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FINAL REPORT

EVALUATION OF THE EFFECTIVENESS OF THE HOUSING GUARANTY PROGRAM

BUREAU FOR PRIVATE ENTERPRISE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C.

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August 14, 1985

Mr. Francis Conway
Assistant Director
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Office of Housing and
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Agency for International
Development
Washington, D.C. 20523

Subject: Final Report: Evaluation of the Housing Guaranty Program
Contract OTR-0000-I-00-3506-00, Work Order No. 12

Dear Mr. Conway:

We are pleased to submit the enclosed final report of the results of the evaluation of the Housing Guaranty Program. Our conclusions and key recommendations are contained in the executive summary and, at greater length, in Chapter II.

As you know, this study could not have been completed without a high order of interest and cooperation of the Office's staff in Washington and the field. We appreciate very much their time and thoughtfulness. Having worked with these staff, we believe that they can continue to contribute to achieving the Program's goals and take full advantage of the evaluation's results.

We enjoyed this opportunity to assist the Office of Housing and Urban Programs and look forward to future opportunities to be of assistance.

Very truly yours,

BOOZ, ALLEN & HAMILTON Inc.

John C. Newman
Vice President

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EXECUTIVE SUMMARY

The Housing Guaranty Program is AID's principal means to address shelter problems in the developing world. The program finances housing projects for below-median-income groups. The projects financed span a wide variety of shelter solutions which stimulate home ownership and equity accumulation.

The evaluation of the program focused on two goals: policy dialogue and institution building. The field work was carried out in six sample countries: Botswana, Honduras, Jamaica, Panama, Sri Lanka and Zimbabwe during April and May of 1985.

The key findings of the study are as follows:

- AID is the dominant donor in this sector.

- The program was instrumental in fostering major policy improvements in all six countries, including the formulation of national housing policies in five of the six countries.

- These national housing policies are generally compatible with AID shelter policy, namely: housing as a basic need and right, high priority for the sector, emphasis on below-median-income beneficiaries, use of affordability criteria, reduction of building standards, cost recovery, reduction of subsidies, a shift from government to private financing and construction, and land tenure and titling to facilitate ownership.

- The public institutions with which the program is working are almost universally weak in terms of management, staff turnover, under- or over-staffing, commitment and goal-oriented behavior.

- The program has stimulated substantial and growing private investment in below-median-income housing in the form of self-help efforts, aided and unaided.

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- Virtually no host country private capital has been attracted to the program's low-income housing endeavors, either through such formal devices as creation of secondary mortgage facilities and the participation of savings and loan institutions or through private developers. Secondary mortgage institutions have become decapitalized, are unwilling to lend to lower-income groups or are non-existent.

- The program has stimulated a recognition on the part of host country governments of the need for cost recovery, and some improvement has occurred. Cost recovery is yet insufficient, because of subsidies and poor collections, to stimulate private sector construction firms and financial institutions to enter the low-income housing market.

- Some institution-building efforts have worked well: a combination of policy dialogue, analytical studies and workshops; the MIT housing seminars for technicians; participant training in the U.S. (with limitations); and, to a lesser degree, the Shelter Workshop in Washington. In certain countries dissatisfaction was noted regarding the effectiveness of short-term advisors.

- Severe implementation problems were encountered in the projects in the sample countries. Problems exist in land tenure, costs, acquisition, development, titling and marketing. There are also problems in construction and financial management, including disbursements, accounting and collections.

- In most countries the output was less than planned in the HG agreements. In several countries output was moderately good and in Sri Lanka it was quite good.

The recommendations for improvement are as follows:

- The policy dialogue process can be advanced by development of a realistic schedule for policy change, the creation of mechanisms to sustain the dialogue and firmness and the willingness to cut off disbursements long enough to achieve policy goals.

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- In countries with seriously inadequate institutional capability (Botswana and Jamaica), there must be recognition of the need for long-term investments of relatively large quantities of technical assistance to build self-sustaining institutional capacity. In addition, it must be recognized that sound institutional growth must be based on a comprehensive human resource development strategy for host country housing agencies. In countries with overstaffed bureaucracies (Panama, Honduras), structural reforms and staff reduction should be considered.

- Policy improvements are required in land tenure to ensure home ownership and encourage the inflow of private capital; in private sector investment to encourage better savings capture through financial institutions and social housing funds; in full cost recovery to make explicit real costs of housing construction and to develop better collection and accounting systems for demonstrating to the private sector the viability of low-income housing as a market.

- Implementation of housing programs can be facilitated by improved project design at the project paper stage which would include prior analysis of issues such as: (a) flexibility of standards and choices to assure affordability, (b) land availability and site development problems, (c) projection of financial arrangements, especially the HG interest and intermediary institution spreads and, (d) potential for the project to become self-perpetuating. In addition, analyses should address the administrative capability to process titles; the employment of conventional contracting procedures; objective beneficiary collection systems; and timely disbursements and rigorous collections.

All in all, the program has made a strong contribution in stimulating housing policy improvements, but has the potential for playing an even greater role only if it brings to bear considerably more effort, resources and innovation upon institution building and project implementation.

I. INTRODUCTION

1. IMPETUS FOR THE STUDY

The Housing Guaranty Program is AID's principal means to address shelter problems in the developing world. The Agency guarantees the repayment of loan funds provided by U.S. financial institutions, thus providing an incentive for the lender. On the host country side, in most cases, the national government or other borrower guarantees repayment of the loan in U.S. dollars. The implementing agency repays the loan in local currency to the host government.

The program is sizeable, as cumulative figures at the end of Fiscal 1984 indicate:

- 137 projects were authorized and under contract
- Total Congressional authority amounted to $1.7 billion
- Total disbursement by U.S. lenders was $1.3 billion.

The program generates between $6 million and $7 million annually as guaranty fee income, and repayments to the program range from $170 million to $190 million annually.

The program is experiencing the threat of defaults due to rescheduling of debt obligations. Through September 1984, cumulative subrogated claims receivable and rescheduled claims were $22 million and $10 million, respectively. Claims losses written off annually in the 1980 to 1984 period were in the $1.6 million to $2.7 million range. There is continuing concern that the world economic conditions and host country economic problems could exacerbate these financial problems.

This assessment of the Housing Guaranty (HG) program focused on two goals:

- Policy dialogue
- Institution building.

For the purpose of this study, policy dialogue was defined as the on-going exchange of ideas and information through various channels, articulated in certain project documents,

which can lead to a shift in the manner in which a country addresses the shelter needs of low-income persons. Institution building is the enhancement and improvement of the capabilities of public and private organizations to plan, develop, finance and construct low-income shelter, extend infrastructure and services, and collect mortgage payments.

2. METHODOLOGY

To prepare to evaluate the Office of Housing and Urban Program's effectiveness in achieving these two goals, several discrete tasks were carried out:

- Formulation of a set of analytical questions to be addressed along with criteria for measuring effectiveness

- Selection of a sample of countries based on the level of recent HG authorizations, size and age of the country's HG program, countries visited during recent evaluations of the program, and U.S. policy positions not concerned with housing (Israel, Portugal)

- Collection of data on study countries in the Office of Housing in Washington, including interviews with key staff

- Development of survey instruments.

The field study team was divided into two groups: one evaluating Zimbabwe, Botswana and Sri Lanka and the other evaluating Jamaica, Panama and Honduras. Each study team was comprised of two persons.

They visited each country for approximately nine working days. Interviews were carried out in-country with the USAID staff, the Regional Housing and Urban Development (RHUDO) staff, key public housing agency officials, beneficiaries and private sector financiers and builders. For each Mission Director and RHUDO, a briefing on the purpose of the study and a de-briefing on findings were given.

3. ORGANIZATION OF THE REPORT

This report contains eight chapters. Following this introductory chapter, Chapter II presents the global findings and recommendations. Chapters III through VIII are the individual country chapters in alphabetical order.

II. GLOBAL FINDINGS AND RECOMMENDATIONS

This chapter highlights the findings made in the subsequent chapters on the individual study countries. The findings are presented as follows:

- The policy and institutional situation prior to a HG program loan intended to benefit below-median-income groups. The time period covered is approximately the 1970s.
- AID's efforts to create policy improvements and stronger institutions.
- The outcomes of those efforts in terms of policy shifts, institutional strengthening and implementation.
- Attribution of specific results to AID.

This chapter concludes with recommendations for programmatic and management improvements.

1. SITUATION IN THE 1970s

This section discusses the status of housing policy in the 1970s and the weak public sector organizations engaged in housing in the host countries.

(1) Housing Policy and Information Void

The shelter policies in the six study countries during the 1970s, although diverse, had a number of important elements in common:

- No country had a coherent set of operational policies, objectives, plans, strategies and procedures to motivate and guide the construction of low-income housing at affordable costs.
- There was no body of valid, systematic information on which to base housing policy.
- The government's responsibilities and the rights and responsibilities of the low-income individual were not clearly defined.

- The priority and resource allocation for housing, relative to other sectors, was unclear or dictated mainly by politics.

- Priorities for selection of beneficiaries of housing programs were often accorded to higher-income levels and/or to special groups.

- The sources, criteria and modes of financing were not clearly delineated, although the major tendency was for government financing and subsidy.

- There was little systematic attention given to affordability criteria. Cost recovery was not pursued vigorously.

- Although there were a few attempts to mobilize private sector financing, these usually involved above-median-income beneficiaries.

- Political support for low-income housing was either absent, not cohesive, or expressed in uneconomic terms.

- There was a strong inclination toward actual construction by the government itself, or through contractors. Governments had a major role in housing management and loan/rental collection. Private housing construction was almost invariably for higher-income buyers. There was very little aided self-help construction.

- Land tenure systems and titling arrangements were complicated, and, almost without exception, inhibited true home ownership by low-income families.

All of these elements were either in conflict with AID shelter policy or inhibited the formulation of policy.

(2) Weak Public Sector Agencies

Although it is difficult to reconstruct the institutional situation in the six countries prior to the introduction of AID's focus on below-median-income groups, a pattern of conditions can be discerned:

- The status, influence, size, and capability of the housing ministry and associated institutional units within the government establishment were relatively minor. There virtually was no internal capacity to train staff.

- Sectoral planning was rudimentary, focusing more on the size of the budgetary request than on the analysis of needs.

- There were very few linkages to formal private sector financing and virtually no private investment in low-income housing.

- Output of houses was low; unit costs were beyond the affordability level; loan and rental collection machinery was inadequate; and collections were low.

2. AID EFFORTS AND INTERVENTION

This section discusses specific AID efforts to bring about policy shifts and to strengthen its counterpart institutions.

(1) How AID Supported Policy Development and Analysis

AID's policy goal was to provide housing for the largest number of below-median-income families at the lowest cost on a self-supporting basis while meeting minimal standards. This objective required that the host country accept:

- The need for minimal housing size and standards, self-help and other low-cost methods of construction, least-cost infrastructure/services, use of indigenous materials and other means for reducing costs to affordable levels.

- The discipline necessary to stimulate the investment of private capital, including full cost recovery, freehold title, and rationalization of subsidies.

In all of the countries studied, the need for these elements of policy has been generally understood and accepted in principle.

Discussion and comprehension of policy issues by the host country officials was promoted by the formulation, usually by AID-provided technical advisors, of several types of studies:

- Shelter sector assessments defining the size, characteristics and trends of the country's housing requirements; determining the investment required to meet those needs; examining the functions and capabilities of financial institutions; assessing the resources of beneficiaries and presenting alternative scenarios for meeting the country's housing needs.

- Policy-oriented studies analyzing specific issues, e.g., the effects of subsidies on housing production and costs.

Further discussion and understanding of policy issues resulted from:

- Advice to senior host country officials by AID-financed technical advisors and RHUDO staff on policy formulation and program planning, the creation of institutional capability and operational systems, and technical guidance on project design, site selection, development and management

- Participant training, workshops, on-the-job training of counterparts and other forms of training.

These studies, advisory services and training, even when intended for policy formulation, also helped in the creation and redirection of institutional concepts, structures, and methods, and ultimately assisted in implementation, i.e., the construction of shelter solutions.

Specifically, the shelter assessments and policy-oriented studies provided the basis for the second element of the policy dialogue process, namely, the preparation and negotiation of policy and loan agreements, including:

- The national housing policy which defined rights, responsibilities, principles and directions for the program

- The national housing plan which contained implementation goals, specific production targets, priorities, institutional arrangements, strategies and resource allocations

- The Housing Guaranty implementation agreement and the project delivery plan, including the conditions precedent and requirements for compliance.

At any of these levels of negotiation, the RHUDO or the USAID was able to augment its influence over policy dialogue by authority to halt disbursement of an existing HG loan or delay consideration of a proposed HG loan.

It is important to stress that policy formulation, institution-building and policy implementation are inseparable and that technical and financial assistance almost always has an effect on all three.

In all of the study countries, the policy dialogue started from a baseline of no formal policy (Botswana, Jamaica, Panama, and Honduras) or misguided, wasteful policy (Zimbabwe and Sri Lanka).

In countries with no formal policy, the governments were receptive to policy advice, and the national policy formulation process proceeded well (except in the case of Panama). The typical process which led to a national housing policy and plan was the formulation of a sector assessment, the preparation of an agenda of policy for consideration by public decision-makers, workshops to discuss policy options, drafting and ratification.

In countries with misguided or wasteful policy, it was deemed necessary (for political purposes and to gain entry) to use part of the first HGs to backfund ongoing or completed projects which fell far short of AID policy criteria. This was a trade-off decision with high costs for AID. In retrospect, there were no other donors of substance on the scene, and an AID refusal to use HG funds for prior, substandard projects would not have changed AID's future role as the dominant donor.

The ingredients for a viable policy dialogue were:

- RHUDO with strong technical qualifications, a good grasp of policy issues, a purposeful

and firm approach to negotiations, and the authority and willingness to halt disbursement (of HG and/or technical assistance funds) as necessary to achieve needed change.

- Highly competent technical advisors or operational experts (OPEX) in sufficient numbers to conduct policy and technical analyses and to advise and train host country counterparts.

- A resident USAID housing advisor to support and monitor housing activities on a continuing basis.

- Clear AID policy criteria and a body of evidence that the criteria were both essential and effective.

- High priority accorded to low-income housing and strong political leadership to sustain it.

(2) How AID Supported Institutional Strengthening

The AID institutional objective was a host country system capable of translating national housing policies into completed shelter solutions quickly, at affordable costs, and with a minimum of government intervention in construction and financing. To develop this capability, AID provided policy and technical advice and training.

Technical assistance affected host country organizations at various levels: policy formulation, institution building and project implementation. Technical assistance including the following:

- Shelter sector assessments which included an appraisal of the functions and capabilities of housing, financial and other institutions.

- Policy-oriented and technical studies which addressed the institutional aspects of key issues.

- Advice to senior officials on the institutional aspects of policy, planning, financing and implementation.

- Participant and in-country training.

There was a strong correlation between the acceptance of technical assistance and status of the policy dialogue. When the policy dialogue yielded a convergence of host country and AID views, there tended to be a parallel acceptance of the ideas on institutional structure, systems, and techniques.

When there was strong disagreement on policy, AID technical assistance was shunned, probably because the government suspected that AID would try to use technical assistance to influence its views on policy.

3. OUTCOMES

(1) The Results Of The Policy Dialogue: Housing Policy Today

Five of the six countries studied have explicit national housing policies. AID has provided assistance and guidance and has been instrumental in the formulation of these policies, which are generally compatible with AID housing criteria. The sixth country, Panama, is now considering the priorities and policies for its major sectors, including housing, and AID is supporting that process.

The five national housing policies, and even the informal policies of Panama, include most or all of the following elements:

- Official acknowledgement that shelter is a basic human need and everyone has a right to safe and sanitary housing.
- Expanded shelter output is a high priority, including new houses, apartment units, upgrading of existing houses, core housing, aided self-help housing, sites and services and utilities/amenities.
- Priority for below-median-income beneficiaries.
- Affordability criteria and housing standards necessary to achieve affordability.
- Full cost recovery and the concomitant reduction or elimination of subsidies.

- Shift from government to private financing and construction.

- Land tenure and titling arrangements to facilitate home ownership by low-income beneficiaries.

An explicit housing policy serves to build a national political consensus regarding low-income housing and to serve as the basis for a national housing plan. The national housing policy and plan tend to ameliorate the effects of discontinuities in government. Few of the national housing policies have been formulated with the participation of the private sector to ensure the support and involvement of investors and financial institutions.

One of the major lessons learned by AID in the policy area concerns the role of government. When the government takes a dominant role in housing finance, construction and infrastructure, the results almost invariably are higher unit costs, lower output, inefficiency and delay and, in some instances, corruption.

There are exceptions:

- Government must play a role in the formulation of housing policy, planning and regulation. Regulation covers land tenure, land zoning and usage, guaranty of loans, building codes and standards, water usage, and import controls.

- Government may have to intervene on behalf of the lowest-income quintile if the affordability formula does not provide an adequate match between loan payment capacity and minimally adequate shelter. In this case, the government's role will typically include the provision of infrastructure and other urban upgrading activities.

The most effective technical assistance in the area of policy dialogue was an integrated package of policy, technical, financial and institutional analyses and the concomitant advice of AID-financed experts. The package was aimed at policy-makers and served several separate but closely linked purposes.

First, the advice supported and guided the policy formulation process and ultimately shaped the emergent shelter policy. Second, it influenced the orientation and structure of the institutional system of the housing sector. Finally, it raised the awareness, shaped the attitudes, and increased the knowledge and skill of key decision-makers.

At the policy, planning, and coordination level, past technical assistance in only Sri Lanka has created a minimal cadre of officials capable of dealing with policy without substantial reliance on foreign advisors. It has created in most of the six countries a significantly greater awareness of:

- The elements of sound housing policy and the consequences/costs of alternative approaches
- The need to base policy and plans on well conceived, rigorous analytical studies
- The need to define clearly and coordinate the mobilization and use of the resources and institutional inputs needed.

(2) Institutional Capability Today

Generally the public institutions with which the program is working are weak. There are several reasons for this weakness:

- The staffs of the organizations are either too small (The Housing Section of the Ministry of Local Government and Lands in Botswana with 5) or too large (The Ministry of Housing in Panama with 2,500) to be effective.
- There is considerable turnover in senior management.
- There is poor management and leadership.
- There is little commitment to housing as a professional field, and it is sometimes seen as a means to a more attractive job in another area.
- There is little attention paid to building a team of talented individuals.

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The prospects and the means for building these institutions will demand a great deal of continuing attention.

Moreover, there is an almost universal absence of institutional capability in two areas which are, in the long-term, critical for meeting housing construction goals through private financing and full cost recovery. These are a secondary mortgage market and a mortgage insurance program. In the six countries visited only Honduras had a secondary mortgage market, but it did not reach below-median-income housing. For mortgage insurance, Honduras, Panama and Jamaica had existing agencies. The Honduras organization was de-capitalized and may be abolished as the result of its involvement in the Emergency Housing Program of 1981. In Jamaica, the mortgage insurer has been de-capitalized and may be abolished.

The greatest successes in institution building resulted from the advice given by RHUDOs and long-term resident experts in the context of (a) the policy dialogue, (b) a close working/advisory relationship with policy-makers, (c) the preparation and publication of policy and analytical studies and (d) the conduct of in-country workshops. The level of success achieved in institution-building has been largely due to the generally high caliber of the RHUDOs and long-term technical advisors.

The performance of short-term consultants was generally good. Dissatisfaction was noted in the effectiveness of short-term advisors in two specific cases. In those cases, their terms of reference were not adequate, the time spent in-country was too short, the consultants spent too little time exchanging ideas with the host country organization and their findings and recommendations were not always useful or understood.

Medium- and longer-term training in the United States generally was ranked as very effective, although three limitations were cited:

- The unit costs were considered high in comparison with in-country training

- Given the shortage of qualified staff in some host countries, sending an official to the United States for several months posed operational problems

- Training in the U.S. is necessarily more generalized and thus lacks the country-specific treatment which is possible with in-country training.

The annual shelter workshops in Washington were given passing marks; however, application of the concepts in the participant's country was sometimes difficult. Because of its general nature the material was thought to be better suited to policy-makers, planners and higher level managers than to technical and operational staff.

Of the two major academic sources of expertise in shelter and urban planning, MIT and the University of California at Berkeley, the former was almost universally preferred. MIT training is considered very useful for planners, architects and civil engineers because the training is more operationally-oriented and the materials are often keyed to specific country situations. The government of Sri Lanka, considering its experience with MIT very successful, has taken over the funding and management of the AID-financed technical assistance contract with MIT.

In several countries (Botswana, Zimbabwe, Jamaica) the governments rely heavily on AID-financed experts in operational roles. The experts sometimes have heavy workloads and cannot also train and supervise counterparts. Counterparts are sometimes not available. As a consequence the primary objective of technical assistance--to create a self-sufficient local capability--is thwarted.

(3) State of Implementation Today

The provision of low-income housing begins with the formulation of housing policy, followed by land acquisition, titling, mobilization of capital, land development, housing construction, sales and titling, loan disbursement, collections and accounting. Each of these events requires support institutions and services. A deficiency anywhere in the chain, e.g., an inefficient titling procedure, can block the entire process. AID is typically working to develop the following kinds of shelter solutions: sites and services, upgrading of existing communities, core housing, basic or starter housing, and home improvements.

Although there has been consistent and substantial progress in the formulation of national policies and some movement forward in building or reorienting the institutional system for housing, the design and implementation of housing generally is proceeding slowly. The implementation rate tends to fall short of planned targets, and, in some cases, produces housing which is unaffordable. Study findings in the implementation area are briefly described below.

1. Land Tenure, Costs, Acquisition, Development, and Titling

The acquisition, development and availability of land for houses have proven to be serious obstacles in four of the six countries. Most of the current program in Panama is blocked by an inability to obtain clear title to the land and to subsequently provide titles to the beneficiaries. Acquisition and titling also are causing severe bottlenecks in Jamaica.

Land tenure traditions and laws and the inertia/resistance to change have:

- Made it difficult to determine ownership
- Made it difficult to determine the true (market) value of land
- Inhibited or delayed site selection, land acquisition, installation of infrastructure and housing construction
- Resulted in cumbersome and archaic procedures for titling and frustrated the granting of title and ownership (freehold)
- Prevented land values from rising in value through accumulation of equity and further development, thus impeding the inflow of private investment
- Delayed the progression from rental to ownership.

In all of the countries studied, there is an awareness of the land tenure problem. In Botswana a land tenure commission was established. There clearly is a need for more intensive technical assistance in this area.

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2. Design Of Housing Projects

There is a diverse array of development approaches and project designs among and within the six countries studied: for example, rental vs. ownership, contractor vs. aided self-help, and apartment blocks vs. individual houses. In virtually all cases, AID made important contributions to better design and stimulated innovative ideas, e.g., improved distribution of infrastructure and services, core housing designs with progressive construction and temporary occupancy, and financial administration policies and procedures.

3. Construction Of Infrastructure and Housing

In most of the countries actual construction output is less than planned and insufficient in light of the housing deficit. In aided, self-help projects, the delivery of serviced plots has tended to constrain the construction of new housing. In the case of contractor-built housing, efficient contractors or contractual control by public housing agencies was lacking.

Despite these shortfalls, housing is being built, in most cases at a greater rate than before AID provided HG funds. Construction levels in Panama and Honduras were moderate and in Sri Lanka output was quite good. The 1984 output exceeded the plan in Sri Lanka by 8 percent; ironically, the rate of construction may overwhelm the capacity to manage the financial aspects of the program. Output in Jamaica and Botswana[1/] was well below the planned level.

4. Construction And Financial Management

The quality of management of construction and financial operations varied among the six countries, with only Sri Lanka having minimal implementation problems. Management problems, some of which derived from local politics, tended to delay the housing process and raise unit costs.

1/ To a large extent attributable to the severe drought of 1982-1984.

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Eligibility standards sometimes were not enforced and eligibility not verified. This not only defeats the below-median-income criterion, but also can have an adverse effect on repayments.

Upgraded plots and housing are often allocated on the basis of political favoritism, e.g., priority on waiting lists to party members.

