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INTERNATIONAL

EVALUATION

CHF'S "COOPERATIVE NEIGHBORHOOD IMPROVEMENT AND JOB PROGRAM FOR CENTRAL AMERICA"

EXECUTIVE SUMMARY

APRIL 1988

PADCO

AN INTERNATIONAL COLLABORATIVE FORMED TO PROVIDE GOVERNMENTS AND PRIVATE CLIENTS IN AFRICA, ASIA, LATIN AMERICA AND THE NEAR EAST WITH INTEGRATED RESEARCH, PLANNING AND MANAGEMENT SERVICES FOR URBAN AND RURAL DEVELOPMENT

E V A L U A T I O N

CHF'S "COOPERATIVE NEIGHBORHOOD IMPROVEMENT AND JOB PROGRAM FOR CENTRAL AMERICA"

EXECUTIVE SUMMARY

Prepared for

Office of Development Resources
Bureau of Latin America and the Caribbean
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PREFACE

This evaluation was carried out by Planning and Development Collaborative International (PADCO). The evaluation team was composed of Lee Baker (Team Leader), Pedro Lasa and Anna Santana. Field work in Central America was undertaken during October through December 1987. The authors wish to thank the many local, CHF and AID officials who shared their time, views and information to make this evaluation possible.

EXECUTIVE SUMMARY

The Executive Summary presents the main findings and recommendations of this mid-term evaluation of CHF's "Cooperative Neighborhood Improvement and Job Pogram for Central America." The CHF program for Central America is a direct cutgrowth of the recommendations of the National Bipartisan Commission on Central America (NBCCA, or Kissinger Commission as it is often known).

AID approved CHF's Central America shelter program in March 1985 in the form of a cooperative agreement. The four-year grant was initially for an amount of US$10 million. The total program was to benefit over 100,000 people.

The CHF program proposed to help develop strong private sector systems for self-help housing, community improvements and associated employment creation which was to function as a complement to public sector programs. The CHF program attempts to demonstrate that such private sector systems can reach lower-income households and produce shelter solutions more rapidly and at a lower cost than most public sector programs. As a result, the program hoped to attract and mobilize both local and external resources in order to promote additional shelter activities.

The statement of work from AID's Office of Development Resources stipulates that the evaluation should

> "... focus on the processes used by CHF in carrying out implementation steps to achieve the project objectives. Emphasis will be placed on understanding the project objectives, identification of activities, implementation steps and efficient use of resources."

This evaluation is essentially a mid-term review of the CHF program. It reviews the effectiveness to date in achieving project objectives and the efficiency in carrying out project implementation. The evaluation was undertaken after the program had been underway sufficient time to provide a solid basis for review, while at the same time allowing sufficient time and resources to be able to make significant adjustments if they are required.

The evaluation was carried out during October through December 1987. Just prior to beginning the Panama portion of the evaluation, the Government of Panama requested that AID close its Mission in Panama due to the political tension existing between the two countries. Based on the Mission's closing, the evaluation of the CHF/Panama program was cancelled on the advice of the Mission and AID/Washington.

I. CHF PROGRAM DESCRIPTION
(Chapter III of Main Volume)

CHF's Central America program directly responds to the recommendations of the Kissinger Commission. In its response to the Commission's broad goals of economic growth, equity in development, and promotion of democratic institutions, the program identifies three principal objectives:

- Develop permanent private cooperative systems in the Central America region for self-help community improvement, shelter and associated employment to complement public sector efforts and to increase local capacity to use resources effectively.

- Demonstrate that private sector systems can reach a much lower income level and produce less expensive housing and services more rapidly and more efficiently than most government programs.

- Mobilize both local and external resources to continue and expand the program in the future.

CHF's Central America program includes substantial inputs of technical assistance to carry out program implementation. CHF views the channelling of technical assistance resources to local organizations as a means to strengthen the capacity of these institutions over the mid- to long-term.

Capital assistance is provided to carry out demonstration projects which will maximize the benefits of the technical assistance. CHF's capital program contains the following principal elements:

- Capital assistance to private, non-profit organizations to develop demonstration projects in the areas of community services, new home construction, home improvement loans and credits to small-scale enterprises and producers of building materials.

- Provision of institutional support grants and technical assistance to help local private sector organizations improve and strengthen their capacity to implement low-cost shelter and community services programs.

- Provision of guarantees (in the range of US$50,000-500,000) to mobilize local resources into shelter activities similar to the demonstration projects.

- Development of training programs and systems to assist local private sector organizations and cooperatives in the design of self-help projects.

- Organizing regional workshops and national level conferences and workshops on subjects relating to the development of the demonstration projects.

- Demonstration of lower-cost methods and techniques for producing shelter in squatter settlements and rural villages in order to encourage replication by local residents, private sector organizations and governments.
- Provision of credit and technical assistance for improving and increasing the efficiency of the production and distribution of building materials in squatter settlements and rural villages.
- Documentation on results and benefits of demonstration projects.

II. PERFORMANCE TO DATE IN ACHIEVING THE OBJECTIVES OF THE PROGRAM'S MAIN OBJECTIVES
(Chapter V of Main Volume)

Since the signing of the cooperative agreement in March 1985, CHF has successfully established its Central America program in Guatemala, Honduras, Belize, El Salvador, Costa Rica and Panama.

The original US$10 million grant has been amended twice to add additional funds to the CHF program in El Salvador (US$0.449 million) and Guatemala (US$2.3 million). Total AID financing now stands at US$12.749 million. Approval for further AID funding of US$5.16 million is pending in Honduras, Belize and El Salvador. Since the signing of the cooperative agreement, CHF has signed 25 loan contracts and 16 institutional support grants with Central America private sector cooperatives and non-profit organizations.

A. FINANCIAL STATUS

Table 1 summarizes the status of the financial inputs of CHF's capital lending program as of December 1987. Of the total US$7.855 million available for capital lending, CHF has been able to program or commit US$5.38 million (68.5 percent) and disburse (US$2.98 million (38.1 percent) in slightly over two and one-half years of operation.

From a purely organizational and capital disbursement standpoint, CHF has done a good job in establishing its six country programs and executing its first round of projects under the cooperative agreement.

