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A.I.D. No. 596-HC-006

HOUSING PROGRAM AGREEMENT

BETWEEN

THE CENTRAL AMERICAN BANK

FOR ECONOMIC INTEGRATION

AND

THE UNITED STATES OF AMERICA

FOR

CENTRAL AMERICAN SHELTER

AND URBAN DEVELOPMENT

Dated as of AUG 27 1987

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HOUSING PROGRAM AGREEMENT

Housing Program Agreement ("Agreement"), dated as of August 27, 1987, between the Central American Bank for Economic Integration ("Borrower" or "CABEI"), and the United States of America, acting through the Agency for International Development ("A.I.D.") (collectively referred to as the "Parties"), consisting of this document together with Annexes A and B attached hereto.

ARTICLE I

THE AGREEMENT

Section 1.01. Background and Purpose.

A. This Agreement describes a Housing Program to be carried out in the Central American region by eligible member countries of CABEI ("Participating Countries"), with the cooperation and assistance of A.I.D., through the A.I.D. Guaranteed Loan described in this Agreement and through an A.I.D. Direct Loan and Grant that will be the subject of a separate agreement. In carrying out this Program, the Parties seek to address, among other things, the following goals and objectives:

1. To increase the availability in the Participating Countries of low-cost shelter to low-income families by improving the financial capacity of CABEI's Housing Fund, strengthening the existing institutional capacity of CABEI and the national and local public and private sector agencies, and by expanding CABEI's financing of urban investments to include basic infrastructure services to serve low-income families; and,

2. To improve the shelter conditions of low-income families in the Participating Countries by increasing the involvement of the private sector in providing shelter and urban improvements.

B. This Agreement sets forth the implementation arrangements agreed to by CABEI and A.I.D. for accomplishing the purposes of the Program through the A.I.D. Housing Guaranteed Loan. To implement this specific program, the following steps will be taken:

1. The Borrower will borrow funds, as specified in Article III, from a private U.S. lender ("Lender") pursuant to a Loan Agreement or Agreements approved by A.I.D. ("the Loan Agreement");

2. A.I.D. will guaranty the Borrower's payment obligation to the Lender under a Contract of Guaranty between the Lender and A.I.D.; and,

3. The Borrower and a U.S. financial institution designated by A.I.D. will enter into a Paying and Transfer Agency Agreement, as further described in Article VI, providing for certain payment and other financial services relating to the Loan Agreement.

This Agreement shall be read in conjunction with, and subject to the provisions of, the documents described above when such documents are executed and/or approved.

ARTICLE II

THE PROGRAM

Section 2.01. Program Description. The Program, which is further described in Annex A attached hereto, will consist of the following:

- A. Financing mostly private sector construction of basic public service facilities on a cost-recoverable basis for existing low-income housing that does not have access to drinking water, drainage, waste removal, electricity or roads and the extension of such services to areas where new low-cost housing construction has been frustrated by the lack of service access. This portion of the Program is referred to hereinafter as "Urban Upgrading".
- B. Financing the purchase of new shelters, including improvements to existing shelters, including sites and services, wet core solutions, basic core units, and standard units, constructed by the private sector and access to basic public service facilities for those units, to increase the number of low-income families living in adequate housing and to increase the participation of the private sector in providing those housing solutions. This portion of the Program is referred to hereinafter as "Housing".
- C. Providing technical assistance and training to meet the objectives of the Program.

Within the limits of the Program Description in this Section, Program details set forth in Annex A may be changed by written agreement of the Parties pursuant to the procedures set forth in Section 7.01.

ARTICLE III

FINANCING

Section 3.01. Financing and Payment Provisions. Financing of the Program described in Article II will be provided as follows:

A. A.I.D. Resources.

1. United States Government Guarantied Loan.

a) A.I.D. will provide, on behalf of the Government of the United States, a guaranty of payment of principal and interest for United States Dollar loans of up to Forty-Five Million Dollars (\$45,000,000) in principal amount, subject to the availability of guaranty authority, made by a private United States Lender to the Borrower to finance the Program. The Borrower shall select the Lender and negotiate the guarantied loans in accordance with criteria and procedures acceptable to A.I.D. The selection of the Lender and the terms and conditions of the Loan Agreement (including any amendments) are subject to A.I.D.'s approval.

b) A.I.D.'s Guaranty will be provided in increments. The initial one will not exceed Fifteen Million Dollars (\$15,000,000). Increments will be subject to availability of Guaranty Authority to A.I.D. for this purpose, to administrative approvals, and to the mutual agreement of the Parties.

c) Prior to seeking a Lender, the Borrower shall comply with the conditions precedent set forth in Section 4.05. Upon meeting these conditions, the Borrower may seek a Lender and enter into a series of agreements referred to in Section 1.01.

2. Additional A.I.D. Resources.

Pursuant to separate agreement, and subject to the availability of funds and administrative approvals, A.I.D. may make additional resources available in support of the Program.

B. Borrower Resources.

1. Capital Contribution.

The resources provided by CABEI specifically for the Program shall not be less than the equivalent of Twenty-Five Million Dollars (\$25,000,000), exclusive of costs borne on an "in kind" basis. These resources may be the same resources provided by CABEI under the A.I.D. Direct Loan and Grant Agreement.

2. Other Necessary Resources.

The Borrower agrees to provide or cause to be provided for the Program, in addition to the Loan and the resources specified above, all other resources required to carry out the Program effectively and in a timely manner.

ARTICLE IV

LOAN DISBURSEMENTS

Section 4.01. Disbursements.

A. A.I.D. shall authorize disbursement of guaranteed loan funds to cover reimbursements for Eligible Expenditures, as defined in Section 4.02, and advances, as defined in Section 4.03, incurred by the Borrower for the Program on or after August 22, 1986. Except as A.I.D. may otherwise agree, the Borrower shall have met the conditions precedent set forth below and in the applicable Loan Agreement prior to each disbursement.