The use of contractors for housing projects in two countries has resulted in an array of problems: non-competitive award of contracts with resultant high costs, awards to politically well-connected firms, cost overruns, lengthy delays in completion, and lack of supervision and inspection of contractor work. In Panama and Jamaica, several agencies did not have a competitive bidding requirement, contractor bonding and a well-controlled disbursement procedure. Where beneficiaries contracted with small independant contractors for individual houses (Zimbabwe and Sri Lanka), construction generally went well and costs were controlled.

Management of financial operations in the six countries was stymied by several factors:

- Reluctance to deal firmly with arrearages and defaults. In several cases (Zimbabwe, Botswana, and Sri Lanka) this reflected a socialist tradition. In several countries, local opposition party politicians encouraged non-payment of loans and service charges, citing the responsibility of government to provide for its people. The will to evict beneficiaries for non-payment was lacking in all six countries.

- Accounting systems were sometimes cumbersome and inefficient, often providing information on cash flow levels rather than delinquency rates.

- The institutional arrangements for disbursement and collection (e.g., monthly billing, convenient locations) often were underdeveloped and under-staffed, and there were inadequate incentives (commissions, interest rate spreads) for the financial institutions.

4. ATTRIBUTION TO AID

This section briefly discusses AID's contributions in policy improvements and institutional strengthening.

(1) AID's Contribution To Policy Improvements

AID played a major, sometimes determining, role in the formulation of the comprehensive policies in place in five countries. AID technical assistance also produced, inter alia, shelter sector assessments and related analytical and policy-oriented studies upon which policies were based.

(2) AID's Contributions To Institutional Strengthening

AID's contribution to institutional strengthening by the program is less substantial than its role in policy dialogue. As noted above, the public institutions with which it is working are, with few exceptions, very weak. Despite the efforts of the RHUDOs and technical advisors, they have not demonstrated great improvements over the last few years. Building these institutions will require considerable human development resource planning, training and innovative techniques if these organizations are to become viable.

5. RECOMMENDATIONS

This section presents and discusses opportunities for management improvement which can be made by the Office of Housing in four areas:

- The policy dialogue process
- Institution building
- Policy
- Implementation.

(1) Policy Dialogue Process

As indicated above, the present policy dialogue process in the study countries has yielded beneficial results, especially in creating a focus upon low-income groups and affordability issues. That basic approach should be pursued in countries which have an active HG program, but no national housing policy and plan, and in countries where the HG program is being introduced.

Additional policy improvements are desirable. The RHUDOs can take the following steps to move policy dialogue forward:

- Develop a realistic schedule for creating policy improvements and continue to push for them.

- Support the creation of a mechanism to sustain the policy dialogue. The best example of this was the Policy Secretariat in Jamaica, created to collect data in the housing sector, update policy and maintain a 3-year rolling plan.

- Be firm regarding policy shifts; be prepared to cut off disbursements and sustain the cut-off in order to achieve desired results. There were good examples of a firm negotiating posture encountered in Zimbabwe, Jamaica and Panama.

(2) Institution Building

It must be recognized that it is a larger, more complex and long-term challenge than had been previously contemplated. Considerable further effort must be made to build effective public and private sector institutions. If these institutions cannot be strengthened and made more effective, severe problems will persist in project implementation.

Some institution-building activities appear to be working well and should be continued:

- The provision of highly qualified, long-term technical advisors who work in public sector institutions to assist in the technical aspects of administering a housing program. To the degree possible, these advisors should not occupy staff positions.

- MIT seminars, especially for technicians such as planners, architects and civil engineers.

- Regional training centers aimed at mid-level officials with courses in the predominant regional language.

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Short-term technical advisors have been important to both policy dialogue and institution-building; however, improvements need to be made in their effectiveness:

- Terms of reference should be appropriate to the task carried out.

- Adequate time should be allowed for in-country data collection.

- A substantial portion of the in-country time needs to be used to exchange ideas with the professional staff of the local housing institution. The consultant should debrief the institution's officials with sufficient time to discuss and ensure accuracy and understanding of the findings, recommendations and their implications.

- The government should prepare, in conjunction with its counterpart agencies, a plan for staff development. This plan must recognize the extraordinarily long time-frame required for building institutional capability.

PRE/HUD should consider adding a module to the Shelter Workshop in Washington. This module should explore concepts such the dynamics of change, team-building and developing commitment and motivation. If this proves successful, it should be made a part of the coursework of the regional training centers and in-country workshops.

(3) Policy Improvements

Several general policy improvements are recommended in the following areas:

- Land tenure and titling
- Private sector investment
- Full cost recovery.

1. Land Tenure

Improvements in land tenure policies and practices are needed in most countries to expand and expedite home ownership, to permit the accumulation of equity and to encourage private investment. A combination of policy dialogue and technical assistance

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is indicated; the former to exert pressure, e.g., conditions precedent in HG agreements, the latter to create studies on the policy, economic and structural/ administrative aspects of tenure and titling.

2. Private Sector Investment

To date, formal private sector investment has been minimal, thereby limiting the demonstration effects of the country programs as self-perpetuating. The following improvements are recommended:

- Development of policies to increase private sector development, e.g., laws to create and provide incentives for secondary mortgage markets

- Investigation of how investment takes place in the country and the best means to capture savings

- Encouragement of access to lower cost capital through social housing funds, such as the National Housing Trust in Jamaica and the currently proposed fund in Honduras.

The policies should include incentives for a secondary mortgage market, such as:

- Government guaranty for the bonds issued

- No requirement for registracion; a simple endorsement being adequate for their transfer

- Payment of tax-exempt monthly interest

- Interest rates sufficient to capture savings

- Assurance that the mortgage insurance system is operable.

Incentives are also needed for the savings and loan institutions to provide shelter financing, at least to the upper deciles of below-median-income groups.

The creation of social housing funds will enable host country-generated financing to reach even lower deciles of the below-median-income population.

3. Full Cost Recovery

Attention needs to be paid to how quickly and to what extent full cost recovery will be achieved. The key factors involved and approaches to them include:

- Expand affordability by reducing the costs of houses and related infrastructure. Movement towards aided self-help on wet sites may be an answer.

- Reduce, rationalize and make explicit housing subsidies. AID should set a standard for cost recovery which it wants the program to achieve to demonstrate viability to private sector institutions. Cost accounting systems are needed to determine real costs. Once these costs are known, activities can be identified which can be done more economically by private firms.

- Strengthen loan collection and accounting systems. Collections constitute the activity which demonstrates cost recovery and are, therefore, one of the most important elements in achieving self-perpetuation. Public housing agencies should be encouraged to evict, on a limited basis, non-payers to exert discipline over this problem.

(4) Implementation

Several areas need special emphasis:

- The formulation of project papers

- Land acquisition and titling

- Turnkey contracting procedures

- Selection and verification of income of participants

- Disbursements, collections and accounting.

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1. Formulation of Project Papers

Implementation can be greatly improved by more careful attention to:

- Land availability, costs and the means to acquire clear title of appropriate land

- Social and economic analysis of potential beneficiaries, especially their housing needs, ability to pay, and, if appropriate, willingness to engage in an aided self-help project

- Proposed shelter solutions, community facilities and costs

- Anticipation of problems in site development

- Analysis of the housing organizations, public and private, with emphasis on implementation capability, cost recovery, subsidies, and willingness and authority to collect

- A projection of the HG interest rate to assure that spreads provided to host country institutions for handling funds will be adequate to cover administrative expenses and to provide an incentive for prompt disbursements

- The potential for the project to become selfperpetuating.

2. Land Acquisition and Titling

To avoid costly delays the following recommendations are made:

- Once the project paper has been approved the implementing agency should place an option to purchase on land to be developed.

- If a titling bottleneck exists or is foreseen, the title registry action agency should be incorporated into the project as a recipient of technical assistance.

3. Contracting Procedures

Procedures need to be strengthened as follows:

- All contracts should be awarded competitively. The RHUDO should allow disbursement of funds to only a *bona fide* low bidder.

- Construction financing should be obtained by the builder from a commercial bank to stimulate rapid completion of the project.

- The builder should be required to provide performance bonds. If a limited construction advance is provided to small firms, a bond should be required in the amount of the advance.

- Contracts should be given for independent project supervision.

- Bonuses should be provided for early completion and penalties imposed for delays.

4. Selection Procedures

AID should provide disbursements for beneficiaries who have been chosen through an objective selection system, such as the priority eligibility index used at the National Housing Trust in Jamaica. The design of such a system will vary depending on the circumstances in each country or project, but starts from verification of household income.

5. Disbursements

AID should also pay special attention to the timeliness of disbursements by the housing agency to contractors and building material suppliers.

III. BOTSWANA

From a housing policy vacuum in 1980, AID fostered the creation of an enlightened Government of Botswana (GOB) housing policy consistent with AID criteria. Two central policies remain unresolved: land tenure and how to deal with rural housing needs.

Institutional capability is still weak at all levels requiring continued heavy reliance on OPEX. There is no national housing plan with overall housing objectives, priorities, strategies and sources of financing. There is no agency or strategy for mobilizing private capital for below-median income families, nor is there a central housing fund. Subsidies remain a serious obstacle to progress in housing construction and to the inflow of private capital. There is no secondary mortgage market or mortgage insurance arrangements for below-median income families.

At the implementation level, the Gaborone West project is experiencing serious delays and construction problems to a large extent due to serious drought of 1982-84. Management of housing operations is poor, collections are low and there is inadequate local remedial action. An important contributing factor is the relationship between the Self-Help Housing Agency (SHHA) and the Unified Local Government (ULGS). These deficiencies have been evaluated by the RHUDO, who is planning corrective action.

1. OVERVIEW OF DEVELOPMENT CONTEXT

Botswana is a multi-party democracy with constructive economic and fiscal policies and a socially-aware approach to the needs of the people. The economy draws its strength from mineral resources, beef production and tax revenue from the Southern Africa Customs Union. Botswana prospered during the 1970s with comfortable foreign exchange reserves. The world recession and two serious droughts during the early 1980s disrupted economic development. The GDP annual real growth, which averaged 12 percent during the 1970s dropped to 4.9 percent in 1981-1982. As a result of prompt economic and financial measures, including government wage and expenditure controls, increases in central bank interest rates, liquidity requirements and credit restrictions, the budget was stabilized and a negative balance of payment was righted.

There is a reasonable prospect for sustained, modest growth through the 1980s with a favorable balance of payments and sufficient revenues to finance economic and social development programs. However, growth will be constrained by a high population growth rate, a rate of job creation in the formal sector which will accommodate less than 50 percent of those entering the employment market, sharply limited opportunities for advanced training and a severe shortage of professional, technical and managerial skills.

To achieve its two major goals of increasing income opportunities and the supply of trained manpower, AID pursues a three-part strategy:

- To improve primary and post-primary educational systems
- To improve employment opportunities through training
- To build institutional capability in agricultural organizations.

2. LOW-INCOME HOUSING DEVELOPMENT

In 1976 the first HG for $2.4 million was undertaken and resulted in construction of 1800 dwelling units in an

area called Broadhurst in Gaborone. The project was complemented by $866,000 in technical assistance (an operational program grant, or OPG). A second HG loan for $15 million was approved in 1982 for the construction of infrastructure and 3,400 units of low-income housing in a development called Gaborone West. A technical assistance project for $1.07 million supported the HG. The TA covers three long-term operational experts (OPEX), short-term advisors/OPEX and training. A third HG loan of about $14 million is being developed for infrastructure and housing units in Francistown, a city north of Gaborone, and other urban areas. A complementary technical assistance component is planned.

The Broadhurst II project, financed through HG 001 is complete; the original target of 1,802 houses was fulfilled. The design of the Gaborone West development, funded by HG 002, benefitted from experience in Broadhurst II which did not include adequate community development or commercial facilities. At the time of the evaluation, the Gaborone West project was substantially behind schedule. Out of a total of 1,724 plots, only 180 houses had been started (10 percent) and 62 (4 percent) were complete.

Beginning in 1974 the British Overseas Development Agency assisted in the planning for sites and services in the four major towns and gave technical assistance to the Ministry of Local Government and Lands. The Canadian International Development Agency, the Swedish International Development Agency and the World Bank have given assistance to the Self-Help Housing Agency (SHHA). CIDA financed part of Broadhurst. The British Commonwealth Development Corporation has made two loans to the Botswana Housing Corporation.

3. HOUSING POLICY AND THE POLICY DIALOGUE

This section discusses the housing policy prior to AID's involvement, the policy dialogue process, the present policy and AID's contribution to its formulation, and policy improvements which are needed.

(1) The Previous Housing Policy Of The Government; Compatibility With AID Policy Criteria

Prior to the appointment of the Presidential Commission on Housing Policy in early 1980, there was, in the words of the Deputy Permanent Secretary of The Ministry of Local Government and Lands, a policy vacuum in the housing area. Housing was not seen as a sector. It was accorded a lower priority than other

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economic and social activities, such as food production, education and health, and was approached with little systematic planning.

Botswana's shelter policy orientation was similar to that of AID. There were no important disagreements in the formulation of national housing policy or in the planning of HGs and complementary technical assistance.

(2) The Policy Dialogue Process

The primary channel for policy dialogue has been the continuous dialogue between the RHUDO and the Ministry of Local Government and Lands.

The major change agent in policy formulation was an AID-financed long-term advisor, who served as the Secretary of the Presidential Commission on Housing Policy in Botswana in 1980. He formulated and gained commission members' support for a national housing policy. As spelled out in the Commission's report of February 1981 and subsequently in the government's white paper of April 1982, the policy directly addresses Botswanan needs and is wholly compatible with AID policy.

An affirmation of this policy occurred in the winter of 1984-1985 when opposition candidates for town council made public statements encouraging home owners in AID-sponsored housing sites to stop paying service fees. The claim was made or implied that, if elected, the candidates would arrange for government subsidy. Because of the threat to the principle of full cost recovery, the RHUDO, with USAID and Embassy support, took a strong stand. The MLGL Minister issued public statements and made speeches refuting the candidates' promises and reaffirming the need for full cost recovery. In this case the opportunity/necessity was thrust upon the government by opposition candidates; the conflict was among the Batswana. The dialogue channel was MLGL-RHUDO/USAID/Embassy. The policy positions of the RHUDO and the Ministry were identical.

(3) The Results Of The Policy Dialogue; The Contribution Of AID

The main elements of the national housing policy are:

- Housing is acknowledged as a basic human need. A national housing plan should be incorporated in the National Development Plan.

- There should be an increase in housing construction.

- The GOB should increase investment, establish a Housing Division in the National Development Bank, reorient the Botswana Building Society (BBS) toward low-income housing and stimulate private investment. There should be further study of a secondary mortgage market.

- The GOB should expand implementation capability, create a new Housing Division in MLGL with an Under Secretary for Housing.

- Affordability is to be the major criterion for setting standards.

- The White Paper reconfirmed the concept of sites and services, and recommended its extension to rural areas.

- The GOB should reduce and reorient subsidies.

- The GOB should revise the land tenure system. Since the subject is complete, the White Paper recommended further study.

- The White Paper acknowledged that housing was a factor in rural-to-urban migration, recommended further study and greater effort in rural housing, and expressed concern about rural sprawl and its consequences.

- The GOB should extend the Self-Help Housing Agency concept to rural areas.

It is clear that the result of the policy dialogue is a national housing policy which is consistent with the needs of the below-median target group and with AID policy criteria. It is also clear that the national housing policy might not have come into existence--at least not as quickly and as coincidentally with AID policy as it did--if not for the AID Technical Assistance Program and the initiative and perseverence of the long-term technical advisor whose work was financed and supervised by AID.

(4) Policy Improvements Needed

The housing policies promulgated in 1982 are adequate to the country's needs. The real issues today are not housing policy issues, but rather the severe difficulties encountered by the government in translating policy into practice, i.e., creating adequate low-income housing at reasonable cost within a reasonable time. These policy implementation problems are discussed in Section 5.

4. INSTITUTIONAL ELEMENTS, SYSTEMS AND CAPABILITY

In this section the pre-AID institutional situation, the institution-building efforts, current institutional capacity and AID's role, and needs for improvement are discussed.

(1) Previous Institutional Situation

In 1981 the Presidential Commission on Housing Policy noted that only one person in the Ministry of Local Government and Land worked exclusively on housing implementation. As a result of the Commission's recommendation, the Housing Section was created within the Ministry under the supervision of a newly appointed Under Secretary for Urban and Housing Affairs.

Implementation of housing programs was carried out by Self-Help Housing Agencies which are part of town councils. The Gaborone SHHA, which has handled the HG programs to date, was created in 1973 with three employees, one of whom was a Peace Corps volunteer counterpart.

(2) The Institution-Building Effort

Virtually all AID institution building efforts have been directed at public organizations since the private sector has not yet entered the low-income housing field. This may change if the Botswana Building Society becomes involved in the next HG. The BBS indicates that it is interested and would like to work in the lower income field, but, at the time of the evaluation, had not made any commitment or done any planning.

The first HG for $2.4 million in 1976 (Broadhurst II) was accompanied by an OPG for $266,000 to the Cooperative Housing Corporation (CHC) for the upgrading

and expansion of the Gaborone SHHA. The OPG provided a resident advisor to the Gaborone SHHA. The OPG was subsequently expanded to $866,000 to cover a second advisor to MLGL to help expand the SHHA concept nationwide and a third advisor to the SHHA in the town of Selebi-Phikwe. The OPG was largely responsible for the transformation of the SHHA into a potentially viable institution. The resident advisor also took a leading role in 1980-1981 as Secretary to the Presidential Commission on Housing Policy whose recommendation--approved by the government and the Parliament in 1982--now constitute the nation's housing policy.

HG 002 for $15 million and the complementary TA grant of $1.07 million approved in 1982 provided for one OPEX to function as Senior Technical Officer in the Gaborone SHHA and two OPEX in the Housing Division of MLGL. The SHHA Senior Technical Officer, to whom a counterpart has been assigned, has technical responsibilities in the management of Gaborone West (e.g. establishing a building materials warehouse, accounting systems and procedures, etc.) and is charged with training Botswanan technical officers, community development group workers and other site personnel.

The two MLGL Housing Section OPEX's have broad responsibility for policy implementation and day-to-day management of the housing section. They are also working on the National Housing Development Plan which was mandated by the National Housing Policy and is needed for its implementation. One of the OPEX is responsible for financial policy planning and the design of financial systems and procedures. The other is concerned with physical planning and program development. Only the latter has a counterpart at this time.

An additional 12 person-months has been allocated for short-term experts for service at the Ministry and SHHA levels. Technical assistance funds are available for participant training in the U.S. and Third World countries. In the housing area however, the GOB has tended to prefer in-country training, in part because on-the-job training at the middle professional/technical levels is urgently needed and in part because more senior staff cannot be spared for longer-term training abroad. The Botswana Institute for Development Management, which collaborates with the RHUDO, is a source for local training.

Twenty-one Batswana attended an AID-sponsored low-cost housing workshop in Zimbabwe, 30 attended a RHUDO workshop on housing management, and a similar number received instruction at a workshop on housing finance in Botswana. Two MLGL officials participated in the AID/W shelter workshop. Long-term participant training in the U.S. is not considered as effective as in-country training.

(3) The Results Of The Effort: Institutional Capacity Today

The capabilities and performance of the following organizations are discussed below. As noted above, the Ministry of Local Government and Lands created a Housing Section in 1981 headed by an Under Permanent Secretary. The Housing Section is responsible for policy and program formulation and oversight of the Self-Help Housing Agency. It has five professionals, including two AID-financed OPEX.

The SHHAs are local bodies which are part of, and report to the local Town Councils. There are SHHAs in each of the four largest cities. The SHHA is responsible for assisting self-help housing construction efforts, debt collection and community development. The SHHA concept, modified as necessary, is to be extended to smaller towns and rural areas over time. There is considerable controversy concerning the viability of the SHHA in village/rural areas. SHHA staff are hired, promoted and transferred by the Unified Local Government Service (ULGS) rather than the Town Council.

In the past, the Botswana Housing Corporation, a parastatal body, has been the nation's largest house construction and rental organization. It has concentrated on upper- and middle-income housing. Its single venture into lower-income housing was unsuccessful.

Although there is a GOB budget procedure for identifying low-income housing capital requirements, there is no central institutional mechanism for mobilizing and managing the capital required for low-income housing such as the National Housing Fund in Zimbabwe.

The Ministry of Finance and Development Planning (MFDP) stated that it has not taken an active role in the low-income housing program, deferring instead to the MLGL.

Both the housing component of the MLGL and the Gaborone SHHA have expanded substantially in size since the advent of AID assistance. Since 1980, the MLGL Housing Section has grown from one to five professionals, including two OPEX who arrived in 1984. The Gaborone SHHA staff has risen from three employees in 1973 to over 100 in 1985. This quantitative expansion, however necessary and useful, should be seen in the context of the following characteristics or tendencies:

Dependency - Both the MLGL and the Gaborone SHHA tend, to a substantial extent, to remain dependent upon the initiatives and the managerial and technical expertise of expatriate advisors/OPEX. In some cases counterparts are not available. In other cases, it is not clearly evident that the counterpart can reach the necessary level of technical proficiency and managerial skill prior to the OPEX departure. Technical assistance will be required for the foreseeable future. Even if adequate skills are attained, there are indications that the sense of dependency will sometimes remain. In the view of knowledgeable observers, this dependency and lack of initiative can be accounted for by socio-cultural factors and the nature of the educational process in Botswana.

Information and Communications - The functioning of the Housing Section within the Ministry, the influence of the Housing Section on SHHA and the relationship of the SHHA to its parent organization, the Gaborone Town Council and Town Clerk, are all somewhat adversely affected by communication problems. More specifically, there is a lack of awareness of the importance of information as a key ingredient in policy formulation, program design and management. Although formal channels for communications and decision-making exist, they often are not effectively utilized. As in the case of dependence/lack of initiative noted above, the information and communications problem seems to be rooted in the culture and the education system.

Self-Evaluation - There is little institutional self-diagnosis and analysis. The direct consequence is that functions, roles and responsibilities tend not to be clarified as a result of experience; inappropriate plans and procedures remain unchanged; and deficiencies in performance are often not quickly identified and corrected.

An example of the last tendency is found in the regularly scheduled evaluation conducted by the RHUDO/ Nairobi in March 1985. Although MLGL was aware of deficiencies at the site, it had taken no significant initiative to make needed changes. The RHUDO proposed the evaluation study, designed it to focus specifically on known problems, cleared the terms of reference with MLGL, borrowed an AID-financed advisor from Zimbabwe and conducted the study. MLGL, and to some extent the two MLGL OPEX, seem not to agree fully with the draft findings and may be reluctant to accept the recommendations and act vigorously on them.

There was simply not enough technical assistance from 1981 until 1984 to build host country capability to the level required to plan and manage the national housing effort. The AID-financed OPEX are in line positions spending most of their time trying to keep the housing program afloat with very little left over for longer-term, systematic institutional development efforts.

The capacity of Ministry leadership in policy formulation and program planning needs further development; the impact of earlier expert assistance at the policy level may have diminished over time. The preparation of the National Housing Plan appears to be almost completely dependent upon the two AID-financed OPEX. Similarly the research and the generation of new ideas for the mobilization of private capital investment in low-income housing is in the hands of one OPEX. Both the National Housing Plan and the private investment issue have proven much more difficult than anticipated.

The March 1985 RHUDO evaluation found that the roles and functions of the two OPEX in the Ministry needed further clarification if the OPEX were to be effective and gain support and acceptance within the Ministry. The report called for better linkages with, and assistance to, the Gaborone SHHA. It recommended an increased emphasis on training by the OPEX and short-term advisors.

None of the key public agencies--the MLGL, the SHHAs or the local authorities--have the institutional capacity and/or the political influence to meet the future demand for housing. There is not sufficient capability to plan and coordinate, to acquire, develop and deliver plots, to resolve land tenure problems and

to manage the financial arrangements which are essential for full cost recovery. Among the most serious consequences of this deficiency are the extremely high level of arrearages, disregard for compliance with requirements for repossession, poor management of building material loans, inadequate verification of beneficiary eligibility, and lax enforcement of staff work rules.

