

UNCLASSIFIED

PD-111-013

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AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D. C. 20523

**PROJECT PAPER**

PORTUGAL: Low Income  
Housing Program,  
(IV) (150-0026)

September 28, 1989

UNCLASSIFIED

**PROJECT DATA SHEET**

1. TRANSACTION CODE

**A** A = Add  
C = Change  
D = Delete

Amendment Number

DOCUMENT CODE

3

COUNTRY/ENTITY: Portugal

BUREAU/OFFICE: Asia/Near East

PROJECT NUMBER: 150-HG-007 150-0026

PROJECT TITLE (maximum 40 characters): Low Income Housing Program (IV)

PROJECT ASSISTANCE COMPLETION DATE (PACD): MM DD YY 1 2 3 1 9 2

ESTIMATED DATE OF OBLIGATION (Under "B" below, enter 1, 2, 3, or 4):  
 A. Year FY 89 B. Quarter 3 C. Final FY 91

9. COSTS (\$000 OR EQUIVALENT \$1 = 165 P.B.)

A. FUNDING SOURCE	FIRST FY 89			LIFE OF PROJECT		
	B. FX	C. LIC	D. Total	E. FX	F. LIC	G. Total
AID Appropriated Total						
Grant				600		600
Loan						
Other U.S.						
1. Housing Guaranties	25,000		25,000	55,000		55,000
2.						
Host Country					55,000	55,000
Other Donors						
<b>TOTALS</b>				55,600	55,000	110,600

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROXIMATE PRIMARY PURPOSE CODE	B. PRIMARY TECH CODE	C. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ESP	720	860		600		600	
(2) HG	720	860			25,000		55,000
(3)							
(4)							
<b>TOTALS</b>				600	25,000	600	55,000

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each):  
 890      810

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERN CODES (maximum 7 codes of 4 positions each):  
 A. Code      B. Amount      C. Amount  
 BU      COOP  
 55,000      25,000

13. PROJECT PURPOSE (maximum 400 characters):

to support policies that increase and open new windows of credit to local developers and help promote investment in low income housing, land, infrastructure, community facilities, home and neighborhood improvements.

14. SCHEDULED EVALUATIONS

Location: MM YY MM YY MM YY  
0 6 9 0 0 6 9 1 1 0 6 9 2

15. SOURCE/ORIGIN OF GOODS AND SERVICES  
 DBS    M1    Local    Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a \_\_\_\_\_ page PP. (amendments))

17. APPROVED BY: Carol Adelman

Title: Carol Adelman  
AA/AME

Date Signed: MM DD YY

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

PROJECT PAPER

Portugal Low Income Housing Program - IV  
150-HG-007 and 150-0026

September 1989

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AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON D C 20523

ASSISTANT  
ADMINISTRATOR

PROJECT AUTHORIZATION

Name of Country: Portugal  
Name of Project: Portugal - Low-Income Housing Program IV:  
Technical Consultants and Training Project  
Project No: 150-0026

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Portugal Low-Income Housing Program (IV): Technical Consultants and Training Project involving planned obligations of not to exceed U.S. Dollars Six Hundred Thousand subject to Congressional notification and the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned life of the project is three years from the date of initial obligation.

2. The Project will finance short-term consultancies and studies needed to advance the Program Agenda supported by the Portugal Low-Income Housing Guaranty Program, and personal service contract advisors, training, evaluation and logistic support needed to help implement that Program.

3. The Project Agreement(s) which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. Regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

Source and Origin of Goods, Services and Shipping

Goods and services financed by A.I.D. under this Project shall have their source and origin in the Cooperating Country or in the United States except as A.I.D. may otherwise agree in

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writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

*Carol Adelman*

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Carol C. Adelman  
Assistant Administrator  
Bureau for Asia and Near East

*9/28/89*

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Date

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AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON D C 20523

ASSISTANT  
ADMINISTRATOR

GUARANTY AUTHORIZATION  
(Authorization No. 150-HG-007)

PROVIDED FROM: Housing Guaranty Authority

FOR: Portugal - Low Income Housing Program (IV)

Pursuant to the Foreign Assistance Act of 1961, as amended (FAA), and Delegations of Authority issued thereunder, I hereby authorize the issuance to eligible U.S. investors (Investors) acceptable to A.I.D. of guaranties pursuant to Section 222 of the FAA not to exceed Twenty-Five Million United States Dollars (U.S.\$25,000,000) in face amount. The guaranties shall assure against losses (not to exceed One Hundred Percent (100%) of loan investment and interest) with respect to loans, including any refinancings thereof, made to support the generation of domestic resources for shelter in Portugal. These guarantied loans shall be made to the National Housing Institute of Portugal or such other financial institution as A.I.D. may otherwise agree, (Borrower) to provide long-term financing for the development of a market-oriented shelter finance system in Portugal and to support Government of Portugal shelter programs which benefit the urban poor.

These guaranties shall be subject to the following terms and conditions:

1. Term of Guaranty: The loans and any refinancing thereof shall extend for a period of up to thirty (30) years from the date of disbursement and may include a grace period of up to ten (10) years on repayment of principal and may include such terms and conditions as shall be acceptable to A.I.D. The guaranties of the loans shall extend for a period beginning with the first disbursement of the loans and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loans.

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

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3. Government of Portugal Guaranty: Prior to disbursement of any loan amounts pursuant to this guaranty authorization, a written guaranty to indemnify A.I.D. against all losses arising by virtue of A.I.D.'s guaranties to the Investor or from non-payment of the guaranty fee shall be provided in a form satisfactory to A.I.D. by the Government of Portugal or a financial institution authorized by the Government of Portugal to provide such a guaranty and approved by A.I.D.

4. Fee: The fee of the United States shall be payable in dollars and shall be one-half percent (1/2%) per annum of the outstanding guaranteed amount of the loans plus a fixed amount equal to one percent (1%) of the amount of the loans authorized or any part thereof, to be paid as A.I.D. may determine upon disbursement of the loans.

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

*Carol Adelman*

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Carol C. Adelman  
Assistant Administrator  
Bureau for Asia and Near East

*9/28/89*

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Date

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**PROJECT PAPER  
PORTUGAL LOW INCOME HOUSING PROGRAM IV  
(150-HG-007 and 150-0026)**

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### Project Design Team

USAID/Portugal: David Leibson, Jose Trindade

Abt Associates: John Miller, Samir Zaman, Edward Robbins

## PRINCIPAL ACRONYMS

CCR	-	Comissao de Coordenacao Regional Regional Coordinating Commission
CDH	-	Contrato de Desenvolvimento da Habitacao Housing Development Contract
CGD	-	Caixa Geral de Depositos Central Savings Bank
CPP	-	Credito Predial Portugues Portuguese Real Estate Credit Bank
EC	-	European Community
FENACHE-		Federacao Nacional das Cooperativas de Habitacao Economica National Federation of Housing Cooperatives
FFH	-	Fundo de Fomento de Habitacao Housing Development Authority
FRCE	-	Fond de Retablissement du Conseil de l'Europe Council of Europe Reconstruction Fund
GEP	-	Gabinete de Estudos e Planeamento Office of Studies and Planning
GOP	-	Government of Portugal
HG	-	Housing Guaranty
IGAPHE	-	Instituto de Gestao e Alienacao do Patrimonio Habitacional do Estado Institute for Management and Divestiture of Government Housing Stock
INH	-	Instituto Nacional de Habitacao National Housing Institute
MG-CEL	-	Montepio Geral-Caixa Economica de Lisboa Savings Bank of Lisbon
PDM	-	Plano Director Municipal Municipal Master Plan
PDH	-	Programa de Desenvolvimento da Habitacao Housing Development Program
PRID	-	Programa de Recuperacao de Imoveis Degradados Program for Improvement of Deteriorated Housing
PROT	-	Plano Regional de Ordenamento de Territorio Regional Land Use Plan

- RECRIA - Regime Especial de Participacao na Recuperacao de Imoveis Arrendados  
Grant System for the Restoration of Rental Property
- SCI - Specialized Credit Institutions

**CURRENCY:** Exchange rate, July 1989: US\$1.00 = 165 Portuguese Escudos  
1 conto = 1,000 Escudos

## I. SUMMARY AND RECOMMENDATIONS

### I.1 Introduction and Program History

From before the Portuguese revolution in 1974, housing and urban development had always been tightly managed by the central government. Local authorities had little responsibility. National authorities built, owned, and managed low income rental housing. Private initiative was constrained and rents were rigidly frozen. The situation was exacerbated shortly after 1974 by the critical housing shortages created when more than 800,000 Portuguese returned from Africa.

Those were the conditions in 1975 when A.I.D. initiated support to the housing sector. Between 1975 and 1980, A.I.D. provided US\$40 million in Housing Guaranty loans (HG-001 and HG-002) and more than US\$23 million in Mission funded loans for low income rental housing designed to help stimulate the construction industry.

During that period, the rapid pace of urbanization strained the resources that could be applied to housing sector development, and led to deficit financing, particularly for the Fundo de Fomento de Habitacao (FFH), that soon became untenable. Since the early 1980s, Government policy has been oriented to increasing the responsibility of local government and the private sector for resolution of housing sector problems.

In 1984, a multi-year US\$75 million Housing Guaranty (HG-003) program was approved that in many ways was a prototype for policy oriented programmatic lending in the sector. That program, which will be completed in 1989, has played an important role in the shift from public sector to private sector production of low income housing; to the strengthening of the Instituto Nacional de Habitacao (INH) which channels resources to local developers; and to significant reductions in the cost of low income housing. By the end of 1989, the HG-003 loan will have financed the construction of 5,220 housing units for low income families.

In the past five years, the FFH has been liquidated and by 1988 with A.I.D.'s financial and technical assistance, the INH was already disbursing about 16 million contos (US\$107 million) a year in loan resources to cooperative, municipal, and private developers. Sales prices of housing units in projects financed by the INH have been brought down in real terms to about half the median price of new housing generally available on the market.