B. All documents and materials required to be approved by A.I.D. as a condition for a disbursement being guaranteed shall be delivered to A.I.D. far enough in advance of disbursement to permit proper review, but in no event less than twenty (20) days prior to disbursement.

Section 4.02. Eligible Expenditures.

A. 1. Eligible Expenditures shall include reasonable costs incurred by the Borrower to the extent such costs are allocable to projects, facilities and other approved activities under the Program affordable to Eligible Beneficiaries, as described in Section 5.03. Such expenditures may include the following:

a) Urban Upgrading: (i) materials and labor for providing services such as potable water, sanitary sewerage, storm drainage, street paving and electrical services; (ii) other reasonable costs incurred in the design, supervision, inspection and general administration of specific construction projects; and, (iii) such other expenditures as A.I.D. may agree in writing.

b) Housing: (i) Mortgage sale or lease purchase contracts for the purchase of new shelter solutions; and, (ii) home improvement loans.

2. With respect to the preceding Eligible Expenditures, reimbursement or liquidation of advances shall be authorized on the basis indicated below:

a) Urban Upgrading: (i) Disbursements may be advanced, subject to Section 4.03, upon submission of evidence satisfactory to A.I.D. of the value of shelter financing provided by CABEI for work in place. (ii) Reimbursement and/or liquidation of advances may be provided upon submission of evidence, satisfactory to A.I.D., of a completed infrastructure project. Such evidence may include, but shall not be limited to, certification from the responsible municipal engineer or architect or from the appropriate utility that such an infrastructure project is complete and operable.

b) Housing: (i) Disbursements may be advanced subject to Section 4.03, upon submission of evidence satisfactory to A.I.D. of the value of shelter financing provided by CABEI for work in place; (ii) Reimbursement and/or liquidation of advances may be provided upon submission of evidence, acceptable to A.I.D., of satisfactory completion and sale of new shelter and satisfactory completion of the home improvements financed by the funds made available for that purpose. For new shelter, such evidence may include mortgage sale or lease purchase contracts entered into by the target families on satisfactorily completed new shelter solutions which would become the families' regular place of residence.

B. Eligible Expenditures may also include fees and charges approved by A.I.D. in connection with this Agreement, the Loan Agreement and the Paying and Transfer Agency Agreement, together with such other reasonable costs of goods and services as may be agreed upon.

Section 4.03. Advances and Retentions.

A. A.I.D. may approve requests for advance disbursement for Urban Upgrading and Housing, as set forth in Section 4.02., up to an amount not to exceed fifteen percent (15%) of each borrowing.

B. Advances shall be liquidated upon presentation of evidence of Eligible Expenditures in accordance with Section 4.02, and all outstanding advances must be liquidated before final disbursement, as provided in Section 4.08.

Section 4.04. Exchange Rate. The rate of exchange used for the purpose of preparing a Request and Certificate for Disbursement (a sample of which is set forth as Annex B) shall be the highest rate of exchange, that is, the rate of exchange which will produce the greatest number of units of local currency per United States dollar which, at the time the Request and Certificate is made, is not unlawful in the country of origin of the local currency.

Section 4.05. Condition Precedent to Lender Selection for the First Disbursement. Prior to seeking a Lender for the First Disbursement, the Borrower shall, except as A.I.D. may otherwise agree in writing, provide A.I.D., in form and substance satisfactory to A.I.D.:

- A. Program Implementation Plan prepared in accordance with Section 5.02;
- B. Evidence that CABEI has adopted an interest rate policy that ensures that CABEI will fully recover the cost of its resources and administrative cost and expenses; and
- C. Such other documents and representations that A.I.D. may reasonably request.

Upon meeting these conditions, the Borrower may seek a Lender for the First Disbursement and enter into the series of agreements referred to in Section 1.01.

Section 4.06. Conditions Precedent to First Disbursements. Prior to A.I.D.'s authorization of the First Disbursement the Borrower shall, except as A.I.D. may agree otherwise in writing, deliver to A.I.D., in form and substance satisfactory to A.I.D.:

- A. A legal opinion of counsel satisfactory to A.I.D., attesting to the validity and enforceability of the Loan Agreement, this Agreement, and the Guaranty Agreement, stating that such Agreements have been duly authorized, executed, and delivered by CABEI and constitute legal, valid and binding obligations of the Borrower;
- B. Evidence demonstrating the project approval and implementation process has been streamlined, that appropriate delegation of responsibilities has occurred, and that there is a plan for providing sufficient management capability in the field.
- C. Evidence that disbursement for program components will be made only for projects in participating countries that have adequate subloan mechanisms in place;
- D. A plan that ensures compliance with the covenants set forth in Section 5.01A;
- E. Updated Program Implementation Plan prepared in accordance with Section 5.02;
- F. All documents required by the terms of the Loan Agreement to satisfy conditions precedent contained therein;
- G. Request and Certificate for Disbursement in the form of Annex B, duly completed and signed, including any schedules indicating the application of the funds requested; and,
- H. Such other documents and representations that A.I.D. may reasonably request.

Section 4.07. Conditions Precedent to Additional Disbursements. Prior to A.I.D.'s authorization of additional disbursements and Subsequent Borrowings, the Borrower shall, except as A.I.D. may agree otherwise in writing, deliver to A.I.D. in form and substance satisfactory to A.I.D.:

- A. Certification of compliance with the covenants set forth in Section 5.01.
- B. Updated Program Implementation Plan prepared in accordance with Section 5.02;
- C. Request and Certificate for Disbursement in the form of Annex B, duly completed and signed, including any schedules indicating the application of the funds requested; and,
- D. Such other documents and representations that A.I.D. may reasonably request.