One major problem caused in part by the lack of a national housing plan is the discontinuous pattern of housing construction over time. The fluctuations periodically overload the existing capacity of the MLGL, the SHHAs, the local housing authorities and the construction and building materials sector, and at other times leave them under-utilized.

(4) Institutional Changes Needed

AID and GOB technical assistance objectives in housing are:

- To formulate the National Housing Plan as mandated by the National Housing Policy
- To develop a Housing Section within the MLGL capable of planning and managing a national housing program which will meet the needs spelled out in the National Housing Plan
- To strengthen the capacity of the local Self-Help Housing Agencies and other local authorities to plan urban and rural housing sites, to construct common services and infrastructure, to develop serviced plots, to facilitate self-help construction, and to manage all aspects of site operations.

The need for trained personnel in all sectors in Botswana is very great. In the housing sector, the lack of trained staff at all levels of government is severe.

5. IMPLEMENTATION OF HOUSING POLICY - THE DESIGN AND EXECUTION OF HOUSING PROJECTS

Between early 1981, when the Presidential Commission report was issued, and early 1985, very little was done to translate the National Housing Policy White Paper into a National Housing Plan with implementation goals, specific

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production targets, priorities, strategies, and resource allocations. Work on the plan was initiated on a systematic basis by two AID-financed OPEX only at the beginning of 1985. It is not possible to assess precisely the impact on housing operations in the absence of a plan. Virtually all of the policy, institutional and implementation problems described in this report would have been much less severe if the plan had been available earlier.

It should be noted that housing operations were halted for approximately one year because of severe water supply problems caused by drought during this period.

Briefly noted, the problems of implementing policy are:

- The difficulty of mobilizing and channeling private resources into low-income housing in urban and, especially, rural areas

- The structural and financial problems posed by a complex and irrational system of subsidies

- The inhibiting effects on housing investments of traditional land tenure systems, particularly in tribal lands

- The lack of proven methods and delivery systems for rural housing.

There appears to be a conflict in public acceptance of the present housing policy. There is general support for the policy as an ideal which serves the social needs of the people and appears to make economic sense. At the implementation stage, when the reality of full cost recovery must be faced, there is resistance. The resistance stems from the fact that land is so plentiful it is traditionally given by the tribal chief without charge to the requestor. The people perceive the SHHA as an urban equivalent of the tribal chief: a giver of help (land). When the SHHA makes the plotowner pay service charges and installments on the building materials loan (which the tribal chief never does)--and then threatens eviction/repossession if payment is not made--there is a reaction of outrage.

At a more specific level, the implementation and management of the Gaborone West (HG 002) project is lagging and is plagued by problems. A brief summary of the problems identified in the March 1985 RHUDO evaluation study and in most cases confirmed in this evaluation, follows:

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- Lack of a clearly defined "developmental" role for SHHA as opposed to a narrower role as regulator of housing standards.

- The Gaborone SHHA is not performing effectively. The RHUDO report uses the term "disintegration" to describe its current state. The SHHA OPEX does not believe there was a highpoint from which to fall. It should be noted that, despite the inadequacies of the SHHA, some serviced plots have been delivered and some houses built.

- The role of the SHHA OPEX is unclear and his authority is being resisted by site staff who look to the Unified Local Government Service (ULGS) for protection (see below). SHHA site personnel are hired, promoted, transferred, trained and fired by the ULGS to which they owe their loyalty. ULGS has not agreed to discipline the staff or to instruct employees to perform the functions specified by SHHA. In actual practice, the ULGS has not been accountable to the SHHA, the Gaborone Town Council or the Ministry. ULGS implements a policy of frequent transfer of personnel among various ministries.

- There is a lack of guidance, support and communication from the Town Council, the SHHA's nominal superior.

- Construction of community development and commercial facilities is lagging, in large part because of the construction moratorium caused by the drought.

- Plot owners are not receiving sufficient technical assistance on house design and construction.

- Eligibility is not being verified and eligibility standards are not enforced.

- House construction is not adequately supervised and inspected.

- Land survey methods are lax.

- Local technical assistants are not performing their assigned tasks or observing required work schedules.

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- Controls are too loose on building material loan allocation and disbursement.

- Arrearages are very high; repossessions are rare.

- Local opposition party politicians are seriously undercutting the full cost recovery policy by telling plot-holders that they do not have to pay the service charges--the land should be free.

6. ISSUES

This section discusses issues affecting the low-income housing sector, including: need, priorities and resources; finance, subsidies and liquidity; private capital, land tenure and land costs; rural versus urban housing development; and economic and social effects from improved housing.

(1) Housing Needs, Priorities And Resources

The rapid growth of the population (well in excess of 3 percent per annum), a high rate of rural-to-urban migration, government land policy (restrictions on private development) and a large backlog of unfulfilled housing needs have caused a housing shortage at all income levels and particularly for below-median income people. The December 1984 Assessment of National Housing Needs identified an overall requirement for 7,930 new urban and rural housing units per year for the period of 1984-1989 rising to 16,390 per year for the period 2000-2004. These requirements should be compared with past performance: the Self-Help Housing Agencies have produced 17,000 units since 1973 (a yearly average of 1,547 units) and the Botswana Housing Corporation has built 6,353 units since 1971 (a yearly average of 490). To meet future project needs the 1984 Shelter Sector Assessment states that housing investment would have to increase rapidly from the 1984 level of 3.2 percent of GDP to 5 percent in 1985, a rise of 56 percent.

According to the December 1984 assessment, at current income levels, only 20 percent of new urban households will be able to afford commercially-built, minimal housing without government assistance or subsidy. In rural areas, 90 percent of existing stock has no sanitation and will require infrastructure upgrading at the rate of 4,900 units per year for 20 years.

Although government policy recognizes shelter as a basic human need and accords it a priority similar to that of health care and education, in actual practice the resources available for medium- and low-income housing are in short supply. This includes both financial and human resources.

(2) Finance, Subsidies And Liquidity

As noted above, there is no central agency or mechanism for the mobilization and management of the capital resources needed for low-income housing.

Although there is an ample, even excessive, level of private capital liquidity in Botswana at present, there is a serious shortage of both public and private capital available for housing, particularly in medium- and low-income levels. This reflects the reluctance of financial institutions to invest short-term money in long-term mortgages. The inhibition is caused by at least four factors: subsidies, land tenure arrangements, land development and infrastructure requirements and institutional constraints.

The December 1984 Assessment of National Housing Needs points out that despite a national policy of full cost recovery in the housing sector, subsidies abound in a variety of forms, both overt and hidden, complex and simple, often intended, sometimes seemingly beyond control because of the political and social difficulty of, e.g., BHC raising subsidized rents to full cost recovery levels.

Subsidies have distorted the basic functions of the Botswana Housing Corporation and skewed its priorities. For example, subsidies have made it less expensive to rent BHC units than to buy them; as a consequence BHC has regressed from being the nation's most competent builder to its largest landlord. Subsidies tend to be greatest in higher income housing.

Subsidies send false signals to the private sector -- and to the public -- by obscuring real economic values, costs and yields, e.g.:

- BHC's rental policies and sales prices and its method of housing inventory accounting conceal its profits and losses.

- BHC's rate of return on investment from rental investment is slightly less than the cost of borrowing from government.

- BHC's rental income on a certain housing unit is P. 516 (U.S. $360) per year while its interest burden is P. 1200 (U.S. $840) per year.

Similarly, the real costs of the Self-Help Housing Agencies are obscured by subsidy, e.g.:

- Total costs are distributed to all plot-holders so that late buyers are not being charged for the full marginal costs of their serviced plots.

- Cost of land and surveying is covered in the budget of the Ministry of Local Government and Land.

- A grant of P. 150 (U.S. $104) is given to the Town Council for each SHHA plot to offset some of its recurrent cost burden.

- Costs of infrastructure for SHHA plots are charged to non-SHHA plots in the same development.

(3) Private Capital, Land Tenure And Land Costs

The proper priority for government is to develop land and build infrastructure while stimulating the flow of private investment through such means as long-term bonds and secondary mortgage markets.

Private sector financial institutions will not lend, especially to low-income households, unless the plot has long-term value, i.e, it can serve as collateral. This means that a) land tenure issues noted below must be resolved, and b) land value must be increased by the construction of roads, physical and social services, and the availability of employment opportunities for residents.

The four forms of land tenure are freehold, the Fixed Period State Grant (FPSG), the Certificate of Rights (COR) and freehold. The COR has not been seen by financial institutions as permitting capital or equity accumulation; thus, it was not viewed as mortgageable. Recent recommendations by the Presidential

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Commission on Land Tenure are intended to remove this constraint. Freehold land has not been readily available to low-income people.

(4) Rural Versus Urban

Contrary to public policy statements assigning a high priority to rural housing, the housing needs outside the cities and larger towns have not been effectively addressed. As in other developing countries in East and Southern Africa, the rural poor are less visible, have tribal land tenure systems which inhibit lending by financial institutions and appear difficult to reach via known housing strategies and delivery systems. Apart from deficiencies in infrastructure (water, sewerage, etc.) rural housing stock generally appears to be structurally sound. Thus in some cases upgrading of rural housing may require only minimal infrastructure.

The 1980 Presidental Commission on Housing Policy expressed the view that housing is a factor in encouraging rural-urban migration. This view is not supported by senior MLGL officials. An objective study of the rural housing problem and its possible effects on rural-urban migration is needed.

(5) Economic And Social Effects Resulting From Improved Housing

The basic planning documents for housing place emphasis on the production of housing infrastructure and related services. Even in the economic and social analyses of the HG 002 project paper there is little examination of, or planning for, the social and economic consequences which may be occasioned by the improved housing, such as employment creation, changes in income, savings, morbidity and longevity, and access to social and economic services. Similarly, the CDSS does not systematically examine the possible relationships between the housing program and the other USAID development assistance activities in education and rural development.

IV. HONDURAS

AID supported the formulation of a national housing policy and plan which has stimulated the focus upon low-income beneficiaries and the construction of core housing and upgrading as acceptable shelter solutions. As a result of AID-financed upgrading programs, some reduction in infrastructure standards has been achieved. Additional effort is needed to reduce subsidies and achieve a greater level of cost recovery.

The Emergency Housing Program with numerous unsold houses has resulted in the demise of the National Housing Bank (FINAVI), and, in turn, has jeopardized the savings and loan and mortgage insurance system. AID-provided, long-term technical assistance produced some increased management capability for FINAVI, but, for the most part, the organization is overstaffed, lacks leadership and is inflexible (especially regarding prices on the unsold inventory).

Technical assistance to the National Housing Institute (INVA) upgraded its capabilities and quadrupled its initially low output. INVA still lacks leadership and good management skills, specifically in financial management, project management and construction supervision. It currently has a delinquency rate of 44 to 80 percent on HG-financed projects.

The Municipalities of Tegucigalpa and San Pedro Sula have developed implementation units and procedures for executing upgrading projects. Financial and project management is good and the ability to reach low-income groups is excellent. These projects are proceeding well and may receive additional financing.

AID's credibility as a donor in the shelter sector has been reduced as a result of the Emergency Housing Program and, to a lesser extent, because of construction problems on the El Sitio project.

1. OVERVIEW OF DEVELOPMENT CONTEXT

With a median annual income estimated at $449, Honduras is the second poorest country in the Western Hemisphere. Like other Central American nations, it has an extremely depressed economy with very high unemployment, a shortage of foreign exchange, and budget deficits. Because of the budget deficits, the Government of Honduras (GOH) has been urging autonomous or semi-autonomous agencies to go off-budget.

To bolster the Honduran economy, the Kissinger Commission and the Jackson Plan suggested the infusion of large amounts of resources. Recently Vice President Bush came to Tegucigalpa and offered $147 million in "no-strings-attached" Economic Support Funds (ESF). One-half of the ESF monies were to be delivered immediately and one-half when the GOH "puts its economic house in order." The GOH is in strong, quid pro quo position in such dialogues with the U.S. Government because of the operation of the Nicaraguan counter-revolutionary forces ("the contras") from Honduran territory, the construction of military bases and the presence of U.S. military personnel.

At the time of the team's visit there was considerable political instability (a "constitutional crisis") arising out of President Suazo Cordoba's attempt to hand-pick a successor. The Supreme Court is also viewed as grossly corrupt, and the Legislative Assembly fired five of the nine justices. Suazo jailed two of the replacement candidates and asked the military to protect the Supreme Court.

As a result of the economic problems, the construction industry is operating at 30 percent of capacity. High costs are charged for certain building materials.

2. LOW-INCOME HOUSING DEVELOPMENT

AID has had a long, but discontinuous history of financing housing development in Honduras. From 1963 through 1971, four HG projects were authorized totalling $28 million. Then after a 7-year break, it began to finance another series of projects, as described below.

HG 005 was authorized in 1978 to assist the National Housing Institute to construct $10.5 million in core and basic units and sites and services for low-income families in urban areas.

In 1980, HG 006 was authorized to provide slum upgrading, primarily the extension of water and sewer lines and provision of titles for very low-income families in communities surrounding Tegucigalpa and San Pedro Sula. These projects were designed to be carried out by the municipalities of these two cities and were to result in $10 million in improvements.

In 1981, during the interim presidency of Policarpo Paz, an Emergency Housing Project was hurriedly conceived to build 25,000 basic houses in projects on a mass-production basis. Private developers with land and savings and loan institutions were to be involved with the project. The implementing agency was FINAVI, the national housing finance corporation. AID was asked to finance $25 million to produce 6,000 units already under construction by private developers.

None of these HGs has been completed to date. An additional HG loan, number 008, was authorized in September 1984 in the amount of $25 million; however, the GOH, specifically INVA, has refused to sign the loan agreement unless the interest rate is 10 percent or less. After the study team's visit, the USAID and RHUDO offered ESF funds to soften the cost of resources for the GOH. The USAID and RHUDO are also considering putting the funds into the urban upgrading projects executed by the municipalities.

The national housing deficit is estimated at 500,000 units.

3. HOUSING POLICY AND POLICY DIALOGUE

Discussed in this section are the previous housing policy of the government, the policy dialogue process, the present policy and AID's role in its formulation, and improvements needed.

(1) The Previous Housing Policy Of The Government; Compatibility With AID Policy Criteria

The GOH's previous policy on housing was not formalized, but can be summarized as follows:

- The government should build conventional housing for middle-income families.

- The costs and interest rates should be subsidized.

This policy was not compatible with AID criteria.

Furthermore, there was no housing financing available for low-income families whose shelter was either informally built houses or rental units.

(2) The Policy Dialogue Process

In 1975, PADCO, a Washington-based consulting firm working under a short-term RHUDO contract, began to explore the desirability of establishing a national housing policy with CONSUPLANE, the national economic planning office, INVA, and the National Housing Bank.

A coordinating committee drawn from the various agencies engaged in housing was formed and met numerous times to discuss and draft a policy. PADCO worked with the committee several times during 1976 and assisted in shaping some of the recommendations.

In February 1977, the National Housing Policy was approved by the Council of Ministers. PADCO assisted in organizing a seminar to discuss the formulation of the next logical step, a National Housing Plan. The National Housing Plan was drafted and formally adopted in 1979.

(3) The Results Of The Policy Dialogue: Housing Policy Of Today; The Contribution Of AID

The National Housing Policy, generally recognized by GOH officials as a good one, can be summarized as follows:

- Government housing activities will focus on low-income persons.

- The minimum technical standards required shall be utilized.

- There should be a capture of a greater amount of national savings, possibly through the creation of a Social Housing Fund.

- There should be a clear definition of institutional roles (the organizational responsibilities were set forth in the policy) and integration of housing into national and regional planning.

- Land for development should be set aside, perhaps through the creation of a land bank.

- Personnel should be trained for the housing sector.

Several other adjustments to the policy have been made as a result of the GOH experience in HG-financed projects:

- Urban upgrading, providing titling, water, and sewer is a suitable means to help poor households. In fact, the GOH, through its national water and sanitation agency, SANAA, has taken the position that, if poor families want infrastructure, they should pay for it through upgrading schemes. The poor are willing to do so, even if they are paying above-market interest rates (currently the poorest of the poor are paying 17 percent -- current S&L rates are 12.5 percent and INVA charges 11 to 14 percent).

- Wet core units with construction supervision are also an acceptable solution, as is a basic unit.

- Interest rates should vary (on INVA programs) according to the ability to pay -- the 11 percent to 14 percent range mentioned previously.

- Dominio util (use rights) titling, which includes rights for the wife, is a benefit for low-income households. Use right titles were described as "practically as good as ownership, the best one could do given Honduras' medieval land-tenure system." In actuality, the land still belongs to the GOH, but the residents have perpetual use rights.

- Some standards of SANAA have been reduced for low-income communities (reduction of the number of manholes and house connection boxes required).

A beneficial urban upgrading policy, advanced not by AID but by the Municipality of Tegucigalpa, is known as Decree 833. Decree 833 allows the Municipality to receive mortgage payments from communities where the developer has not completed water and sewer installation. The Municipality installs the services and continues to receive the payments until such time that the improvements are amortized.

AID was instrumental, first, in developing the National Housing Policy and the National Housing Plan, and, second, in the various policy changes brought about as a result of experiences in housing projects created in response to the Plan. Without AID's assistance, it is quite likely that Honduran housing policy would not be nearly as comprehensive or advanced.

(4) Policy Improvements Needed

While the overall policy is good, events which have occurred in the implementation of the projects (discussed in greater depth below) have created the need for additional policy improvements.

Although housing projections were updated in the second five-year plan, and sites and services and a commitment to the low-income target group were emphasized, there seems to be no active mechanism for updating the housing policy and plan or for incorporating lessons learned during the past several years. CONSUPLANE, the national planning organization, has the responsibility for planning, but without resources is not able to take effective action. A new five-year plan is due to be published in November 1985. Because of implementation problems and the absence of a GOH budget commitment to new shelter programs, low-cost housing and the sector in general appear to be rudderless.

There is a great need to mobilize local resources for low-income housing. The National Housing Plan, although well-written, places total reliance upon foreign donor funding. The secondary mortgage market has never gotten off the ground. The concept of the Social Housing Fund, especially in light of the

current serious problems and possible abolition of FINAVI, has recently gained a higher level of acceptance. Study needs to be undertaken to safeguard such a fund from corruption, to assure that contributors can become beneficiaries, and to overcome obstacles to its formation (e.g., gaining labor union support, resolving labor vs rural questions, and overcoming resistance to the formation of another bureaucracy).

In addition, the savings and loan system is currently jeopardized. The laws which govern it require intensive review and adjustment. Policies need to be set which will advance the system's viability while inducing it to serve lower-income households.

House sales by INVA are made under a lease purchase agreement which requires the family to completely pay off the mortgage in 15 years, prior to receipt of the title. This postpones ownership and the benefits that should accrue to low-income households.

The beneficiary selection system is very political and may involve kickbacks. Presently, the Social Selection Committee must receive approval by the upper management of INVA and the Minister himself for each family selected as beneficiaries. This system needs to be changed so favoritism is eliminated.

Currently cost recovery is not being achieved by INVA. INVA's administrative costs are excessive for the number of units produced. Collections are not rigorously administered. A portion of the loan repayments are consumed by INVA for administrative expenses and are not returned to the Treasury. The RHUDO has imposed a condition precedent that INVA participate in HG financing to bring about better cost recovery.

Unless cost recovery is the policy of these organizations and good cost accounting principles are employed, important demonstration effects will be lost.

4. INSTITUTIONAL ELEMENTS, SYSTEMS AND CAPABILITY

This section discusses the previous institutional situation, the institution-building efforts which have been undertaken, and the institutional situation today.

(1) Previous Institutional Situation

In the 1970s the output of the public sector housing agencies was very low: only 3,891 units were produced by the public sector, while the private sector turned out approximately 10,500 units.

The major public sector agency was INVA, which had been formed in the mid-1950s. With broad powers provided by its enabling legislation, it focused on middle-income housing in the major cities. It was constructing about 600 units annually when AID began to provide assistance in the late 1970s.

FINAVI, created in 1975 and beginning operations in 1976, was the central body of a savings and loan system providing financing to middle- and upper-low-income households. Its original strategy was to reach lower-income groups by developing "popular" savings schemes and to coordinate with entities specialized in serving low-income groups.

FINAVI goals were to initiate a secondary mortgage market, to stimulate the creation of savings and loan institutions and to provide mortgage insurance coverage for participating institutions.

(2) The Institution-Building Effort

INVA - This organization received a very successful infusion of technical assistance in 1978. The eight-month effort started with a management audit and ended with the follow-through on recommendations that resulted in observable improvements in managerial capability.

One INVA technician traveled to Puerto Rico to attend a seminar in turnkey housing which did pay dividends. The concept was tried, and the Institute has been building turnkey housing since.

Short-term technical assistance provided by AID was appraised in neutral terms by INVA management.

It appears that medium-term technical assistance had the most positive impact upon the institution, with the advisor working within the institution and directly with the management and staff.

FINAVI - AID supported the drafting of the legislation which created FINAVI in 1975 and provided it with seed capital. FINAVI started out as a simple, flexible organization meeting a real need in the housing sector.

Starting in 1981, the Office of Housing provided a long-term technical advisor to FINAVI who worked to computerize record-keeping and to install management improvements, such as redefining procedures and functions and setting up an management-by-objectives system. The advisor also provided assistance on project management, especially on critical-path planning. This assistance resulted in some modest improvements in FINAVI management and was well received.

At one point FINAVI selected as its general manager an AID local-hire employee. This move backfired as he proved indecisive and unable to delegate authority. He apparently feared doing anything that might damage his tenure with AID.

FINAVI was generally very dissatisfied with short-term technical assistance provided by AID, claiming that advisors worked from insufficiently prepared terms of reference, were given too little time to do the work and had too little contact with FINAVI professionals so that the institutional effects were minimal. In the case in question, the consultant's report never arrived. The RHUDO responded that FINAVI most likely felt negatively about the consultants because their report was very critical of that organization, recommending at what point financing should be cut off and that the executive director be fired. While the study team agrees that the nature of a consultant's findings may affect the acceptance of the findings and recommendations, it feels more can be done overall by the RHUDOs to make short-term consultancies more effective.

It must be noted that a recent short-term advisor provided insights on how a social housing fund could work, and apparently was very well received. This advisor is a lecturer with the Latin American Training Center, which is discussed in the Panama section.

FINAVI staff thought that trips abroad for seminars and visits to projects in neighboring countries had little utility, as they imparted little information useful to Honduran projects.

It appears that the RHUDO's best institutional support to FINAVI was the long-term technical advisor, who incidentally was a Latino. Other assistance provided has had much positive institutional effect upon the organization. (Short-term technical assistance provided by AID was appraised in neutral terms by INVA management.)

Impediments To Institutional Strengthening - National budgetary constraints have taken both INVA and FINAVI off-budget, forcing the organizations to depend on their mortgage collections to pay administrative expenses. While this has not greatly hampered the operations of INVA, it has severely restricted those of FINAVI. FINAVI has suffered a serious loss of revenues due to the failure of the Emergency Housing Project discussed in detail below.

(3) The Results Of The Effort: Institutional Capacity Today

INVA - INVA's functions are project administration and supervision, design and review, contracting, sales and collections. It is no longer actively engaged in direct construction activities. INVA was viewed for a time as an organization whose institutional capacity was improving as evidenced by an increasing housing output. To its credit, the Hato de Enmedio project on the outskirts of Tegucigalpa was one of the best visited by the team. The project encompassed several kinds of solutions; the overall result was top-notch. However, over the years its staff has burgeoned to its present level of 280 persons, and it has become bureaucratic. Currently, leadership and efficient and effective management appear to be lacking. At the time of the evaluation team's visit, the RHUDO was trying to elicit INVA reactions to the findings and recommendations of a recent management audit in order to identify technical assistance and training measures to rectify the problems.

INVA's staff members have serious shortcomings in their ability to review proposed plans, to inspect and make rational on-site changes to plans given construction realities and to control the finances of a project. INVA handles sales, but not well. Its collections on mortgages is poor: on AID-financed projects it had a 44 percent to 80 percent arrearage rate, with an average delinquency of 6 months.

