mar the aspect of this otherwise attractive project. A lack of municipal maintenance was noted on other occupied sites as well.



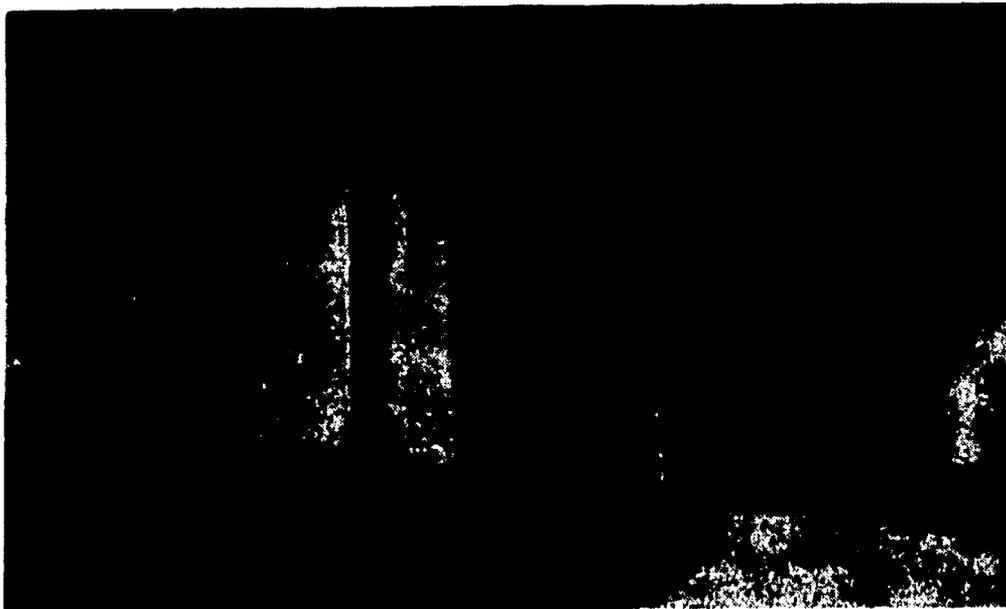
MONTE CRASO (OPORTO): Futuristic block of 48 units being offered for sale on same site as AID assisted rental units provides an interesting precedent for possible conversion of rental units to resident ownership



ARAUCARIA (VILA REAL): Almost 300 units stalled since October 1979 as a result of contractor bankruptcy.



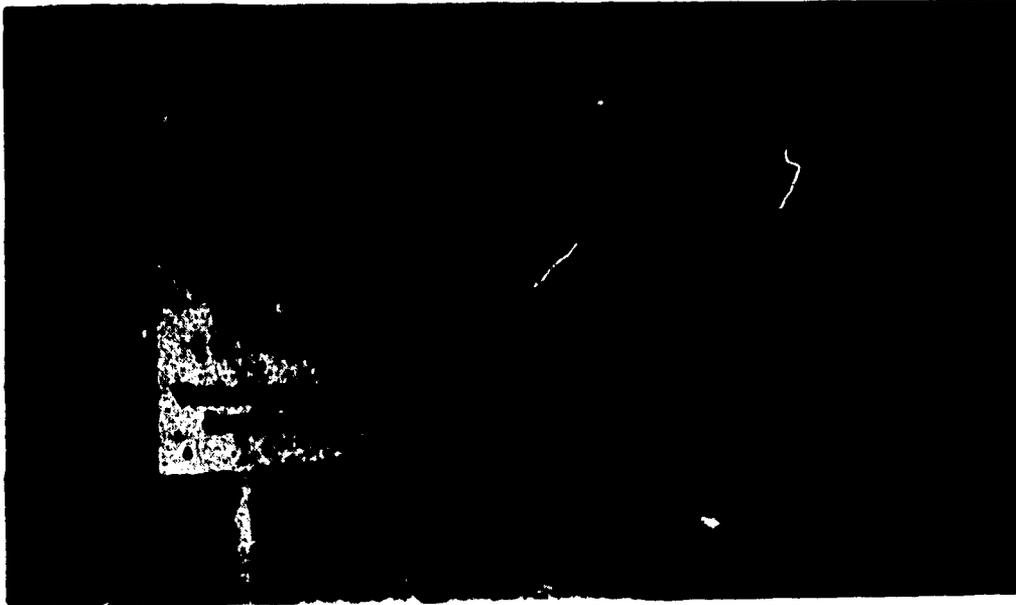
SOBREIRO (OPORTO): Hundreds of units completed for several months stand unoccupied due to delays in completing infrastructure works and other problems.



ALMADA: Only about 90 of over 1000 units have been occupied in this large project begun several years ago.



ALMADA: Contractor bankruptcy and the failure of local authorities to complete infrastructure works have caused these long delays. In background: River Tagus Bridge to Lisbon.



MONTE GORDO (ALGARVE): AID assisted construction of these units under the heavily subsidized aided self-help program has been stalled by a lack of GOP funding.