Section 4.08. Conditions Precedent to Final Disbursement. Prior to A.I.D.'s guaranty of the Final Disbursement from the last borrowing, the Borrower shall, except as A.I.D. may agree otherwise in writing, deliver to A.I.D., in form and substance satisfactory to A.I.D.:

- A. Certification that the Program as defined in Article II and in Annex A has been completed in accordance with this Agreement, the Program Implementation Plan, and all other documents, plans, specifications, contracts, schedules or other arrangements approved by A.I.D. under this Agreement;
- B. Certification of compliance with the covenants set forth in Section 5.01;
- C. All documents required by the terms of the Loan Agreement to satisfy conditions precedent contained therein;
- D. Request and Certificate for Disbursement in the form of Annex B, duly completed and signed, including any schedules indicating the application of the funds requested; and,
- E. Such other documents and representations that A.I.D. may reasonably request.

Section 4.09. Terminal Date for Conditions Precedent.

- A. If all of the conditions specified in Section 4.05 or 4.06 or 4.08 have not been met as of the dates specified in the relevant Loan Agreement for the first and last disbursements, respectively, or such later date or dates as A.I.D. may agree to in writing, A.I.D., at its option, may terminate its own obligations under this Agreement by written notice to the Borrower.

B. In case of termination pursuant to subparagraph A above, A.I.D. shall have no obligation to guaranty new Notes issued by the Borrower to the Lender, except when such Notes are issued pursuant to the Contract of Guaranty, and A.I.D. may use whatever remedies it deems necessary.

Section 4.10. Final Disbursement Date.

A. The Final Disbursement Date is the date specified in the Loan Agreement for the final disbursement, or such other date as the Parties may agree to in writing.

B. After the Final Disbursement Date and except as A.I.D. may otherwise agree in writing, A.I.D. will not guaranty additional borrowings under the Loan Agreement.

ARTICLE V

SPECIAL COVENANTS

Section 5.01. The Borrower shall, in form and substance satisfactory to A.I.D.:

A. Ensure the financial stability and liquidity of the Housing Fund by maintaining appropriate financial policies and procedures that assure the recapitalization of the Housing Fund, including interest rate policies that ensure full recovery of the cost of resources and administrative costs, procedures to aggressively recover payments from borrowers and eliminate portfolio delinquencies, and policies that ensure the greatest return on resources available for investment;

B. Ensure that the projects will be well-managed by maintaining appropriate management policies including locating sufficient personnel in the Participating Countries and in Tegucigalpa and delegating to them appropriate responsibility and sufficient authority to assure adequate and proper implementation of the Program;

C. Ensure proper and rapid processing of project requests and other related project information by maintaining efficient administrative procedures;

D. Suspend disbursements under the Public Sector Lending component of the Housing Fund to any country which is more than sixty days delinquent on its payments to CABEI;

E. Disburse funds only to those Participating Countries that have provided evidence of adequate country subloan mechanisms;

- F. Assure that all relevant United States statutory restrictions, including those contained in the Foreign Assistance Act of 1961, as amended and in A.I.D. appropriation legislation, as well as relevant United States Government policies regarding the use of project funds are being honored;
- G. Pay for an annual independent audit, and such other required audits, reviews and certifications;
- H. Ensure the availability of funds to each Participating Country in compliance with the schedule set forth in Annex A;
- I. For all projects, ensure that the shelter solution or infrastructure financed (a) will meet the Affordability Criteria set forth in Section 5.03 for shelter and will become the families' regular place of residence; (b) will provide adequate community facilities, including transportation and appropriate open spaces; (c) is based upon environmentally sound engineering plans and technical designs approved by CABEI in accordance with its environmental regulations and procedures; and (d) will meet all CABEI policies, standards, and procedures for financing and for construction;
- J. For Housing projects, ensure that (a) all new shelter solutions financed by program provided funds will be constructed under contracts with the private sector; (b) funds for shelter will be on-lent by the Participating Countries at full cost-recovery rates, including administrative expenses; and (c) upon delinquency by a shelter purchaser, immediate and appropriate action will be taken by the Participating Country or the local implementing agency, as appropriate to resolve and eliminate the delinquency;
- K. For Urban Upgrading projects, ensure that (a) seventy-five percent (75%) of all infrastructure financed under this Agreement and under the A.I.D. Direct Loan and Grant Agreement will be constructed and supervised by the private sector; (b) adequate cost recovery principles for the proposed investments have been adopted by the appropriate implementing agency including appropriate tax and tariff structures, efficient billing and collection procedures, market interest rate financing, and improvements in strategic planning and management; and, (c) binding obligations have been entered into for the approval of low-cost shelter when financing is sought for infrastructure improvements designed to facilitate low-cost shelter production;
- L. Obtain binding and enforceable guaranties of repayment and indemnification from the government of each Participating Country with respect to any loan to the government of those countries;
- M. Obtain binding and enforceable agreement or guaranties from the government of each Participating Country to insure maintenance of value of local currency to CABEI and that CABEI bears no risk of local currency devaluation; and

N. Provide such other information and representations as A.I.D. may reasonably require.

Section 5.02. Program Implementation Plan. Promptly after the execution of this Agreement, the Borrower, with the assistance of A.I.D., shall prepare a Program Implementation Plan, which shall contain:

A. A detailed description of each project planned and each project in operation, including (i) financing for the Housing and Urban Upgrading components; (ii) estimated off-site infrastructure costs for each sub-project; (iii) marketing plans; (iv) project loan disbursement schedule based upon Eligible Expenditures within a time period acceptable to A.I.D. as set forth in Annex A; and (v) income levels of project beneficiaries;

B. A current financial plan, cost estimates and cash flow schedules for the Program by project component and with specific reference to Eligible Expenditure categories; and,

C. Such other information as may be agreed upon by the Parties.

The Borrower agrees to implement the Program in accordance with the Program Implementation Plan, and to promptly inform A.I.D. should there be substantial change in procedures, criteria or other information that would affect the accuracy of the Plan during Program Implementation.