INVA is not a strong organization; yet, given the problems in FINAVI, there are no other public housing agencies with which the RHUDO can work.

FINAVI - FINAVI at one point reportedly was the stronger of the two major housing agencies, but it, too, grew to be overstaffed and bureaucratic. It has been plagued through the years by a lack of strong management and leadership.

One of its functions was to regulate and provide long-term financing to the savings and loan system. As regulator, it was said to be overly protective of the consumer, to the detriment of the savings and loan institutions.

The most serious institutional problem of FINAVI was its decapitalization caused by the inability to sell houses constructed under the Emergency Housing Program.

For a time, FINAVI was able to cover all operational expenses with the exception of the debt service on the GOH loan. However, because of its severe decapitalization and an outstanding debt to the Ministry of the Treasury, estimated to be $51 million, there has been serious consideration of abolition of the organization.

It has provided no financing to the savings and loan system since 1981, and the savings and loans currently are incapable of providing mortgages. Indeed, the survival of the S&L system is severely threatened. FINAVI also sponsored the mortgage insurance (FHA) system, but used up all the premiums paid in so that system is also defunct.

In late 1984, the RHUDO evaluated FINAVI to determine whether it was working with a viable institution. The results were negative--the evaluation recommended cutting staff, reducing the prices of the unsold housing inventory, and government refinancing. AID applied conditions precedent for the remaining $10 million under HG 007: $2 million for an agreement to refinance and $8 million once a legislative package including refinancing and other reforms was enacted by the Honduran Congress. It is now felt that passage of such a package is highly unlikely.

The evaluation was reviewed by the GOH Economic Cabinet and that body recommended that FINAVI be closed down. There will be a series of serious legal and financial problems left in the wake of its closing and of the unfinished Emergency Housing Program. Some FINAVI staff members have been laid off; morale is very low.

Unquestionably, FINAVI's usefulness as an implementing agency has ended. Efforts should be made to support the transfer of responsibilities to another organization, such as the Central Bank. While it is not certain that the Central Bank should be the repository of FINAVI's programs and problems, it is certain that it is unique in having sufficient credibility to undertake them, albeit temporarily.

5. IMPLEMENTATION OF HOUSING POLICY -- THE DESIGN AND EXECUTION OF HOUSING PROJECTS

This section reviews the performance of INVA and FINAVI in the execution of projects.

(1) INVA's Experience

INVA intended to complete its work under HG 005 by September 1984, however, it still has three uncompleted projects: (1) Hato de Enmedio project in Tegucigalpa; (2) the El Progreso project near San Pedro Sula; and (3) the El Sitio project in Tegucigalpa. The El Sitio project poses perhaps the most severe obstacle to the successful completion of HG 005.

The developer of the El Sitio project owned the property and was motivated to develop the land to head off further squatter invasions. The project was designed for 972 one-bedroom, core units and wet cores, a settling pond for sewage and a water distribution system to be delivered to SANAA. The project was located on the road to the Valle de los Angeles in the metropolitan district, some distance from the city's center. Access to transportation was a problem from the beginning, but private buses are now serving the residents of El Sitio.

INVA reviewed the developer's plans and made, according to him, many arbitrary changes: house sizes were reduced, sidewalks were widened to six feet (this

width was later reduced to three feet); the most serious error was the elimination of drainage from the backside of the houses. Apparently, no soil tests were required by INVA, despite general knowledge that the soils in the Valle de los Angeles do not compact well and shift easily.

According to INVA, the developer laid the foundations improperly and did not compact the soil well, but compaction tests done later showed that the developer had compacted the soil beyond the specifications set by INVA.

SANAA, the national water and sewer authority, was to provide improved water quality by bringing additional water to the site, but specified that the developer construct a line larger than required for the El Sitio development. The developer would not agree; therefore, SANAA would not connect the system. Until better quality water was available, house purchasers would not make their payments. Finally, an agreement was reached in which 12 months' water fees were advanced so that the line could be completed. Once the system was in place, the water delivered was of very poor quality. A water vendor was spotted in the project area during the site visit.

The developer had proposed and INVA had accepted the construction of a sewage settling pond at the site. At first glance, this was a very attractive project feature in a country with almost no sewage treatment. The settling pond proved unacceptable to the buyers in the project because of odors and mosquitoes. Once again, in negotiating with SANAA to hook up the project houses to a trunk sewer line, SANAA made the developer install a line which was larger than required for the El Sitio project. Apparently SANAA saw this as an opportunity to have the developer install a line which could serve several small communities below El Sitio. This problem has been resolved.

Ultimately, because of very heavy rains, the developer was not able to deliver the project until 45 days after the contract deadline. With the rains came erosion which washed away part of the precipice on which El Sitio is located. The drainage system clogged with silt from construction sites. Some foundations collapsed, walls buckled, and INVA refused to accept the project. A legal battle ensued with the

developer, who claimed that he had met the specifications set forth by INVA and that the heavy rains which stalled construction constituted a force majeure.

INVA steadfastly refused to accept any responsibility for the problems, despite being bombarded by the radio stations and newspaper editorials which seriously damaged its public image. AID delicately tried to function as the "honest broker" between the developer and INVA. INVA finally relented to cover some of the costs. The developer estimates that he will lose $1 million; INVA believes it will cost them $800,000; AID's credibility in promoting private sector involvement in low-cost shelter has been diminished.

Perhaps the most important lesson is that someone must be more vigilant over the technical details of a project, or the demonstration effect to other private builders and the general public will be negative. Apparently, the RHUDO was not asked to finance the project until it was well underway. However, at the point that it agreed to finance the project, the RHUDO should have asked some hard technical questions about the site, and demanded solid answers before putting in HG funds. If the implementation of AID-supported housing projects does not go well, it undermines the policy efforts to assist low-income persons.

(2) FINAVI's Experience

The background on the Emergency Housing Project (EHP) is complicated, and some details remain unclear. The EHP began during the interim presidency of Policarpo Paz and was the brainchild of his friend, Fai Sikafi,1/ a building contractor. Fai Sikafi pushed the idea that 6,000 low-cost houses could be built in San Pedro Sula and Tegucigalpa. The idea was agreed to by the GOH and projects were proposed by contractors who had access to developable land. The GOH provided construction financing and promissory notes so that the contractors could obtain building supplies. The financing passed through FINAVI, and

1/ Mr. Sikafi is currently under arrest in Miami in connection with a plot to assassinate the current Honduran president, Suazo Cordova.

then through two savings and loans, La Constancia and La Vivienda de Sula, to the contractors. Government utilities were to provide hookups for free; the GOH was to waive any transfer taxes.

Five projects were planned: La Mora II, La Planeta, Satellite, San Jorge in San Pedro Sula, and Centroamerica Oeste in Tegucigalpa.

The S&Ls and the construction companies were interlocked. La Constancia owners also owned two construction firms, La Promotora and La Constructora. Likewise, La Vivienda de Sula owned Honducas, the construction firm building San Jorge and La Mora. The building supply firms providing materials to these projects were also owned by some of the same interests who owned the S&Ls. These private-sector groups intended to make profits on both the housing construction and the building supply sales.

The GOH provided 100 percent, interest-free construction financing. The initial financing included $5 million in cash from the Central Bank and $16.5 million in government promissory notes. Many respondents alleged that a considerable amount of the cash provided to the builders was not used for labor or materials, but was diverted. Construction was underway on two of the projects (La Mora, San Jorge) when the government realized it needed more cash for completion. Apparently at that point the GOH approached the U.S. Government for a HG loan. The U.S. Ambassador instructed AID and the RHUDO to generate a HG loan to complete the projects. The RHUDO developed a Project Paper in "record time" -- 3 months -- to provide $25 million. The Project Paper cited the involvement of private sector contractors building turnkey houses, and savings and loan institutions channeling the funds to these contractors.

The fatal flaw of two of these projects was their location. In San Pedro Sula, the sites were 8 kilometers and 23 kilometers out of town; the latter was described as "in the middle of nowhere." There were few buyers who would purchase these poorly located projects.

Shortly after AID's involvement began, the RHUDO insisted that the contractors provide some of their own construction financing. This put an end to the cash advances and the contractors stopped construction. Subsequently, one contractor went bankrupt with

no accounting for the cash advances, leaving several building supply firms with huge receivables. Neither the S&Ls or FINAVI were prepared to aggressively promote the sale of the houses. For the houses which were completed, the prices ended up quite high for low-income families, partly as a result of the utilities and the GOH reneging on free hookups and no transfer taxes and, partly as a result of high HG interest rates (16 1/2 percent). FINAVI refused to lower the prices so that the houses would sell.

Meanwhile, the S&Ls owed FINAVI, and FINAVI owed the Ministry of Treasury approximately $11.5 million bearing 15 percent interest. For a time, repayments of mortgages from other projects enabled FINAVI to pay its staff and operating expenses. However, it gradually became decapitalized, including all of its mortgage insurance reserves. Despite its decapitalization, it inflexibly refused to lower prices on the houses to facilitate their sale.

The RHUDO brought in a short-term advisor to make recommendations for selling out the inventories. Firms selling the houses on commission have been lined up. Practical recommendations by the advisor for the Ciudad Satellite project have resulted in a dramatic increase in sales with only 600 out of 2,300 units remaining to be sold.

This project has failed in most respects. FINAVI, as noted above, will likely be abolished. The S&L and mortgage insurance system has been seriously damaged. AID's credibility as a donor for housing development has been impaired, the political pressure for AID to support this project was intense. The RHUDO might have avoided considerable problems by demanding market studies and site selection analyses before allowing HG funds to be used for the project. The contractors should have had the responsibility for construction financing at the initiation of the program. The result is an entanglement which will take a long time to straighten out.

(3) <u>The Experience Of The Municipality Of Tegucigalpa (CMDC)</u>

Under HG Loan 006, the CMDC agreed to be the implementing agency for an urban upgrading project to be carried out in marginal communities in Tegucigalpa.

The upgrading involves the installation of water and sewer and the delivery of a use (dominio util) title. Twenty-five projects were planned based on technical and income affordability criteria. Eighteen projects have been completed or are underway.

The CMDC set up a separate unit for implementation that is headed by an able administrator and engineer. Contracts for construction are awarded competitively, and the contractor must provide performance bonds for completion and quality. Twelve different firms (the majority of which, incidentally, are from the opposition party) have been contracted. A 25 percent advance has been given by the CMDC, but a bond is also required on the advance. A separate contract is awarded for independent construction supervision.

The CMDC does not have access to the funds--the disbursements flow directly from the Ministry of the Treasury to the contractor. The CMDC must account for the funds; the accounting is audited annually.

Visual inspection of two installations demonstrated that this project is reaching very low-income persons. One concern about the project is that the rate of interest paid by these households is high--17 percent--and, in some communities, the percentage of total income paid for water, sewer and titles is high--up to 21 percent of total income. Yet, there appears to be high demand--these high payments are apparently cheaper than purchasing the water from vendors. The provision of sewage disposal is also very important, as it previously drained directly into the streets, posing serious health problems.

Another concern is whether the use titles can actually serve as collateral and will allow for the growth of individual equity. A third concern is the collection system. The design of the project uses a very ingenious method to ensure collections. Loan payment amounts are included (as of November 1984) on each water bill. If the loan payment is not made, SANAA supposedly will cut off the household's water (each house has a valve) until payment is made. There are two problems: (1) making a water payment requires a journey to the city's center to pay at the Autonomous Municipal Bank; (2) SANAA is apparently quite lax on collections and shut-offs; therefore, it is doubtful that collections will be efficiently and aggressively made.

A fourth concern is that the total water supply for Tegucigalpa is low. Some of these poor neighborhoods receive water only two or three hours daily during the dry season, and then only in the middle of the night. A major World Bank contract is helping SANAA identify and reduce water system leakages. Water supply must be augmented by expanding the existing dams, drilling wells and investing in a major new dam as the long-term solution. SANAA has acted on the RHUDO's recommendation to increase the capacity of its major reservoir, and the situation offers an opportunity to provide additional assistance. Furthermore, the water is not potable, being described as the "most dangerous water of any capital in the world." No sewage treatment facilities exist, and raw sewage is dumped into the rivers. These, too, may be opportunities for AID to provide assistance, perhaps using ESF or DA funds.

It should be noted that the Project Paper for urban upgrading was very well formulated, based on a survey of more than 400 poor families in selected marginal communities. There seemed to be a direct correlation between the generally good quality of this project and the quality of the Project Paper.

Overall, we believe that the upgrading project provides an important demonstration for administering and controlling such projects. The inclusion of bidding, awards for low bids, performance bonding of the amount advanced, and insulation of the fund flow seem especially well executed in this project. The quality of the Project Paper backing up this project leads to the conclusion that some implementation problems can be avoided with more investment in careful preparation of project papers. The RHUDO needs to re-assess SANAA's capability and will to enforce collections, that are important if the system is to be self-perpetuating.

V. JAMAICA

AID was instrumental in supporting the formulation in 1981 of a national housing policy which is highly consonant with its low-income housing strategy. Problem areas in policy which can be addressed by the RHUDO still remain: for example, political selection process for beneficiaries, non-competitive contracting procedures, lack of private sector involvement and reduction of standards. Policy dialogue, especially with regard to housing finance, is at a critical point.

The public sector housing organizations tend to be very understaffed with centralized management. Furthermore, the Government of Jamaica (GOJ) budget support for HG activities is extremely limited. The AID-financed long-term technical advisors who hold staff positions in the Ministry of Construction (Housing), are performing well. However, counterpart and other training appears ineffective and insufficient in light of limited capabilities of institutions.

The Jamaican Mortgage Bank, a product of AID institution-building, is clearly imperiled by decapitalization caused by foreign exchange losses and its inability to launch a secondary mortgage market operation.

The HG-financed program has resulted in very little completed housing output, given the time and money expended to date. The HG 010 settlement upgrading projects are slowed by an inability to coordinate water installation and obtain titles, and high development costs are blocking the marketing of the final HG 010 plots. Starter home construction administered by the Estate Development Corporation is slowed by poor construction management and inefficient contractors. Sugar Industries Housing Limited will accelerate the programs' output as it finishes starter home projects. The Home Improvement Loan program operated by the Jamaica Cooperative Credit Union League has functioned well.

1. OVERVIEW OF DEVELOPMENT CONTEXT

The Seaga administration took over in November 1980 and worked to reverse the economic decline of the previous seven years. Investment was encouraged to combat high rates of unemployment. Inflation, at 48 percent in 1978 under the Manley regime, was brought under control (4.6 percent) in 1980-81. However, serious budget deficits have occurred, and the GOJ is absorbing 60 percent of total available credit in order to cover the deficits. The result has been increasing interest rates coupled with inflationary increases of 16 percent in 1983 and possibly as high as 31 percent in 1984. The annual median income is estimated at $J 10,000 (U.S. $1,926).

Under a World Bank Structural Adjustment Agreement, the government is attempting to reduce its budget through a freeze on new hires in the public sector and by spinning off certain governmental operations into self-sufficient parastatals. This freeze makes it difficult to resolve in the near-term many weaknesses in public sector agencies, including the Ministry of Construction (Housing).

The balance of payments has deteriorated due to a large increase in imports and the rather mediocre performance of major export items, such as bananas, sugar and bauxite. The devaluation of the Jamaican dollar resulted in increased prices of all import items, and has particularly increased the import value of building materials, putting upward pressure on building costs. This poses particular problems for low-income housing when coupled with rising interest rates and labor costs.

A serious blow was dealt to the economy by the announcement by ALCOA in early 1985 that it was ceasing its bauxite operations. The government has been able to negotiate a management contract with ALCOA to continue the operation, but apparently this will require massive subsidies.

In general, the experiment of the Seaga administration to encourage local and foreign private sector investment and employment creation has run upon hard times. High-level decision-making has become more and more centralized. Political polarity has strengthened. In the housing sector, this period of uncertainty may make it difficult to bring about policy shifts, however, construction activities which generate employment will be highly

beneficial, if they can be continued. Thus, continued development calls for new and innovative approaches, especially if annual housing output is to reach the 12,000 units required to close the housing deficit.

2. LOW-INCOME HOUSING DEVELOPMENT

Under HGs 007 through 009, which were disbursed from 1972 to 1978, the program focused on creation of the Jamaica Mortgage Bank as a secondary mortgage facility and mortgage insurer. The Bank was successfully formed, however, because of some ill-advised foreign loans on which it bore the exchange risk, it has been de-capitalized and has become ineffective. The Office of Housing presently has three active HG loans: HG 010, Urban and Rural Shelter Improvement, authorized in 1978; HG 011, Urban and Rural Shelter Improvement; and HG 012, Shelter Sector Support. The authorized loans amount to $40 million.

HG 010 involves three project components: urban upgrading, home improvement loans (generally for rural areas) and squatter settlement improvement. HG 011 was originally designed to continue squatter settlement improvement activities, but was revised to include new construction of starter homes in projects and on individual owners' land (BOL). No aided self-help projects are being implemented. HG 012 will expand the delivery capacity through greater private sector involvement, assist the Jamaica Mortgage Bank to start up its secondary mortgage market activities, and continue to finance settlement upgrading, starter homes and credit union mortgage loans. Disbursement of the first tranche of HG 012 has been held up due to failure of the Ministry of Construction (Housing) to complete HG 010.

The World Bank-funded Sea View project involving a "wet wall" concept, initiated in the mid-1970s, was difficult to sell to Jamaicans. Poor site selection and security problems were cited as the main constraints to marketing this project.

Several public sector agencies have major roles in carrying out projects:

- Jamaica Mortgage Bank (JMB) is the official borrower and provides long-term financing to the Caribbean Housing Finance Corporation and Jamaica Credit Cooperative Union League.

- Ministry of Construction (Housing) (MOC(H)) directs the public sector effort to provide housing. It has responsibility for sectoral policy and plan formulation, and site and project selection.

- Task Force on Marketing (TF) processes beneficiary credit applications and assists in processing mortgages for upgrading projects where land is purchased, water lines and streets are installed and improved lots are sold to squatters.

- Estate Development Company (EDCO), a parastatal dependent upon the MOC(H), carries out project planning, design, contracting, construction management and inspection on squatter upgrading and new schemes.

- Sugar Industries Housing Limited (SIHL), a parastatal under the Ministry of Agriculture, performs activities similar to EDCO, except it does not maintain a large, in-house planning and design staff. Both of these parastatals perform their services on a commission basis. SIHL is the main implementer of new schemes for the MOC(H).

- Caribbean Housing Finance Corporation (CHFC), a subsidiary of the Jamaica Mortgage Bank, provides mortgages for various types of housing schemes and is responsible for collections on MOC(H) projects which are not sold to the National Housing Trust.

- National Housing Trust (NHT) manages a revenue fund generated by employer contributions and employee compulsory savings (3% interest to employee), and primarily finances middle-income housing. It provided funds to the Jamaica Cooperative Credit Union League to blend with HC funds for home improvements loans, but otherwise has not been involved in AID-supported projects.

- National Water Commission (NWC) and Jamaica Public Service Company provide water and electricity.

- Town Planning (TP), under the Ministry of Finance, approves housing project development schemes.

A home improvement loan and mortgage program is administered by the Jamaica Cooperative Credit Union League (JCCUL) with credit provided through 20 member credit unions across the island. JCCUL is a private sector organization.

A Washington-based consulting firm, Planning and Development Collaborative International (PADCO), holds a long-term technical assistance contract to provide two advisors, short-term consultants and training to the MOC(H) on policy and the technical aspects of upgrading and starter home construction. Although these advisors work primarily in the MOC(H), their activities directly affect the other counterpart agencies engaged in low-income housing development.

PADCO advisors provide direct advice to the MOC(H), EDCO and SIHL on project design, development and management, and financial monitoring. They review the invoices presented by contractors of these two organizations. They have worked with the TF on marketing and titling and with the utilities on coordination of installation and hookups.

To date under HG 010 and HG 011, 1,523 plots have been improved since 1980, with 1,359 more to be completed, i.e., marketed, by September 1985; 20 starter homes have been completed with over 200 more anticipated by year-end. The level of output is limited given the resources expended to date. To close the national housing deficit it is estimated that 12,000 units must be constructed annually.

3. HOUSING POLICY AND THE POLICY DIALOGUE

This section analyzes the ability of the HG program to stimulate shifts by the government in housing policy. Special attention is paid to the previous housing policy, policy dialogue, and the current housing policy.

(1) Previous Housing Policy Of The Government; Compatibility With AID Policy Criteria

During the 1970's, the overall policy of the government, though undocumented in one place, could be summarized as follows:

- Some public sector emphasis on low-income beneficiaries, as evidenced by the World Bank-financed Sea View project. Private sector developments were only affordable by upper-income households.

- There was a limited output of heavily subsidized, complete units for middle-income families. Interest rates were 4 to 8 percent and a 20 percent ('buy-down') discount on the total price was given. The smallest starter homes had an interior space of 500 square feet. Cost recovery was not stressed.

- Numerous housing agencies functioned without clearly defined roles and coordination. For example, the MOC(H) was financing its own construction programs, providing project management and making collections. The JMB was providing interim financing and primary mortgages. The NHT was providing financing and functioning as a developer.

- Housing was built for families with only leasehold tenure -- they could never really be owners.

- The need to preserve and upgrade existing housing stock was not recognized.

- At the NHT, the selection process was based on a lottery system, unfair to those who had been enrolled for a long time.

Clearly, the housing policies and practices were incompatible with the Office of Housing approach because they did not focus on below-median-income households, and neither affordability, nor the elimination of subsidies were accepted policies. Initial attempts with low-income projects had produced mixed results.

(2) <u>The Policy Dialogue Process: Development Of A National Housing Policy</u>

At the request of the MOC(H), PADCO working under a short-term contract, drafted an agenda of policy issues and a housing policy framework in 1981. PADCO's work was carried out in conjunction with PRE/H staff and a national housing advisory committee. Several workshops were sponsored by the MOC(H) for persons involved with the housing sector to make comments and discuss the policy. The policy became official when passed by Parliament in October 1982.

The evaluation team was not made aware of major differences of opinion regarding the acceptance of the

Office of Housing's overall policy guidelines. Regardless, the conditions to formalize the housing policy apparently were right, due to enthusiasm generated by a new government to promote the resolution of any differences on key issues.

(3) <u>The Results Of The Policy Dialogue; The Contribution Of AID</u>

Major policy changes can be summarized as follows:

- There is an overall National Housing Policy which has served to focus attention on low-income families and the concept of spreading resources.

- Affordability has become an important part of housing programs: starter homes are smaller (250 to 300 s.f.), and upgrading programs are viewed as beneficial; careful calculations of the beneficiaries' ability to pay are made.

- Interest rates on mortgages have been raised: at NHT, 6, 8 and 10 percent mortgages are available. Some graduated payment mortgages (GPMs) are available. However, the NHT noted that GPM's did not work well as the payment amounts rose faster than salaries. It should be noted that the interest rates of 9 1/2 percent and 11 3/4 percent on the current HGs require that subsidies be made.

- Freehold tenure is now a feature and major benefit, along with water, of the urban upgrading programs. Both title and water are essential for marketing of sites.

- Some re-alignment of the roles of housing agencies has taken place: the NHT now only constructs BOL projects; the MOC(H) no longer directly constructs housing; construction management is carried out by EDCO and SIHL. The MOC(H) no longer provides mortgages and makes collections -- these functions were given to the CHFC. Even with this re-alignment of the housing agencies, overlapping of functions and redundancy persists and impedes coordination.

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- The NHT uses a Priority Eligibility Index (PEI) to select beneficiaries based on low-income status and length of time as a contributor, rather than the previous lottery arrangements.

- A Policy Secretariat has been formed which, although comprised only of mid-level MOC(H) officials, has as its purpose the analysis of effects of current policy.

Unquestionably, the efforts of the RHUDO and the PADCO technical advisor were responsible for the adoption of the National Housing Policy. Without the clear formulation of the policy issues, backed by extensive data collection and analysis by the consultant, the national housing policy might not be written yet. The consultant won the confidence of a Ministry seeking new directions, making adoption of the policy possible.

At this point the low-income focus and affordability seemed accepted by all agencies; however, not all of the AID concepts are completely integrated into operations: subsidies continue; market interest rates are viewed as too expensive for the below-median-income; collections are improving, but continue to need addition.