In those same years, legislation has been passed allowing rents to gradually rise toward market levels; the Institute for Management and Divestiture of Government Housing Stock (IGAPHE) was created and has begun to sell publicly owned rental housing to tenants and land to local developers. At the same time, mortgage lending by the Caixa Geral de Depositos (CGD), Credito Predial de Portugal and Montepio Geral, the three principal mortgage lending institutions, has increased from about 50 million contos (US\$300 million) on about 30,000 units in 1984 to about 160 million contos (US\$970 million) on more than 50,000 units in 1988. Nevertheless, market supply is not yet meeting the needs of the lowest income families.

Early in 1989, in response to consultations with the Portuguese on agreements on the use of the airbase in the Azores, it was agreed that a new US\$55 million program would be developed for the 1989-91 period. The strategy of this new HG program is to support policies that increase and open new windows of credit to local developers and help promote investment in low income housing, land, infrastructure, community facilities, home and neighborhood improvements.

## 1.2 Summary of Problems to be Addressed

The economy of Portugal is expanding. Real growth in GDP was over four percent in 1988. Over half the population lives in urban areas. Municipal governments are struggling to keep up with demand for infrastructure and services in new neighborhoods spawned by construction of houses and businesses resulting from that growth while facing seriously run down housing and neighborhoods in the older parts of the cities. At the same time, few builders are targeting low income markets. As a consequence, the GOP faces several housing problems, many of them interrelated:

1. There is a serious gap between housing prices, which are approaching European levels, and family incomes which are not. The median price of a new apartment in Lisbon or Oporto in 1988 was about 8,000 contos (US\$53,000) while in urban areas the median household income was about 100 contos (US\$670) per month, or 1,200 contos (US\$8,000) per year.
2. Though financing available for housing increased significantly between 1984 and 1988, credit ceilings intended to prevent overheating of the economy also discouraged developers from targeting the lowest income groups. In 1988, less than 10 percent of all available mortgage financing went to families with incomes lower than urban median income.
3. An estimated 100,000 families live in shanty towns, largely on poor terrain in the metropolitan areas of Lisbon, Oporto, and Setubal, and 300,000 families live in "clandestine" neighborhoods, where the quality of the housing is often satisfactory, but basic infrastructure of water, sewerage, and roads is rudimentary or lacking.
4. Land prices have greatly increased in recent years, so that sites suitable for low cost programs are increasingly difficult to acquire.
5. Local governments, although increasingly empowered to attack local problems, still lack the financial resources necessary for investments needed to keep up with growth and often lack the institutional capacity to take advantage of national level programs that can provide financial credits for neighborhood improvements.
6. Changes in rent control legislation have somewhat loosened the constraints on production of new, affordable rental housing, but the market remains restricted and existing rental stock continues to deteriorate as rents are still low and the inheritance provisions of the law (giving perpetual rights of occupancy) remain in force.
7. Unit sizes and construction standards still remain higher than necessary although efforts in recent years to control construction costs of publically assisted projects have shown that housing affordable by low income families can be successfully built and marketed.

### 1.3 Summary Program Description

The proposed program would provide US\$55 million in Housing Guaranty loans and a US\$600,000 grant for consultants and training to help address housing and urban problems in Portugal.

The proposed program will support policies that increase and open new windows of credit to local developers and help promote investment in low income housing, land, infrastructure, community facilities, home and neighborhood improvements.

At the same time, local currency generated by Housing Guaranty loans will increase financing available for those investments.

To achieve the program purposes, the GOP will strengthen some existing programs and initiate others with the intent of promoting the production and improvement of affordable housing and neighborhoods by local developers -- local governments, housing cooperatives, and private developers.

A Program Agenda reflecting the government's national housing strategies along with the core agenda of actions A.I.D. and the government see as necessary to advance these programs is summarized as follows:

Objective Number 1: To promote the improvement of living conditions in existing homes and low income neighborhoods through:

- a) loans and grants for neighborhood infrastructure; core agenda: develop operational procedures and complete planning for test projects;
- b) loans for home improvements; core agenda: restructure and revitalize program;
- c) rehabilitation and sale of publicly-owned rental stock; core agenda: prepare tenants for transfer of property management;
- d) grants for rehabilitation of privately-owned rental stock; core agenda: develop loan program; and
- e) loans and grants for replacement of shantytowns with low income rental housing; core agenda: reconcile commitments with resources available.

Objective Number 2: To promote increased production by local developers of new housing affordable for ownership by low income families through:

- a) favorable terms on mortgage lending to low income families; core agenda: increase the share of total mortgage credit from the Caixa that is made available to purchasers of low cost housing; and
- b) favorable terms on construction lending for low cost projects; core agenda: maintain limits on standards and prices.

**Objective Number 3:** To promote increased supply of land and services suitable for low cost housing through:

- a) lending for land acquisition and infrastructure; core agenda: increase lending and expand program;
- b) loans for community facilities; core agenda: increase lending and expand program; and
- c) sale of government-owned land; core agenda: monitor progress.

The Program Agenda will be incorporated in Project Agreements and will be reviewed and revised annually in discussions with the Government. This will include a look at the program's environmental components. Continuing progress on implementation of the agenda as measured during those reviews will be the basis for incremental authorizations by A.I.D. in FY 1989-91, and disbursements in FY 1990-92, of Housing Guaranty Loans totaling US\$55 million.

Local currencies generated by those loans will be attributed to disbursements by the INH to local authorities, housing cooperatives and private developers on loans to support: neighborhood infrastructure and improvements, home improvement programs, rehabilitation of privately owned rental property, construction of low cost housing, land acquisition, and community facilities.

A US\$600,000 grant from Economic Support Funds to be allocated to Portugal in FY 1990 will finance short term consultants and studies to assist in reaching specific targets of the Program Agenda, a local PSC advisor to monitor and assist with implementation, annual reviews and evaluation, and training and assistance in building linkages with sectoral institutions in the U.S.

Program policy will be under the direction of the Secretary of State for Housing. It will be implemented principally by the Instituto Nacional de Habitacao in cooperation with IGAPHE and mortgage lending institutions. It will benefit municipal authorities, housing cooperatives and private developers, along with more than 30,000 low income families who will be able to purchase low cost homes built with INH loans starting in 1989-91.

#### 1.4 Issues Identified During PID Review

The Project Review Committee of the ANE Bureau reviewed the Low Income Housing Program PID on June 15, 1989. The PID was approved subject to the guidance contained in the PID review cable (State 233669; see Annex 1). The issues raised in that cable, and their responses, are identified below:

1. Provide additional background and a more comprehensive approach to project presentation:

Section 2 of the PP includes additional background, discussion of problems, GOP strategies, program rationale and the structure of the proposed program with two tracks: an Agenda of GOP policy actions and HG loan support for credit to developers in key areas.

2. Include more discussion of problems in availability of low income housing and which of those problems the A.I.D. program will address:

Drawing from the discussion of problems and strategies in Section 2, the PP presents a Program Agenda (2.3.2) identifying three key areas: living conditions in existing homes and neighborhoods; production by local developers of new housing affordable by low income families; and supply of land and services.

3. Set forth the total resources available to support the Program:

Figure 2 in the PP details current and planned support for each of the government's programs and shows that the INH, IGAPHE and mortgage lending institutions disbursed over US\$200 million in 1988 on programs benefiting low income families. Sections 2.4.2 and 4.2 discuss financing of the programs A.I.D. will support.

4. Describe the Program's two tracks:

The Program Agenda identifies GOF policy and administrative actions necessary to achieve the objectives of its programs. It includes target benchmarks for each action and the support A.I.D. will provide to help reach toward those targets.

Figure 3 in the PP shows projected attribution of HG financing against disbursement in local currency of loans by INH to municipal governments, housing cooperatives and private developers for neighborhood infrastructure and improvements, home improvement programs, rehabilitation of privately owned rental property, construction for low cost housing, land acquisition and community facilities.

5. Prioritize the Program Agenda:

The Agenda has been narrowed from the illustrative version in the PID. It now identifies core and secondary actions with target timetables further reflecting priorities.

6. Describe the INH and how A.I.D. will promote privatization:

Section 4.3.4 outlines the steps, including constitutional revision, that the government is taking towards privatization across the economy; the steps it is taking toward divestiture of public housing; the liquidation of the old public housing authority and the role of the INH as the implementing agency of the government in channeling resources to municipal authorities, housing cooperatives and private developers. A.I.D. support to the INH has helped accomplish a major shift from public sector to private sector production of low cost housing.

7. Provide more information on the target group:

Sections 2.4.3 and 4.5 show that INH programs are reaching families from about the 20th to the 60th percentiles of urban income distribution with A.I.D.'s HG financing directed to that part of the INH portfolio affordable to families in the range of the 20th to 30th percentiles.

8. Provide more information on GOP programs that use income transfers to promote access by low income groups to housing and what policies should be pursued to reduce subsidies:

The Portuguese economy provides positive interest rate returns to its financial institutions, reflecting a net positive interest rate with respect to inflation. In addition, the government has indicated it intends to continue reducing government transfers for the lowest income group served as market interest rates come down. In 1988, housing finance transfers totaled less than 0.2 percent of the government budget. This is further explained in Section 4.3.4.

At the end of 1988 when inflation was under 10 percent and the cost of funds represented by interest on term deposits was about 14 percent, effective rates on housing loans, after subsidies, ranged from 10 percent for the lowest income families to 17 percent. Moreover, subsidies on mortgage financing now phase out over the first 4 to 8 years of the loan and are further reduced with increases in family income.

9. Provide for an evaluation prior to authorization of the final tranche of the HG:

Annual reviews and a final evaluation are budgeted in the technical consultant and training plan (Section 3.4 and Figure 4).

#### 1.5 Recommendations

The Program design team recommends that the AA/ANE: (1) approve a US\$55 million Housing Guaranty Loan Program to support GOP programs to improve housing and neighborhood conditions of low income families; and (2) authorize the Guaranty of a US\$25 million loan to the Instituto Nacional de Habitacao in FY 1989. Subsequent authorizations of the remaining US\$30 million will be contingent upon evidence of progress made on the Program Agenda.