Section 5.03. Affordability Criteria.

A. The Borrower shall ensure that the Program costs will be kept at a level so that Program benefits are affordable to families whose gross monthly income is below the applicable median monthly income for the area in which the Project is located. It is mutually agreed that as of June 1986 the applicable median monthly income in local currency is as follows:

1. San Jose, Costa Rica	23,260.50 colones
2. San Salvador, El Salvador	901.00 colones
3. Tegucigalpa, Honduras	993.00 lempiras
4. Guatemala City, Guatemala	630.00 quetzales

B. With respect to the Housing Component, the Borrower shall ensure that the maximum sales price of shelters will be kept at a level so that monthly payments would not exceed 25% of the above median income amounts or the percentage established for each Participating Country set forth in Annex A, which may not exceed 33% of the above median income amounts. With respect to Urban Upgrading, affordability will be determined as set forth in Annex A.

C. The median income amount shall be reviewed from time to time by CABEI and may be revised as necessary by agreement of the Parties through Project Implementation Letters as provided in Section 7.01.

Section 5.04. Formal Program Reviews. At least every twelve months during the implementation of the Program, and prior to the last disbursement, the Borrower and A.I.D. shall conduct a Program Review. On the agenda for each Program Review shall be a comparison of the progress towards completion of each project against the then-current Program Implementation Plan. In the event that progress on a project is not being achieved in a manner that is mutually satisfactory, it is agreed that A.I.D. may use whatever remedies it deems necessary, including but not limited to, declining to permit further disbursement for that project or invoking suspension rights under Section 8.01, until such time, if any, as there is mutual satisfaction as to the progress on the Program as a whole.

Section 5.05. Coordination with Other Donors. The Borrower shall inform A.I.D. of other donor activities involving the Borrower in the shelter sector which are being planned or implemented during the disbursement period of this Program. At the request of A.I.D., the Borrower will consult with A.I.D. and the various donors to assure the maximum degree of coordination and mutual support.

ARTICLE VI

LOAN SERVICING AND FEES

Section 6.01. Paying and Transfer Agency Agreement. In order to assure efficient administration of payment and other financial requirements for the servicing of Housing Guaranty Programs, A.I.D. has established a standard arrangement for these services. In accordance with these arrangements, the Borrower shall enter into a standard Paying and Transfer Agency Agreement with The Riggs National Bank of Washington, D.C. ("Paying Agent") at the time of signing the Loan Agreement. The cost for the services of the Paying Agent shall be borne by the Borrower. The Paying Agent shall distribute the Borrowers' payments on the Notes, transmit periodic A.I.D. fee payments, transfer Notes to new Noteholders, and otherwise provide the necessary servicing of such Notes.

Section 6.02. A.I.D. Guaranty Fees.

A. Initial Fee. The Borrower shall pay to A.I.D. a fixed initial fee equal to one percent (1%) of each Loan as defined in the Loan Agreement(s) approved by A.I.D. for the Project. Such fee shall be paid to A.I.D. upon the first disbursement of the A.I.D.-Guarantied Loan. This fee shall be non-refundable, notwithstanding the failure of the Borrower to subsequently receive additional disbursements of the full amount of the Loan. The fee is payable by electronic fund transfer to the Federal Reserve Bank of New York by specifying "credit to the U.S. Treasury, New York City, A.I.D. Agency Location Code 7200001, A.I.D. Housing Guaranty Project No. 596-HG-006, in payment of the A.I.D. fee." The fee may be deducted from the amount disbursed upon instruction to the Lender in the "Request for Borrowing" as required by the Loan Agreement.

B. Periodic Fee. In addition, the Borrower shall pay to A.I.D. a periodic fee calculated at the rate of one-half of one percent per annum of the aggregate unpaid principal amount of all A.I.D.-Guarantied Notes issued and outstanding under the Loan Agreement. This Fee shall accrue from the date each Guarantied Note is issued under the Loan Agreement, and shall be payable to A.I.D. on the same due dates as provided on the Notes until each Note is fully repaid.

Section 6.03. Place of Payment. The Borrower agrees to remit all principal and interest payments due the Lender and periodic fee due to A.I.D. to the Paying Agent, at the address specified herein, or as otherwise provided in the Loan Paying Agreement. It is understood that the Paying Agent shall apply such remittances in accordance with the Loan Agreement, the Loan Paying and Transfer Agreement and this Agreement. Other fees due the Lender, such as the Lender's commitment fee shall be paid as directed by the Lender.

Section 6.04. Late Payment Charge. In the event of a late payment of amounts due A.I.D. either directly or by way of reimbursement, a Late Payment Charge will accrue on the unpaid installment. This Late Payment Charge on the unpaid installment will accrue to A.I.D. on a semi-annual basis at the current cost of funds to A.I.D. or at the interest rate of the Loan, whichever is higher, and will be calculated from the date it was due to the date it was received by A.I.D. The Late Payment Charge will be computed as if each year consisted of three hundred and sixty-five (365) days.

Section 6.05. Reimbursement and Subrogation. The Borrower agrees that if A.I.D. makes any payment on the Borrower's behalf to the Lender pursuant to the Contract of Guaranty, whether or not the Lender has applied to A.I.D. for such payment and whether or not an Event of Default has occurred under the terms of the Loan Agreement, the Borrower will reimburse A.I.D. for such payment. In such event, by operation of this Agreement and any existing applicable common law rights as may exist, A.I.D. shall become subrogated to all the rights of the Lender against the Borrower.

ARTICLE VII

GENERAL PROVISIONS

Section 7.01. Project Implementation Letters. To assist in the implementation of this Program, A.I.D. from time to time will issue Project Implementation Letters which will furnish additional information about matters stated in this Agreement. The Parties may also agree upon Project Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Project Implementation Letters will not be used formally to amend the text of the Agreement, but can be used to record revisions or exceptions which are permissible under the terms of the Agreement, including the revision of the amplified description of the Program in Annex A, or waiver of rights by Parties for whose benefit such rights exist.