(4) The Current Policy Dialogue

Conditions Precedent on One HG to Finish Up Another -- HG 010 has been very difficult to complete largely because of a change in tenure policy in housing projects promulgated after the Jamaica Labor Party (JLP) gained a majority in 1980. The policy change was made to assure that the beneficiaries received freehold (ownership) rather than leasehold titles. Land acquisition giving clear titles proved very difficult in the upgrading projects and has resulted in extraordinary delays and cost pressures for the owners.

In July 1984, the RHUDO conditioned HG 012, approved in 1983 for $40 million, with the requirement that HG 010 be concluded by September 1985. The condition has prompted considerable effort by the MOC(H), the Task Force for Marketing and the Caribbean Housing Finance Corporation to make progress on HG 010. Nevertheless, only 600 out of 1,913 plotholders have received mortgages as CHFC began to provide these

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only in August 1984, following the imposition of the CP. Since then, numerous problems have been encountered, and the September 1985 deadline may not be met. One problem is that the improved lots for some of the resettlement schemes are much more expensive than nearby lots developed by the private sector -- in one case eight times more expensive -- and the low-income families refuse to pay these high prices.

If the September 1985 deadline is not met, the RHUDO suggested that it will be flexible, and the MOC(H) expressed that it anticipates flexibility on the part of the RHUDO. Nevertheless, it is noted that the condition precedent did cause the Jamaican agencies to take action. A continued firm position on the part of the RHUDO will be required to finish up 010.

Consultant's Report on Finance Sector Policy - In connection with a new structural adjustment loan, the World Bank addressed Jamaican monetary and financial policies in February 1985. AID had worked with the World Bank to develop recommendations on housing sector finance. These recommendations along with other recommendations on monetary and financial policies were presented to the Minister of Finance (who is also the Prime Minister) for his consideration.

The recommendations included two major recommendations which are particularly sensitive issues:

- That the JMB be abolished
- That the 5 percent payroll deduction dedicated to the NHT be repealed and alternative funding sources be established, such as a consumption tax.

As of the team's field visit, no response had been received from the Minister of Finance or the Minister of Construction. The RHUDO had presented its policy position to the GOJ in the form of a report; thus, the dialogue appeared very limited. There were no workshops or seminars as was done when the National Housing policy was promoted, even though it is commonly perceived that the situation has reached a very critical point. An obstacle to policy dialogue is the increasingly centralized decision-making at the highest levels of the GOJ. Despite that, more could have been done by the RHUDO in terms of workshops,

distributing drafts of the report, etc., to build a consensus and to test the acceptability of the recommendations. Recognizing that policy dialogue tends to be dynamic and that decision-making is centralized, the mere presentation of a report, though useful, had not advanced the dialogue needed to bring about a policy change.

(5) Policy Improvements Needed

Beneficiary Selection Process For Upgrading Projects - Many low-income Jamaicans live in neighborhoods dominated by strong political organizations making it relatively easy for party officials to allocate projects by affiliation; according to knowledgable GOJ officials, this is the practice. As one put it, "To the victor go the spoils." While we are convinced that most of the upgrading projects have been directed to very poor persons, the historic ruling party allocation results in polarization of the population. It is, therefore, ultimately self-defeating to allocate resources by party and this practice should be curtailed.

Contracting Procedures - In some instances involving MOC(H)/EDCO projects, contractors have been chosen by party affiliation rather than experience, technical and financial capability or low bid. This problem does not seem to exist at NHT (at least, under the previous Managing Director) or at SIHL.

In one MOC(H)/EDCO case, a contractor was awarded a contract that he could not finish, but was given a second contract to start another project and develop sufficient cash flow to finish the first project. Although, he failed to finish either the first or second project, he was given yet another housing project. The ultimate result was three failed projects.

AID should consider promoting a policy which would eliminate preferential contract awards by promoting the following practices: requiring bidding and awards to the lowest qualified bidder; performance bonding; commercial bank construction financing; penalties for not making deadlines, and bonuses for early delivery. To further strengthen this process, the certification of contractors used by the Master Builders' Association might be fortified and utilized. Working through the Master Builders' Association could help develop a cadre of more efficient builders.

Involvement of the Private Sector - While there has been considerable discussion of the desirability of including the building societies and private developers in the construction of housing for the low-income households, to date no private capital (other than the NHT funds and, to a lesser extent, JCCUL funds) has been directed to below-median-income families. Most private sector efforts in the housing sector are presently in high-income new construction. Current interest rates charged by the building societies (17 percent as of April 1985) make their involvement currently appear out of the question; yet, some policy regarding private sector savings mobilization needs to be developed to provide financing for at least the upper deciles of below-median-income homebuyers.

To assist the building societies to provide financing, a secondary mortgage market needs to be created that can absorb the investments of institutions and individuals. At present, the JMB is not sufficiently capitalized to issue bonds. Its lack of capital stems from several Eurodollar loans it held at the time of the Jamaican dollar devaluation, which sharply eroded its capital base. With de-capitalization the JMB has lost credibility and clout as well, leaving it altogether incapable of serving the secondary mortgage function.

The NHT appears to be the only organization with the standing to issue such bonds. The NHT is currently prohibited by law from issuing bonds, as it was intended that its contributors would purchase JMB-issued bonds. In fact, 2,000 contributors had signed up to do so, thus gaining more priority entitlement index points and a better chance at a mortgage, when the JMB ran out of momentum. The capital base of the NHT, also, could be threatened by loans to the GOJ to finance the budget and by retirement of funds by contributors (under the current scheme employee contributions may be withdrawn after seven years).

Provided the capital base stays intact, bonds issued by the NHT could pay tax-exempt interest and be guaranteed by the government. The interest rate structure would have to be such that proceeds could be on-lent to the building societies, providing them with an adequate spread for servicing the mortgage and providing affordability for the upper-decile of the below-median-income homebuyers.

Funding the NHT through a portion of the tax on consumption as recommended in the AID consultant's report sounds like a good idea at first. However, the difficulties in instituting such a tax and setting up the collection mechanism are extreme, given the depressed economy. It is difficult enough already for the NHT to enforce collections from employers.

In summary, further analysis must be made of the creation of a permanent source of funds to channel through the building societies to private developers. Without a self-perpetuating scheme for providing financing to the various strata of below-income-families, the demonstration effect of the upgrading and starter home projects may not be of significant value to continue.

Reduction of Standards - Development standards in Jamaica overseen by Town Planning are still quite high. Interviewees involved in housing design reported that Town Planning has unrealistic attitudes and approaches to application of these standards, especially on low-income projects. The Office of Housing is planning to provide technical assistance on procedures and less restrictive ordinances. The inclusion of the Jamaica Institute of Engineers and the Jamaica Society of Architects will be useful for providing realistic inputs into the discussions on standards.

4. INSTITUTIONAL ELEMENTS, SYSTEMS AND CAPABILITY

In addition to project financing, the Office of Housing finances technical assistance for institution-building. The discussion that follows addresses the previous institutional situation, the institution building effort, obstacles to that effort, and current institutional capacity.

(1) Previous Institutional Situation

Although it was difficult to ascertain the institutional situation prior to Office of Housing assistance, it appears that the public sector housing agencies, such as the Ministry of Construction (Housing) have never been strong organizations.

The MOC(H) was created in 1979 by combining the Ministry of Housing and the Ministry of Public Works.

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Until the Ministry of Housing's involvement with a World Bank sites-and-services project beginning in 1974, most of its projects involved completed units aimed at low-income families on a subsidized basis. Funding for these projects was to come from the Housing Fund, a statutory fund generating resources from the sale or rental of Ministry-built housing. As of 1975/76, only 8 percent of the programs were financed from the Fund, with the rest dependent on general revenues. One of the main problems in generating income was the Ministry of Housing's difficulties in implementing the World Bank's Sea View project. As this project was only one-third constructed after seven years, this implies that the Ministry of Housing was not effective at implementation or marketing.

Other major institutional events were the creation of the JMB in 1972 and the NHT in 1976. The growth of the NHT as a major revenue collecting institution competing at many levels with-the MOC(H) had dramatic direct and indirect effects upon the MOC(H).

The proliferation of institutions in the 1970s and the government's apparent determination to solve redistribution problems through dramatic increases in public employment were major factors in the overall institutional development of this period. In addition, there was a large exodus of management talent during the late 1970s as political tensions grew.

The national housing policy dealt with the problems of institutional coordination and overlapping of functions. Furthermore, thin ranks in terms of experience, talent and capability, particularly at the middle management levels, seemed to plague all organizations in the public housing sector. Various documents referred to numerous vacancies, especially in the MOC(H).

Between 1972 and 1981, approximately 40,250 new housing units (at all income levels) were constructed, representing an annual rate of just over 4,000 units. Of that number, the bulk was produced by the MOC(H). Collections of rents and mortgages on public sector housing was apparently dismal with arrearages on build-on-own-land schemes of up to 80 percent; sales schemes, 65 percent; and rentals, 94 percent.

It should be noted that the Office of Housing had no physical presence in Jamaica until approximately 1980, prior to which it had relied on a Foundation for Cooperative Housing (FCH) technical advisor to represent it. There are currently three full-time staff in the RHUDO, covering the Caribbean area.

(2) The Institution-Building Effort

The two major components of AID-supported institution-building have been on-site technical assistance and various training efforts, both in the U.S. and in-country.

Technical Assistance - The most notable feature in the area of technical assistance is the long-term contract of PADCO. The PADCO technicians work directly with counterparts in the MOC(H) and other agencies. PADCO has worked on policy questions, as noted above. Once census data on housing become available, the Policy Secretariat, in conjunction with the advisors, will institute a three-year rolling housing plan. PADCO advisors have also worked on the housing finance system and institutionalization of management systems: data base development and information systems, project costing and approval. They are also assisting the TF on marketing the MOC(H) projects.

Most clearly, the lessons from HG 010 upgrading are being institutionalized by PADCO and the RHUDO: more careful site selection based on affordability and eligibility, land acquisition prior to initiation of construction, delivery of freehold titles to beneficiaries, and attention to appropriate design standards to trim costs.

The two PADCO consultants are critical to holding together the Office of Housing's projects. Their role is much more than advisory, however; in fact, they hold line positions in the MOC(H). The study team concurs with the report on the evaluation of the technical assistance (dated February 15, 1985) which states:

> "By nature of the MOC(H) operation and their unique abilities, they have become more than advisors. In order to get things done they have practically become staff members and appear to be considered as such... This performance is very commendable but the Resident Advisors have been

placed in this quasi-operational position in the absence of a MOC(H) management team and true counterparts with whom they can work and train. Unless this key management team is established, a major purpose of this project cannot be accomplished."

The result is that transfer of knowledge to counterparts is diminished. The RHUDO is topping up the head of construction and maintenance so that there will be a counterpart in that key position.

Training - Most of the key officials who are counterparts on HG-financed projects have attended the Shelter Workshop in Washington and several were sent to the MIT training. Participants in the Shelter Workshop described it as interesting from a standpoint of learning general topics, but with very little applicability to the low-income housing situation in Jamaica. On the other hand, the MIT training was reported to be very relevant and applicable, especially when the participant was a technician such as civil engineer or urban planner.

PADCO has also provided some in-country affordability seminars for housing officials, and provides on-the-job training to members of the Policy Secretariat in planning and job costing.

(3) The Results Of The Effort: Institutional Capacity Today

Most of the public sector housing agencies were quite weak as demonstrated by:

- The number of organizations involved and the very low output
- The thin professional ranks in each organization
- The need to have long-term advisors in staff positions.

Several of the organizations, including CHFC, SIHL and NHT, do appear to be relatively stronger than the MOC, JMB or EDCO; however, little technical assistance has been provided to CHFC and none has been given to NHT. The status of these agencies can be summarized as follows:

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Ministry of Construction (Housing) - This organization's thin ranks will be cut even further as a part of the GOJ's fiscal retrenchment. The Minister has been in office for a number of years providing some measure of stability. The Permanent Secretary carries a considerable administrative load and plays a pivotal counterpart role for the KHUDO and the PADCO consultants. Some strengthening is occurring for its mid-level officials in cost estimating, affordability analysis, data base development and policy analysis. Training in personnel, financial and accounting aspects of management is still needed. Good personnel is often attracted away from the Ministry by higher-paying parastatals and private businesses.

The World Bank is undertaking a major public sector administrative reform program designed to strengthen the 5,000 PMTs (professionals, managers, technicians) in the government. Reclassification of positions and upgrading of salaries to a level of 85 percent of parastatals over the course of the next 3-5 years is projected. Financial management, including performance budgeting and accounting systems, will be promoted.

This suggests that in the future there will be an in-depth analysis made of MOC(H) which will lay out a comprehensive plan for restructuring the unit and providing training, leading to a more effective institution. Until such time, any substantial personnel changes will be limited by the hiring freeze and salary limitations.

Estate Development Corporation - This parastatal, formed in 1982, evolved from the Estate Development Division and the old Sites and Services Divisions of the MOC(H). Its income is derived from a fee for planning and design, construction management, and prechecked plans. One resident technical assistance advisor has worked with EDCO to streamline its planning and design procedures. While the organization has some technical capabilities, it was described to us as having the same poor management and organizational problems as the old Estate Development Division, only now the staff is paid more as it is a parastatal. Its operations are strongly influenced by the Minister who specifies "politically acceptable" communities for upgrading and contractors to carry out the work. There are problems in construction management as evidenced by the overruns and unfinished

projects. Building cost escalations are making it increasingly difficult to provide even basic infrastructure. In one sub-project, the street will be aligned, but it will not be paved.

Caribbean Housing Finance Corporation - This subsidiary of the JMB, and the financial arm for the AID-financed effort, appears to be relatively competent in providing mortgages, and collections are reportedly improving. Although CHFC could not meet with the study team, management was widely reported to be among the best of all agencies in the public housing sector.

Jamaica Mortgage Bank - This official borrower of HG funds is quite weak, lacking in aggressive management and capital (due to problems described above). Its abolition has been recommended in an AID report; this eventually will have to occur, according to most interviewees.

Sugar Industries Housing Limited - This organization is relatively strong in contract management as demonstrated by its ability to efficiently execute projects; however, this parastatal recently lost its managing director and is operating under an acting manager. This management shift may prove detrimental as the new manager is reported to be not as strong an administrator as the previous one. For the World Bank-financed project, Sea View, which had been foundering for seven years, SIHL was able to construct over 2,000 starter homes in one year. The RHUDO is counting heavily on SIHL to quickly build some starter home projects in areas just outside of Kingston, raising the output of the HG program. According to the manager, projects completed still suffer from poor marketing and prompt delivery to buyers, requiring an additional cost of 10 to 20 percent for security, vandalism and interest.

NHT - The NHT appears to be the best-managed organization in public housing sector based on its financial and construction management capability. The previous manager was cited by World Bank officials performing an administrative reform project as one of the institution-building "bright spots" on the island. A management audit of the NHT only three years ago showed it was in a shambles. According to a highly-placed interviewee, that manager has been replaced by one who is "more compatible with the Minister of Construction (Housing)." NHT is an

"opposition" organization formed in 1976 under the Manley administration; thus, it may not receive much support under the Seaga administration, but its relatively large reserves are being borrowed to finance GOJ fiscal shortfalls. If these reserves are not paid back on a timely basis, it could wreak havoc with NHT's capital base. The NHT is presently financing the construction of about 1,200 houses annually and has strong construction management skills.

Task Force for Marketing - An adjunct of MOC(H), this organization is headed by an able manager who seems willing to untangle the snarls of settlement upgrading projects. He approaches this without enough staff, and, according to the manager, they are not especially well-trained or capable. As noted above, some of the problems addressed by the Task Force -- coordinating water installation, obtaining clear titles, controlling costs and marketing -- have proven almost intractable.

Jamaica Cooperative Credit Union League - This private sector organization has moved home improvement loans well and appears to be achieving maturity as a private sector financial institution. It refused for one year to handle HG funds when it was offered no spread for doing so--when the spread was increased, although by a small amount, it made over 4,000 home improvement loans throughout the island. At the time of the team's visit, JCCUL was initiating its mortgage lending program.

Major institutional changes probably cannot be achieved until the World Bank administrative reform project can audit and recommend restructuring for these organizations; even then, the institutional result is uncertain.

The study team recognizes that some improvement in awareness of project costs and feasibility concepts in the MOC(H) and EDCO have resulted due to presence of PADCO consultants working on better sub-project appraisals and estimating techniques.

As noted above, however, the project selection process involves extreme political pressure, including pressure from the Prime Minister himself. Nevertheless, the PADCO consultants at least have ensured that financial feasibility is considered carefully.

Overall, the team viewed these public sector agencies as very weak and often political; some are open to possible abuses. Most of them are "one-man shows" with weak staffs. Thus, AID's past efforts in institution building do not appear to have been particularly effective. The team does not foresee that in the medium-term these organizations will be sufficiently strong to make this a high-output effort. New concepts in training, such as team building and motivation, need to be employed in combination with lessons learned from previous projects and the contracting procedures recommended above.

5. PROGRAM IMPEDIMENTS

There are several impediments to the AID-supported housing program: (1) the de-capitalization and lack of effectiveness of the JMB, (2) serious problems in the extension of water hookups and the provision of titles to upgrading beneficiaries and (3) poorly-controlled project costs and unaffordable prices.

The Ambiguous Future of the JMB - The JMB had an important role to play conduit for international donor loans, second-story mortgage banker, issuer of government bonds to expand the capital base for financing housing development and mortgage insurer. Unfortunately, JMB was allowed to borrow dollar loans and to carry the exchange risk. When the Jamaican dollar was devalued, the JMB found itself unable to repay the loans and was de-capitalized. The estimated foreign exchange loss is estimated at U.S. $40 million to $50 million and worsens as the Jamaican dollar continues to devalue.

Thus, its credibility to investors was greatly reduced and it was never able to issue bonds or enter into secondary mortgage market operations. Its usefulness now is largely limited to acting as the official borrower for HG funds to which it adds a spread of 1 to 1-1/2 percent. Even given its limited operations, it apparently is slow to make disbursements, thereby causing problems with contractors.

As noted above, an AID consultant's report was incorporated into a recent World bank report which recommended the abolishment of the JMB, suggesting that its functions be transferred to the NHT or CHFC. Barring the sudden demise of the NHT, it probably has the best credibility and capital base to take over the functions of the JMB.

Delays in Water Installation and Titling - The policy of the National Water Commission of not providing water hookups until the user has a clear title has caused considerable delay in carrying out HG 010. In turn, unless the water is provided to the beneficiary's house or yard, the Task Force for Marketing finds it difficult to "market" (prepare paperwork for a mortgage and convince the occupant to agree to mortgage payments). As the titling of the site requires two to three years, the delay in water installations and in marketing is considerable. The TF was carrying out a pilot project at the Redding Road upgrading project which would allow water to be installed without titles. This may resolve the water installation problem, but does not resolve the titling bottleneck.

AID requires a completed title prior to final disbursement. When trying to acquire land where there is a squatter, it is difficult to determine who the owner is and where he is located, and to reach him to negotiate a price. Once the land is acquired, the titling itself constitutes another obstacle, as the Registrar of Titles handwrites every transaction in large ledgers and each title must be produced individually. It requires 2-3 years to get a title. SIHL reportedly resolved some of their titling problems by installing their own employee equipped with a word processor at the Registrar of Titles. This employee produced 846 titles in a two-week period, demonstrating that, if the procedures and equipment are modernized, titles can be produced quickly.

Another major obstacle related to titling is that there are no funds in the MOC(H) capital budget (only J$100 in the 1984/85 budget) for land acquisition. AID cannot provide funds for land acquisition. Although the Minister claimed that they will finance acquisition from the MOC(H) cash flow, there is a danger that funds will not be available and the land acquisition process will grind to a complete halt.

High Project Costs - As noted above, the costs on squatter resettlement projects have been much higher than anticipated. These high costs stem partially from the inability of EDCO to properly estimate costs and hold contractors to them. There are many cost overruns and no incentives for timely delivery of projects. The doling out of all categories of jobs (upgrading, resettlement and starter housing) to contractors based on political affiliation and possible corruption may be reasons for slippage in the process.

Slow Cost Recovery - The inability to market HG 010 projects has meant that mortgages were not created and repayment was not made by the individual households. In some cases three years passed before the family was required to make its first payment. These delays lead to perception on the part of the participants that making a monthly payment to the Ministry or the CHFC is not important and can be put off or ignored.

Town Planning Approval - Approval for all development schemes must be obtained from the Town Planning Department, a process which can take up to nine months. The processing has improved somewhat under the Community Amenities Improvement Act, and the length of the delay has been shortened. Nevertheless, approvals of new starter-home schemes, which are important to raising the output of the AID-supported program, may be seriously delayed. In a technical assistance project scheduled for FY86, AID plans to help Town Planning streamline its approval process and to examine its ordinances to determine whether they are too restrictive.

6. NEEDED INSTITUTIONAL CHANGES

There are a series of improvements which need to be made:

- AID can immediately set timetables to phase the PADCO advisors out of line positions at the MOC(H).

- AID can immediately require that sound contracting procedures be instituted at EDCO and SIHL. These should include both the condition that no AID disbursement will be made unless a contract is awarded competitively and provisions for performance bonding, bonuses for early completion, penalties for delays, and independent, contracted inspections. (The RHUDO is planning to provide technical assistance to the College of Arts, Sciences and Technology to upgrade local capabilities in building inspection). Contractors should be required to obtain commercial bank construction financing. The RHUDO should study whether such financing will provide incentives for accelerated delivery by contractors.

- AID can assist in increasing the coordination among organizations by having PADCO regularly distribute a comprehensive HG program report to all participating institutions.

- AID should consider getting out of squatter upgrading programs and move towards programs which are simpler to implement. Despite the fact that there are up to 1,000 squatter settlements on the island, only if major breakthroughs are made in land acquisition, coordination in infrastructure installation and delivery of titles should AID continue its squatter upgrading program. It should move towards core or starter housing constructed by developers under a turnkey approach. Technical assistance can be provided to identify appropriate land and quantify the market for such housing.

- AID can provide support to the entire housing sector through assistance to the Registrar of Titles. If the upgrading program is to continue, this assistance is a must and could take the form of streamlining the procedure and modernizing the equipment.

- AID can cooperate with the World Bank administrative reform project to attract to the MOC(H) a small group of effective individuals who can guide the low-income housing program. These professionals must have an aptitude for and a commitment to housing, and must be paid sufficiently so they will stay long enough to gain and apply practical experience. A comprehensive human resource development strategy for the housing sector providing for recruitment, retention, and training would give focus to this effort. Some of AID's $3 million in technical resources for FY 1986 could go to developing and implementing such a strategy.

VI. PANAMA

No formal housing policy exists, but recent efforts by the Presidency to develop a national development strategy, including construction and housing, have been supported by the RHUDO. A series of legislative initiatives concerning housing are under consideration and the RHUDO and the USAID have participated in their review. Policy progress has been achieved by AID on interest rates, the separation of the National Mortgage Bank (BHN) from the Ministry of Housing (MIVI), condominium apartment construction to replace tenements, and the introduction of low-cost shelter solutions. Policy improvements are still required on cost recovery, construction standards and a legal framework for a secondary mortgage market.

From an institutional viewpoint, the separation of MIVI and BHN, although both are weak and inefficient organizations, is viewed as a good step. AID is presently providing these organizations with technical assistance: a mangement audit for MIVI, and a management audit, financial audit, computerization of records, portfolio evaluation and billing system improvements at the BHN.

The Latin American Training Center is seen as a good, but embryonic, institution-building mechanism.

The entire MIVI program is blocked becaause of the inability (a) to get clear title to land on which condominium apartments have been or will be built and (b) to process titles for beneficiaries. Building material suppliers have not been reimbursed and have shut off credit to MIVI; MIVI has not reimbursed several building contractors (in the amount of an estimated $12 to $20 million).