TABLE 1
SUMMARY: FINANCIAL STATUS OF LOANS AND GRANTS (CAPITAL PROGRAM)
CHF CENTRAL AMERICA PROGRAM (US$)
DECEMBER 1987

FINANCIAL STATUS OF LOANS/GRANTS	GUATEMALA	HONDURAS	EL SALVADOR	BELIZE	COSTA RICA	PANAMA c/	REGIONAL c/	GRAND TOTAL
TOTAL FUNDS AVAILABLE	US$3,160,000	US$1,430,000	US$895,000	US$400,000	US$500,000	US$970,000	US$500,000	US$7,855,000
Original Grant	1,300,000	1,430,000	500,000	400,000	500,000	970,000	500,000	5,600,000
Amendments	1,860,000	-0-	395,000	-0-	-0-	-0-	-0-	2,255,000
Funds Committed (Signed & Operational)	1,431,204	1,370,987	401,763	356,165	483,000	432,620	197,498	4,673,237
Funds Programmed	501,600	48,000	-0-	-0-	-0-	159,250	-0-	708,850
Total Funds Committed/ Programmed	1,932,804	1,418,987	401,763	356,165	483,000	591,870	197,498	5,382,087
Funds Unprogrammed	1,227,196	11,013	493,237 a/	43,835	17,000	378,130	302,502	2,472,913
Funds Disbursed	852,945 b/	805,806	401,763	274,564	257,689 b/	295,885	100,640	2,989,292
Percentage of Total Funds Committed/Programmed (%)	61.2%	99.2%	44.9%	89.0%	96.6%	61.0%	39.5%	68.5%
Percentage of Total Funds Disbursed (%)	27.0%	56.4%	44.9%	68.6%	51.5%	30.5%	20.1%	38.1%

Source: Individual Country Evaluations by PADCO and CHF Reports.

a/ With the exception of US$75,000, all of these funds were previously committed to ongoing/new loans prior to USAID's termination of lending to FEDECACES. CHF/El Salvador is currently in the process of preparing feasibility studies to reprogram these remaining funds.

b/ Dollar amount disbursed is based on average exchange rate over period of loan disbursements.

c/ Financial status from CHF Quarterly Report, July 1-September 30, 1987.

B. PHYSICAL OUTPUTS

The original CHF program identified a wide-range of project activities. To date, CHF has focused almost exclusively on the production of new construction (both in new schemes and scattered site) and home improvement loans (see Table 2). CHF has exceeded to date the production targets on these components established in its proposal.

On the other hand, CHF has been unable to identify and execute any neighborhood programs for the improvement of services.

CHF has also not achieved very good results with its lending program for small-scale enterprise and producers of building materials. CHF has been able to initiate only one program in Honduras which has made 23 loans to date.

TABLE 2
SUMMARY: STATUS OF PHYSICAL OUTPUTS AND PROGRAM BENEFICIARIES[a/]
CHF CENTRAL AMERICA PROGRAM
DECEMBER 1987

COUNTRY	COMMUNITY IMPROVEMENT AND SERVICES: NO. OF NIC/VIC	COMMUNITY IMPROVEMENT AND SERVICES: HOUSEHOLDS SERVED	SELF-HELP HOUSING: NO. OF CO-OPS.	SELF-HELP HOUSING: UNITS	HOME IMPROVEMENTS: NO. OF LOANS	SMALL BUSINESS LOANS	LOANS TO BUILDING MATERIALS PRODUCTION CENTERS b/	ESTIMATE OF TOTAL NUMBER OF BENEFICIARIES	INSTITUTIONS STRENGTHENED OVER LIFE OF PROGRAM
GUATEMALA									
Actual to Date	0	0	4	141	223	0	0	2,120	4 TSO/Federation
Pipeline	7	593	0	484	614	0	0	8,455	9 Housing Co-ops/ Credit Unions
Sub-Total	7	593	4	625	897	0	0	10,575	7 VICs
HONDURAS									
Actual to Date	0	0	4	60	513	0	23	2,980	2 TSO/Federation
Pipeline	0	0	3	160	160	0	117	2,185	4 Local PVOs
Sub-Total	0	0	7	220	673	0	140	5,165	9 Housing Co-ops 4 Credit Unions 3 IDH Branch Offices
EL SALVADOR									
Actual to Date	0	0	2	55	384	0	0	2,020	1 TSO/Federation
Pipeline	0	0	0	0	0	0	0	0	7 Credit Unions
Sub-Total	0	0	2	55	384	0	0	2,020	
BELIZE									
Actual to Date	0	0	3	23	0	1	0	115	1 TSO/Federation
Pipeline	0	0	0	19	0	0	0	95	3 Housing Co-ops
Sub-Total	0	0	3	42	0	1	0	210	
COSTA RICA									
Actual to Date	0	0	2	29	195	0	0	1,120	1 TSO/Federation
Pipeline	0	0	1	76	78	0	5	795	8 Housing Co-ops
Sub-Total	0	0	3	105	273	0	5	1,915	
PANAMA	N.A.								
TOTAL	7	593	19	1,047	2,227	1	145	20,065	9 TSO/Federation 40 Housing Co-ops/ Credit Unions 4 Local PVOs 3 Branch Offices Dev. Found.(Hond.) 7 VICs
Projected Beneficiaries-CHF Proposal (Excl. Panama)	42	14,049	10	731	1,867	32	34	85,575	

Source: PADCO Country Evaluations of CHF Program.

a/ Based on CHF Central America programs funds committed/programmed as of December 1987 (excl. Panama).

b/ Loans listed under this heading for Honduras should be presented under the category "Small Business Loans" since IDH (the implementing agency)

C. GENERATION OF ADDITIONAL PROGRAM FINANCIAL RESOURCES

Table 3 shows that CHF has been only partially successful in generating additional resources to support its Central America program. The primary source of additional funds to date has come from AID. The total of approved and pending additional AID funding of US$7.909 million surpasses CHF projections of US$6 million from the original proposal.

CHF has been less successful regarding the generation of local resources to support similar shelter activities. Table 3 points out CHF's inability to generate local resources which would add to the total physical output of the program.

With few exceptions, CHF's local financial intermediaries have fulfilled their contractual obligation regarding the provision of direct counterpart funding. Unfortunately, this counterpart contribution is primarily in the form of in-kind contributions (mainly composed of land, labor, administrative support, etc.) which has a limited effect in adding to the total output of the CHF program.