Section 7.02. Project Evaluation and Monitoring.

A. The Parties agree to establish an evaluation program as an integral part of the Program. Except as the Parties otherwise agree in writing, A.I.D. shall be responsible for conducting the Program evaluation according to A.I.D.'s Evaluation and Monitoring Guidelines and the Borrower shall be responsible for providing such data concerning the Program as A.I.D. may request. The evaluation program will include, during the implementation of the Program and at one or more points thereafter: (a) an evaluation of progress towards attainment of the objectives of the Program; (b) identification and evaluation of problem areas or constraints which may inhibit such attainment; (c) assessment of how such information may be used to help overcome such problems in this Program or other projects; and, (d) evaluation, to the degree feasible, of the overall developmental impact of the Program.

B. Additional evaluations will be scheduled from time to time to assess the Program's progress, as set forth in Annex A.

Section 7.03. Consultation. The Parties will cooperate to assure that the purpose of this Agreement will be accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the Program, the performance of obligations under this Agreement, the performance of any consultants, contractors or suppliers engaged on the Program and other matters relating to the Program.

Section 7.04. Execution of the Program. The Borrower will:

A. Carry out the Program or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with these documents, plans, specifications, contracts, schedules or other arrangements, and with any modifications therein, approved by A.I.D. pursuant to this Agreement;

B. Provide qualified and experienced management for, and train such staff as may be appropriate, for the maintenance and operation of the Program and cause the Program to be operated and maintained in such a manner as to assure the continuing and successful achievement of the purposes of the Program; and,

C. Use the proceeds of the Loan, or any and all currencies exchanged for the United States Dollars received under the Loan, for the sole purpose of financing the Program in accordance with and subject to the provisions of this Agreement.

Section 7.05. Reports, Books, and Records, Audit and Inspection.

A. The Borrower shall furnish reports and information as follows:

1. Until the Loan is fully disbursed to the Borrower, and the Program is completed, a semi-annual Project Progress Status Report showing the status of the time, costs and financing of the Program, its components, and projects. This form will be prepared in accordance with guidelines provided by A.I.D. with direct reference to the Program Implementation Plan identified in Section 5.02;

2. During the Program and until the Loan is fully disbursed and repaid, such other reports and information relating to the Program, the Loan, and the Agreements as A.I.D. may reasonably request. Such requests may include reports and information from each subborrower as A.I.D. determines to be necessary.

B. The Borrower shall maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Program, the Loan, and this Agreement, adequate to show without limitation, the receipt and use of funds, and the use of goods and services acquired under the Loan. Such books and records will also be adequate to show the nature and extent of solicitations of prospective suppliers of goods and services, the basis of awards of contracts and orders, and the overall progress of the Program toward completion. These books and records shall be maintained (1) with respect to the Program for three years after the date of Project completion and (2) with respect to the Loan, for three years after the Loan has been fully repaid.

C. Until the Loan is fully repaid, the Borrower shall arrange to have such books and records audited annually by independent auditors in accordance with generally accepted auditing standards. Such audit shall provide segregated accounting and comments for the Loan and be submitted annually to A.I.D.

D. The Borrower shall afford authorized representatives of A.I.D. the opportunity at all reasonable times to inspect the Program, the utilization of goods and services financed by the Loan or by the Parties, and sites, books, records, and other documents relating to the Program, to the Loan, and to this Agreement.

Section 7.06. Completeness of Information. The Borrower confirms that:

A. The facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching this Agreement with A.I.D. are accurate and complete, and include all facts and circumstances that might materially affect the Program, the Loan, and the discharge of the Borrower's responsibilities under this Agreement; and,

B. The Borrower shall inform A.I.D. in a timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Program, the Loan, or the discharge of responsibilities under this Agreement.

Section 7.07. Publicity. As may be described in Program Implementation Letters, the Borrower shall give appropriate publicity to the Loan and to the Program as an activity to which the United States of America has contributed and shall identify at appropriate project sites as one to which A.I.D. has facilitated and contributed financing for the Program.

Section 7.08. Other Payments. The Borrower affirms that no payments have been or will be received by any official of the Borrower in connection with the Loan except fees, taxes, or similar payments legally established for the account of the Borrower in the country of the Borrower.

Section 7.09. Reasonable Prices for Procurement. No higher than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Loan. Such items will be procured on a fair and, to the maximum extent practicable, on a competitive basis.

ARTICLE VIII

RIGHTS AND REMEDIES OF A.I.D.

Section 8.01. Suspension and Acceleration.

A. If the Borrower materially breaches this Agreement, the Paying and Transfer Agency Agreement, or any related Agreement, and such breach is not rectified within a period of ninety (90) calendar days from the delivery of notice by A.I.D. with respect thereto, or if the Borrower materially breaches the Loan Agreement and such breach is not rectified before it becomes an Event of Default under the Loan Agreement, then A.I.D. may take any or all of the following actions:

1. Decline to execute an A.I.D. Guaranty Legend on any new Notes for disbursements under the Loan Agreement or the Contract of Guaranty, except when such Notes are issued pursuant to the provisions for assignment or replacement of Notes under the Contract of Guaranty, and/or

2. Require the Borrower to prepay immediately to the Lender all or any part of the unpaid principal of the eligible Notes with accrued interest and any Guaranty Fee due to the date such payment is made, as well as any Late Payment Charge which may have accrued.

B. In the event that the guaranty of further Notes is contrary to U.S. legislation governing A.I.D., then A.I.D. may exercise the remedy specified in paragraph (A)(1) above.

C. In the event the Borrower fails to pay when due any interest or installment of principal or other payment required under any other loan, guaranty, or other agreement between the Borrower or any of its agencies and A.I.D. or any of its predecessor agencies, then A.I.D., after notice to the Borrower, may exercise the remedy specified in paragraph (A)(1) above.