1. OVERVIEW OF DEVELOPMENT CONTEXT

The most outstanding feature of the current development scene was the election of Nicolas Ardito Barletta as President in October 1984. Unquestionably, the constitutencies of support and opposition are highly fragmented and complicated, and, as Ardito Barletta received no clear mandate in the election, he cannot afford to be too forceful. His entire cabinet changed in May 1985, indicating the fragile nature of his presidency. Despite this shaky beginning, new models for development are under discussion after 16 years of military rule. If the political structures hold together, the situation appears ripe for policy change, and that appears especially true for the construction and housing sector.

Ardito Barletta's regime took over management of an economy which, despite expansion in the 1970's, has experienced three years of zero GDP growth. There is high unemployment (15-20%), yet there is a need to reduce public sector employment in order to lower government deficits. There are an estimated 40,000 redundant government employees whose average salaries are higher than their private sector counterparts.

Panama is a service and transportation center and its economic decline continues to reflect the worldwide recession of the early 1980's. Traffic through the Panama Canal is less than one-half its pre-recession flow; the Free Zone business at Colon is greatly reduced due to continued recession in Latin America.

There is free capital transfer, as the dollar serves as currency, and reduced foreign investment and bank exposure in the domestic economy has had a deflationary effect on the economy. Panama is the fourth largest international banking center in the world; however, deposits held there have little effect (except for bank employment) upon the domestic economy. Financial support through a World Bank structural adjustment loan, and from the IMF and AID, are crucial to Panama's ability to stay current on its foreign debt.

Panama is considered a more developed country (MDC) as reflected in its high annual median family income of

$6,600 in Panama City and $4,200 in rural areas. The negative side of that characteristic is that labor laws passed under the Torrijos regime do not provide incentives for improvements in productivity, and there are structural rigidities which have become evident in the recent downturn.

Another important event influencing the development context was the Panama Canal Treaties in 1979. The treaties provided for the reversion of Canal Zone lands and, ultimately, operation of the Canal to the government. They also provided for $75 million in Housing Guaranty assistance.

A further element is the unrest occurring throughout Central America and the vulnerability of the Canal if unrest should spread to Panama. For this reason, funds have been made available for Panama as a result of the Kissinger Commission recommendations. These funds are to create employment, specifically through construction projects.

2. LOW-INCOME HOUSING DEVELOPMENT

The AID Office of Housing has been active in Panama since 1965; $99.4 million in the HG Loans has been authorized and approximately $60 million has been disbursed. There are two main public sector housing organizations: the Ministry of Housing (MIVI) which carries out nearly all activities except for construction and financing, and the National Mortgage Bank (BHN) which provides primary mortgages.

The housing deficit is estimated at 150,000 units. The public and private sectors currently produce 6,000 units annually, with the government producing approximately 50 percent of that figure.

Currently there are two active HG Loans: 010, Rural Growth and Service Centers (URBE), and 011, the Shelter and Community Upgrading Program.

HG 010, which was authorized in 1978, financed serviced lots, two-bedroom houses and home improvement loans in rural areas. MIVI had considerable problems in implementing and managing the serviced lot and house construction projects; however, the home improvement loans were much more successful. Only a small amount of this loan remains to be disbursed.

HG 011 was oriented mainly towards providing housing in Panama City, with goals of 1,600 units in the suburban area of Torrijos-Carter; 2,500 urban renewal apartments; 1,700 urban home improvement loans; and 237 units in secondary cities. The loan was authorized in 1979 and will be fully disbursed with the completion of 906 apartment units at various locations in Panama City. This construction is presently blocked, the reasons for which will be explained in greater depth below.

HG 012, amounting to $25 million, has also been authorized, and the implementation agreement was executed in January 1985. The emphasis of HG 012 will be upon Panama City with 3,000 urban renewal units, 5,500 home improvement loans, 450 units in reverted areas and 680 "reception area" (planned squatter area) units. HG 012's initiation requires the satisfaction of conditions precedent regarding improvements in the MIVI and BHN operations.

HG 013, which has not been authorized, proposes to move more strongly towards a "private sector approach" with the BHN operating a rediscounting facility for the savings & loan institutions, mortgage banks and the Caja de Ahorros. Private developers would construct up to 5,000 units for the families in the 40th to 60th income percentiles.

Although AID has been the most active donor in the housing sector, the World Bank has financed some middle-income subdivisions in Panama City and a large apartment complex at Colon. The latter had been invaded by squatters just prior to the team's visit, and considerable efforts were being made by the Ministry of Housing to rectify the situation.

3. HOUSING POLICY AND POLICY DIALOGUE

This section discusses the housing policy of the government in the 1970s, the policy dialogue between AID and the government, the current status of housing policy, the contributions of AID and policy changes required.

(1) The Previous Housing Policy of the Government; Compatibility with Aid Policy Criteria

During the 1970s, the housing policy of the government could be summarized as follows:

- Market interest rates were not charged to the borrower--a rate of 6% was the norm.

- The Ministry of Housing built primarily for middle- and upper-income households.

- While the National Mortgage Bank was under de facto administrative control of MIVI, there was low cost recovery due to poor collections. Loan payments were used to cover MIVI's administrative expenses.

- Housing policy depended on the orientation of the Housing Minister. For example:

  - During Altamirano Duque's term in 1974-80, the government emphasized large-scale, progressive projects in the suburban areas. HG funds were used to finance a series of such projects.

  - Under Alvaro Guillen and Abel Rodriguez (1980-82), the emphasis was shifted to urban renewal and four-story walk-up apartments located in the city's center. This policy complemented a previous policy of condemning wooden tenements built during the construction of the Panama Canal and recognized a need to provide decent housing near centers of employment. (The urban renewal policy is currently in force).

- Rent control was enacted in 1972 as a benefit to low-income households. (It has acted as a major disincentive to investors and to persons who might otherwise become homeowners.)

- Protective tariffs were enacted to assist producers of steel and cement. In addition, MIVI required that all construction meet the American Standard Code for street thicknesses, curb walls and other construction standards equal to those used in the U.S.

(2) The Policy Dialogue Process

No comprehensive housing policy has been established for Panama; furthermore, the "policy" has been

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transitory, resulting from the outlooks of the individual housing ministers. Through dialogue, AID has been able to convince the public sector housing agencies to make certain policy changes, e.g., to raise their interest rates to reduce subsidies (from 6% to 12%) and to refrain from most construction activities.

The current relationship between the Office of Housing and the government's housing institutions was described as "adversarial" by the RHUDO. It appears that the relationship has settled into a formalized, arms-length one. An important factor in the policy relationship is that HG's 011, 012 and 013 were all made available through the Canal Treaties which, at first glance, would appear to give AID less leverage than they might normally have in such a dialogue. This, however, has not been the case.

Partially due to the large amount of support provided by the Office of Housing and the actions of two very capable RHUDO's, AID has pushed housing to the forefront as an important developmental activity (enjoying, perhaps, the third-ranking national priority). In housing policy matters in Panama, AID "has a seat at the table." The projects constructing center-city walk-ups, progressive housing and providing home improvement loans have changed perceptions regarding how to close the housing deficit.

Recently an important policy victory was scored by the RHUDO with the enactment of Law 39 which resulted in the de facto separation of the Ministry of Housing from the National Mortgage Bank. Previously MIVI had used loan repayments for non-recoverable operating expenses, mostly salaries of its very large staff. This law cut the flow of repayments to MIVI and has set the stage for re-capitalization of the BHN. An important figure in bringing about the separation was the head of the National Association of Private Entrepreneurs, who is also president of an S&L. The separation of these two organizations will be discussed in greater detail below.

Another recent policy dialogue success was achieved by AID on an issue which had implications for housing. The issue, known as Law 28, was a one percent tax imposed on all commercial banking transactions. The tax revenues were to be split, 1/2 percent for housing mortgages up to $20,000 and 1/2 percent for agricultural development. Initially the

USAID and the RHUDO did not agree: the USAID felt that the tax unfairly burdened businessmen; the RHUDO thought that such a fund could help to re-capitalize the BHN. The USAID prevailed and arranged a series of meetings with the GOP, including the President; sent letters to GOP officials explaining how the law created distortions; made its abolition a condition precedent for $30 million of FY 1984 ESF budget support; and delayed agreement on HG 012. The law was abolished by the newly installed Ardito Barletta administration.

The USAID and the RHUDO also successfully headed off a political "grandstand play" by the newly appointed Minister of Housing who went to Washington to request an additional $40 million HG loan. AID's response to the Minister was that he should focus on the implementation of the presently active HGs and upon those already in the pipeline (012 and 013).

Since the election of Ardito Barletta, housing policy discussions seem to emanate from the Presidency. Construction (including housing) has been designated as one of the country's top ten priorities, and a series of discussion groups and studies may result in what essentially amounts to a national housing policy. The RHUDO and the USAID are supporting this effort and the former will provide short-term technical assistance to the Ministry of Planning (MIPPE) to perform key studies.

The banking sector has also drafted a law (Proposed Law 15) which has implications for the housing sector, and the RHUDO has been asked to review it. The law, if enacted, would provide for a 4 percent reduction of interest on private sector bank mortgages up to $50,000 (5 percent on mortgages below $20,000) for the first ten years of the mortgage. The purpose is to stimulate housing construction and employment. Because the law would most likely stimulate middle-income housing rather than AID's target income group, the RHUDO is not strongly supportive of the measure, although the positive benefits for the sector and the economy as a whole are recognized. The RHUDO would support the measure more strongly if it were couched in the context of a national housing policy, and if it did not discriminate between private and public financial institutions.

(3) The Results Of The Policy Dialogue; The Contribution Of AID

This series of policy interchanges, and the RHUDO's role in each, demonstrates the RHUDO's high level of participation in the formation of policy affecting the sector. The RHUDO also exercises some policy leverage over other donors, especially regarding interest rates. The Inter-American Development (IDB) and the World Bank were both convinced to raise their rates to conform to the HG loan rate of 12 percent. This, according the RHUDO, avoided distortions in the demand for low-income housing, and presented a united front regarding market interest policy on the part of the international donors.

The RHUDO has supported considerable study (the team was able to identify six separate studies) and discussion regarding the creation of a secondary mortgage market. While the concept should be a part of the assistance package for low-income families, it has not yet gotten off the ground.

No national housing policy has been established and therefore no attribution can be given to AID; however, it did play a strong role in the following policy changes:

- Raising the mortgage interest rate from 6 percent to 12 percent

- Separating the BHN from MIVI and establishing a private sector board to govern its operations

- Building condominium apartments to replace deteriorated tenements in the center of Panama City near places of employment and with access to infrastructure

- Introducing design of innovative housing (techo-piso, walk-up apartments) which allow affordability and/or progressive equity growth; and design concepts which lowered costs (walkways instead of streets; open versus closed drainage)

- Formation of savings and loan stock companies (Law 39).

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The policy accomplishments have been few but substantial. The opportunities for policy have tended to present themselves on a piecemeal basis. The efforts of the Presidency to develop a strategy for construction may result in a national housing policy; the RHUDO is actively supporting those efforts.

(5) Policy Improvements Needed

There are several policy improvements which are needed, including:

- Establishment of a National Housing Policy
- Better cost recovery
- Reductions of standards of construction
- Secondary mortgage market.

Establishment of National Housing Policy - If the efforts of the Presidency described above do not culminate in a national housing policy, the RHUDO should provide short-term assistance to public and private housing organizations for analytical policy studies, the development of an agenda of policy issues, and the support of workshops for airing ideas and strategies, with the ultimate goal of drafting a national housing policy for consideration by the Legislative Assembly. Since the study team's visit, the RHUDO has initiated some steps in this direction utilizing regional (ROCAP) funding. This approach appears to have worked well in other countries and may be the best option to pursue.

Better Cost Recovery - Although MIVI applies 5 percent to the cost of construction for its administration costs, this is inadequate to cover the expenses incurred by an organization of 2,500 employees. In fact, no one appeared to know what the true administrative costs were in relation to the cost of units constructed. In some cases, for example, the GOP owns the land; thus, land costs were not included. The Minister of Housing ventured to say that, if actual administrative costs were applied to the unit, the price would have to be two to three times the price presently charged. True cost recovery cannot be achieved until accurate administrative and development costs are known and applied. A cost accounting sytem for MIVI is being developed as a result of RHUDO stimulus. This technical assistance is discussed in greater detail below.

Reduction of Standards of Construction - Standards for infrastructure construction are very high and should be reduced for low-income developments without substantially sacrificing the life of the improvements made. Unless these standards are reduced, MIVI will employ them very rigorously to exclude private sector firms from entering the market as developers. The RHUDO should explore standard reductions at the ministerial level of MIVI, and bring in technical assistance to study reductions in conjunction with MIVI personnel responsible for standard enforcement.

Passage of a Law Supporting the Establishment of a Secondary Mortgage Market - There is presently before the Legislative Assembly a proposed law to create a secondary mortgage facility through the BHN. The proposed legislation includes the following provisions:

- That the BHN would not have to return to the GOP for permission each time it wishes to issue bonds
- That there be a government guaranty for the bonds issued
- That bonds would not have to be registered (which would make them easier to transfer)
- That, in case mortgages are prepared, the issuing institution would have responsibility for replacing prepaid mortgages with new mortgages.

Despite this proposed law, the establishment of a secondary mortgage market by the BHN probably will not take place because of a lack of investor confidence in that organization. Nevertheless, the Caja de Ahorros, a public savings bank which has the reputation of strong management, and some limited experience in bond issuance, may be the appropriate vehicle for the establishment of such a market.

The RHUDO has come up with an informal set of recommendations to make the secondary mortgage market operation viable:

- Pay interest rates above the present savings and loan limit (4-1/2 percent) to capture savings
- Pay interest monthly

- Enable transfer by simple endorsement
- Exempt interest income from taxation
- Assure mortgage insurance system is operable.

Unquestionably, even if the Caja de Ahorros proves to be the appropriate organization to handle such a facility, investor confidence will improve only gradually, and it could take several years to make this system work.

4. INSTITUTIONAL ELEMENTS, SYSTEMS AND CAPABILITY

This section discusses the previous institutional situations of MIVI and the BHN, the institution-building effort, program impedients, and the institutional capacity as of today.

(1) Previous Institutional Situation

The Office of Housing, as noted above, has operated in Panama during the last 22 years. The two most important institutions with which AID is presently working are the Ministry of Housing and the National Mortgage Bank. AID channeled HG 007 through the BHN starting in 1973.

MIVI had grown to be a large, overstaffed organization of 2,500 employees, which was highly politicized and socially oriented. Political selection of beneficiaries was commonplace. MIVI staff tended to view housing as a right and were not concerned about affordability, cost recovery or collections. Until January 1984, MIVI had responsibility for collections and strict collections and eviction of a delinquent home buyer would have been politically infeasible. Collections which were made went primarily to cover MIVI's administrative expenses, which were very high.

MIVI constructed units itself, especially rental units, and maintained them. MIVI has been headed by a series of ministers; strong leadership and managerial capability, especially at the upper levels, has never been built up.

Many contracts at MIVI have been awarded without bidding. During Altamirano Duque's term (1974-80), housing projects were reportedly allocated among builders, a practice which was highly appreciated by

the latter. The custom was to give contractors cash (20%) and building material advances. There reportedly was little incentive to construct the projects quickly.

The BHN was also under the control of the Minister of Housing. Until 1983, the BHN received funds from the Caja de Seguro Social (Social Security) to finance subsidized housing. The BHN also functioned as the regulatory agency for the savings and loan system.

(2) The Institution-Building Effort

Institution-building has entailed short-term technical assistance, attendance at the MIT housing seminars, the separation of the BHN from MIVI and the newly-formed Latin American Training Center.

Technical Assistance - The Office of Housing has not depended on long-term technical assistance contracts to carry out institution building; rather, it has relied on RHUDO staff familiar with the issues, institutions and obstacles. MIVI resisted offers of long-term technical assistance. Numerous short-term consultants have been employed to explore important institutional issues and to evaluate projects, but this assistance appears to have had little lasting value for the institutions, either through direct contact with local officials or through the reports prepared. Short-term technical assistance appears to have been more important as a management and reconnaissance tool for AID.

MIT Seminar - No one interviewed had attended the Shelter Workshop. However, the team did interview a group of MIVI professionals who attended a two-week MIT seminar presented in Spanish. The seminar participants took a center-city apartment project plan in which they had been unable to achieve affordability with them to the seminar in Cambridge. The course offered them: (a) one week of sessions on general topics, such as implementation, the social aspects of housing, building design, and programming; (b) one week evaluating their own project using the concepts learned during the first week. The second week's exercise proved very beneficial. By working through their own project, they were able to make changes in the physical plans (building dimensions, exterior common space) to bring costs down, and achieve affordability.

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The group felt a camaraderie during the MIT sessions; however, that was lost as they disbanded and returned to their individual departments back in MIVI. The group wanted to engage in rehabilitation activities, but that effort never was initiated. The MIT seminar was a valuable institution-building activity, but it could have been even more effective if the group had not been broken up.

Separation of BHN from MIVI - Undoubtedly the most important institution-building activity supported by AID was the separation of the BHN from MIVI. The separation and subsequent activities, such as management audits for MIVI and BHN were conditions precedent for HG 012. After the separation, a new BHN director who has extensive experience working with AID-supported projects was appointed. He has begun to reorganize the Bank, and his stated, single objective is to strengthen administration, operations and finances. An audit has been carried out by private, independent accountants and the financial records have been actualized through 1982/83. A study coordinated by the Controlaria (the national auditors) made recommendations for a general account adjustment which was introduced into BHN"s financial statements on December 31, 1982. A private auditing firm will be hired to do a multi-year audit to bring the records fully up-to-date.

MIVI, meanwhile, has been temporarily stunned by the sharp reduction in its cash flow and the obligation to pay the BHN approximately $80 million. It, too, will be undergoing a management audit which will focus on financial restructuring, cost accounting and better fund management.

Latin American Training Center - In 1983 the RHUDO initiated a housing training center which could pay substantial institution-building dividends throughout the region. The Latin American Training Center has been providing workshops for mid-level decision-makers in the housing sector. Its emphasis on mid-level management recognizes the problem of building up institutions which have a high turnover of ministers and senior level management. The courses are in Spanish.

To date the courses have concentrated on financial assessment and management, and general awareness-raising regarding the expansion of the housing finance base (savings and loans, public housing funds). One

of the main assets of tne Center is a lecturer who is very well-versed in these concepts.

While this effort is nascent, its focus and intended participants are excellent, and from an institution-building viewpoint, it is a step in the right direction.

(3) Program Impediments

The demise of the social security fund, organizational problems within MIVI, the ability to transfer titles to urban renewal beneficiaries and a lack of government budget support have acted as program impedients.

The Social Security Fund and the BHN - One major blow to low-income housing development is the demise of the Social Security Fund and the subsequent discontinuation of the flow of funds from Social Security to the BHN. The Social Security Fund had built up since 1972 as a result of a national policy requiring employers to pay a "13th month" contribution for each employee. One-third of these funds was loaned to the BHN at 3 percent interest to finance low-cost housing. A scandal occurred at Social Security in which it is alleged that $100 million disappeared; this, in turn, resulted in the discontinuation of the "13th month" contributions.

An obstacle to straightening out BHN's finances is that it owes Social Security $135 million. It would appear that, unless there is some sort of government-mandated inter-agency adjustment, the BHN will be unable to retire this debt for some time.

Problems at MIVI - Within MIVI there are a series of problems, several of which have been serious enough to bring the HG program to a standstill:

- The Minister of Housing appointed by Ardito Barletta has met with considerable resistance from bureaucrats within MIVI. First, the Minister (a Liberal) and his staff, a majority of whom are PRD, have political differences.

- There were also large-scale personnel changes at MIVI as a result of the installation of the new government which caused considerable discontinuity in services.

- The GOP has undergone severe cutbacks in public spending. Also, the newly installed Legislative Assembly did not authorize the budget until the end of March 1985, virtually stopping all investment and payment of vouchers by the GOP, including MIVI.

- The Minister has asked that construction projects be put out for competitive bidding. This proposal has been met with tremendous resistance from certain Ministry officials. The contractors also believe that the projects should not be bid out, contending that it would make the projects "more expensive".

  The Minister was also under considerable pressure due to the squatter invasions into the World Bank-financed project at Colon. An additional source of pressure and loss of credibility resulted from AID not acquiescing to the request for an additional $40 million HG loan.

- These problems have made it difficult for the new Minister to take charge and resolve problems which he inherited from the previous administration.1/

- An even more critical problem is that of providing titles to beneficiaries. MIVI built apartments for land on which it did not have clear title; therefore, it cannot deliver titles to purchasers. AID will not reimburse MIVI if titles cannot be delivered. To date, no titles have been issued for units built in the urban renewal projects. The lack of reimbursements and the more recent delay in instituting a national budget have resulted in building material suppliers not being paid and MIVI's credit being cut off.

1/ The Minister along with the rest of the Cabinet were replaced in May 1985.

- A further obstacle is that land titling and registry is a very complicated and lengthy process requiring 30 to 40 steps. According to MIVI it currently has 20,000 titles to transfer to beneficiaries, down from 50,000 in 1981. Approximately 80 percent of beneficiaries from previous AID-financed projects (Torrijos-Carter, Roberto Duran, Nuevo Chorrillo) have received titles and mortgages.

- Payments also have not been made to contractors for various reasons, e.g., the lack of an authorized budget, unsatisfactory contractor performance and questionable activities by the contractor (CAPAC, the national chamber of construction, claims that its members are owed $15 million to $20 million by MIVI; one individual contractor is owed $5 million. The RHUDO believes that the industry-wide figure is closer to $12 million.)

(4) Results Of The Effort: Institutional Capacity Today

Much of the preceding description of MIVI applies today; the likelihood that the BHN will re-organize itself and operate efficiently is low. In sum, both MIVI and BHN appear to be very weak and poorly managed organizations, and the RHUDO expressed uncertainty regarding its continued commitment to them; yet, there appear to be limited options.

MIVI - MIVI, to its credit, has the capacity to plan and oversee the construction of fairly good housing at the rate of 4,000 to 5,000 units per year. To its further credit, the organization has gotten out of construction and has turned over that function, with the exception of apartment maintenance, to contractors.

It will be difficult, however, for the RHUDO's institution-building to reach MIVI's 2,500-person staff, particularly in light of contracting irregularities, some resentment felt towards AID because of the divestiture of BHN, and, of course, the currently blocked program due to titling. It likely will continue as a very inefficient organization for which cost recovery will prove impossible.

BHN - This organization, at least, has adopted the rhetoric of a well-organized institution; whether it will become one remains to be seen. The financial records are still not up-to-date; there are no official guidelines or manuals to provide a framework for the work of the bank. Plans for internal restructuring are drawn up, but they appear very academic, not realistic.

The Real Estate Department of MIVI was transferred to the Bank in January 1985 and a monthly billing system to increase collections is being developed. The Bank has developed a daily cash flow record. Despite these improvements, the general manager could not tell the team the overall delinquency rate. He knew only that the bank's cash flow had increased over last semester. Delinquencies will continue to be high unless the bank has the will to evict non-payers--unlikely with a general manager who is highly political.

It is unlikely that the BHN will be able to successfully issue mortgage bonds due to the lack of investor confidence, a view repeated many times in interviews. The BHN itself is highly reluctant to undertake a bond issue, fearing that failure would demonstrate its weakness. The weakness of its balance sheet, the $134 million debt to Social Security, and its weak portfolio (though valued roughly at $141 million) preclude investor confidence for some time to come.

Its private sector board, comprised of a contractor, a real estate professional, an ex-Minister of Housing, and the head of an S&L, will stabilize its operations somewhat; their attention to the working details of the bank is crucial to success.

The Latin American Training Center - The Latin American Training Center is yet embryonic, but seems to be a step in the right direction. It has trained 450 persons to date and plans to expand its course offerings.

The attribution of institution-building activities is somewhat limited. The RHUDO was very involved and instrumental in the separation of MIVI and BHN, although the action may have been instigated by other parties, as indicated above. Furthermore, the RHUDO is forcing remedial organizational changes

through the imposition of conditions precedent. How well these changes will work out remains to be seen. It is certain that the RHUDO faces a difficult institutional situation.