TABLE 3
COMPARISON OF PROPOSED AND ACTUAL FINANCIAL PLANS (US$ MILLION)
CHF CENTRAL AMERICA PROGRAM
DECEMBER 1987

USE	ORIGINAL AID GRANT		OTHER AID			SOURCE: HOST COUNTRY CONTRIBUTION a/					OTHER		TOTAL		
						TOTAL BUDGETED	MOBILIZED/COMMITTED/PROGRAMMED								
	BUDGET	COMMITTED/ PROGRAMMED	BUDGET	MOBILIZED TO DATE	COMMITTED/ PROGRAMMED		TOTAL COUNTERPART c/	ADDITIONAL RESOURCES CHF FINANCIAL INTERMEDIARY FOR SIMILAR PROGRAMS	OTHER LOCAL PUBLIC/PRIVATE SECTOR INSTITUTIONS	TOTAL	BUDGET	COMMITTED/ PROGRAMMED	BUDGET	MOBILIZED TO DATE	COMMITTED/ PROGRAMMED
Capital Programs	4.785	4.300	5.600	2.200 (Appr.) 4.135 (Pending)	0.511	2.462	3.461	0.506	0.000	3.967	0.400	0.000	13.247	10.952 (Appr.) 4.135 (Pending)	8.778
Institutional Support	0.385	0.385	0.300	0.055 (Appr.)	0.108	0.000	0.000	0.000	0.000	0.000	0.100	0.000	0.785	0.440	0.493
Training Workshops	0.450	0.079	0.100	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.100	0.000	0.630	0.430	0.079
Sub-Total	5.620	4.764	6.000	6.390	0.619	2.462	3.461	0.506	0.000	3.967	0.600	0.000	14.662	15.957	9.352
Technical Assistance Administration	4.400	4.400	0.000	0.494 (Appr.) 1.025 (Pending)	0.357	0.000	0.000	0.000	0.000	0.000	0.000	0.219 b/	4.400	5.112 (Appr.) 1.025 (Pending)	4.975
TOTAL	10.000	9.100	6.000	7.909	0.976	2.462	3.461	0.506	0.000	3.967	0.600	0.219	19.062	22.094	14.325

Source: Individual PADCO Country Evaluations and CHF Loan Feasibility Studies.

a/ Does not include Panama.

b/ Portion of contract with USAID/Costa Rica for the FEDECREDITO/Peace Corps/CHF rural shelter program used to defray office operating costs.

c/ Includes primarily cash contribution of counterpart agencies and beneficiary down payments and in-kind contributions of land. TA/administration inputs of counterpart institutions, and beneficiary provision of building materials and labor.

D. PROJECT BENEFICIARIES

CHF's proposal projected that the initial US$10 million grant in combination with additional resources from other sources would provide direct benefits to more than 100,000 people. CHF's record to date indicates that the program will fall far short of this goal.

A lower than expected number of program beneficiaries is primarily due to CHF's inability to identify projects in the area of neighborhood improvement. Since this type of project has not materialized, proposed funding has been reprogrammed and committed to other projects with higher unit costs per beneficiary. This has reduced the number of overall beneficiaries.

Another reason for fewer beneficiaries is the lack of "additive" resources leveraged by the initial US$10 million grant.

It is possible to estimate the approximate number of program beneficiaries for the four-year grant on the basis of beneficiaries served to date. Extrapolating from the 20,065 beneficiaries served (see Table 2) by the US$4.790 million in committed and programmed loans as of December 1987 (excluding the Panama program), one can project a total of approximately 52,350 for the four-year program. These results indicate that if CHF cannot mobilize additional local resources over the remaining one and one-half years of the program, the number of program beneficiaries will be less than one-half of initial projections.

III. EVALUATION OF PROJECT EFFICIENCY AND EFFECTIVENESS
(Chapter VI of Main Volume)

A. PHYSICAL IMPLEMENTATION

Table 4 compares and evaluates the efficiency and effectiveness of each country program on the basis of the following set of indicators:

- Achievement of project goals
- Efficiency of organizational procedures
- Timeliness of project implementation
- Total costs compared with original estimates
- Quality of project outputs
- Affordability of outputs by target group
- Replicability

With the exception of initial planning and design and final selection of sub-project beneficiaries, CHF has either instituted new systems and procedures, or built on existing ones, which allow it to provide shelter outputs of a high quality, on a timely basis and within budget. These systems and procedures would be replicable by the local implementing agencies to carry out similar sub-projects in the future.

With respect to initial planning and design, CHF feasibility studies have often not provided sufficient analysis to substantiate the design and institutional structure for specific project loans. The analyses carried out in the problematic feasibility studies were not sufficiently detailed to permit detection of potential problems eventually encountered during implementation, nor problems which might have questioned the project's overall feasibility.

With respect to the target group served by the CHF program, it is the impression of the evaluation team that the social and economic characteristics of this group differ from those initially envisaged by CHF's original proposal. While reliable income data normally do not exist for the urban areas served by CHF sub-projects, a good approximation is that the incomes of CHF beneficiaries would be found in a rather tight band between the 40-60th percentiles of the overall urban distributions. Since the Central America program has been unable to initiate infrastructure improvement programs in the informal neighborhoods that dot most urban areas, CHF is not reaching the "poorest of the poor" nor households much below the 35-50th percentiles. This is not necessarily a negative observation. Rather, the issue is whether an AID-financed grant agreement with such high administrative costs should primarily serve a target population with incomes which are marginally below the median.

TABLE 4
EVALUATION OF EFFICIENCY OF PROJECT IMPLEMENTATION
CHF CENTRAL AMERICA PROGRAM
INDICATORS OF PROJECT EFFICIENCY

Country/Loan	Achievement of Project Goals	Efficiency of Organizational Procedures	Timeliness of Project Implementation	Final Cost within Original Budget	Quality of Project Outputs	Affordability to Target Group		Replicability	Average (Quantitative/Qualitative)	Total Loan Amount US$ x 1,000	Weighted Average Quantitative/Qualitative
						Design	Beneficiary Selection				
GUATEMALA											
G/L/1	3	3	2	3	3	3	1	3	2.6 (good)	350.0	--
G/L/3	3	3	2	2	3	3	1	3	2.5 (good)	425.0	--
G/L/4	3	3	3	3	3	2	1	2	2.5 (good)	240.0	--
Sub-Total Average	3.0	3.0	2.3	2.7	3.0	2.7	1.0	2.7	2.5 (good)	1,015.0	2.53
HONDURAS											
H/L/1A	2	3	2	3	2	3	3	2	2.5 (good)	262.5	--
H/L/1B	1 (to date)	2	1	n.a.	3	3	3	3	2.3 (above average)	87.5	--
H/L/2	2	2	2	3	3	3	2	3	2.5 (good)	250.0	--
H/L/3	1 (to date)	1	1	n.a.	n.a.	3	2	3	1.8 (below average)	400.0	--
H/L/4	1	2	3	3	3	3	n.a.	1	2.3 (above average)	27.5	--
H/L/5	1 (to date)	2	1	3	n.a.	n.a.	n.a.	1	1.6 (below average)	80.0	--
H/L/6	3	3	3	3	3	3	2	1	2.6 (good)	120.0	--
H/L/7	3	3	3	3	3	3	3	1	2.8 (very good)	16.0	--
Sub-Total Average	1.8	2.3	2.0	3.0	2.8	3.0	2.5	1.9	2.3 (above average)	1,243.5	2.21
BELIZE											
B/L/1	2	3	1	2	3	3	n.a.	1	2.1 (average)	22.2	--
B/L/2	1	1	1	n.a.	n.a.	n.a.	n.a.	1	1 (poor)	2.0	--
B/L/3	3	3	3	2	3	3	3	3	2.9 (very good)	300.0	--
Sub-Total Average	2.0	2.3	1.7	2.0	3.0	3.0	3.0	1.7	2.0 (average)	324.2	2.83
EL SALVADOR											
E/L/1 E/L/1 (amendment no. 1) E/L/1 (amendment no. 2)	3	3	3	3	3	3	1	3	2.8 (very good)	257.7	--
E/L/2	2	2	2	3	3	3	1	3	2.4 (average)	104.5	--
Sub-Total Average	2.5	2.5	2.5	3.0	3.0	3.0	1.0	1.0	2.6 (good)	362.2	2.68
COSTA RICA											
CR/L/2	2	2	3	3	3	3	3	3	2.8 (very good)	170.0	--
CR/L/3	3	2	2	3	3	3	3	3	2.8 (very good)	90.0	--
CR/L/4	3	2	3	3	3	3	3	3	2.9 (very good)	100.0	--
Sub-Total Average	2.7	2.0	2.7	3.0	3.0	3.0	3.0	3.0	2.8 (very good)	360.0	2.83