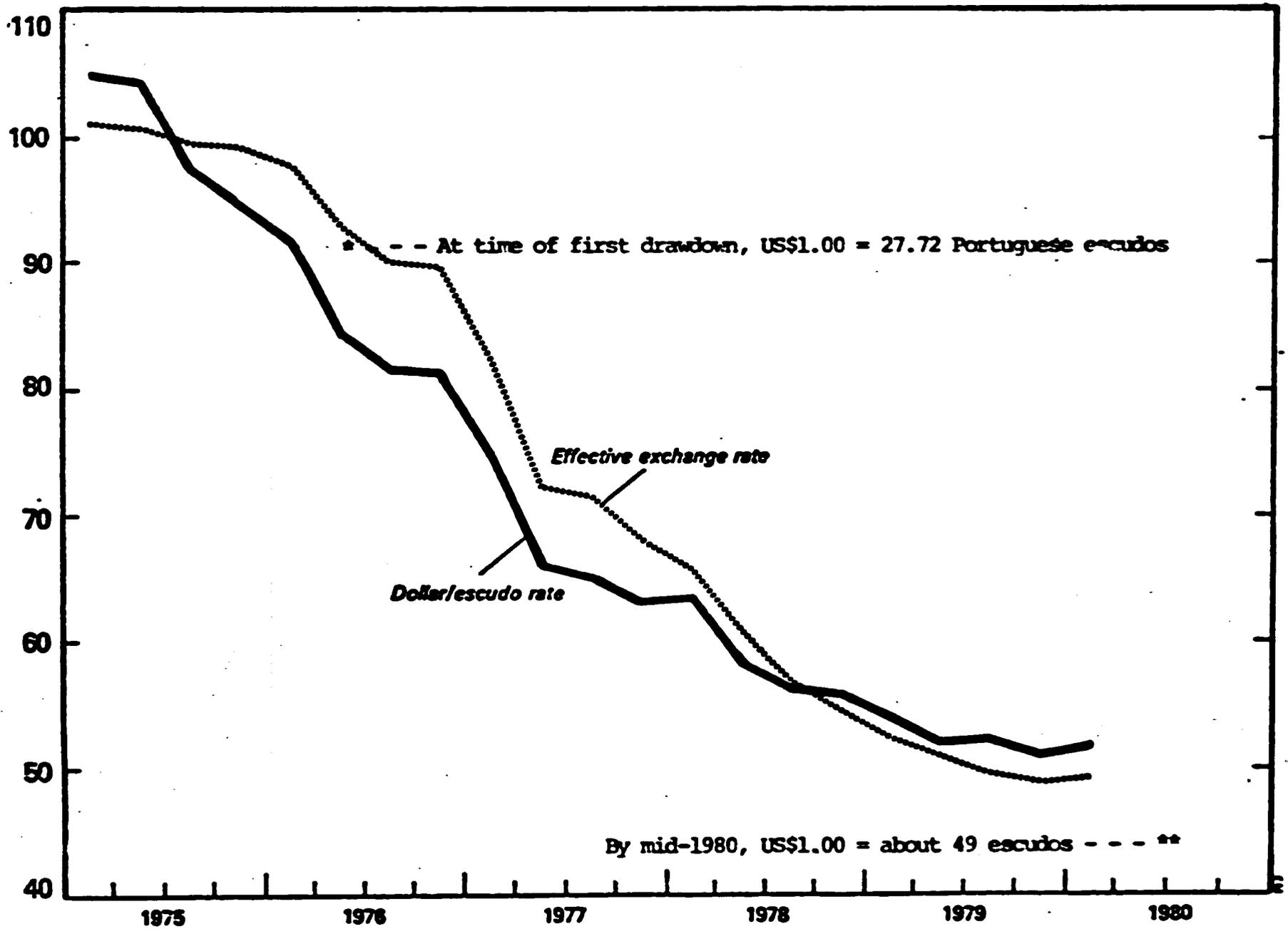


SAGRES (ALGARVE): Middle-class type units in this cooperative project remain unoccupied awaiting power hook-up.

PORTUGAL EXCHANGE RATE DEVELOPMENTS

(1975 - 100)

EXHIBIT C



List of Recommendations

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RECOMMENDATION NO. 1

7

USAID/Portugal coordinate with RHUDO/NE and the Fundo de Fomento da Habitacao, GOP to (a) define in the light of the impending terminal disbursement date under loan 150-K-008 what will constitute mutually acceptable completed units for AID financing, and (b) ensure that FFH has taken steps to present all available units eligible for AID financing in accordance with the terms of subject loan agreement.

RECOMMENDATION NO. 2

10

USAID/Portugal deobligate any amounts under AID supporting assistance loan 150-K-008 which cannot be disbursed in accordance with the terms and conditions of the loan agreement as of September 30, 1980.

RECOMMENDATION NO. 3

10

USAID/Portugal, in consultation with RHUDO/NE, (a) devise a reporting format which will meet the requirements of the Implementation Agreements under loans 150-IG-001/002, and (b) request the appropriate GOP agency to submit such reports in a timely fashion.

RECOMMENDATION NO. 4

13

USAID/Portugal obtain from the Fundo de Fomento da Habitacao (FFH) a comprehensive report on all rental payments made to date under AID assisted projects, together with the record of social rent adjustments due, whether or not effected, and the results thereof for analysis; and in conjunction

29

(List of Recommendations) Contd.

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with RHUDO/NE, study the opportunities which this information offers for providing technical assistance to FFH and local authorities to achieve maximum investment cost recovery.

RECOMMENDATION NO. 5

16

USAID/Portugal, in conjunction with RHUDO/NE, study the feasibility of making available to the Fundo de Fomento da Habitacao (FFH) grant-funded technical assistance in the area of rental unit conversions to group or cooperative ownership.

RECOMMENDATION NO. 6

20

USAID/Portugal, in conjunction with RHUDO/NE, consider sponsoring a colloquium with newly appointed Portuguese housing officials to review the experience of AID's involvement in the Portuguese shelter sector and the possibilities this participation could offer for AID technical assistance inputs in the future.

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