It is also recommended that the the AA/ANE authorize a grant of US\$600,000 from FY 1990 ESF funds for technical assistance and training in support of the program. Funding for support through December 31, 1989 is available from USAID/Lisbon.

## 2. PROGRAM RATIONALE AND DESCRIPTION

### 2.1 The Housing Situation in Portugal

#### 2.1.1 Introduction

The 1981 census reported the urban population of Portugal at 3.3 million people, with 1.7 million living in the two largest cities of Lisbon and Oporto. The housing deficit was estimated at 486,000 units and the principal problem faced by government policy was absorption of the 800,000 people who had returned from the newly independent colonies following the revolution in 1974.

The census estimated that some 62,000 families lived in overcrowded conditions, some 36,700 in shantytowns, some 26 percent of the total households had no connection to water supply, and some 20,000 new households were being formed each year in urban areas. New unit production at the time was on the order of 30,000 per year. The housing stock was about 56 percent owned and 44 percent rented. Seventy-five percent of the stock had been built before 1970 and 44 percent before 1945.

From 1981 through 1987, nearly 290,000 dwelling units were built. Today, annual production is approximately 50,000 units.

Since the early 1980s, the GOP has followed a shelter sector strategy directed at decentralization of authority and responsibility for urban development, increased reliance on the private sector to help resolve the nation's housing problems, and decontrol of rents. In this context, the GOP has restructured its urban development policy and implementing agencies and offices and has:

- 1) liquidated the Fundo de Fomento de Habitacao (FFH), the primary resource for public sector housing production since the mid-1970s, (and the implementing agency for the first HG Programs, 150-HG-001 and 150-HG-002);
- 2) established the Instituto Nacional de Habitacao (INH) and the Instituto de Gestao e Alienacao do Patrimonio Habitacional do Estado (IGAPHE);
- 3) put into effect the laws and regulations necessary to decontrol rents;
- 4) narrowed eligibility for favorable terms on construction and mortgage lending to target greatest benefits to lowest income families; and
- 5) revitalized urban development planning requirements for regions and municipal jurisdictions.

From its creation in 1984 through 1988, the INH has committed approximately 80 million contos (US\$500 million) for construction financing of about 27,500 units, of which 77 percent were built by private developers (either cooperatives or entrepreneurs) and the remainder were developed by local governments.

Home purchase lending for 50,000 units reached levels of 160 million contos (US\$1 billion) annually prior to the 1988 imposition of credit ceilings designed to counter inflationary pressures. In sum, Portugal has taken major steps toward improvement of the standard of living of its resident population. The 1991 census is expected to reflect these improvements. Despite the considerable accomplishments of the past decade, problems remain which limit the GOP's ability to stimulate the volume of production necessary to bring housing standards in Portugal up to European Community levels.

### 2.1.2 Problems

Prior to 1974, housing and urban development had always been tightly managed by the central government. Local authorities had little responsibility. National authorities built, owned, and managed low income rental housing. Private initiative was constrained and rents were rigidly frozen. During that period, the rapid pace of urbanization strained the resources that could be applied to housing sector development, and led to deficit financing, particularly for the Fundo de Fomento de Habitacao (FFH), that soon became untenable. Since the early 1980s, Government policy has been oriented to increasing the responsibility of local government and the private sector for resolution of housing sector problems.

Today's problems relate more directly to a) extending infrastructure to those "clandestine" neighborhoods developed without municipal permits; b) providing alternatives for those families who continue to reside in substandard units, be they shacks or dilapidated older units; c) rehabilitating existing stock; and d) maintaining a base level of production of low cost housing. These problems are derived from several larger sectoral problems.

While the economy and the supply of middle and upper income housing have been growing, there is a serious gap between prices, which are approaching European levels, and incomes which are not. The median price of a new apartment in Lisbon or Oporto was 8,000 contos (US\$53,000) in 1988 while in urban areas the median household income was about 100 contos (US\$670) per month, or 1,200 contos (US\$8,000) per year.

Though financing available for housing increased significantly between 1984 and 1988, credit ceilings intended to prevent overheating of the economy also discouraged developers from targeting the lowest income groups. In 1988, less than 10 percent of all available mortgage financing went to families with incomes lower than urban median income.

It is estimated that some 100,000 families continue to live in shanty towns, largely on poor terrain in the Lisbon, Oporto, and Setubal metropolitan areas. Some 300,000 families live in "clandestine" neighborhoods, where the quality of housing is often satisfactory, but basic infrastructure of water, sewerage, and roads is rudimentary or lacking. In addition, rental stock continues to deteriorate.

Land prices have soared in the past five years, and sites suitable for low cost programs are increasingly difficult to find.

Changes in rent control legislation have somewhat loosened the constraints on production of new, affordable rental housing, but the market remains restricted as the inheritance provisions of the law (giving perpetual rights of occupancy) remain in force.

Unit sizes and construction standards still remain higher than necessary although efforts in recent years to control construction costs of publically assisted housing have had some success in producing housing affordable by low income families.

Overcentralization and antiquated procedures have contributed to increased financing costs (due to delayed loan closing and title processing), and to the lack of variety of low cost housing construction (preponderance of four and five storey walkups).

Local governments, although increasingly empowered to attack local problems, still lack the financial resources necessary for investments and often lack the institutional capacity to take advantage of national level programs that can provide financial credits for neighborhood improvements. Although the INH is authorized to provide credit for infrastructure in clandestine and deteriorating urban neighborhoods, local governments have not yet applied for that INH financing. It is anticipated, however, that the Municipalities of Sintra, Cascais and Oeiras will participate in this program as they already have upgraded clandestine neighborhoods with their own funds and those raised by the community.

The Home Improvement Program (PRID) and the Rental Stock Rehabilitation Program (RECRIA) are operational but do not meet expectations. In the case of the PRID program, enabling legislation is expected to be restructured to facilitate access of municipalities, cooperatives, and individuals to the line of credit. Constraints on the RECRIA program are (a) perpetual rights of occupancy still remain in force under rent control legislation, discouraging investment by owners; (b) credit ceilings make it hard for owners to raise necessary funds to match the grants that are available; and (c) present regulations limit the program to landlords whose rental contracts were signed after 1980.

The role of real estate brokers as intermediaries in IGAPHE's program for divestiture of public housing stock will have to be reinforced. In order to meet the social and community needs and maintain this substantial physical asset, the program must be geared to render assistance to tenants who will assume responsibilities for property and in-home maintenance, to provide training in organizational skills necessary to operate a condominium association, and to provide counseling on the responsibilities of home ownership.

FENACHE and IGAPHE are developing, with the assistance of U.S. consultants, a plan for a pilot project to convert some of the publicly owned rental property to cooperative ownership as one way to assure good management.

### 2.1.3 Government of Portugal Shelter Policies

In the Fall of 1988, the government approved a Low Cost Housing Development Plan (PDH) for the period 1988-1991 (see Appendix 5). It provides the parameters for publicly supported investment in the sector and is to be revised annually. The PDH essentially commits the GOP to attack housing problems by (a) dealing with the worst housing conditions - the shantytowns - by assisting those residents own and rent sound, permanent housing; and (b) stimulating the rental market through adjustments to rent controls and support for the rehabilitation of existing stock.

The principles from which the GOP programs have been derived are specifically indicated in the PDH:

- "... the principle that private initiative is in the best position for housing development and that the best way to marshal and allocate available resources in rational and socially correct terms is in a joining of forces through local initiative by the various economic agents - public, private and cooperative."
- "The aim, therefore, is to build more housing and to guarantee access to housing by the lowest income families and the young..."
- "With the active collaboration of central and local administrations, programs and plans will be developed for assistance, especially for public rental housing which is the only way possible to satisfy the shortage of housing for the economically weakest households who live in deteriorating conditions. At the same time, that assistance contributes to indispensable regional and urban redevelopment."
- "In complement, systematic divestiture of State owned property - land and housing - will proceed, based on flexible rules and realistic prices."

Creation of the INH in May 1984 was an important step in the GOP strategy, supported by the current Housing Guaranty Program, to close the FFH and instead channel resources to local governments, housing cooperatives, and private developers. The INH was designed to support a government policy of decentralization and serve as an instrument of housing policy and financial support for programs directed at low income families. The INH has played an important role in the shift from public to private production, reduction of costs, and control of subsidies.

The GOP strategy on interest rate subsidies is, first, to reduce inflation through monetary restraints. Then, with each decline in market interest rates as inflation comes down, the GOP has reduced the level of subsidy. In addition, as part of national housing policy, the GOP is gradually ceasing direct housing production and management, and is using financial incentives to stimulate production of low cost housing and acquisition of existing stock by local developers.

The other GOP institution playing a key role in the housing sector is the Institute for Management and Divestiture of Government Housing Stock (IGAPHE). This Institute is financially dependent on government budget allocations, payment of rents, and proceeds from divestiture of public land and housing stock. Government budget allocations in 1989 for IGAPHE total 6.4 million contos (US\$39 million), of which 4 million contos (US\$24 million) or 60% are allocated to the relocation of families living in shanty towns, .5 million contos (US\$3 million) are allocated to RECRIA programs, and almost 1.4 million contos (\$8.5 million) will be spent on the rehabilitation of public rental stock. Proceeds from divestiture of public land and housing stock will be channeled to the Treasury to pay off ex-FFH debts. Rent payments are also being invested in the rehabilitation of public rental stock and operational expenses.

Another important GOP policy relevant to housing, derived from the Ministry of Planning and Land Use Management, seeks to improve urban planning throughout the nation, increasing local government responsibility and control over local urban development, most often manifested in housing, land, and infrastructure problems.

## 2.2 Program Strategies and Objectives

### 2.2.1 Program Goal and Purposes

The goal of the Low Income Housing Program is to improve the housing and neighborhood conditions of low income families in Portugal.

The proposed program will support policies that increase and open new windows of credit to local developers and help promote investment in low income housing, land, infrastructure, community facilities, home and neighborhood improvements.

At the same time, local currency generated by Housing Guaranty loans will increase financing available for those investments.