Source: PADCO Analysis

NOTE: The performance of each project is evaluated from good to poor for each of the indicators as follows:

- good = 3
- average = 2
- poor = 1

B. FINANCIAL PERFORMANCE AND MANAGEMENT

The criteria used to evaluate and measure the financial performance of CHF's portfolio include return, turnover and replicability.

1. Return

Return is defined as the yield level generated on the interest rate charged by the lender, CHF in the present case. Given the program's principal objective of demonstrating the feasibility of lending on the basis of market financial conditions, special attention is given to the analysis of the relationship between the financial terms applied by CHF and those of the market. The major parameters examined include interest rate structure and spreads of financial intermediaries, profitability and inflation, and loan guarantees.

a. Interest Rates and Financial Spreads

Practically all the interest rates charged to CHF financial intermediaries are lower than those of the various local market in which CHF operates. A comparison between lending and beneficiary rates for El Salvador and Honduras shows a financial margin or spread that is, as a general norm, greater than what the market allows to private financial intermediaries.

It is only partially correct to state that CHF lending activities in the region demonstrate the program's viability to operate under market conditions. The only program participant operating at market terms is the final beneficiary. If beneficiaries, regardless of social strata, are willing to pay for the cost of money, it seems reasonable that the lending institutions should do so as well.

b. Profitability and Inflation

The importance of applying the highest possible interest rates to shelter programs in Central America responds to two circumstances: inflation and the lack of maintenance of value mechanisms.

Currently, local resources are affected by strong devaluation pressures that can only be combated by way of an appropriate interest rate structure. In inflationary periods, every point of interest that is forgone increases the level of decapitalization of the institution.

Due to this inflationary environment, CHF investments and repayments which are in local currencies are continuously losing value in terms of their US dollar equivalent over time. This has a significant negative impact on the program's capacity to generate sufficient reflows for reinvestment.

c. Guarantees and Cost Recovery

The point of departure for any analysis on effective return on investment is the assumption that there will be recovery and that the portfolio contains the necessary guarantees to ensure the original investment.

- Recovery

  Up to the time of this evaluation, collection is not yet a critical factor. The program is still young, and overall recovery levels are satisfactory. For example, the scattered site program in Belize (B/L/3) currently has zero percent of loans with three or more payments in arrears. On the same basis, the home improvement program in El Salvador (E/L/1 and amendments) has an arrearage rate of 7.5 percent.

Although the problem of arrears is still minimal, it is beginning to manifest itself in several projects. The delay-plagued new construction project in El Salvador with FEDECASES/Sihuacoop (E/L/2), for example, already has an arrearage rate of 24.5 percent. Also, the CHF-financed home improvement program with FEHCOVIL in Honduras (H/L/1A) is 30 percent in arrears.

- **Guarantees**

  In order to recover costs at the level of the direct beneficiary, CHF uses two types of guarantees: mortgages for new construction and promissory notes in the case of home improvements.

  While the value of a mortgage instrument as a guarantor of debt is widely recognized in the region, promissory notes are relatively new debt instruments in the field of shelter finance.

  With respect to the CHF program, the mechanism designed to manage the operation of the promissory note is clear, but its management and control are relatively complex. First, there is a need to establish an effective control over the deposit and periodic updating of the individual loan documents. Second, the concept and mechanics involved in the requirement that loan agreements are transferable and negotiable in favor of CHF must be clarified.

2. Turnover

Program turnover involves three stages in the investment cycle.

a. Initial Turnover

While the amounts have been relatively small in comparison to the sums currently invested in shelter by other intermediaries of the region's financial sectors, CHF has done a good job of organizing and disbursing against the first round of project loans.

b. Portfolio Turnover

This indicator measures the volume of "reinvestable" income originating from portfolio reflows. For the first six years of the recovery program, the estimate for total amount recovered is equivalent to about 85 percent of the original capital investment.

In order to assess the capacity to replicate the program on the basis of reflows, the impact of inflation on local currencies must be considered. The results of this analysis show that inflation decreases the real value of the amount recovered by 13.2 percent in the first scenario (reinvestment of principal and interest) and 38.9 percent in the second senario (reinvestment of principal only).

In the context of the prevailing inflationary cycle in Central America, the above results indicate the importance for the CHF program to optimize its lending terms and conditions, especially when the principal objective of the program is to generate local resources for similar shelter activities. Through higher returns on investment, CHF may "graduate" an increasing number of institutions into the marketplace during the program and while resources last.

c. **Portfolio Discount**
The discounting of a portfolio is one of the alternatives available to CHF to address the issue of resource mobilization. Unfortunately, the only CHF initiative identified by the evaluation team in this area was planned for Panama (loan to FEDPA). However, due to the current political situation, this idea never came to fruition.

3. **Replicability**
In the context of this evaluation, replicability is defined as the existence of a set of appropriate lending procedures and systems which would guarantee the continuation of similar shelter activities under strict market conditions by their intermediaries supported by CHF. This criterion should be applicable regardless of the availability of additional CHF resources.

The following analyses treat replicability from three perspectives: financial, institutional and market orientation.

a. **Financial Replicability**
Financial replicability is defined as the capacity of project reflows to support continued financing of similar future program activities.

As described previously, the volume of reflows that is available for reinvestment from the CHF program is not substantial in the short-term. Therefore, financial replicability from the standpoint of possible reinvestment of reflows is not an important factor.

b. **Institutional Replicability**
Institutional replicability considers the future operational capacity and permanence of the program's participating institutions, assuming the termination of CHF support. The team has categorized CHF participating institutions into two groups:

- Those with previous or ongoing activities in the provision of new construction and/or home improvement loan programs
- Those organizations which undertake an occasional shelter project or which specialize in non-shelter activities

The evaluation team found that the majority of the institutions contained in the first category (primarily national cooperative and credit union federations and some local cooperatives) do not have plans to increase their shelter activity as a result of their participation in the CHF program. This does not imply a lack of interest among participating institutions, nor does it imply that those institutions doubt the utility of the program. Rather, it basically shows that no one has, as yet, identified a plan for self-sufficiency in the financing of future shelter activities. CHF has not promoted specific actions for the preparation of such plans.