(6) Institutional Changes Needed

The die has been cast for near-term institutional changes by the nature of the technical assistance to be provided to MIVI and BHN by the RHUDO. MIVI will undergo a management audit to restructure it organizationally and financially, and to put in place cost accounting, fund management and contract management practices.

The BHN is completing its audit with a private accounting firm and computerizing its billing and collections. It needs to evaluate its portfolio to determine which mortgages are collectible and which should be written off. It needs to subject itself to a management audit and re-organize its operations accordingly.

The talent of the staffs of the two organizations is probably not bad, though under-utilized; however, both organizations have had such poor management that it may be difficult to correct the damage.

HG 013 offers a brighter vista, in that it proposes to develop a more private sector-oriented approach, supporting a secondary mortgage facility to rediscount the mortgages generated by the five savings and loans, the Caja de Ahorros and the mortgage banks. The S&Ls are woefully limited in capability at present, with the entire system generating only 200 mortgages annually. The Caja de Ahorros, on the other hand, is a stronger institution and is willing to undertake mortgage lending in conjunction with private developers, provided that the developers acquire their own construction financing through commercial banks. It has even offered to match HG funds on perhaps a 2:1 basis. The Caja de Ahorros will move into the market cautiously, demonstrating for itself that mortgages for below-median-income families will be repaid--but, the idea of providing some competition to inept public institutions, or of simply developing another channel to reach the target group, is exciting and should be pursued.

VII. SRI LANKA

AID brought about the reversal of misguided and wasteful prior Government of Sri Lanka (GSL) practices, guided the formulation of a viable housing policy and stimulated a creative GSL policy process.

At the level of individual skills, AID technical assistance has produced excellent results. Important changes have also been made in the Ministry of Local Government, Housing and Construction and the National Housing Development Authority (NHDA) where institutional strength is increasing. AID helped to strengthen the State Mortgage and Investment Bank (SMIB) and create the Housing Development Finance Corporation of Sri Lanka (HDFC/SL), but these financial institutions are not yet lending to lower-income beneficiaries. No secondary mortgage market or mortgage insurance agency yet exists.

Complete decentralization of housing construction and financial management is well advanced. The GSL is experimenting with a variety of management techniques and institutional arrangements.

There have been rapid increases in housing construction and concomitant decreases in unit cost. Quality housing is being produced. The design of the One Million Houses Project is exemplary. There are serious problems in financial management and arrearages. Housing construction is forcing the institutional system to develop under pressure. There is a real threat of overload and breakdown of the system. This threat is recognized by both the GSL and AID.

1. OVERVIEW OF DEVELOPMENT CONTEXT

From Sri Lankan independence in 1948 until 1977, public policy emphasized social programs and the public sector of the economy, including nationalized banks and productive enterprises. During that period the indicators of social development (mortality, morbidity, food consumption, educational attainment and literacy) showed impressive gains. The consequence of this policy, reinforced by droughts and disadvantageous world market prices, was the slowing down of the nation's economic productivity. Per capita income declined substantially. The mid-seventies saw high levels of unemployment (24 percent in 1977), serious food deficits and trade imbalances. A new government, assuming power in 1977, initiated economic policies to revitalize the private sector, reduce government expenditure and excessive dependence on government, stimulate savings and investment, expand export marketing and increase agricultural incentives and production. The immediate consequences of these policies were an increase of GNP growth from 2.9 percent to 6.2 percent, a reduction of unemployment from about 24 percent to 14 percent and an annual increase in rice production from about 2 percent to over 7 percent during the period 1977 to 1981.

In 1983, the economy was, and continues to be, adversely affected by civil insurrection, the world recession and a serious drought. Inflation rose to 15 percent, the debt service rates increased, the balance of payments worsened and foreign exchange reserves dropped.

Civil unrest has had a disastrous effect on the economy, disrupting development and services in the areas of conflict, placing a heavy burden on the national budget for defense and reconstruction costs and drastically reducing tourist revenues. A less tangible, but no less substantial, constraint is the tendency to expect free support and services from the government, the heritage of some thirty years of utopian socialism.

Structural constraints include poor export performance, excessive tariff obstacles, a high population growth rate, inadequate job creation, and the need for budgetary and tax reform. Difficult political and economic decisions are made more difficult by the internal stresses arising from the insurrection.

The overall AID goal of a Sri Lankan capacity for self-sustained growth is pursued in three areas:

- The Accelerated Mahaweli Basin Development which includes hydro-power generation, large-scale irrigation, agricultural production, small business enterprises, and resettlement.

- Food production and natural resource management.

- Human productivity and well-being, which includes health, family planning, nutrition, education, private enterprise and low-income housing.

2. LOW-INCOME HOUSING DEVELOPMENT

A HG program for $100 million was approved in principle and a first tranche of $25 million was authorized in January 1981. The first tranche of $25 million was accompanied by a technical assistance component of about $1 million. The TA package was originally designed to service at least the initial two tranches of the loan which were anticipated to be drawn down annually. The program proved to be overly ambititous: the first $21 million was not disbursed until 1983. It financed a group of ongoing projects in the public housing sector, including part of the so-called "100,000 Houses Project" which covered some aided self-help construction, sites-and-services, homes for fishermen and electoral housing in each of the 24 districts. The second tranche of $10 million plus a $4 million carry-over was approved in mid-1982 and disbursed in 1984 for partial funding of a new program called the One Million Houses Project. Phase 2 was authorized in September 1983 and is expected to be disbursed in September 1985.

HG funds must fit within the GSL housing budget ceiling. They are not additive, but merely replace Sri Lankan funds. If there were no HG, the Sri Lankans would have to put in their own money to meet the ceiling. Since low-income housing is one of the three highest priority programs in Sri Lanka it seems likely that, in the absence of HG funds, the government would make up the difference. Thus, it is not clear that the HG money is crucial for low-income housing.

AID is the major and only substantial donor in the low-income housing area in Sri Lanka. IBRD and IMF have endorsed and supported AID's housing policy criteria and thus facilitated the policy dialogue with the government.

The Dutch government contributed to the establishment of the Center for Housing, Planning and Building (CHPB)

which has been more active in commercial construction sector than in housing. The British ODA contributed $1 million for building materials and technical assistance. UNICEF made a small grant for water and sewage services in a slum and shanty project. UNDP gave technical assistance in urban planning to the Urban Development Authority.

3. HOUSING POLICY AND THE POLICY DIALOGUE

This section assesses the origins and development of AID's role in the policy dialogue process.

(1) The Previous Housing Policy Of The Government; Compatibility With AID Policy Criteria

The policy dialogue was carried forward against a backdrop of almost 30 years of utopian socialism. A new government took power in 1977 on a platform of sustaining the social gains of earlier years but creating a more rational and productive economic system. One of the government's first major initiatives in 1978 was a high-rise housing project using seven expatriate construction firms on cost-plus contracts. Cost overruns of 100 percent were soon encountered.

At the same time, there was a variety of other housing activities, involving full construction, sales and rentals, diverse target groups, erratic pricing policies, high levels of subsidy and an undisciplined rental and loan collection effort. Aided self-help (ASH) was practiced to a limited extent, primarily in rural areas. Slum and shanty upgrading was aimed mainly at infrastructure rather than the dwellings themselves.

(2) The Policy Dialogue Process

Policy dialogue during the critical period of 1981-1984 was conducted by the full-time USAID housing advisor (now RHUDO/ASIA) with the Ministry of Local Government, Housing and Construction (MLHC) and several of its semi-autonomous agencies such as The National Housing Development Authority (NHDA). The RHUDO provided support and oversight. The policy channel remains unchanged. In support of the policy process, technical advisors from U.S. housing associations and universities provided technical studies, policy analyses, training, and, more recently, a sophisticated, computerized planning model for shelter sector assessment.

The policy dialogue also included the State Mortgage and Investment Bank and the Housing Development Finance Corporation (HDFC). One unusual channel was developed by USAID which initiated and sponsored a dialogue among the Housing Development Finance Corporation of India, the Sri Lanka government and private financial experts, resulting in the creation in 1984 of the HDFC/SL.

Special housing sector studies and direct RHUDO/USAID dialogue with host country officials provided useful opportunities for creating policy change. Within the project cycle, four stages afforded good openings to stimulate policy formulation: the agreement for a shelter assessment, the CP compliance process, the implementation process, and project evaluation.

During 1981, as a concomitant to the preparation and execution of the Implementation Agreement for HG 001, USAID sponsored a series of technical and financial studies, technical advisory services, conferences, workshops, and participant training activities aimed at redirecting and rationalizing the hodge podge of existing housing practices. These activities were intended to provide a basis for development of a coherent housing policy.

The technical assistance, the AID-GSL policy dialogue and the lessons quickly learned from the 100,000 Houses Project jointly produced a number of beneficial results. The low-income beneficiary was targeted; direct construction was replaced by aided self-help; organizational realignments and changes in functions were made; the State Mortgage and Investment Bank was recast as the National Housing Bank, the Housing Development Finance Corporation was established largely at private initiative but with substantial GSL support and with the assistance of AID. Policies were enunciated which generally were compatible with AID policy criteria.

During the implementation of HG 001 it became necessary for the RHUDO/USAID to halt disbursement because of dissatisfaction with three areas. First, arrearages were excessive, and the RHUDO/USAID insisted on corrective measures. Second, accounting and recordkeeping practices were seriously deficient. Finally, the implementation plan for the aided self-help program provided for a 2 percent interest charge which GSL felt it could not implement. At the time,

the government was trying to end subsidies throughout the economy, including those on food, and was facing a national referendum. It felt that it could not impose the 2 percent interest requirement and maintain public support for its revised housing policies. After extensive negotiation, it was agreed not to increase payments but to reflect the 2 percent interest charge in a balloon payment after the original capital cost was met. Interim improvements in the other two problems were sufficient for RHUDO/USAID to resume disbursement.

Policy dialogue, the technical studies cited above, and the complementary process of education, training, and orientation by the USAID Housing Advisor, were largely aimed at certain key government officials who were not only strategically placed within the housing sector, but also were unusually able, receptive, and aware of the need for policy improvements. They included the Director of Policy and Program of MLGHC, the Additional Secretary of MLGHC, and the General Manager of the National Housing Development Authority.

At the same time the ambassador held a series of weekly talks with the Prime Minister/Minister of Local Government, Housing, and Construction. AID housing policy concerns were sometimes included in the agenda. When the key senior officials had absorbed the advice proffered by the USAID and had developed their own strategies, they found the Prime Minister not only receptive but determined to move ahead quickly. From this experience evolved the large-scale One Million Houses Project which was partly funded by HG 002 beginning in 1983.

A policy dialogue setback occurred in conjunction with the creation of the 1 Million Houses Project. The Prime Minister's announcement of the project was a surprise to many senior Sri Lanka government officials. Since the announcement had not been preceded by orderly planning, the government quickly created a 1 Million Houses Task Force, and the AID-sponsored technical advisor was invited to participate. He was then disinvited and told that the task force was an internal Sri Lankan activity. AID was formally excluded from any direct participation in the planning process for almost an entire year (1983). The AID contribution during that important period was limited to (a) the several technical studies noted above, e.g., the subsidy, management, and financial studies,

and (b) the advisory services provided to several individual members of the task force who were the advisor's regular work contacts. In his final report, the technical advisor concluded that despite his exclusion from the task force, it had been possible to incorporate a number of his ideas and the ideas embodied in the studies in the 1 Million Houses Project plan. This conclusion was corroborated by GSL officials.

It does not appear that the availability of dollars through the HG provided critical leverage for policy and institutional change. Such changes were seen to be necessary, first, as the result of the economically wasteful 100,000 Houses Project and other experiences of the 1978-1983 era. Secondly, changes were warranted on the basis of the conclusions and recommendations of the analytical studies and technical advisory services during the 1981-82 period. It should be noted that the IBRD and IMF fully supported the policies recommended by AID. It does seem clear, however, that the availability of dollars through the HG brought pressure from the Ministry of Finance to improve collections.

One of the most important factors in gaining broad political acceptance has been the leadership role taken by the Prime Minister, who is a strong advocate of the new housing policies.

(3) <u>The Results Of The Policy Dialogue</u>

The design of present low-income housing programs is built on three interlocking policy criteria:

- Affordability - ability of the low income beneficiary to pay the monthly payments for capital, interest, and services

- Eligibility - loans must be for below-median-income beneficiaries

- Delivery - the capability of the program to deliver adequate land, shelter, and services to the beneficiary within the limits of the loan.

The viability of this design will be determined by a fourth policy criterion: a system of collections which will result in full cost recovery. Although the design itself appears to be sound, past and present

experience suggests that shortfalls in collections may pose a serious threat.

In 1981 there was no comprehensive, consistent statement of policy to guide the planning, financing, construction, and management of the housing effort. Today that policy exists and is generally compatible with AID housing policy criteria, although it is not yet found in a single, formalized statement. The preparation of such a formal document has been deliberately postponed because the RHUDO/USAID and the MLGHC believed, until recently, that it was not in the interests of the GSL and AID to do so. It was felt more important to secure and consolidate changes in GSL attitudes and to avoid contentious issues which might jeopardize progress to date.

The specifics of current policy are:

- Focus on below-median-income beneficiaries, who are defined as households with an average monthly income of less than Rupees 1,000 ($40)
- Effecting affordability criteria, full cost recovery, and the gradual reduction and ultimate elimination of subsidies
- Reduction of the government's role in finance and construction
- The need to mobilize private capital
- Reliance on aided self-help methods, lowered standards, low-cost, indigenous materials
- Upgrading rather than demolition of slums.

One of the most significant measures of policy change is found in the Sri Lankan Public Investment Plan (PIP). The 1980-81 PIP allocated approximately 10 percent of public investment to housing, compared with 3 percent in 1984-85. The difference in investment levels is striking when compared with low-income housing activity for the same period: in 1981-82, some 21,500 new and upgraded units were completed; in 1984, in the rural area only, 43,213 units were initiated (37 percent completed, 27 percent half or more completed, 36 percent less than half completed; urban area data not yet available). The differences

are largely the result of changes in policy: reliance on aided self-help, emphasis on upgrading and sites-and-services, reduced cost of materials and reduction in subsidies.

(4) Policy Improvements Needed

As noted above, there were both substantial improvements to, and some complete reversals of, prior policy during and following the 100,000 Houses Project. The present challenge is to make the policies work in the face of internal forces inherited from the past and unfortunately reinforced during the 100,000 Houses Project.

There is not yet a single comprehensive national housing plan; implementation planning is now embodied in the Public Investment Plan (PIP), the NHDA budget and the annual implementation plans and budget for the 1 Million Houses Project. Each of these contains production targets and projected rates of disbursement, expenditure and collection.

4. INSTITUTIONAL ELEMENTS, SYSTEMS AND CAPABILITY

This section traces the effects of AID's participation in the development of institutional capacity.

(1) Previous Institutional Situation

The Ministry of Local Government, Housing and Construction determines policy, priorities and specific programs, and monitors and coordinates the work of its 20 agencies and authorities. The Minister of MLGHC is also the Prime Minister.

The National Housing Development Authority coordinates overall implementation; develops planning criteria, implementation targets, plans, guidelines and procedures; trains staff at all levels; and is responsible for administration and technical aspects. In addition to its headquarters staff, it has staff in 25 district offices.

The Department of Local Government (DLG) assists and supports NHDA in its implementation role and gives direction to local authorities. The NHDA district office staff or the special services office of DLG works directly with beneficiaries.

The Urban Development Authority (UDA) is responsible for land-use policies and planning in all cities and secondary towns.

The State Mortgage and Investment Bank was reestablished in 1982 as the national housing bank and given authority for a variety of housing and land development loans; it was formed in the 1970s from two much older institutions. Its present sources of financing are debentures, government funds and HG funds. It is now exploring the prospects for accepting individual savings accounts to channel into housing construction. Although the SMIB has been active in the housing sector for some years, its present policies and operations were shaped in large part as a result of AID initiatives and technical assistance.

The Housing Development Finance Corporation was established in 1984 as a semi-private sector (Sri Lankan-Indian) initiative with USAID encouragement and support. It presently draws its capital from government sources and depositors. Equity shares are owned by both the public and private sectors with directors drawn accordingly. There is a private sector Sri Lankan management agent.

(2) <u>The Institution-Building Effort</u>

Technical assistance took the form of technical and financial studies, technical advisory services, participant and workshop training and conferences. This assistance was dual purpose. First, it was aimed at supporting and guiding the policy formulation process. Secondly, it was intended to influence the direction and structure of the Sri Lankan institutional system and raise the level of understanding and skill of key officials. The technical assistance component of HGs 001 and 002 totalled $1,040,000, with a local currency contribution of $288,000 from GSL. Of the original dollar amount, approximately $210,000 remains unexpended. One component of the TA effort -- technical advisory services from MIT -- has proven so useful that the Ministry has taken over the funding and management.

Because of the close relationship between policy formulation and the creation and redirection of institutions, it is not possible to allocate the technical assistance resources between them.

(3) The Institution-Building Results: Institutional Capacity Today

Technical assistance has produced a number of important results:

- A series of studies, assessments and technical analyses conducted by the Urban Institute, the National Savings and Loan League, the National Council of Savings Institutions, the University of California at Berkeley, Massachusetts Institute of Technology and others has proven invaluable in the shaping of Sri Lankan attitudes, the formulation of national housing policy and the design of specific programs and projects.

- Participant training in the U.S. of key policy-level officials and University of California/ Berkeley and MIT training and advisory services in Sri Lanka are credited, both by Sri Lankan senior officials and by RHUDO/USAID, with having strongly influenced both policy planning and the design of operating programs.

AID-financed studies and technical advisors identified the needs for organizational changes in the MLGHC, including the restructuring and redirection of component units, analyzed the organizational implications and costs and suggested how the changes might be accomplished.

The re-creation of the SMIB as the national housing bank was substantially influenced by the AID-GSL policy dialogue and by AID-financed technical assistance. The bank's increased capitalization, its progressive interest rate structure (which cross-subsidizes), and its wider range of loans (including bridge loans for property developers) are real and welcome advances. The future benefits are uncertain, however, in light of the Chairman's statement that low income borrowers, i.e., those applying for loans of less than Rs 15,000, did not constitute a viable market for the bank and, as a matter of policy, he did not plan to pursue lending to these low income borrowers. It should be noted that this is at variance with GSL policy and the chairman will soon be retired. Since HG-financed beneficiaries will normally

borrow less than Rs. 15,000 under the One Million Houses Program, it would appear that additional outside intervention may be necessary to change SMIB's present policy.

Although the HDFC/SL was established as a result of collaboration between the India HDFC and Sri Lankan counterparts, the USAID played a key role as marriage broker, bringing the two parties together and facilitating their discussions.

Decentralization of the financial and management operations of the 1 Million Houses Project to district and village levels has been elected and is now underway. Its successful execution is essential to the future of low-income housing in Sri Lanka. AID's contribution to both the decision and the process, in terms of planning and analysis, policy, advice, technical studies, and training was the major determinant. One specific example: the basic analysis of decentralized financial management (loan disbursement, collections, accounting and administration of arrearage/default problems) was conducted by an USAID-financed technical advisor who is also advising on the design of the required accounting and management information systems.

(4) Institutional Changes Needed

In two areas there has been little or no institution planning or groundwork:

- The development of an institutional mechanism for a secondary mortgage market
- The creation of a mortgage insurance agency.

It will also be necessary to more fully develop the decentralized financial and management structure noted above. This critical area is examined in greater detail in Section 6 below.

5. IMPLEMENTATION OF HOUSING POLICY - THE DESIGN AND EXECUTION OF HOUSING PROJECTS

The Sri Lankan 100,000 Houses Project, financed in part by HG 001 for $21 million, was launched in 1978 as a stop-gap measure to overcome urgent housing and political problems. It was recently completed with 20, 124 new rural houses constructed and 9,664 urban slum/shanty units

upgraded. The project is regarded by senior government officials as having achieved the political objectives of demonstrating to the electorate that the government cared for the social needs of the people and could and would act swiftly and effectively on their behalf.

The units were mostly contractor-built, highly or totally subsidized, with little or no attention to affordability or cost recovery, e.g., building materials loans were interest-free and repayable over 30 years. Some aided self-help housing was included. Beneficiary income was not the only real criterion, particularly in the model villages and the electoral homes, where the GSL motivation was predominantly political. Subsidies were not rational, systematic or targeted for the benefit of lower-income groups. During the first three years of the project, the unit cost trebled because of excessively high standards, poor management and sharp inflationary increases in the cost of building materials and skilled labor.

Long before completion, the government recognized the wasteful and economically unsustainable design of the project, abandoned the original approach and introduced substantial modifications. This episode marked the almost total reorientation of GSL housing policy. The lessons learned, although enormously costly, permitted the adoption of a more viable policy. AID played a very important role -- through policy discussions and technical assistance -- in this turnaround.

In the recent past, collection efforts in the 100,000 Houses Project were made by the housing officer of the NHDA district office and resulted in collections of 35-45 percent of the amounts due. NHDA now appoints one of the beneficiaries as collection agent and pays a 5 percent commission. Collections are now approximately 65 percent. New approaches to loan administration and accounting are described below. (Substantial collections problems exist in areas affected by the Tamil-Shinhalese hostilities.)

As the new 1 Million Houses Project gained momentum, less management attention was given to the management of the 100,000 Houses Project, which had begun to suffer financial problems. A new Deputy General Manager for Estates Management has been appointed to improve operations.

The 1 Million Houses Project was announced in 1981 and partially funded by $4 million carry-over from HG 001 and $10 million from HG 002. The design of the new program benefited greatly from the experience gained in the 100,000 Houses Project as well as from the AID-GSL policy dialogue and technical assistance. One of the most notable results is the decrease in unit cost from a high of Rs 30,000 in early 1982 (the 100,000 Houses Project) to Rs 7,500 average in the 1 Million Houses Project. The new program includes:

- Free choice for beneficiaries from a variety of options for new construction, upgrading, sites and services and improved services/amenities
- Focus on below-median-income beneficiaries
- Rational affordability criteria
- Low cost standards, materials and methods
- Full cost recovery policy (excluding infrastructure and community facilities)
- Decentralized management and administration
- 3 percent and 6 percent interest charge on loans (the prior 100,000 Houses Project charged no interest).

In 1984, the first full year of operations, 43,213 rural housing loans were granted, exceeding the planned target of 39,986 loans. Of that figure of 43,213, rural beneficiary families completed 16,092 houses and had achieved more than 50 percent of construction in 11,554 cases. All beneficiary families were below the income cut-off level of Rs 1000/month ($40). The loans were used for: new house construction, 46 percent; upgrading, 50 percent; improved utilities, 2 percent. The 1985 target for rural housing is 45,000 loans; the 1986 target is 100,000. Data on urban housing activity is not available. Out of a target of 7,000 carpenters and masons to be trained, 6,164 had received training and 821 had completed the phase 1 course. Some 6,637 local officials were trained in organizational, legal, management, planning, production and related topics. The national low-cost housing design and building competition had 1,843 contestants.

In at least three important financial areas, there has been virtually no progress in implementing policy:

- There is no significant inflow of private capital into the 1 Million Houses Project, either through the SMIB, the HDFC/SL or other financial institutions.

- There has been no significant progress, and little apparent interest or exploration on the part of the SMIB, the NHDC and other banks, in developing a secondary mortgage market.

- These is no mortgage insurance agency or active plan to create one.

The lack of progress in developing a secondary mortgage market or mortgage insurance is attributable to the embryonic state of Sri Lanka's free market system. The system is not yet 10 years old, and most economic/ financial institutions, land and power are still in the Government sector.

In two other areas there has been significant recent improvement but the present situation cannot be considered satisfactory:

- Arrearages are very high, on the order of 35 percent.

- Mortgage loan interest rates are set far below market rates.

6. ISSUES

Several policy issues continue to require attention, particularly affordability, cost recovery, and the mobilization of private capital.

(1) Affordability and Full-Cost Recovery

The central issue confronting the GSL in housing at this time is the extent to which the newly constructed -- and still evolving -- institutional system can adequately support and manage the rapid expansion of lending and construction. More specifically, the issue comprises these elements:

- The Housing Needs Assessment of 1984 forecasts a need for an average of 245,000 new and upgraded units annually until the year 2003. Low-income housing will be financed and constructed at a rapidly expanding rate

(45,000 in 1985, 100,000 in 1986 in the rural areas alone -- urban projections are not yet available) with a massive build-up of mortgage loans to administer. Affordability and full cost recovery policy criteria are required by GSL and AID.