The objectives of A.I.D.'s support are to:

- promote improvement of living conditions in existing homes and low income neighborhoods;
- promote increased production by local developers of new housing affordable for ownership by low income families; and
- promote increased supply of land and services suitable for low cost housing.

### 2.2.2 Program Strategy

The current Housing Guaranty Program (HG-003) has helped the Government accomplish a major shift from state development, ownership, and management of highly subsidized rental apartments to production by municipal, cooperative, and private developers of housing built for sale and affordable by low income families.

The strategy of this new HG program is to continue to help local developers (private developers, cooperatives, and municipalities) increase the share of their activity directed to low income markets and help launch efforts to promote innovative programs addressing critical problems in land and infrastructure, deterioration of existing housing stock, and clandestine neighborhoods.

A.I.D. will also continue to work with and support the existing housing finance institutions, e.g. INH and CGD, in order to expand construction and mortgage financing of affordable shelter options for below median income families. The GOP will be encouraged to assess and study alternatives for the structure of the housing finance process in the context of evolving capital markets both in Portugal and the European Community. A.I.D. will work with the CGD, the Ministry of Finance and the Ministry of Public Works, Transport and Communication to facilitate increased access to housing finance for low income groups and to encourage the reduction of, and more specific targeting of, interest rate subsidies to low income families and developers of low cost housing. Finally, A.I.D. will seek to establish linkages between U.S. and Portuguese institutions in the public and private sector beyond the life of U.S. economic assistance.

### 2.2.3 Relationship to U.S. Economic Assistance to Portugal

Except for assistance to the shelter sector, the A.I.D. program in Portugal has been phasing out while the country progresses toward full integration in the European Community. The last new project activity was funded in FY 1985 and will be completed in early FY 1990. Economic Support Fund (ESF) cash transfers will likely end in FY 1991 or 1992.

Since FY 1985, the GOP has been allocating a part of its ESF resources to the Luso American Development Foundation which will continue to support economic and social development in Portugal and linkages with the U.S. in business, education, culture, public administration, and science and technology.

Declining levels of ESF led Portugal to request consultations on economic and military assistance relative to agreements on the use of the Lajes air base in the Azores. In those consultations, concluded in January 1989, it was agreed to develop a new US\$55 million Housing Guaranty Loan Program for FY 1989-1991, subject to the requirements of U.S. and Portuguese legislation. It was agreed that funding for the studies, consultants, and training to support the Program would be provided from FY 1990-1991 ESF assistance to Portugal, or from Portugal's other resources.

### 2.2.4 Relationship to Other Donor Programs

Portugal is the poorest country in the European Community (EC) with per capita income at approximately one fourth of the EC-12 average. Structural changes in the economy have been both necessitated by and, it is hoped, boosted by Portugal's entry to the market in January 1986. Most transition rules and structural adjustment assistance end by 1992, the same year that the EC has set for full economic integration and beyond which, the Prime Minister has stated, economic assistance to Portugal will not be needed. Total transfers to Portugal from the EC jumped from US\$840 million in 1987 to US\$1.16 billion in 1988 and are scheduled to rise to about US\$1.4 billion in 1989.

The government's development strategy has focused on investment led growth (real GDP growth in Portugal has been close to 4 percent each year from 1985-88) while keeping control on inflation (brought down from over 30 percent in 1983 to 11.5 percent in May 1989).

Before 1992, however, further development is needed in many areas. Modernization is being built on decentralization, capital markets development, privatization, and stimulation of the private sector. GOP policy has been consistent with this strategy. EC structural funds have been invested in Portugal since 1986 in agriculture, industry, training, and public works, as all sectors are eligible for EC structural assistance.

Funds from the Council of Europe's Reconstruction Fund (FRCE) have been invested by INH through the Ministry of Finance. In 1986, 3.6 million contos (US\$22 million) were loaned by the FRCE to the INH. Eligibility criteria for use of FRCE funds is not targeted to specific income groups nor to a maximum size and cost of the dwelling units, but FRCE financing cannot exceed 40 percent of INH construction lending. FRCE financing is handled directly by the Treasury and funds flow from there to the INH.

The World Bank is not lending in the housing sector.

**Figure 1**  
**Institutional Relationships**

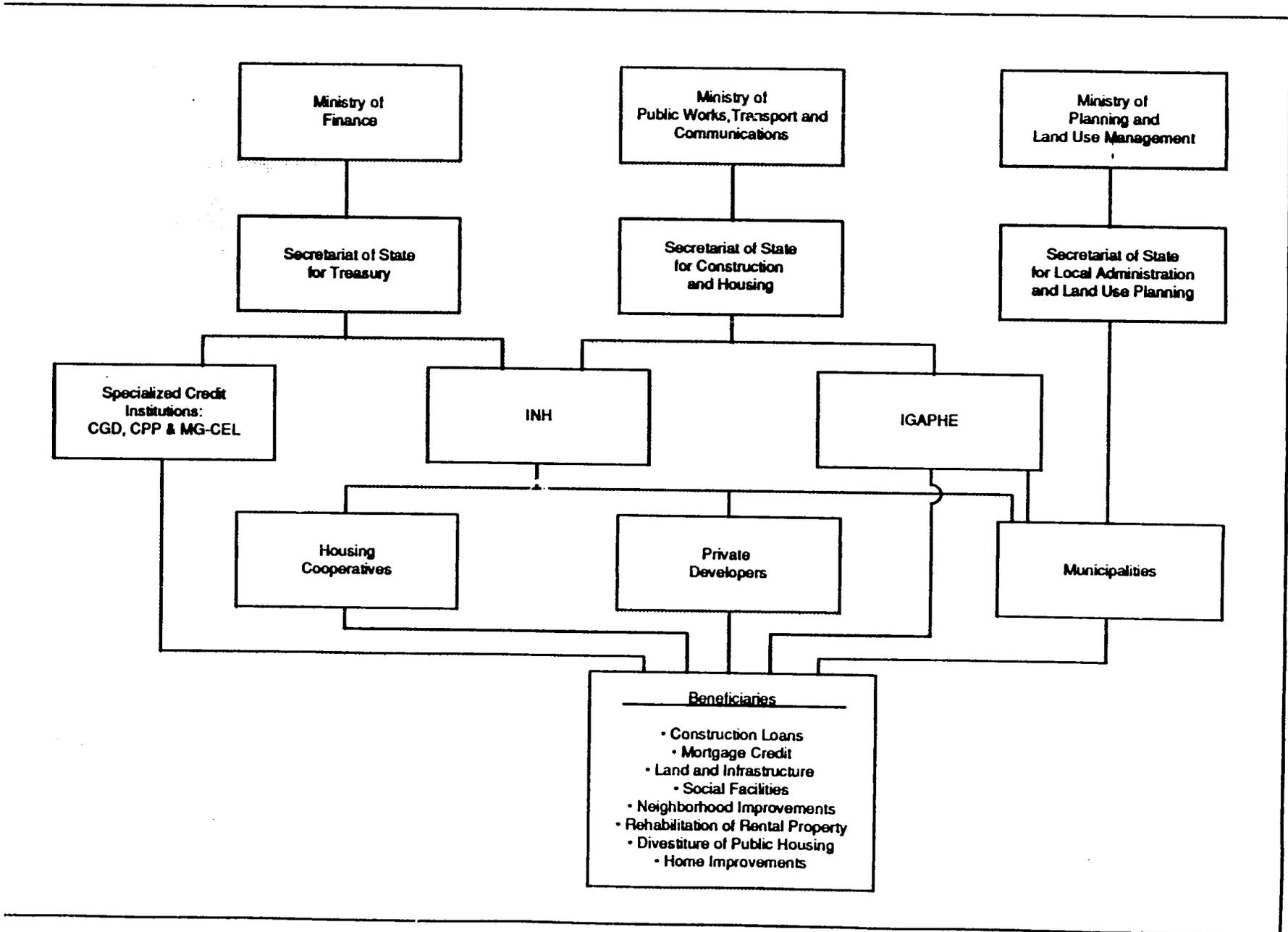


Figure 2. Summary of GOP Programs by Objective, Funding, and HG Financing

<u>Objectives</u>	<u>Programs</u>	<u>Responsible Institution</u>	<u>Implementors</u>	<u>Funding (millions of contos)</u>		
				<u>1988 Actual</u>	<u>1989-91 Targets</u>	<u>Attribution of HG Financing</u>
1. To promote improvement of living conditions in existing housing and low income neighborhoods	a) Loans and grants for neighborhood infrastructure	INH; SecSt Local Administration	Municipalities	0.2 0.0	0.7-2.5 1.0-1.7	0.3-1.0 
	b) Loans for home improvements	INH Caixa	Municipalities Homeowners	0.0	0.0-3.0	0.0-1.5 
	c) Rehabilitation and sale of publicly owned rental stock	IGAPHE	Tenants to become owners	1.0	3.0-3.6	
	d) Rehabilitation of privately owned rental stock	INH	Property owners	0.0	0.0-0.4	0.0-0.2
	e) Loans for rental housing construction	INH	Municipalities	1.1	7.5-10.0	
	f) Grants for rental housing construction	IGAPHE	Municipalities	2.5	10.0-13.6	
	g) Grants for rehabilitation	IGAPHE and municipalities	Property owners	0.2	0.8-1.7	
2. To promote increased production by local developers of new housing affordable for ownership by low income families	a) Mortgage lending	SCIs	Home purchasers	10.0	74-120.0	
	b) Construction lending	INH and SCIs	Promoters: Cooperatives, private developers, and municipalities	17.5	100-132.0	5.7-9.0
	c) Grants to poor families	IGAPHE and municipalities	Home purchasers	0.0	1.3-4.0	
3. To promote increased supply of land and services suitable for low cost housing	a) Lending for land acquisition and development	INH and SCIs	Housing Promoters	0.6	6.0-10.0	3.0-5.0
	b) Loans for community facilities	INH	Promoters, mostly cooperatives	0.1	0.5-0.8	0.1-0.5
	c) Sale of government owned land	IGAPHE	Cooperatives and private developers		(self-financing)	
TOTAL				33.2	200-300	9.0 million
				US\$201.2 million	million contos	contos
					US\$1.2-1.8 billion	US\$55.0 million

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## 2.3 Program Description

### 2.3.1 Overview of the Program

Figure 1 presents the relationships and functions of the key GOP institutions involved in the program. The three secretaries of state for Treasury, for Housing, and for Local Administration provide program leadership in housing finance, housing, and urban planning. INH and IGAPHE are under Housing's control, but the credit ceilings under which they operate emanate from Treasury. The interest rate structure of the Specialized Credit Institutions are regulated by Treasury and applied to INH programs.