With respect to the second category of institutions, CHF has promoted projects with various institutions lacking traditional shelter experience. Generally, these institutions do not have the expertise nor inclination necessary to operate as shelter financial intermediaries. The possibility of replicating the projects executed by this type of institution is almost non-existent. This is due to the difficulty these institutions would have in mobilizing their own internal resources and/or funds from local financial markets.

c. **Market Replicability**
This component of replicability refers to the potential for incorporating a project, without substantial changes, into the permanent market mechanism.

The evaluation considers two aspects of market replicability: resource mobilization and access to lines of credit available in local financial markets.

- Resource Mobilization
The federated cooperative system of Central America offers many opportunities to draw on additional funding. It would seem reasonable to tap this system's extensive membership base to mobilize resources for the housing sector. Some institutions, like FEHCOVIL in Honduras, are interested in this idea, but to date, have been unable to operationalize it.

- Access to Lines of Credit
The governments of Central America have begun to target domestic lines of credit to support shelter activities for lower-income groups through private sector initiatives. While historically this has not been a financial resource available to the cooperative movement, the recent revitalization of the movement has demonstrated its capacity to develop projects on terms closer to those existing in local financial markets.

  Currently three local initiatives hold out promise for the region's cooperative movement: Fondo de Vivienda (Honduras), Banco Hipotecario de la Vivienda (Costa Rica), and Instituto de Fomento de Hipotecas Aseguradas and the Banco de la Vivienda (Guatemala).

  There are strong indications that options exist in local financial markets to support the replicability of CHF shelter projects. Unfortunately, CHF has not considered incorporating these options into the preparation of its project loans. These types of interventions are necessary for the continued viability of the program.

C. NON-PHYSICAL/FINANCIAL SERVICES AND PROGRAM ELEMENTS

1. **Credits to Small-Scale Enterprise and Building Material Production Centers**
Only one project in Honduras has been financed to date. The evaluation examined this project carefully and found most, if not all, the potential problems identified at the feasibility stage. Performance of the Honduras project has thus far been disappointing for the following reasons:

- The interinstitutional collaboration envisaged between FEHCOVIL and IDH to establish BMPCs in squatter areas proved not practical and demand for business credit in squatter areas was minimal.

- The institutional capacity of IDH was weak at first, is still insufficient to execute the project, and is wholly inadequate to sustain an expansion of activities in the future.

- Technical assistance and close credit supervision are unlikely to be supplied along with credit to small-scale entrepreneurs served by IDH under the project.

This Honduran experience suggests that CHF has not succeeded as yet in demonstrating the economic and institutional feasibility of credits for small-scale businesses and building materials production centers in the context of its Central America program. The economic justification for this element of the program is at best weak, its operational cost very high, the organizational base for credit and technical assistance delivery is not in place, and the presumed need for the activity as a complement to low-cost housing projects remains an assumption not confirmed in practice.

2. Technical Assistance Provided to Local Organizations

CHF provided technical assistance in a highly selective manner to the local participating institutions, concentrating its attention specially upon Guatemala. In general, the content of assistance given was skewed towards physical, construction-related aspects, and insufficient in legal, administrative, and financial management areas in all but the FENACOVI case in Guatemala.

Moreover, CHF investments in technical assistance did not follow an explicit operational plan nor were they systematically monitored or evaluated. The opportunity to use the feasibility studies as a planning tool to guide technical assistance activities at the local and national levels was largely lost. These studies did not contain an action program for institutional strengthening, but rather limited their scope to the identification of items for which grant resources were required for immediate project execution.

With the exception of FENACOVI in Guatemala, which indeed has entered a new organizational phase as a result of the assistance provided by CHF, the evaluation team has found the technical assistance benefits to have been modest, largely project-specific, and not instrumental in expanding the permanent operational capacity of the majority of the participating institutions. However, the process of "learning by doing" which did take place during implementation of the demonstration projects deserves credit, as does the introduction of new administrative instruments in the management routine of some institutions. A case in point is that of Guatemalan credit unions which adopted a standard construction contract form as part of their home improvement credit procedures. This standard contract enabled beneficiaries to exercise better control over the use of their loans. Nonetheless, the critical elements that would ensure the institutional replicability of the program, including financial and administrative planning, collection practices, and local resource mobilization, were found to be lacking in the vast majority of cases. The leading technical assistance role assigned to COLAC in this area was not properly supported by CHF staff at the country level and results have been less than satisfactory.

3. **Institutional Support Grants**
This element of the CHF program has been largely effective in helping local organizations execute specific projects. In so far as they provided resources for computerization of office routines, the grants have also improved the administrative capacity of the benefiting institutions.

From the analysis of the use of grant resources, however, the evaluation team finds further support for largely personnel expenditures not conducive to long-term institutional strengthening, since that would perpetuate a pattern of inadequate internal financial provisions for necessary administrative costs.

4. **Country and Regional Level Workshops**
The two regional level workshops served the purpose of providing a forum in which private organizations working in similar programs could exchange experiences and ideas. In so far as this purpose has been served, they have achieved the proposed objective. The country workshops on the other hand, benefited almost exclusively the organization based in Honduras. Possibly more training of this sort should have been extended to the other five countries. However, the same comment made regarding technical assistance would apply in this case, namely, training activities do not seem to have been the object of a careful regional plan designed in response to needs previously identified.

5. **Participant Training Provided in US**
A two and one-half week seminar in Washington for 17 Central America trainers focused on the CHF's cooperative development system, democratic principles, cooperative principles and practices, leadership, preparation of training materials and training of trainers.

The benefits of this type of seminar are difficult to measure since results would only appear in the long-term within the training programs of each institution. Thus far only the housing cooperative federations in Honduras, Guatemala and El Salvador seem to have initiated training programs of their own. It might be too early, therefore, to offer conclusive comments with regard to this activity. In one respect, however, we feel confident that training costs could have been lower if seminars of this kind were conducted in the region. In our view, one single field visit to a cooperative in Washington does not justify travel expenses for 17 participants.

6. **Preparation of Audio-Visual Materials, Manuals and Training Materials**
As part of its program, CHF produced audio-visual and program promotion materials that illustrate its cooperative development approach to housing and neighborhood improvements in Central America. In addition, CHF encouraged the participant institutions to prepare their own training instruments, and some have done so. As far as the preparation of technical manuals, CHF contributed with core house construction models adapted to the conditions in each country. In purely technical terms and to the extent that these models were detailed at the level of quantities and prices, as for example in El Salvador, Costa Rica and Guatemala they were helpful in the procurement of construction services and in the supervision of actual construction contracts.