- To work, these policies will require a reversal of social attitudes and economic expectations acquired during the utopian socialism era and reinforced during the earlier 1980s in the 100,000 Houses Project. This attitude of entitlement (that the government will provide and that the individual will not have to pay) poses a serious threat to the integrity of the full cost recovery policy and is manifest in the poor collection rate in the housing projects financed by HG 001 and 002. In the past the idea of "entitlement" was pervasive; it will not be quickly or easily eradicated.

- To meet the housing production goals and the policy criteria of affordability and full cost recovery the GSL has very recently: (a) restructured and reoriented its major housing institutions and designated an existing financial organization, SMIB, as the National Housing Bank and chartered a new housing organization, the HDFC-SL; (b) based its planning in large part on the assumed inflow of private investment into low-income housing where there is no prior experience and yields/returns to investment are uncertain; (c) changed from a strategy of contractor-built houses to 100% aided self-help; (d) decentralized its operations (site planning, beneficiary selection, coordination of all services, financial management, etc.) to the district and local levels; and (e) undertaken the creation of a new mechanism for local level loan disbursements, collections and accounting. The latter involves the use of the local Cooperative Thrift Societies (CTS), credit unions which are formed into district unions and a central organization. The local CTS would, inter alia, replace the recently installed district and local mechanism and possibly displace, in part, the traditional village

money lender. Techniques are being developed for handling arrearages and defaults without recourse to local courts, for payroll deductions for loan payments, and for incentive commissions to collection agents.

The expanding production of housing is forcing the creation and expansion of institutional support systems. The danger is that the institutional, managerial and procedural systems, some of which are not fully developed and tested, will not be able to function at a level of financial integrity and effectiveness that will sustain the program and encourage the inflow of non-government capital, e.g., District Cooperative Unions are fully functioning in only four out of the 24 districts in Sri Lanka, although some 2,000 local cooperative thrift societies are operating throughout the country. The prospects are even further jeopardized by the reluctance of the SMIB leadership to pursue mortgage lending for lower-income beneficiaries.

The critical importance of the still-evolving institutional arrangements cannot be overstated.

- The policies of affordability and full cost recovery depend upon a high level of collections.

- Currently, HG generated funds are channeled to the NHDA via a Treasury grant rather than a loan. Loan collections would receive higher priority if the NHDA was required to repay HG generated funds to the Treasury at realistic interest rates.

- Collections require, first, that the beneficiary recognize the need to budget and save in order to meet payments and, second, an effective village level system for financial administration of loans, repayments, and accounting.

- There are several precedents which give rise to concern: an earlier agricultural loan program had default rates in excess of 75 percent; the National Housing Fund of the

MLGHC had very low recovery rates; the Model Villages projects had little or no repayments; until recently, the 100,000 Houses Project had a recovery rate of 35-45 percent; and the 1 Million Houses Project now has a recovery rate of only about 65 percent.

(2) Mobilization of Private Capital

The GSL plans call for 80 percent of the financing of the national housing program to come from private investment sources. Private sector investment will be forthcoming only if full cost recovery is achieved (high administrative costs relative to the size of loan is also a factor); private investors in Sri Lanka have attractive investment alternatives.

The most urgent item on the AID agenda, therefore, is to help strengthen and redirect the housing finance institutions. The basic strategy is to remove the government from housing finance because of the traditional attitude that government loans do not have to be paid and to transfer the responsibility to the private financial sector where there is a traditional responsibility for repayment of debts. This means ultimately engaging the private financial institutions more deeply in the financing and financial management of housing for all income levels.

(3) Housing As An Economic Sector

Because of the high priority assigned to housing by the GSL and because of the strong management style of the USAID director, housing is given careful attention in the planning and implementation of AID development assistance.

Housing does not appear to be completely integrated into the analysis and planning processes of the USAID CDSS. This strategic analysis does not systematically examine the linkage between housing activities and employment creation, the building of individual and communal equity, the building materials industry, development of water resources, health, and education.

VIII. ZIMBABWE

A previously misdirected and wasteful Government of Zimbabwe (GOZ) approach to housing policy, which advocated expensive, heavily subsidized housing built by work brigades, and which lacked affordability and cost recovery criteria, has been re-oriented by the RHUDO. The policy is now generally compatible with the AID policy approach.

Further policy improvements are needed in housing project design, cost reduction, incentives for private capital investment and creation of a secondary mortgage system with mortgage insurance.

The GOZ spurned U.S. technical assistance and refused to work with two advisors until 1984. More recent efforts have not yet produced major change.

Implementation appears to be proceeding moderately well with good output. Existing implementation and management problems are being addressed. A cadre of 2,000 small contractors have been created. There is no significant private investment in the projects.

1. OVERVIEW OF DEVELOPMENT CONTEXT

The present AID program is being implemented in the context of transition from a private enterprise system, which was seen as racially discriminatory in the allocation of government services, employment, pay, education and health, to a not yet fully defined political-economic-social system in which the search for equity must contend with the dual structure of the economy. The basic conflict is between the need to achieve stability in capital investment, productive institutions and human skills, and the need to induce an orderly redistribution of ownership, resources, income and access to resources.

The chosen strategy is to avoid the disruption of land ownership and other forms of wealth and to emphasize the redistribution of opportunity and access. This includes access to inputs and markets for small subsistence farmers and small-scale industrial enterprises.

Immediately following independence in 1980, production rose. From 1982 until the present, the country suffered an economic setback occasioned by the drought, government policy and management misjudgments, adverse trade balances, and internal budget deficits--all exacerbated by the world recession. Political tensions remain a continuing threat to the country's economic development prospects. Zimbabwe will continue to be dependent on foreign concessional assistance for the foreseeable future.

Constraints to development include:

- A severe shortage of investment capital and foreign exchange needed to expand industrial and agricultural production and thus create employment for the rapidly growing population

- Fiscal and monetary policy problems, including exchange rates and controls, subsidies, wages and employment policies, interest rates, tax policy and the need for more disciplined management of the budget deficit

- Disincentives to foreign and domestic investment such as inadequate savings, foreign exchange controls taxation, and the lack of insurance

protection, as well as investor apprehension about the future Zimbabwean economic doctrine and policy

- Disruption of family structure between commercial and urban areas, with low incomes derived from farming requiring family dependence upon dual farm and wage income.

AID continues to pursue an employment creation strategy composed of three themes. As summarized in the FY1987 CDSS, they are:

- To enlarge employment opportunities in the modern sector of the economy

- To increase productivity and incomes among communal smallholder farmers

- To assist in the strengthening of Zimbabwean family planning institutions as a means of reducing the population growth rate.

2. LOW-INCOME HOUSING DEVELOPMENT

A $50 million HG was approved in 1980, to be implemented in two phases of $25 million each. The first phase was intended to serve two purposes. Thirteen million dollars were allocated to finance an already completed ultra-low cost housing project of 6,748 units in the town of Chitungwiza. This project was planned during the pre-liberation period for the housing of migrant workers separated from their families. The units were far below the standards pursued by the post-liberation government. The RHUDO and the USAID elected to use HG funds for the project because of the urgency of the country's foreign exchange and urban housing problems, and because it wanted to gain entry as a primary donor in Zimbabwe. The viability of the Chitungwiza housing project and the consequences of the RHUDO/USAID decision are briefly discussed below.

The remaining $12 million were allocated for infrastructure in a new urban housing project in Kuwadzana, with a planned capacity of 4,100 units.

The second HG of $25 million was intended to finance the completion of the Kuwadzana project. The national government's and Harare City's contribution to the project

is $17 million. A technical assistance component of $750,000 from USAID funds was intended to address the institution-building and skill development needs of the Ministry of Construction and National Housing and local government.

HG 003, in the amount of $14 million, will be used to upgrade an existing squatter settlement in Epworth. This is the first upgrading project under-taken in Zimbabwe and is a reversal of the Ministry's earlier policy of opposing the upgrading of low-quality housing.

A further HG for $25 million is being planned with three objectives: to add to the existing low-income housing stock, to incorporate private investment funds and to create a secondary mortgage market.

UN/HABITAT, with UNDP funding, claims to be the first donor on the scene with two housing experts assigned to the Ministry of Construction immediately after liberation. These experts produced low-income housing plans and standards and contributed to the feasibility study for the proposed National Housing Corporation. At the request of the government, UN/HABITAT designed and grant-funded two pilot projects (one rural, one urban) to field-test these designs and standards with an emphasis on four elements affecting affordability:

- New housing plans and layouts
- Different approaches to construction, i.e., aided self-help, building brigades and cooperative construction
- New financing arrangements
- Replicability.

Although the experiment is not yet complete and a planned evaluation has not yet been launched, UN/HABITAT indicates that some of the ideas are already being adopted by local building authorities. The AID Kuwadzana project (HG 001 and 002) and the UN/HABITAT experiment were developed in parallel. The results of the policy dialogue affected both.

A pilot project in rural housing at Gokwe is being developed by the Italian government.

The World Bank explored the prospects of low-income housing assistance in 1981 but elected not to proceed, in part because of the policy problems out-lined below. It has subsequently re-entered the scene, and in collaboration with the Ministry of Local Government and Town Planning, is initiating a large, urban low-income housing project. The Bank, having similar affordability criteria to AID, has benefitted from the changes induced by AID's firm stance during the 1982-1983 policy dialogue.

3. HOUSING POLICY AND THE POLICY DIALOGUE PROCESS

This section traces the development of policy and AID's role in the process.

(1) The Policy Dialogue Process

The primary participants in the policy negotiations were the RHUDO and the Ministry of Construction and National Housing (MCNH). Other participants were the long-term technical advisors and USAID. The Ministries of Finance and Economic Planning also played significant roles. The City of Harare was denied a voice in the policy dialogue by MCNH as described below.

Both the special housing sector studies and the HG project cycle provided good opportunities for policy dialogue. Within the HG project cycle, the Implementation Agreement (IA) negotiations and the Project Delivery Plan (PDP) proved the most useful.

The policy dialogue was carried forward under the extraordinary circumstances during the post-war period (1980-1984). The period of 1981-1983 was unusually difficult.

The Ministries of Construction and of Local Government and Town Planning were drastically reorganized and their responsibilities revised. Within a period of 18 months, there was a large exodus of executive and professional and technical staff from the Ministries and local government. Replacements were often highly political, sometimes Marxist in orientation, and not always trained or experienced in housing.

There was hostility and a high level of distrust of U.S. intentions, staff and U.S.-provided financial advisors to the government. From their arrival in

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November 1982 until the latter part of 1983, the two AID-financed long-term technical advisors to the Ministry of Housing were not permitted to talk to anyone outside the Ministry, e.g., the housing officials of the City of Harare, and were isolated and not listened to within the Ministry. The Ministry of Housing adopted an autocratic attitude toward local government which in the past had played a major role in housing.

The policies of the Ministry of Housing included the belief that government was responsible for housing the poor and should subsidize such housing as much as necessary, that minimal low cost housing was demeaning to the poor, and that building contractors charged excessive fees. The Ministry's policies also reflected the views that building brigades should build all housing for the poor and could do it at lower cost than contractors, that slums should be eradicated (not upgraded), and that self-help, sites-and-services, core housing, progressive construction and temporary occupancy were not appropriate to Zimbabwe.

The RHUDO and USAID/Harare needed to reach agreement with the Zimbabwean Government on a variety of specific housing policies and criteria in order to achieve the basic objectives of affordability and full cost recovery for below-median-income beneficiaries. These policies and criteria covered:

- The size, the materials and the other physical characteristics of the house and the plot
- The nature and rate of progressive construction, including the concepts of sites-and-services, core housing and temporary occupancy of incomplete housing
- The amount and level of infrastructure and services
- The means for construction
- The amount and terms of mortgage loan repayments and the concomitant need for government subsidy.

Against this background the following disruptive events occurred:

- The Ministry rejected or ignored AID offers for participant training and attendance at training workshops.

- On the Kuwadzana project, the Ministry took over the City of Harare's functions. Then, in a sudden shift in emphasis from urban to rural housing, the Ministry returned the functions to the City, ostensibly because it did not wish to be closely involved with project implementation.

- In mid-1983, the Ministry wanted to withdraw from the HG implementation agreement because it would not agree with the specific policy elements which would permit fulfillment of the AID goals of affordability and full cost recovery. At stake was $37 million of HG funding, $12 million of HG 001 and $25 million of HG 002. The RHUDO, the USAID and the technical advisors all agreed to withhold release of the $12 million to start the Kuwadzana project until the Project Delivery Plan was submitted and approved. The PDP thus became the vehicle for a lengthy and difficult policy negotiation from July to December 1983.

(2) <u>The Results Of The Policy Dialogue; The Contribution Of AID</u>

The issue was finally resolved generally in favor of the AID position with several exceptions, some relatively minor, as follows:

- A four-room house with a 50 square meter plinth was agreed to, although the RHUDO preferred a smaller house with expansion at the owners's option. A plot area of 300 square meters was agreed to; the RHUDO had requested 200 square meters.

- A one-room core with interim beneficiary occupancy and completion of the four rooms within 18 months (with a possible six-month extension on a case-by-case basis) was agreed to. The Ministry strongly desired full construction by building brigades. RHUDO preferred sites-and-services with core construction, aided self-help, an extended

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period for completion, and interim occupation.

RHUDO and the Ministry finally agreed that the beneficiaries would have free choice among three construction options and that the costs and benefits of each would be explained to the beneficiaries. These were aided self-help, building brigades and cooperative building involving several beneficiaries. Experience to date in Kuwadzana indicates that only about one percent chose the building brigades; the remainder opted for aided self-help. In 1984 a study by the Ministry showed that brigade building costs were 50 percent higher than the cost of aided self-help methods.

Although there were differences on the level and kind of infrastructure, the Ministry refused to negotiate and RHUDO did not pursue the matter.

In pursuance of its social objectives, the Ministry wanted housing which would exceed the repayment capacity of the below-median target group and was prepared to resort to subsidy. The RHUDO position on affordability was supported by the Ministry of Finance, UN/HABITAT and the City of Harare. The decision was generally in favor of the AID position except that the size of the completed house and the 18-month completion date will place a somewhat greater burden on the beneficiary than desirable.

Given the extreme circumstances created by the war and by the profound changes in the country's political, economic and social structures, the AID urban low-cost housing program in Zimbabwe has made excellent progress. At the policy level, the RHUDO was able, through policy-oriented and technical studies and a firm negotiating posture, to deflect and, in some instaces, to reverse potentially damaging policy initiatives by the new government. Its actions set the stage for a rational and productive approach to Zimbabwe's urban housing problems.

The AID policy criteria of affordability and full cost recovery for the below-median-income target group have been largely achieved in the face of strong resistance, and should shape and encourage future housing efforts by all donors as well as the government itself. The pattern thus established should also facilitate the inflow of private capital, primarily from the local building societies.

(4) Policy Improvements Needed

The policy accomplishments noted above must be seen in a broader policy context: 77 percent of the poor live in rural areas and the rural housing problem has yet to be addressed in a purposeful way. Beyond the question of rural housing policy, the other important policy needs are:

- To try to loosen the project design rigidities now present in Kuwadzana so that the beneficiary has a wider range of choice such as size, location, type of construction, and interim occupancy
- To find new approaches to cost reduction with particular emphasis on infrastructure
- To find incentives for the mobilization of private capital
- To create a secondary mortgage market
- To provide mortgage insurance
- To create a national housing corporation.

4. INSTITUTIONAL ELEMENTS, SYSTEMS AND CAPABILITY

At the national level, the Ministry of Construction and National Housing has the primary responsibility for policy, planning and overall management of the National Housing Fund. The Ministry of Finance deals with financial, fiscal, and budgetary policies, while the Ministry of Economic Planning sets priorities and controls the allocation of resources among economic sectors.

Detailed planning, construction and management of public sector housing projects is the function of local governments, which look to the Ministry of Construction and National Housing for policy, housing construction criteria and financing (from the National Housing Fund). The larger local government units have tended to be self-sufficient in planning and other technical skills, although this capacity and the the capacity of the Ministry was seriously eroded during the early post-liberation period.

The three Zimbabwean building societies are well established and technically self-sufficient. Their

traditional role in above-median-income housing -- concentrated on houses costing more than $18,000--has not prepared them to deal with low-income housing problems. To date, the building societies have not engaged in the AID-financed program. This has begun to change, in part as the result of governmental pressures and in part because of a desire to better understand the costs and benefits of investment in the lower income market. The receptivity of at least one building society was increased by virtue of the fact that it received computer equipment under the Commodity Import Program.

A construction industry based upon commercial building and above-median-income housing it has participated in low-income construction financed by the pre-liberation regime; in fact, it built the Chitungwiza project described above. It has been excluded from the below-median-income housing market by government policy as noted above. It is currently operating well below capacity because of weak demand for middle- and upper-income housing.

The need for institution building was evident from the fact that most of the senior and professional/technical staff of the Ministry of Construction left within 18 months after independence and were only partially replaced, often with unqualified persons. Similar, but less traumatic changes occurred at the local government level.

Despite the urgent need, the only technical assistance which the Ministry would accept in the early stages (November 1982) was two resident housing advisors for two-year tours. The origin of this resistance was doctrinal; in the eyes of the (then) Minister of Construction, AID assistance was seen as a manifestation of an exploitative, capitalistic system wholly incompatible with the socialist philosophy of the new government. As a consequence, the advisors were unable to influence policy, give advice or function in any effective way.

At the same time, the Ministry spurned RHUDO/USAID offers of participant training. To date, out of a total TA budget of $750,000, only one participant has been chosen and is presently in the U.S. for six months of training. Although AID training opportunities remain open, $266,000 remains unearmarked. The City of Harare housing authorities have not yet been informed of these opportunities by the Ministry.

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Since the beginning of 1984, the situation has improved, and the two housing advisors, one in the Ministry, one at the Kuwadzana site, have been able to make increasingly valuable contributions. The two advisors are very well qualified, highly motivated experts.

In the planning process, the RHUDO has contributed to the improvement in government housing planning capability by providing technical advice to the Ministry of Construction and National Housing and to Harare urban planners. The RHUDO also produced a number of technical studies in program policy and project design for the government and for its own use. An evaluation of the experience to date, including a survey of beneficiaries' attitudes, needs and benefits has been initiated. One of the more significant initiatives is the development of a plan for a national housing corporation. A feasibility study, jointly funded by AID and UN/HABITAT, was completed in March 1985 and is now under review. The study includes a review of relevant experience with national housing corporations in Botswana, Kenya, Malawi and Zambia.

It is too early to assess any results from the recent efforts of the technical advisors. With the improved climate it may be possible to broaden the range of donor institution-building efforts. The World Bank plans to finance a training project covering several sectors, including housing.

5. IMPLEMENTATION OF HOUSING POLICY - THE DESIGN AND EXECUTION OF HOUSING PROJECTS

The actual number of previously completed housing units thus far financed (Chitungwiza) is 6,748. In Kuwadzana, the number of units built is 3,000, with 7,300 sites-and-services completed. Another 5,870 units are planned.

Several special-purpose housing projects have been undertaken with local currency financing to support AID financed development projects, e.g., housing for teacher trainees. The RHUDO, the USAID, UNDP and UN/HABITAT have jointly undertaken pilot projects in two smaller towns, using U.S.-generated local currencies.

The evaluation of experience to date noted above should provide useful information on the implementation process. Implementation is supervised by a steering

committee comprised of USAID and Ministry and City officials which meets monthly to assess progress and monitor quality standards.

It should be noted that the hard-won RHUDO gains on affordability and full cost return are threatened by political activity at the local level. It is alleged that local politicians are telling beneficiaries that the housing is free, that they need not meet their loan payments and other obligations and that the government will take care of their interests. The Ministry plans to intervene in this matter.

As noted above, during the difficult and uncertain period following liberation, $13 million in HG funds were used for an already completed project, Chitungwiza, which had originated prior to liberation and which conformed to the ultra-low-cost housing policy of the prior regime. This decision reflected the desire of AID to take the lead among donors in development assistance to the newly formed government and to help the government deal with the severe foreign exchange problems. The RHUDO and the USAID have indicated that the project met minimum standards. The Kuwadzana Project Delivery Plan stated of Chitungwiza: "Project verified completed." A key Harare city official described the project as "socially unsuccessful and economically wasteful," and indicated that to achieve a significant improvement, the houses would have to be demolished and rebuilt. This view appears to be at variance with the draft basic housing needs assessment of February 1985 financed by AID, which stated that the housing in Chitungwiza was "sound," in that almost all the residents had access to flush toilets and running water.

During the most difficult period of the policy dialogue, when the Ministry of Housing and the RHUDO/USAID were in fundamental disagreement on how to achieve affordability and full cost recovery, the Ministry strongly criticized Chitungwiza as an example of U.S. advocacy of substandard housing for the poor and excessive costs resulting from reliance on private contractors.

6. ISSUES

This concluding section identifies four categories of issue which deserve further attention by host country housing institutions and AID.

(1) Affordability And Full Cost Recovery

Despite the important advances in housing policies described above, the affordability and full cost recovery goals will not be quickly or easily achieved. There are aspects of GOZ policy which have resulted in a rigid project design (Kuwadzana), including overly elaborate and costly infrastructure and a minimum four-room house to be completed within 18 months. There are few options for cost savings by the beneficiary. It seems likely, under these circumstances, that arrearages and defaults will be high.

(2) Mobilization of Private Capital

There has been no significant private investment in the lower-income housing market to date. There are signs of interest in at least one of the three national building societies and signs also that the government will encourage and indeed press for private investment. At this time, however, at least five factors inhibit such investment:

- Substantial arrearages in Chitungwiza and in Kuwadzana which is still under construction
- The absence of an interest rate spread sufficient to attract private investors who have other, more attractive alternatives
- The absence of a secondary mortgage market
- The absence of a mortgage insurance scheme
- Uncertainties about government policies regarding the private sector.

Any progress toward creation of a private investment market in low-income housing will depend upon changes in all of these factors.

(3) Rural Versus Urban Housing

The Foreign Assistance Act gives high priority to the needs of the poorest of the poor and to "expanding productive investment and services out from major cities to small towns and rural areas ..." The urban poor are the most visible, the most susceptible to political unrest, and the easiest to reach with housing

services. The rural poor are the least visible, the least likely to exhibit political unrest and the most difficult to reach with housing and related services. In Zimbabwe virtually all HG and related technical assistance activity is aimed at urban housing. Although the GOZ accords the highest priority to rural housing it does not have a strategy or a delivery system for reaching the rural poor.

The potential effects on rural-urban migration of improved housing in the rural and/or the urban areas have yet to be systematically studied. Opinions vary widely. Increased availability of urban housing, originally intended to solve the urgent problem of undersupply, may in fact tend to encourage even more migration from rural areas. Conversely, it is not improbable that an increased supply of rural housing and related services may inhibit the migration. Although employment opportunities are generally thought to be the primary cause of migration, the availability of improved housing and the physical social and economic services associated with housing may be a significant factor.

The government has recently requested RHUDO assistance in formulating a study of the problem. The RHUDO does not believe that rural housing can be effectively addressed at acceptable cost and within available resources and is opposed to AID support of rural housing programs.

(4) Housing As An Economic Sector - The Developmental Aspects Of Housing

With only a few minor exceptions, the four basic planning documents for the housing program (CDSS, Project Paper for Kuwadzana (Parkridge/Fountainbleau), Project Paper for Epworth and the draft basic human needs assessment) place primary stress on the production of housing infrastructure and related services. The CDSS notes briefly the contribution to employment in the construction industry. The Epworth Project Paper log frame suggests a survey on living conditions as a means of verification at the goal level. RHUDO has mounted an evaluation of beneficiary attitudes and experiences of Kuwadzana (construction not yet complete).

Little attention has been given in planning to the social and economic consequences which may occur as result of the better housing, such as access to and opportunities for employment, changes in income, morbidity and mortality, family stability, and access to social and economic services.