Figure 2 summarizes the GOP housing programs, as each relates to its housing strategies, showing the responsible institution, implementing mechanism, and funding. The allocation by program of HG funds indicates the existing effectiveness and desired emphasis of each program, as reflected in the Program Agenda.

A total of US\$55 million will be attributed to these programs over three years. A.I.D.'s guaranty enables Portugal to contract for loans of up to 30 years in the U.S. capital market on terms roughly equivalent to dollar denominated financing by the World Bank. As in the current program, loans will be disbursed to a GOP Treasury account. Treasury will guaranty repayment and transfer Portuguese escudos to the INH. Treasury, as beneficiary of unrestricted foreign exchange, absorbs exchange risks, and the INH repays the loan in escudos.

### 2.3.2 Program Agenda

A.I.D.'s Housing Guaranty and technical assistance is designed to support a jointly developed Program Agenda reflecting GOP objectives and strategies in the sector. Progress on the Program Agenda will be evaluated and the Agenda updated annually to reflect the next steps necessary to meet the policy objectives. The process will be repeated until US\$55 million in guaranteed loans have been fully authorized and disbursed.

The Program Agenda set forth below presents the policy objectives and key GOP programs. Because it is an ambitious agenda, the core actions that reflect the most important targets are identified. In cases where appropriate actions have already been initiated, the Program Agenda indicates steps to strengthen certain approaches. For each program, necessary implementing steps, appropriate benchmarks, and estimated timing is provided.

## PROGRAM AGENDA

**OBJECTIVE 1: Promote Improvement of Living Conditions in Existing Homes and Low Income Neighborhoods**

PROGRAMS	AGENDA	TARGETS	AID SUPPORT
<u>Loans and Grants for Neighborhood Infrastructure</u> loans from INH to municipal governments and grants from the SecState/Local Administration (programs not yet operational)	<u>Core Agenda</u> develop operational procedures and complete planning for test projects in clandestine and deteriorating neighborhoods	completion of procedures and planning in 1990; initiation of test financing in 1991	Housing Guaranty Loans, consultants and training
<u>Loans for Home Improvements</u> from the INH and the Caixa to municipalities and homeowners (programs initiated mid 1980s but did not meet expectations)	restructure and revitalize the program	revision of structure in 1990 and test of financing in 1991	Housing Guaranty Loans, consultants and training
<u>Rehabilitation and Sale of Publicly-owned Rental Stock</u> sale by IGAPHE to tenants (new program initiated in 1988)	repair and rehabilitate stock; prepare tenants for transfer of property management	rehabilitation by 1992 of half of the stock owned with initiation of sales in 1989	consultants and training (particularly on conversions to cooperative ownership)
<u>Rehabilitation of Privately-Owned Rental Stock</u> grants from IGAPHE and municipalities to property owners for rehabilitation (new program initiated in 1988)	review program; consider loans from INH to increase resources  review rent control legislation	study in 1990 of feasibility for INH lending  study in 1990 of rental markets	consultants and training HG loans (if feasible)  consultants and training
	<u>Secondary Agenda</u>		
<u>Replacement of Shantytowns with Low Income Rental Housing</u> by municipalities with loans from INH and grants from IGAPHE	limit program to level of grant resources available	study of alternatives including direct assistance to low income families with home purchase	

**OBJECTIVE 2: Promote Increased Production by Local Developers of New Housing Affordable for Ownership by Low Income Families**

<b>PROGRAMS</b>	<b>AGENDA</b>	<b>TARGETS</b>	<b>AID SUPPORT</b>
<u>Mortgage Lending</u> from specialized credit institutions, principally the Caixa Geral de Depositos, to purchasers of units defined by size and price as low cost housing	<u>Core Agenda</u> increase the share of total mortgage credit from the Caixa that is made available to purchasers of low cost housing	increase in volume of mortgage closings on low cost units from under 1 million contos per month in early 1988 to over 3 million per month in 1992	
<u>Construction Lending</u> from the INH and specialized credit institutions to developers of low cost housing	increase the supply of credit available to developers from the INH for construction	increase in the number of units started with INH financing from 7,000 in 1988 to 12,500 in 1992	Housing Guaranty Loans to increase INH long term capital resources
	continue to control standards and prices in projects constructed with INH financing	average sales price of units financed by the INH at 50% or less of median prices in area	
relevant to both programs	develop long term strategies for mortgage and construction financing	analysis in 1990 of trends in housing finance and capital markets with assessments of options for capital mobilization and for broader based loan origination through private banks	consultants and training
		improved analysis in 1990 of market supply and demand	consultants and training
	<u>Secondary Agenda</u> improve title and mortgage processing procedures	feasibility study for INH title insurance program	
	continue scaling down interest subsidies with greatest support directed to lowest income families and lowest cost units	updated income distribution and housing expenditure survey	

**OBJECTIVE 3: Promote increased supply of land and services suitable for low cost housing**

<b>PROGRAMS</b>	<b>AGENDA</b>	<b>TARGETS</b>	<b>AID SUPPORT</b>
<u>Lending for Land Acquisition and Infrastructure</u> from the INH and specialized credit institutions to developers of low cost housing (new program initiated in 1988)	<u>Core Agenda</u> increase lending and expand the program; reduce costs of land acquisition and infrastructure	increase from 5% of total INH lending in 1988 to 10% in 1991	Housing Guaranty Loans, consultants and training
<u>Loans for Community Facilities</u> from the INH to developers, to date all cooperatives (new program initiated in 1988)	increase lending and expand the program to other developers	study in 1990 of options for expansion	Housing Guaranty Loans, consultants and training
<u>Sale of Government-owned Land</u> by IGAPHE to cooperatives and private developers of low cost housing (first sales in 1988)	monitor progress	sale by 1992 of land sufficient for 20,000 new units	
relevant to all three	improve community planning and environmental soundness of developments financed by the INH	study in 1990 of alternative planning concepts and sponsorship of a design competition	consultants, training and co-sponsorship of awards
	<u>Secondary Agenda</u> support municipal economic and development planning	comprehensive master plans completed and approved by the majority of municipal governments by 1992	
		study of housing development and real estate tax revenues	
	explore need/potential for land banking	study of projected land supply and demand	

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### 2.3.3 Program Outputs

The Program's outputs will support the overall Program goal to improve the housing and neighborhood conditions of low income families in Portugal.

Output 1. Strengthened existing programs and operational new programs that address obstacles to the provision of shelter and urban services to the target group by providing credit for construction financing to housing developers; mortgage loans to home purchasers; home improvement loans to property owners; loans for purchase of land and provision of infrastructure to housing developers; and improvements to infrastructure and community facilities.

Output 2. Divestiture of government owned land for the construction of new low cost housing, and the divestiture of government owned and managed rental property for ownership by low income families and cooperatives.

Output 3. Shelter services valued at the equivalent of US\$55 million and affordable to below median income households. This output is the escudo expenditure for shelter services represented under the pre-qualified GOP programs. These expenditures will be for home ownership, land and infrastructure improvements, improvements to rental and owned properties, and neighborhood improvements.

### 2.3.4 Program Inputs

This Program provides three discrete inputs:

Input 1. The Program Agenda developed jointly with the GOP constitutes a set of actions to be followed in order to achieve the Program's overall policy objectives. The Program Agenda consists of a menu of actions, implementing steps, and benchmarks that set the course and chart the progress of the overall range of sectoral objectives. The Program Agenda will be reviewed and refined with the GOP before it is incorporated into the Program Agreement. Discussions will be held with the GOP to review progress made on the Program Agenda and determine which actions need modification to reflect changing conditions. An evaluation of progress on the Program Agenda will be carried out annually to decide which actions should be carried over to the next year, deleted entirely, or added.

Input 2. Technical Consultants and Training will be provided in support of the Program's objectives. Annual technical consultant and training plans will be reviewed along with annual reviews of actions and implementing steps contained in the Program Agenda.

The primary rationale for both technical consultants and training is to advance the Program Agenda. In several cases, benchmarks that are directly linked to the implementing actions are the provision of technical consultants or training, i.e., in order for the Program Agenda to advance, technical consultants and training must be utilized. As the need for special studies, training, and other assistance is identified by the GOP and A.I.D., appropriate technical specialists will be provided.

Short-term consultancies and special studies, totaling approximately 30 person months, will support GOP efforts to design and conduct studies on special issues. The determination of the use of short-term advisory services and the need for specially focused studies and analyses will be made by the GOP and A.I.D.

RHUDO's Regional Training Advisor will be responsible for developing an initial training needs assessment with input from involved GOP institutions. The assessment will result in a detailed training plan that will match training needs with resources.

Appropriate short-term training opportunities in low-cost housing are occasionally available in the region and the U.S. They will be offered to GOP senior-, mid-, and technical-level officials, and to private sector developers in the form of short courses, policy seminars, study tours, and observation visits both outside and inside Portugal. Specifically tailored training or exchange programs with U.S. housing institutions will also be effective. Participants for these activities will be selected by the GOP and by A.I.D.

Input 3. The Housing Guaranty Loan will finance the Low Income Housing Program planned for a total of US\$55 million in A.I.D. guaranteed loans over a three-year period. The first tranche would consist of US\$25 million authorization in FY 1989.

The dollar proceeds of the HG loans can be used by the GOP as unrestricted foreign exchange. A.I.D. will not track the use of the dollars, but will only verify the use of the escudo equivalent to finance shelter programs affordable to families earning below the median income.