Unfortunately, similar manuals on the operations of housing loans were not prepared. COLAC has developed one such manual to serve the administrative needs of the credit unions, but it was never finalized or distributed by CHF.

Based on the observation made by local level cooperatives, it seems clear to the evaluation team that simple operational manuals covering the basic administrative and financial aspects of housing loans would be useful. Many such manuals already exist and CHF could easily assist COLAC and the cooperative federations in the development of such a manual for the region.

7. Procurement and Delivery at the Neighborhood Level of Tools and Machinery
The evaluation team would expect that this proposed activity would have met with the same difficulties as those related to building materials production centers. It is, therefore, fortunate that CHF has not attempted to implement it in any of the six countries. In the context of a program restructuring, the evaluation team would recommend that such procurement of equipment be deleted.

IV. CHF PROGRAM MANAGEMENT AND ADMINISTRATIVE COSTS
(Chapter VII of Main Volume)

The current chapter describes and reviews the administrative structure established by CHF to administer and manage its program. The chapter briefly analyzes the budgeted and actual costs incurred to date to implement the CHF program.

As a means of beginning to highlight the cost effectiveness of CHF project outputs vis-a-vis comparable public/private sector shelter solutions, the last section presents an illustrative exercise comparing the cost per unit of CHF output with similar private sector solutions.

A. PROGRAM MANAGEMENT

1. CHF Program Offices

CHF effectively established its six country offices in a reasonable timeframe following the signing of the cooperative agreement. With the exception of the Panama office which was closed in December 1987 due to the political tensions existing between the two governments, the other five country offices are functioning normally. All the country offices, except Guatemala and Belize, hired at least one local professional to assist in project development and in the management of ongoing programs.

The CHF/Washington office was initially established with full responsibility for program management. CHF delayed more than one year in setting up a regional office. The regional office finally was established in Panama during the fall of 1986, although only certain activities in the administrative and technical areas were actually transferred to Panama prior to its closing.

While in operation, the Panama office had a full-time regional program director and a resident architect who provided technical assistance to the six country offices in the areas of unit design and construction supervision. The program's training component and the bulk of the non-architectural technical assistance continued to be coordinated from the Washington office.

Actual results to date and programmed levels of future activities do not appear to justify maintaining CHF's complex and duplicative administrative structure. This is particularly true in terms of the separation of functions and responsibilities between the Washington and regional offices. One could possibly justify the high costs of this top-heavy administrative structure if greater levels of lending activity were achieved and administrative expenditures were self-sustaining.

2. CHF-AID Working Relationship

At the time of this evaluation, each of the CHF country directors had entered into a written agreement with its corresponding Mission as to the nature of Mission involvement in the implementation of the CHF program. With the possible exception of Costa Rica, all the agreements essentially provide the Mission with an after-the-fact approval/disapproval role over the CHF project design activities. Mission concurrence/disapproval of CHF project design has resulted in minimum modifications to CHF feasibility studies in the past.

The AID Regional Housing and Urban Development Offices (RHUDOs), located in Tegucigalpa and Panama City, have had no formal role in CHF project review and approval. RHUDO staff does, however, often informally provide comments to the responsible Mission office. Its impact to date on program development has been minimal.

3. **Program Performance Reporting**
CHF quarterly reporting required for submission to AID/Washington lacks adequate discussion of achievement of country-specific goals and objectives, outstanding issues, problem areas and upcoming or scheduled events or activities. In overall terms, CHF reporting has not provided AID/Washington with sufficient information to properly monitor the program.

CHF/Washington has not established a uniform project and financial reporting system for its six country programs. The failure to develop such a comprehensive reporting system complicates the ability to monitor and compare physical project advancement and disbursements among countries.

With the exception of Guatemala and Costa Rica, CHF country directors have not, as a rule, produced regular quarterly reporting since the inception of the program. With the exception of Costa Rica, none of the CHF country directors submits, or is required to submit, any formal periodic reporting to its respective Mission. Given this lack of project reporting, the historical memory tracing the development of the individual CHF country programs is almost non-existent in the Mission archives.

4. **Evaluation and Monitoring System**
With very few exceptions, the CHF program has not undertaken specific evaluations of its sub-project loans. This general lack of adequate quarterly reporting only serves to underscore the almost total lack of any ongoing formal monitoring and evaluation system.

B. ADMINISTRATIVE COSTS

1. **Administrative Cost Expenditures**
Two and one-half years after the program's inception, their is a significant difference between CHF's proposal and actual results with respect to the scale of the CHF lending program versus the need for additional TA/administrative resources from AID. It is a conclusion of this evaluation that the program has not developed as envisaged in CHF's proposal, yet CHF has made numerous requests to AID for additional resources to maintain its administrative structure in-place. It is unclear, however, whether CHF intends to institutionalize the need for subsidized administrative funds.

Aside from the bigger question of whether the AID-CHF cooperative agreement should allocate funds 56/44 between capital lending and administrative costs, the core issue of this section, rather, is whether such a large percentage of total grant funding of a program whose goal is to address the shelter needs of low-income families should be allocated to non-productive administrative expenditures such as allowances for staff and travel.

2. **Comparison Between Administrative Expenditures and Capital Lending to Date**
CHF has committed and contracted US$4.67 million in loans as of September 1987. Administrative expenditures up to that date amounted to US$4.74 million. In other words, it cost CHF approximately one dollar to place each dollar in project loans. From a strict financial perspective, this relationship is completely outside the permissible bounds of market operations.

3. **Illustrative Cost Comparison Between CHF and Comparable Solutions**
This section illustrates how CHF shelter output compares to shelter solutions supplied by local private sector in the countries where CHF operates. This quick exercise compares available shelter solutions on the basis of type (i.e., serviced site, core unit, one bedroom, etc.)

The illustrative exercise of this section entails two stages. The first stage estimates the average CHF administrative cost per unit of output for each country office. Table 5 shows the tremendous variation in the administrative cost per unit of output among the five CHF country programs visited. The unit administrative costs vary from US$552 in Guatemala to an astronomical US$15,142 in Belize. The latter amount is over 50 percent higher than the total cost of the most expensive new dwelling unit financed by CHF as part of the Belize Credit Union League home mortgage program (B/L/3).

Table 6 presents the second stage of this illustrative analysis. It estimates the total cost of a CHF-financed unit and then compares this cost to the cost of a similar unit produced by the private sector.

The first conclusion that one can draw from this illustrative example (at least in the case of Guatemala and Honduras) is that CHF does finance the production of a smaller, more economical unit than those normally supplied by the private sector. Solely on the basis of total cost, the CHF solution would be more affordable than the lowest priced, comparable private sector model.