D. In the event that the Borrower has not materially breached this Agreement but has otherwise failed to meet the conditions precedent set forth in this Agreement as of the dates specified in the Loan Agreement for related disbursements (or such later date as A.I.D. may agree to in writing), A.I.D. as its option may terminate, in whole or in part, its own obligations under this Agreement by written notice to the Borrower to guaranty new Notes issued by the Borrower to the Lender, except when such Notes are issued pursuant to provisions in the Contract of Guaranty for assignment and replacement of Notes.

Section 8.02. Non-Waiver of Remedies. The marking of any Note by A.I.D., the payment by A.I.D. to the Lender of any amounts pursuant to the Contract of Guaranty, the delay or failure of A.I.D. to make any claim for payment, or the delay or failure of A.I.D. to give its written approval to an acceleration of such Notes by the Lender shall not operate as a waiver by A.I.D. of any rights accruing to A.I.D. under this Agreement, the Loan Agreement, or the Contract of Guaranty.

ARTICLE IX

MISCELLANEOUS

Section 9.01. Communications. Any notice, request, document, or other communication submitted by any Party to any other under this Agreement shall be in writing or by telegram or cable, shall refer to CABEI A.I.D. Housing Program No. 596-HG-006, and shall be deemed duly given or sent when delivered to such Party at the following addresses:

To Borrower

Mail Address:

Banco Centroamericano de Integración Económica
Apartado Postal 772
Tegucigalpa, D.C.
Honduras, C.A.

Cable Address:

BANCADIE
Tegucigalpa, Honduras

Telex Nos.:

BANCADIE 1103 HT Tegucigalpa, Honduras
Attn: Project 596-HG-006

To A.I.D.

Mail Address:

Assistant Director/CA
RHUDO/CA, USAID/Tegucigalpa
APO Miami 34022
c/o American Embassy
Tegucigalpa, Honduras
Attn: Project 596-HG-006

Telex Nos.:

1593 USAIDHO
Attn. Project 596-HG-006

With copies (but failure to receive such copies shall in no way affect the validity of such notice) to:

Mail Address:

ROCAP/Guatemala
c/o American Embassy
Guatemala City, Guatemala
APO Miami 34024
Attn: Project No. 596-HG-006

Telex Nos.:

3110 USAID GU
Attn. Director, ROCAP

Office of Housing and Urban Programs
Agency for International Development
PRE/H, Room 3208, N.S.
Washington, D.C. 20523
Attn: Project 596-HG-006

Cable Address:

A.I.D.
WASHDC
Attn: Project No. 596-HG-006

Telex Nos.:

RCA 24-83-79 AID/UR
WU AID 64154
IT AID WNDG 44-00-01

To Paying Agent:

Mail Address:

The Riggs National Bank of Washington, D.C.
Trust Department Office
800 17th Street, N.W.
Washington, D.C. 20006
Attention: Central American Bank for Economic Integration
A.I.D. Housing Guaranty Project 596-HG-006

Cable Address:

RIGGSBANK WASH

Telex Nos.:

ITT: 44-01-03: Answer Back - RIGGS BK
RCA: 28-83-63: Answer Back - RIGG UR
Western Union: 64-11-0: Answer Back RIGGS WASH

All communications shall be in English, unless the parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice to each Party.

Section 9.02. Term of Agreement. The terms of this Agreement shall be from the date hereof until three years after the payment of all sums due under this Agreement and the Loan Agreement.

Section 9.03. Amendments or Modifications. This Agreement may be changed only by a written instrument executed by the Parties hereto.

Section 9.04. Integration. This Agreement supersedes all prior agreements and understandings between the Parties hereto with respect to the funds that provide the resources for this Program.

Section 9.05. Governing Law. This Agreement shall be construed in accordance with the laws of the District of Columbia of the United States of America.

Section 9.06. Language of Agreement. This Agreement is prepared in both English and Spanish. In the event of ambiguity or conflict between the two versions, the English shall control.

Section 9.07. Severability Clause. In the event any provision of this Agreement is determined to contravene any law of public policy of the United States of America or of the country in which the Borrower is located, such provision shall be deemed null and void and the remaining provisions hereof shall continue and remain in full force and effect and be construed to implement to the maximum extent possible the intent of the Parties hereto.

Section 9.08. Representatives. For all purposes relevant to this Agreement, the Borrower will be represented by the individual holding the Office of President of CABEI and A.I.D. will be represented by the individual holding or acting as the Director of the A.I.D., ROCAP Mission or acting as the Assistant Director for Central America, Office of Housing whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.01 to revise elements of the amplified description in Annex A. The names of the Representatives of the Borrower, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

IN WITNESS WHEREOF, the Parties, each acting through their authorized representatives have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

BANCO CENTROAMERICANO DE
INTEGRACION ECONOMICA

BY: *D. Ramirez*
NAME: Dante Gabriel Ramirez
TITLE: Executive President
DATE: August 27, 1987

UNITED STATES OF AMERICA

BY: *Nadine Hogan*
NAME: Nadine Hogan
TITLE: Regional Director
DATE: August 27, 1987
BY: *Lee Roussel*
NAME: Lee Roussel
TITLE: Regional Housing and
Urban Development Officer
DATE: August 27, 1987

A. The Program

This Annex describes the implementation of a \$89 million program subject to the availability of funds, over a five year period, 1987-1991, to improve the shelter conditions of low income families in Honduras, Costa Rica, El Salvador and Guatemala. This portion of the program consists of \$45 million in Housing Guaranty resources and \$25 million in counterpart resources from the Central American Bank for Economic Integration (CABEI). That part of the project funded by a \$15 million A.I.D. direct loan and a \$4 million A.I.D. Grant will be described in a separate agreement.