#### 2.3.5 HG Disbursements

HG loan authorizations will be based on the GOP's agreement to pursue the jointly negotiated Program Agenda. HG disbursements are projected to occur at the time the loan is contracted based upon the GOP's presentation of eligible expenditures as approved by A.I.D. in local currency equivalents to the amount of the HG guaranteed US dollar loan. Should it be deemed appropriate by A.I.D., the dollar loan disbursement may be provided on an advance basis to be liquidated by GOP presentation of eligible expenditures before the next disbursement would occur.

Prior to the disbursement of the first tranche, eligible expenditures will be submitted by the GOP and approved by A.I.D. Eligible expenditures are those incurred on GOP low cost housing programs from 1989 forward, excluding those attributed to the final disbursement under HG-003. Subsequent loan guaranty authorizations will be derived from the annual Program Agenda review process.

#### 2.4 Local Currency Support

##### 2.4.1 Utilization of Local Currency

The local currency component of this program will support the GOP's interest in broadening the range of financing available to local developers and increasing the supply of construction financing for low income housing. Eligible expenditures in the escudo equivalent of US\$55 million will be presented for A.I.D. review and approval to justify HG disbursements. Local currency expenditures will be attributed to pre-qualified programs described below that now finance construction of low cost units developed by municipalities, cooperatives, and private developers, land and infrastructure, social facilities, home improvements, upgrading of clandestine settlements and deteriorating urban neighborhoods. These local currency expenditures are to be funded by INH from its own resources. The HG program will not require additional resources from the INH to finance other shelter projects.

The criteria for the kinds of projects to which HG funds may be attributed is affordability, that is the executed projects must be affordable by low income households. Ongoing and new GOP programs that support projects that meet this criteria are identified below as pre-qualified Programs. As the HG program progresses, additional programs may be qualified as sources of local currency expenditures as well.

#### 2.4.2 Pre-Qualified Programs

Government of Portugal programs that pre-qualify as meeting criteria for attribution of Housing Guaranty financing follow. Total financing is summarized in Figures 2 (contos) and 3 (dollars).

Construction Lending. The 1989-1991 INH Strategy of March 1989 calls for construction financing of 28,630 low cost units with total INH commitments of 105.9 million contos (US\$642 million).

Though nearly all units financed by the INH meet HG criteria of being affordable to families with incomes below the urban median, for purposes of this Program, HG financing will continue to be attributed to the least expensive units, affordable to families with incomes in 1989 of 80 contos (US\$480) per month or about the 30th percentile of the urban income distribution. Even so, approximately 40 percent of the INH loan portfolio or US\$260 million projected over the 1989-91 period meets that criteria, more than enough to justify the full US\$55 million HG. Actual attributions will probably range around US\$35 million with the balance attributed to the extent possible to new programs discussed below.

Land and Infrastructure Program. In 1988, INH initiated a program of providing credit for development of land, including its servicing. INH projections for expenditures during the period 1989-1992 are 3.6 million contos (US\$21.8 million) per year but this figure could be increased as there is a high demand for the program. Reduced cost of land and infrastructure is needed to keep units affordable by lower income households. It is expected that US\$18 to 30 million of HG loan funds will be attributed to this program.

Social Facilities. Also in 1988, INH started providing credit for social facilities developed by cooperatives. Extension of similar credit to municipalities and private developers may be developed. This program does not involve any subsidy by the GOP but currently INH cannot allocate more than 2.5 percent of its assets to this program. So far, only four projects have been approved by INH with a total investment of 68,028 contos (US\$410,000), but investments are projected to increase from 127,299 contos (US\$771,000) in 1989 to 170,000 contos (US\$1.03 million) in 1992. It is expected that over the three years, up to US\$3 million will be attributed to HG resources.

Neighborhood Improvements. The INH has received preliminary plans from municipalities for projects to improve infrastructure in several clandestine neighborhoods. When planning is complete, the INH will be able, on a pilot basis, to make loans to the municipalities to support those projects. In addition, the GOP through the Directorate General for Land Use Planning may provide financial assistance to local governments for up to 40 percent of the cost of urban renewal programs in clandestine or other neighborhoods, and up to 75 percent of the cost of preparatory work, including

urban plans, for such renewal programs. For GOP grants, the legislation highlights the importance of a relationship to the existing Master Planning process. In the case of local government with a valid Master Plan, GOP grant may be up to 44 percent of the cost of urban renewal program. In order to be eligible for these GOP grants, the cost of this urban renewal program should exceed 10 percent of the latest GOP annual allocation to the municipality concerned.

Without national support, the municipalities of Sintra and Cascais have been involved in urban renewal programs, particularly in the provision of infrastructure and social facilities for clandestine settlements. Because these kinds of projects take longer to plan, only limited funding during the three years of the proposed A.I.D. assistance will be possible with more substantial investments to flow later. At the most, US\$10 million of the HG financing will be attributable to this program. Development of this credit window is, however, an important element in the Program Agenda.

Home Improvements. The INH and the CGD have been empowered to make loans for home improvements since 1984. Since then, however, less than 1.5 million contos (US\$9.1 million) has been drawn down, all through the CGD, mostly by municipal governments, and mostly for historic preservation. In many cases, it is the building rather than the apartments in it that are in greatest need of improvement. The GOP hopes to restructure and revive the program with terms and procedures better suited to needs, possibly in conjunction with the RECRIA Program (see below) which assists in the improvement of privately owned rental property.

Like neighborhood improvements, this credit window will need more development before flows can be substantial. At the most, US\$10 million of HG financing will be attributable to this program.

Rehabilitation of Private Rental Stock (RECRIA). In the current program, grants are provided by both IGAPHE and the municipality for up to 65 percent of the cost of rehabilitation work.

As of July 1989, 561 dwelling units have been upgraded with a total IGAPHE/Municipality grant of 222,456 contos (US\$1.3 million). Property owners have spent another 143,413 contos (US\$0.9 million) on their own. Average cost of rehabilitation per unit is 562 contos (US\$4,000), of which approximately 61 percent has been provided by IGAPHE and the municipality concerned. The 1989 IGAPHE budget may be as much as 400,000 contos (US\$2.4 million) for this program. The program could possibly have greater impact if property owners had access to a line of credit for their costs. INH and IGAPHE will assess the potential of this program, and if feasible, a part of the HG financing could be attributable to such loans. That part is likely to be small since such a credit window is not yet designed and since demand is uncertain given low rents that still prevail. Development of this credit window, is, however, an important element in the Program Agenda.

#### 2.4.3 Affordability

In the absence of reliable new income distribution information, the following estimate of urban household incomes has been derived from an analysis of currently available data and professional judgements. The terms of mortgage loans available through the Government's low-cost housing programs vary with family size, income, and sales price. Assuming a family size of four, a minimum down payment of 10 percent, and 25 percent of income allocated to payments (the CGD allows up to one-third), families below the median can afford to purchase homes costing up to 5,179 contos (US\$31,380).

<u>Percentile</u>	<u>Monthly Income</u>	<u>Monthly Payment</u>	<u>Loan</u>	<u>Downpayment</u>	<u>(Escudos) Affordable Unit Cost</u>
0-10th	50,600	12,650	2,144,000	240,000	2,384,000
10th-20th	72,600	18,150	3,076,000	340,000	3,416,000
20th-30th	82,500	20,650	3,500,000	390,000	3,890,000
30th-40th	97,900	24,500	4,152,000	462,000	4,614,000
40th-50th	110,000	27,500	4,661,000	518,000	5,179,000
50th-60th+	140,000	35,000	4,825,000	537,000	5,362,000

More than 90 percent of the units financed by the INH currently range from about 3,000 contos (US\$18,180) to about 4,800 contos (US\$32,120) and thus are affordable to families with incomes from about the 20th to the 50th percentiles.

Approximately 40 percent of the units financed by the INH are one and two bedroom units, the largest that meet eligibility criteria of the current HG program. These currently are averaging around 3,900 contos (US\$23,600) and thus are affordable to families with incomes from about the 20th to the 30th percentiles.

#### 2.4.4 A.I.D. Approval of Local Currency Attribution

Supporting shelter and related infrastructure projects including rehabilitation of housing stock through the INH funding mechanism is intended to be straightforward. The HG Program Agreement will include a list of pre-qualified shelter programs and projected eligible expenditures for each program type. The proportion of total program expenditure that is suitable and affordable to low income families will be certified by the INH.

The HG Program Agreement will also specify that INH will be responsible for gathering, analyzing and presenting for A.I.D.'s approval the eligible expenditures for qualified projects before each HG disbursement. The INH will present expenditures for each pre-qualified program with an analysis supporting the calculation of expenditures eligible for attribution to the HG. A.I.D. working with the INH will determine the final level of eligible expenditures acceptable.

### **3. PROGRAM IMPLEMENTATION, MONITORING, EVALUATION, AND FINANCING**

#### **3.1 Implementation Strategy**

The borrower for the Housing Guaranty loans will be the INH which in turn lends to local developers. INH will collaborate with IGAPHE, the CGD and the Secretary of State for Local Administration and Land Use Planning who are the key players in the development of broader program lines.

The policy and institutional framework to achieve program purposes will be the responsibility of both the Secretary of State for Housing and the Secretary of State for Treasury who will co-sign the Program Agreement with A.I.D.

At the local level, the largest developers of low cost projects are housing cooperatives often working on a turnkey basis with private builders. Most cooperatives are members of the National Association of Housing Cooperatives (FENACHE) which provides assistance and training to its membership. Municipalities will also play an increasingly important role in the program, as they take on increased responsibility for land development and planning, and neighborhood improvement programs. Finally, private developers are increasingly taking advantage of INH financing and targeting their projects to lower income markets.

#### **3.2 Conditions and Covenants**

In addition to the standard conditions precedent to A.I.D.'s guaranty for a disbursement, the GOP prior to initial investor selection will be required to inform A.I.D. as to its agreement with the Program Agenda for the first year of the program, as well as to the annual review process which will indicate progress made on activities of the Program Agenda. The INH will also report for approval by A.I.D. on eligible expenditures from the pre-qualified programs in the amount of local currency equivalent to the dollar amount of the HG loan to be contracted.