From Table 6, one can see that per square meter construction costs appear quite similar for the CHF and private sector solutions. At least for the two examples which attempt to fully cost a CHF-financed unit, it is clear that CHF has not developed a shelter solution which is particularly innovative with respect to cost. On the other hand, fully costing an illustrative CHF shelter unit does not price it out of the market when compared to private solutions. Obviously, this would not be true in the case of Belize. It is unclear what would be the impact of the greater per unit administrative costs in El Salvador and Costa Rica on cost comparisons with private sector contractors and developers in these two countries. Overall, it would appear that in a best case scenario, CHF costs compare favorable to similar private sector solutions, while in the worst cases, a full costing prices CHF products woefully out of local markets.

Table 5
Estimate of Average Administrative Cost per Unit of Output
September 1987

(1) Country Program[a]	(2) Total Output[b]		(3) Direct Administration Expenses (US$)	(4) Allocation of DC Office Expenses (US$)[c]	(5) Allocation of Regional Office Expenses (US$)[d]	(6) Total Expenses (US$) (3) + (4) + (5)	(7) Average Administrative Cost per Unit of Output (US$)[d] (6) / (2)
GUATEMALA	625 NDU 897 HIP	1,522	US$ 474,893	US$ 253,387	US$ 111,779	US$ 840,059	US$ 552
HONDURAS	220 NDU 673 HIP 140 SSC	1,033	531,293	288,528	127,281	947,102	917
BELIZE	42 NDU 1 SSC	43	381,631	187,030	82,506	651,167	15,143
EL SALVADOR	55 NDU 384 HIP	439	453,058	202,172	89,186	744,416	1,696
COSTA RICA	105 NDU 273 HIP 5 SSC	383	537,382	295,623	130,411	963,416	2,515
		3,420	US$ 2,378,257	US$ 1,226,740	US$ 541,163	US$ 4,146,160	US$ 1,212

Source: PADCO analysis of CHF budget information.

a/ Panama not included due to closing of USAID mission and cancellation of evaluation.

b/ Total output includes completed and programmed shelter units as of September, 1987
NDU = New Dwelling Unit; HIP = Home Improvement Loan; SSC = Small-Scale Credit.

c/ DC and Regional Office administrative expenses are allocated proportionally to the country offices on the basis of direct labor (salaries + consultants and professional services).

d/ Assumes that three types of individual outputs require equal administrative expenses to produce.

Table 6
Cost Comparison between CHF and Comparable Private Sector Shelter Solutions

COUNTRY	INSTITUTION	TYPE OF UNIT	SIZE (m^2)	COST BREAKDOWN				
				Direct/Indirect Project Costs Implementing Agency (US$)	CHF Institutional Support Grant per Unit (US$)[a]	CHF Administrative Cost per Unit[b] (US$)	Total Cost per Unit (US$)	Total Cost per Square Meter (US$ / m^2)
GUATEMALA								
	CHF (HODE - San Juanero II)	1-BR Core (Row)	25	US$ 2,244	US$ 130	US$ 552	US$ 2,926	US$ 117
	Private developer[c]	2-BR (Duplex)	48	--	--	--	6,462	135
HONDURAS								
	CHF (FEHCOVIL - COVIDEPROL)	1-BR Core (Duplex)	28	7,251	169	917	8,337	298
	Private developer[d]	2-BR (Detached)	47	--	--	--	12,825	273

Source: PADCO

a/ Estimated on basis of CHF institutional grant to implementing agency per unit of output.

b/ From Table 5.

c/ Residenciales Terranova, Constructor Terrano S.A., Guatemala City, Guatemala

d/ Costs based on discussion with local developers.

V. RECOMMENDATIONS

Both short- and long-term recommendations emerge from the findings and conclusions of this evaluation of CHF's shelter program for Central America. It is proposed that these recommendations be initially addressed and discussed within the context of an overall review of the CHF program, both at the regional and individual country levels.

AID and CHF should jointly carry out this program review on the basis of a detailed analysis of program accomplishments, program strengthens and weaknesses, outstanding issues including those involving the local organization level, and new directions/guidelines for the remaining one and one-half years of the grant agreement.

A principal output of this program review should be an accurate accounting of AID funding (both capital and TA/administrative) and anticipated reflows currently available to the program. There must be a clear understanding between AID and CHF regarding what portion of total funding is potentially available for reprogramming.[1]

The proposed program review and accounting of available funding form the basis for a reprogramming of the overall and individual country programs in the following areas: country program elements, investment strategy and budgets, program management structure, etc. The following sections present the evaluation team's recommendations and guidelines to define and structure this reprogramming exercise, as well as other short- and long-term recommendations.

A. IMMEDIATE ACTIONS

1. General

a. Overall Program Review (as discussed above)

b. Reprogramming of Program Elements

While individual country programs will exhibit slight variations with respect to future programming (particularly if previously earmarked funds cannot be reprogrammed), it is recommended that the overall thrust of the program should be reoriented primarily toward the provision of home improvement loans and, secondly, toward the construction of new dwelling units. New construction should be sited, as much as possible, on individually-owned scattered sites in order to avoid the past problems associated with the provision of off-site infrastructure and land acquisition/title transfer.

It is further recommended that CHF management immediately dicontinue efforts to identify and design new projects in the areas of the improvement of

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[1]The evaluation team understands that pending amendments in Belize and El Salvador, and possibly Honduras, are earmarked for specific projects and, therefore, not readily available for reprogramming.

neighborhood services and lending to small-scale enterprise and building material production centers (BMPCs). CHF should contract no new loans in these two areas. Discussions and/or negotiations related to pipeline projects should be terminated, and ongoing loans to small-scale enterprise and BMPCs (primarily in Honduras) should be disbursed as rapidly as possible and placed in debt recovery.

c. Local Intermediary Arrangements
CHF should concentrate future lending activities with the principal TSO institutions (i.e., primarily housing cooperative and credit union federations) which have successfully implemented home improvement and new construction project loans during the first round of CHF lending activities. Appropriate TSOs for additional lending include, but are not limited to, FENACOAC, FENACOVI and HODE in Guatemala, FEHCOVIL in Honduras, and FEDECREDITO and the "solidarity movement" in Costa Rica. Institutionally strong independent cooperatives (such as "Sagrada Familia" in Honduras and "Holy Redeemer" in Belize) would also qualify.

It is proposed that no new loans be made to other non-profit institutions which lack traditional shelter experience and which have limited capacity to develop into financial intermediaries capable of operating in local financial markets (COSUDER/Guatemala and Centro San Juan Bosco/Honduras type organizations).

d. On the basis of a redefinition of program activities, the absorptive capacity of selected local financial intermediaries and the availability of reallocable funding, CHF should develop overall and country specific capital investment plans for the remaining one and one-half years of the grant agreement.

e. CHF should immediately modify its project management structure to best respond to the proposed new program directions and capital investment plans. The objective here should be to immediately "free up" previously programmed administrative resources for additional project lending activities.[2]

Any reorganization or reprogramming of the CHF program at this time is complicated by pending amendments to the grant agreement in several countries. In the cases known to the evaluation team, these amendments tie additional funding to specific, new program initiatives which differ from ongoing activities and which will require the close supervision of CHF staff, at least in the initial stages. Based on this constraint imposed by pending grant amendments, the following suggestions serve as a framework within which AID and CHF can negotiate the required project management changes.