B. Program Objectives

The goal of this project is to improve the shelter conditions of low income families in Honduras, Costa Rica, El Salvador and Guatemala. The purpose of this project is to increase the availability of shelter and basic services to low income Central American families and to strengthen the existing capacity of CABEI and national and local public and private sector agencies to provide these services.

For the participating countries this program will increase, expand and improve shelter and basic infrastructure, promote employment, permit CABEI to continue to finance low cost housing and provide new financing for small scale infrastructure projects. From the standpoint of CABEI, the program will permit CABEI to recapitalize its Housing Fund. Finally, the technical, managerial and policy-making skills of key individuals and institutions will be enhanced as a result of technical assistance and training to be financed by the grant component of this project.

The various project activities are expected to result in the following end of program status:

1. 10,000 families will have new shelter;
2. 145,000 families will have gained access to water and sewer services;
3. CABEI's Housing Fund will have positive net and retained earnings;
4. Five million person days of employment will be generated;
5. Shelter and infrastructure institutions in the region will have improved their capacity to finance, design, and develop environmentally sound and financially viable projects;
6. Collections by public shelter institutions will have improved;
7. Lending rate policies of private financial institutions will be modified to reflect cost recovery principles;
8. Pricing policies will be improved by municipalities/ infrastructure institutions;
9. CABEI will have expanded its capacity to finance urban upgrading and small scale infrastructure projects;

10. Participating institutions are expected to receive technical assistance and training in order to improve financial management, cost recovery and private sector participation.

C. Program Components

The program will consist of three interrelated activities. The shelter component will permit CABEI and the various shelter finance and development agencies to continue to supply low cost shelter solutions to below median income families. The infrastructure component will provide CABEI with the opportunity to offer a new supply of funds for small scale infrastructure projects in marginal neighborhoods. Finally, the provision of technical assistance and training for CABEI and the national participating agencies financed under a separate agreement and subject to the availability of funds will lead to improvements in the capacity of these institutions to continue to serve the needs of below median income families.

1. The Housing Component

The shelter component will provide shelter solutions affordable to below median income families. Approximately 10,000 families will benefit from this component. The shelter component will finance minimal standard house construction, including serviced lots, wet cores, basic cores and one bedroom units. Solutions ranging from basic serviced sites to one bedroom units will be the most probable types of units financed. Costs for shelter solutions are expected to range from \$1,200 to \$8,300 with an average cost of \$4,158. Total financing will be \$42.3 million of which an estimated \$10 million will be in CABEI counterpart funds and \$32.3 million from HG resources.

CABEI will authorize loans to intermediate financial institutions (savings and loan associations, commercial banks, cooperatives, other eligible private sector entities and public sector housing finance institutions) on the basis of mortgage loan packages presented to CABEI. In order to encourage the participation of private sector builders and developers, only projects built by private contractors will be eligible for CABEI financing. The developers will present projects to private and public financial institutions. CABEI is encouraged to depend to the maximum extent possible on providing loans to private sector financial institutions for low cost housing. CABEI may, at its option, establish internal procedures which give higher priority to projects presented by private housing finance institutions.

2. The Urban Upgrading Component

The infrastructure component will provide basic public services to existing low income communities that currently do not have

access to drinking water, drainage, waste removal, electricity or roads; and will extend such services to areas where new low income housing construction has been frustrated by lack of these services. An estimated 145,000 families will benefit from this activity. These services will be financed in part by \$15 million in CABEI resources and \$12.7 million in HG resources.

Municipalities and infrastructure agencies will be the subborrowers of funds for this component. These institutions will on lend resources on a cost recoverable basis to finance basic infrastructure improvements in eligible communities.

Since infrastructure projects will be financed through loans to central governments or loans to implementing agencies that carry a central government guarantee, CABEI will rapidly review and obtain program approval of loan packages for each country. This will allow for a fast track approach towards project implementation.

For each community upgrading project, subborrowers will certify to CABEI that they have:

1. determined community interest in the improvement program;
2. conducted a socioeconomic survey of the proposed community, to determine income, capacity to pay and willingness to pay;
3. completed appropriate engineering designs;
4. resolved pertinent land tenure issues;
5. conducted an environmental assessment;
6. established conformity with existing urban development master plans;
7. received firm commitments for necessary off-site work;
8. calculated preliminary cost estimates which have been resubmitted to the community;
9. reached project agreement with a majority of the residents to be served and that the community has verified their continued support and willingness to pay for the proposed services.

In instances where infrastructure improvements are planned in areas appropriate for low income housing developments, the subborrowers will certify to CABEI the following:

1. Resolution from the Mayor or other chief elected executive officer and approval of said resolution by the local governing legislative body that the municipality has agreed to approve the construction of a specified number of shelter units affordable to and occupied by low income families in the community designated to receive financing for the proposed infrastructure improvements.

2. A plan specifying how the full capital and operational costs of the infrastructure improvements will be recovered from the community.
3. Documentation which conforms with procedures set out in points three through six above.

In most cases, bids will be requested by the implementing agencies from private sector firms. The implementing agency then arranges the contract with the firm selected. Separate contracts will be awarded by the implementing agency for the construction and supervision of the work.

For both the housing and infrastructure loans to subborrowers, CABEI will analyze the documentation presented by the subborrowers, guarantee the verity of the information presented and certify to A.I.D. that all subborrower loan conditions have been complied with and are acceptable to CABEI.

3. Technical Assistance and Training

Technical assistance and training will be designed to achieve dual objectives: to expedite project implementation by improving the planning and managerial capacity of participating institutions and to focus the attention of national and local policy makers on resolving key policy issues which impede the efficient operation of participating institutions. This component will be financed pursuant to a separate agreement and subject to the availability of funds.

D. Program Beneficiaries

It is understood that the United States legislation governing A.I.D. programs requires that the benefits of the program be affordable to families earning less than the median income.