Subsequent authorizations and disbursements of HG loans will be conditioned on reviews and updates of the Program Agenda in annual discussions with the GOP. Prior to investor selection for each disbursement, the INH will update reporting for approval by A.I.D. on eligible expenditures.

The Program Agreement will include covenants that the GOP will support the Program Agenda and review process. It will also require covenants between the INH and The Caixa Geral de Depositos to assure adequate and timely mortgage lending on units built with INH construction financing.

#### **3.3 A.I.D. Management**

The current Housing Officer/A.I.D. Representative will complete phase out of the remaining A.I.D. program in Portugal (with the exception of Housing Guaranties and ESF Cash Transfers) in early FY 1990.

The level of policy dialogue that has been an important part of the success of the current program will be vital to the broader objectives of the new program. RHUDO/NENA in Tunis will undertake the necessary policy reviews and local currency expenditures verification to justify HG disbursements and subsequent authorizations. RHUDO will manage the technical assistance and training component and the preparation and negotiation of the HG Program Agreement and Technical Assistance and Training Agreement with support from GC/PRE.

Continued staffing in Lisbon supervised by RHUDO will include a direct hire housing officer and an FSN in addition to the PSC mentioned in the following section.

### 3.4 Technical Consultants and Training

Integral to A.I.D.'s support of the Government's policy agenda is the funding of technical consultants and training:

1. to assist in reaching specific targets of the core agenda. In some cases a study or analysis of a problem is the target itself; in others, consultants may be needed to help take action.

inputs: 25-30 person weeks of consultant services and studies contracted by A.I.D.

2. to respond to opportunities for advancing the secondary agenda and other sectoral objectives. While achievement of all targets will not be possible, opportunities will arise where modest support could help implementing agencies take important steps beyond the core agenda.

inputs: 5-10 person weeks of consultant services contracted by A.I.D.

3. to monitor program implementation, assist implementing agencies with planning, and advise on technical problems. The Portuguese Personal Service Contract Technical Advisor that has been providing this support under the current program has demonstrated that routine assistance and coordination at the staff level of the various implementing agencies is an important complement to the policy and management dialogue maintained by A.I.D. project officers and consultants.

inputs: Technical Advisor, recruited locally and contracted by A.I.D. under a part time Personal Service Contract for up to three years.

4. to evaluate progress on the Program Agenda. An annual review is planned of progress on the agenda, discussion with the Government and implementing agencies of developments in the sector, and revision of the agenda for the following year.

inputs: Annual reviews 1990-1991 and a final evaluation in 1992 performed with the assistance of consultants contracted by A.I.D.

5. to provide opportunities for training in advanced technologies of housing and urban development finance, planning and management, low income housing development and marketing, public/private sector partnerships, environmental protection, cooperatives and community development. Primary focus will be on short term training, but longer programs will be designed for 2-3 mid-career professionals.

inputs: (a) Funding for participation of 30-40 professionals in short term training programs, observation visits, or meetings; and (b) funding for participation of 2-3 mid-career professionals in programs of up to one year.

6. to further broaden housing and urban development professions by building linkages between U.S. and Portuguese public and private sector institutions with a view to continued relationships beyond the life of U.S. economic assistance. Housing and urban development professionals in the two countries have an increasing commonality of interests and contributions that each could make to continuing development in the sector.

inputs: Funding for a contract or grant with a U.S. institution to identify and support opportunities for training, visits, and meetings; to identify U.S. and Portuguese sectoral institutions with mutual interests, provide them with information about each other's activities, and facilitate networking among them.

Of the areas noted in the Policy Agenda for A.I.D. consultant support, particular importance is placed on:

- assisting the Secretaries of State for Housing and for the Treasury along with the INH and the Caixa Geral de Depositos on an analysis of trends in housing finance and capital markets with assessment of options for capital mobilization and for broader based loan origination through private banks;
- assisting the INH with improved analyses of market supply and demand;
- assisting the INH with identification and promotion of alternative concepts for improved community planning and environmental soundness of developments that it finances through its land acquisition and infrastructure program;
- assisting the INH and municipal governments in the development of operational procedures and planning for pilot improvement projects in clandestine and deteriorating neighborhoods;
- assisting the Secretary of State for Housing along with the INH and the Caixa Geral de Depositos in reviews and restructuring of their home improvement lending programs; and
- assisting IGAPHE in analyses of rental markets and assessment of the feasibility of INH lending to support its program to promote rehabilitation of privately-owned rental property to cooperative ownership.

Examples of the kinds of training programs that would be funded include:

- seminars: Most of the consultants brought to Portugal to assist with studies and analysis will, as part of their scope of work, be asked to prepare and lead short seminars of one-half to one day on the state of the art in the U.S. in their field of expertise. The implementing agencies in Portugal with whom those consultants are working will be asked to host the seminar and to invite a limited number of professionals from their organizations and others from both the private and public sector.
- short term training in the U.S.: In addition to courses, workshops, and meetings available in the U.S. and third countries through A.I.D.'s International Training Programs, training opportunities would be sought through the regular short term training programs available for American professionals in U.S. housing and urban development institutions, associations, and professional organizations.

- long term training in the U.S.: Though it can be difficult, an attempt would be made to identify 2-3 mid-career professionals (one each from the areas of housing finance, low income housing project development, and urban development at the level of municipal management) who can be made available by their employers for longer training of up to one year in the U.S. Employers should be those (public or private) involved in activities supported by the Program. The training would be designed in collaboration with the employer to help meet needs that it identifies.

### 3.5 Program Monitoring and Evaluation

The Program's primary monitoring and evaluation objectives are: to support and facilitate the GOP's demonstrated commitment to advance their shelter sector policy objectives; and, to ensure that the proposed HG assistance complies with the established criteria.

#### 3.5.1 Monitoring Requirements

The information gained as a result of monitoring will benefit the GOP implementing institutions, the HG Program's managers at USAID/Portugal and RHUDO/NENA, the Office of Housing and Urban Programs (PRE/H), and Bureau for Asia and Near East (ANE).

Monitoring is an ongoing process that will take place during program implementation. Annual evaluations will formally measure progress on Program Agenda activities. The ultimate success of the Program is predicated upon achieving selected objectives contained in the Program Agenda.

Local currency expenditures will also be monitored. Activities eligible for the Program's local currency funding must be verified, and disbursements made against them tracked.

A specific goal for the Program is that the Program Agenda ultimately results in greater development of shelter for low-income urban households through the several GOP programs. While the extent of any such linkage during the early years of the Program is likely to be low, information will be particularly sought in later years that provides evidence that such an outcome is taking place. At that point, local currency disbursements could be directly linked to developments shown to have resulted from the Program Agenda.

Each of the Program's principal objectives has specific actions associated with them in the Program Agenda. Management will be concerned with the benchmarks component under each Program Agenda action. These benchmarks are evidence that the required actions were successfully undertaken, and their completion will be the manager's primary indication that the project objectives are being met.

The nature of the benchmarks indicates that a variety of sources and methods for collecting the required data will be necessary. Among these will be: administrative records of the counterpart agencies; reports identified in the Program Agenda; records of A.I.D. staff; and interviews and other survey techniques.

The key partners in the policy dialogue process are the Secretaries of State for Housing, for the Treasury, and the INH. Program monitoring will engage all three, and will involve short-term technical consultants designed to advance the Program Agenda.

### 3.5.2 Evaluation Requirements

Evaluations of policy impacts will begin approximately a year after the first project authorization, and thereafter precede subsequent authorizations. It is estimated that such evaluations will take place in the fourth quarter of each U.S. fiscal years 1990-1993.

Evaluations will be the responsibility of USAID/Portugal, assisted as necessary by RHUDO/NENA and short-term consultants. The evaluation is primarily an interim, internal assessment of program objectives. It is intended to determine the progress made on the benchmarks associated with the Program Agenda since the last authorization. Subsequent authorizations and their associated Program Agenda will be based on the results of each evaluation.

The final evaluation should take place within six months of the final project disbursement, in approximately the first quarter of 1994. The final evaluation will be the responsibility of RHUDO/NENA, acting on behalf of USAID/Portugal. The final evaluation will be conducted by a contract team from the United States, assisted as needed by local consultants. The purpose of the final evaluation will be to determine the overall results of the HG program.

In particular, the evaluation will seek to determine the impacts of the Program Agenda in relationship to the Program's original goal and objectives. Where possible, links will be illustrated between sectoral improvements and the completed Program Agenda items.

Information required for evaluation will be from records, containing for example, the following: a complete list of benchmarks by policy objective, and specific actions required to achieve the benchmarks; a list of parties, keyed through responsibility for the achievement of each benchmark; benchmark dates, as agreed by GOP negotiations; precedent and subsequent benchmarks (if any); notes on progress (lack thereof) towards achievement of benchmarks; and, benchmark completion check-off.

### 3.6 Borrowing Procedures and Program Agreements

Pursuant to approval of this Project Paper, A.I.D. will authorize a US\$25 million HG loan and send a Letter of Advice to the GOP and the INH, the Program Borrower. A Program Agreement will then be negotiated and signed with the INH and, after all Conditions Precedent have been met, the INH will seek a U.S. investor. The INH may seek A.I.D. guidance on the best time to enter the U.S. capital market and inform the Office of Housing of the timing and preferred conditions of its borrowing. The Office of Housing will facilitate the process, and will encourage U.S. lenders to participate in the program.

Each borrowing would take place in the U.S. capital market. The INH in consultation with the Treasury of the GOP will competitively select a U.S. financial institution. This institution, the Lender, and the INH would enter into a Loan Agreement, and, upon signing, the Lender would disburse the full amount of the loan covered by the authorized A.I.D. loan guaranty. The A.I.D. Guaranty specifies that the "full faith and credit" of the U.S. Government assures the full and timely payment of all amounts due to the Lender. The Government of Portugal in turn provides a Host Country Guaranty to A.I.D. The loan terms usually include a 30 year repayment period, including 10 years grace on repayment of principal, with rates lower than a commercial loan for an equivalent term. The actual rate will depend on capital market conditions in the U.S. at the time of the borrowing.