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[2]The proposed administrative reorganization should be driven by the outcome and results of the program review and reprogramming exercise (i.e., the CHF administrative structure should respond to program activities and investment criteria and not vice versa as has been the case in the past.

- **Washington Office**

  -- Cut back or abolish post of Washington-based Deputy Director

- **Regional Office in Panama**

  -- Closed as of December 1987; to remain closed

- **Country Offices**

  -- Panama; closed as of December 1987; to remain closed

  -- Guatemala; maintain based on available funding and continued diversity of program

  -- Belize; except for complicating factor of pending amendment which earmarks project funds for specific projects, this office should be closed. Consideration should be given to naming local representative, reducing scale of office and handling oversight of program directly from Honduras as soon as feasible

  -- Honduras; maintain office in order to manage scaled-back (in institutional terms) Honduran program and to provide oversight to Belize program in mid-term

  -- El Salvador and Costa Rica; close one of these offices as soon as feasible, oversee management from other office through local representative

f. CHF should prepare country and Washington office administrative budget estimates required to carry out implementation of new program directions, investment plans and project management structure for the life of the program. In order to correct present budgetary confusion, technical assistance should be disaggregated/differentiated from those expenditures related purely to staff salaries and allowances, other direct costs, etc.

g. CHF should immediately develop and implement an internal monitoring system for both the execution of new investment plans and for the follow-up of ongoing loan contracts. CHF should develop a standard financial and performance report for its individual country programs. This report should be submitted to the respective USAID Missions and CHF/Washington on a quarterly basis. CHF/Washington would synthesize the country-specific information contained in these reports and prepare a quarterly report of similar detail for AID/Washington.

h. It is recommended to maintain AID/Washington and Mission program management structure as it currently exists. AID should formalize the involvement of AID RHUDO and Mission Housing Officer staff in the review and approval/disapproval of CHF concept papers and feasibility studies.

2. Physical Implementation

a. Future feasibility studies for project loans should be strengthened to include sufficiently detailed economic/financial and institutional analyses to accurately substantiate or reject proposed project design components and institutional arrangements.

b. CHF should expand its micro "constructionist" approach to project development to place greater importance on the financial and operational/administrative aspects of its program. It should move away from its current overemphasis on project level technical aspects and the imposition of project designs external to local markets. CHF should continue to plan and design its project loans on the basis of the capacity to pay of the intended target group. It should, however, facilitate the opportunity for program beneficiaries to tailor the use of individual loans as to unit design and materials. This implies less reliance on new project development with all the inherent problems of land acquisition/titling and the timely provision of off- and on-site infrastructure to a greater emphasis on home improvement loans and scattered site new dwelling unit construction.

c. CHF should make every effort to serve a lower-income target group as part of the recommended reprogramming effort. While this proposed lower-income orientation has caused problems of an equity nature in the past with local cooperatives, CHF must significantly refocus the marketing of its program to serve, at a minimum, those families with incomes between the 35-50 percentiles of the relevant urban income distribution.

3. Financial Performance

a. CHF Lending Terms and Financial Spreads

- CHF should ensure that the interest rate structure for its different program elements, and particularly the spreads charged its financial intermediaries, are consistent and competitive with conditions existing in the local financial markets in which the program operates.

- In order to combat the high inflationary environment existing in several countries of the region, CHF should attempt to incorporate the use of adjustable interest rates in its lending activities.

- CHF should standardize the lending terms (interest rate and repayment period) for similar programs in the same country.

b. Capitalization

Due to a lack of formal maintenance of value mechanisms in the region, it is important for CHF to seek to optimize its lending terms and conditions with its financial intermediaries. This will assist the program in achieving increased levels of capitalization and in improving opportunities for the generation of reflows. It would also assist in creating a financial climate necessary to "graduate" an increased number of financial intermediaries into the marketplace during the program period and while funds last.

c. Guarantees

CHF should clarify the confusion currently existing in the wording of certain loan guarantees between the local cooperatives and the federation with respect to the clause that stipulates that all promissory notes be transferable and negotiable in the name of CHF.

d. Internal Improvements in Program Execution

CHF must give added attention and detail at both the federation and local cooperative level to monitoring and improving the critical areas of cost recovery and arrearages, selection of participating institutions, quality of loan guarantees (mortgages and promissory notes), and the use of reflows. (The following proposed modifications in the CHF technical assistance reinforce this recommendation.)

4. Technical Assistance/Institutional Grants/Training

a. CHF should reprogram its technical assistance/institutional support components to respond to the recommended program modifications in order to give more attention to the administration and financial aspects of its shelter program at the both the federation and local cooperative levels. The areas requiring CHF assistance to strengthen local intermediaries to the point where they could participate in local financial markets are the following:

- Formulation of operational plans and programs
- Savings mobilization
- Portfolio review, loan processing and control of delinquencies
- Organization and staff
- Financial management and accounting
- Data processing/information systems

b. CHF should provide assistance in the development of the recommended financial and operational instruments in each country program. This assistance should formalize the use of these instruments through the preparation of practical and usable operational manuals and procedures. These manuals should be amply disseminated among the local cooperatives.

c. Training at the federation and cooperative levels should be directly linked to the provision of technical assistance recommended in section 4.a. CHF should continue to support the ongoing training efforts of the federations.

B. SHORT- TO MEDIUM-TERM ACTIONS - MOBILIZATION OF RESOURCES

CHF should expand its micro or project relationship with its financial intermediaries to one which begins to prepare these institutions to play a more aggressive role in local financial markets. This new relationship would begin by assisting its local counterpart organizations to monitor and understand the workings of these markets. This activity should become an integral part of overall program activities. It should be given a high priority in the formulation of operational plans and programs. Specific areas of interest are that:

1. CHF intensify its efforts to mobilize domestic savings through the regional cooperative movement. In addition to the obvious internal benefits for the cooperatives, increased savings would provide an opportunity to increase the proportion of counterpart to CHF funds for specific project loans. Specifically, CHF should assist local cooperatives and credit unions to introduce and/or expand their programs of savings deposits and capital contributions (beneficiary capitalization).

2. CHF should assist local institutions to increase the opportunities to access resources external to the CHF program through the rediscounting of the CHF portfolio. Modifications in project lending terms, conditions and guarantees toward a more market orientation are first steps in positioning the CHF portfolio to be able to access available rediscount mechanisms.

3. CHF should consider using its proposed loan guarantee mechanism as a means to facilitate and create interest in the rediscounting of its portfolio.