In the new shelter projects, the units shall be affordable to families earning less than the median income, as applied in the geographic area where the project investments are made. For shelter projects financed in Guatemala, consistent with FHA mortgage insurance standards, monthly payments will be considered affordable if they do not exceed 30% of gross monthly income.

In the urban development projects, the projects shall benefit families living in communities where the average income is less than the median of the respective geographic area and where repayment for these improvements will be affordable to the beneficiaries.

As of June, 1986 the applicable median gross monthly income is as follows:

- a. Honduras
 - 1. Tegucigalpa L 993.00/month
 - 2. San Pedro Sula L 734.00/month
 - 3. Secondary cities L 496.00/month
 - 4. Other Urban areas L 310.00/month
- b. Guatemala
 - 1. Guatemala City Metropolitan area Q 630.00/month
 - 2. Other areas Q 550.00/month
- c. Costa Rica
 - 1. Urban areas C 23,260.50/month
- d. El Salvador
 - Urban areas C 901.00/month

The median income may be revised or further refined to reflect activities financed in subgeographic areas through periodic Project Implementation Letters pursuant to Section 7.01.

E. Allocation of Program Resources

It is anticipated that the allocation of \$45 million of Housing Guaranty and \$25 million of CABEI resources by activity will be as follows:

Source of Funds	(In millions of U.S. Dollars)		
	Housing	Infrastructure	Total
1. HG loan	32.3	12.7	45.0
2. CABEI	10.0	15.0	25.0
	42.3	27.7	70.0

The projected allocation of resources by country and activity will be as follows:

Country	Shelter	Infrastructure	Total
Costa Rica*	-	6.0	6.0
El Salvador	14.0	8.0	22.0
Guatemala	14.5	7.5	22.0
Honduras	13.8	6.2	20.0
	42.3	27.7	70.0

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Revisions in the allocation of resources to specific countries or specific activities may be approved based on performance and effective demand through Project Implementation Letters pursuant to Section 7.01.

* Does not include use of DL resources.

F. Program Policy Objectives

Capital resources provided through this program will be targetted to encourage policy changes by all participating entities.

CABEI will be expected to use these resources to facilitate the following internal changes: adoption and implementation of interest rate policies that recover the cost of borrowing plus administrative costs; reduction of its portfolio delinquencies; expansion of its portfolio to include small scale infrastructure projects; improvement of its program management by streamlining the decision-making process, reducing approval time and delegating more authority to field personnel.

Capital resources targetted to each of the countries will promote private sector participation, cost recovery and improved financial and program management.

CABEI will also be expected to use program resources to encourage and facilitate the following changes in the policies of the national governments and housing finance institutions participating in this program: increased use of the private sector for design and construction of housing projects; increased emphasis on cost recovery in the financing of housing projects; improved financial and program management; an increased emphasis on financing shelter solutions and supporting infrastructure for the low-income market; increased emphasis on mobilizing domestic savings; and a reduction in delinquent payments by beneficiaries;

Policy objectives to be pursued through the use of capital resources for infrastructure improvements will vary in degree of emphasis, country by country. In general terms, however, the policy objectives which will be stressed in all countries include: the devolution of authority to private sector firms for the supervision, design and coordination of infrastructure projects; implementation of effective collection procedures; and implementation of cost recovery systems.

G. Program Evaluation

In addition to the general provisions contained in Section 7.02 relating to the evaluation program to be carried out in conjunction with this program, interim evaluations will also be conducted. Interim evaluations will be carried out in 1988 and 1990. Interim evaluations will assess progress in the following areas:

1. improvement in cost recovery by infrastructure and housing implementing agencies;
2. effectiveness of modalities used to provide technical assistance and training;
3. progress made towards achieving construction targets;
4. extent to which low-cost housing is occupied by eligible beneficiaries;
5. effect improved personnel management and project review procedures within CABEI have had on expediting project implementation;
6. analysis of CABEI's financial management of the Housing Fund;
7. analysis of private contracting procedures by implementing agencies;
8. evaluation of the environmental training and technical assistance program;
9. evaluation of the congruency of policy initiatives of CABEI and RHUDO;
10. recommendations related to reallocation of resources among countries or program components.
11. extent to which the program is utilizing the private sector for implementation.

The final evaluation will be scheduled for 1992.

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Date:

Annex B

Central American Bank for
Economic Integration
596-HG-006
Request for Disbursement and Certificate

The Central American Bank for Economic Integration ("Borrower") hereby certifies to the United States Agency for International Development (A.I.D.) under the Project Agreement dated as of _____ that:

1. US\$ _____ from the A.I.D.-Guaranteed Loan (HG), is requested for disbursement and Borrower's request for such disbursement is in accord with the terms of the Loan Agreement and the Implementation Agreement.
2. Borrower is in full compliance with all the terms and conditions of the Loan Agreement and the Implementation Agreement.
3. The schedules attached hereto for purposes of justifying the requested disbursement have been completed accurately and fully reflect the facts existing as of the date of this Request and Certificate.
4. No evidence submitted in support of this request has been submitted hereto for to support a Request for Disbursement under an A.I.D.-Guaranteed loan and Borrower has received and accepted certificates attesting to this fact from its subborrowers.

Central American Bank
for Economic Integration

By: _____

Title: _____

Date: _____

Attachments: Schedule I

Date:

Schedule I to Annex B
596-HG-006

Summary of Mortgages and
Infrastructure Investments

I. Total Amount of HG Disbursed to Borrower as of Last Disbursement

II. Eligible Expenditures Presented this Disbursement

Country of Origin	Dollar Value Equivalent of Mort. Purchased	Dollar Value Equivalent of Infra. Invest. Finance	Reimbursement Requested
1. Honduras			
Public Sector			
Private Sector			
2. Guatemala			
Public Sector			
Private Sector			
3. El Salvador			
Public Sector			
Private Sector			
4. Costa Rica			
Public Sector			
Private Sector			
5. Totals			
Public Sector			
Private Sector			