The INH will pay a one (1) percent disbursement fee at the time of the borrowing, which may be financed from the proceeds of the loan, and would repay the U.S. dollar loan according to the terms of the Loan Agreement. Dollar repayment would be made to a Paying and Transfer Agent, currently Riggs National Bank of Washington, D.C., along with the A.I.D. guaranty fee of 0.5 percent per annum on the outstanding principal of the loan. The Paying and Transfer Agent would arrange for the correct payment to the Lender and A.I.D. on behalf of the INH.

The INH and the Treasury of the GOP negotiate an Exchange Risk Agreement whereby INH assigns the dollar proceeds of HG disbursements to the GOP Treasury. The Treasury in turn transfers equivalent local currency to the INH. INH then makes payments on the loan in local currency to the Treasury which agrees to service the payments in dollars, absorbing risks/gains of exchange rate fluctuations.

The GOP executing agencies for the Grant Agreement to finance the technical consultant and training component of the HG Program will be the Secretaries of State for Housing and for the Treasury. The Grant Agreement will specify roles of INH, IGAPHE, and other sectoral institutions that will benefit.

The agreements or contracts to be executed in conjunction with the HG loan and associated Grant include:

1. The Technical Consultant and Training Grant Agreement between A.I.D. and the Government of Portugal acting through the Secretaries of State for Housing and for the Treasury.
2. The Program Agreement between A.I.D. and the Government, specifying the procedures for borrowing, the programs/projects pre-qualified for escudo equivalent expenditures, and the Program Agenda. The Program Agreement is co-signed by INH, and the Secretaries of State for Housing and for the Treasury.
3. The Loan Agreement between the INH and the U.S. Lender, stating the terms of the U.S. guaranty.
4. The Contract of Guaranty between A.I.D. and the Lender stating the terms of the U.S. guaranty.
5. The Host Country Guaranty between the GOP and A.I.D. providing for an indemnity to A.I.D. in the event A.I.D. has to make repayments on behalf of the Borrower.
6. A Paying and Transfer Agency Agreement between the Riggs National Bank of Washington, D.C. and the INH for servicing the loan.
7. An Exchange Risk Agreement between the INH and the Treasury of the GOP.

### 3.7 Financing the Program

The program will be financed by the following institutions:

1. The U.S. Lender(s), which will finance the US\$55 million of loans to the INH.
2. National Housing Institute, (INH), which will provide administrative and managerial support for the program's implementation.
3. The participating cooperatives, municipalities, and private developers, will secure credit from INH for development and thereby generate eligible expenditures for local currency attribution.
4. Individual households will contribute down-payments and take mortgage loans to purchase or improve their shelter.
5. A.I.D. will provide resources to (a) guaranty the HG loan; (b) manage and administer the Program; (c) provide technical consultants and training to public and private sector personnel; and (d) monitor and evaluate the Program.

### 3.8 Cost of the Program

1. Housing Guaranty Loan: Over a three year period, the HG loans will provide US\$55 million in untied foreign exchange attributed to local currency disbursements by the INH on loans to developers for eligible programs estimated as shown in Figure 3.
2. Technical Consultants and Training: Illustrative costs for technical consultants and training over the life of the program are shown in Figure 4.

**Figure 3. Projection of Program Expenditures and  
Housing Guaranty Attributions (1989-1991)**  
(US\$ millions)

<u>Program</u>	<u>Program Expenditures</u>	<u>HG Attributions</u>
a. Neighborhood Improvements	4-15	0-10
b. Home Improvements	0-18	0-10
c. Rehabilitation of Privately Owned Rental Stock	0-2	0-2
d. Construction Lending	640-800	35-55
e. Land and Development	36-60	18-30
f. Community Facilities	3-5	2-3
<b>TOTAL</b>	<b>US\$683-900 million</b>	<b>US\$55 million</b>

**Figure 4. Projection of Expenditures for Consultants and  
Training, A.I.D. Funding (US\$ thousands)**

	<u>FY 90</u>	<u>FY 91</u>	<u>FY 92</u>	<u>Total</u>
Technical Consultants	60.0	50.0	40.0	150.0
Resident PSC	15.0	33.0	37.0	85.0
Annual Reviews/Evaluations	30.0	30.0	60.0	120.0
Short Term Training	15.0	35.0	40.0	90.0
Long Term Training	15.0	40.0	25.0	80.0
Institutional Linkages	<u>25.0</u>	<u>25.0</u>	<u>25.0</u>	<u>75.0</u>
<b>TOTAL</b>	<b>160.0</b>	<b>213.0</b>	<b>227.0</b>	<b>600.0</b>

Figure 5. Projection of Authorizations and Disbursements by Fiscal Year  
(US\$ thousands)

Fiscal Year	<u>Consultants, Training</u>		<u>Housing Guaranty Loans</u>	
	Authorizations	Disbursements	Authorizations	Disbursements
1989	-	-	25,000	-
1990	600	160	15,000	25,000
1991	-	213	15,000	15,000
1992	-	227	-	15,000
<b>TOTAL</b>	<b>600</b>	<b>600</b>	<b>55,000</b>	<b>55,000</b>

3.9 Procurement Plan for Consultants and Training

The Grant Agreement will provide for quarterly meetings between A.I.D. and the Office of the Secretary of State for Housing on scheduling of consultants and training, review of PIO/Ts and PIO/Ps, procurement sources, and support to be provided by benefiting institutions.

U.S. consultants and studies to assist in reaching the targets of the Program Agenda and for annual reviews will be contracted principally through IQC and other services contracts managed by A.I.D./W on the basis of PIO/Ts prepared by the resident Housing Officer in Lisbon and RHUDO/NENA. New Housing and Urban Development IQCs now being awarded include small business and minority firms. Locally based consultants will be contracted on the basis of informally competed purchase orders.

Subject to review by the Regional Contract Officer, the Personal Service Contract with the Portuguese Technical Advisor now providing assistance to the INH in monitoring and implementation of the current Housing Guaranty Program would be extended to continue that assistance on the proposed new Program.

Most of the training to be provided will be short term and selected from training opportunities announced by A.I.D./IT and PRE/H. PHUDO/NENA will assist in identification of training to meet particular needs related to the Program Agenda and in design of appropriate programs for long term training of up to one year. Two or three candidates will be jointly selected by A.I.D. and the Office of the Secretary of State for Housing from nominations by public and private housing and urban development institutions in Portugal involved in activities supported by the Program.

Assistance in building linkages with U.S. institutions and professional associations to further broaden housing and urban development professions in Portugal will be procured through IQCs and Cooperative Agreements managed by A.I.D./W.

3.10 Summary Program Implementation Plan

<u>Month</u>	<u>Action</u>	<u>Responsibility</u>
9/89	Approval of Program; Authorization \$25 million HG; Authorization \$600,000 TA; HG Letter of Advice .....	A.I.D./W
10-12/89	Negotiate Program and TA Agreement(s); Schedule 1990 Consultants and Training .....	RHUDO, GOP, INH
	Complete implementation current program .....	INH
1-3/90	Begin implementation new program .....	INH
	Contract first consultants and training .....	RHUDO
	Select candidates for long term training .....	GOP, RHUDO
2-6/90	Progress review .....	RHUDO, GOP, INH
	Approve first HG disbursement .....	RHUDO
	Authorize \$15 million HG .....	A.I.D./W
7-9/90	Investor selection, first HG Borrowing .....	INH
10-12/90	Schedule 1991 consultants and training .....	RHUDO, GOP, INH
	Start long term training programs .....	participants
2-6/91	Progress review .....	RHUDO, GOP, INH
	Approve second HG disbursement. ....	RHUDO
	Authorize \$15 million HG .....	A.I.D./W
7-9/91	Investor selection, second HG Borrowing .....	INH
10-12/91	Schedule 1992 consultants and training .....	RHUDO, GOP, INH
	Complete long term training programs .....	participants
2-6/92	Final evaluation .....	RHUDO, GOP, INH
7-9/92	Complete consultants and training .....	RHUDO, GOP, INH
10-12/92	Complete Program .....	INH
	Approve final HG disbursement .....	RHUDO
	Investor selection, final HG Borrowing.....	INH

#### 4. PROGRAM ANALYSIS

##### 4.1 The Institutional Framework

Two types of institutions will play the essential roles in this low cost housing program (see Annex 5 for further details):

- the national government represented by three Secretaries of State (Construction and Housing, Local Administration and Land Use Planning, and Treasury), and two institutions (INH and IGAPHE); and
- low cost housing promoters represented by local governments, housing cooperatives, and private housing developers.

The INH was created in 1984 to provide lower cost construction financing that would stimulate production of low income housing by private sector organizations and municipal governments. The Caixa Geral de Depositos (CGD) is the largest banking institution in Portugal. It along with two smaller credit institutions make loans for home acquisition. The CGD is responsible for an estimated 90 percent of the take out financing for low cost housing units financed by INH construction loans. The INH was a major contributor to the GOP Low Cost Housing Development Program (PDH) and has played a role as a promoter of adjustments to housing unit standards to reach lower unit prices. INH output, in terms of units financed, has grown in just four years to almost 9,000 units per year. The INH Strategic Plan is discussed in Annex 5.

The IGHAPE was created in 1986 to take over management and eventual divestiture 45,000 units of public housing stock. Its primary objectives are: to liquidate the debts of the FFH, generating cash through the sale of land parcels previously held by the FFH and sale of housing units where possible; and to manage the existing stock, improving the condition of units. The IGHAPE support consists of GOP subsidies and grants.

The Ministry of Planning and Land Use Management is responsible for application of the new policy of decentralization of authority for land use control, and the accompanying program of technical support for improved regional and local land development planning.

##### 4.2 Technical Analysis: Government of Portugal Programs

Over the last several years, the GOP has developed and strengthened several specific program designed to meet strategies of housing ownerships, rental housing, neighborhood improvements, and land and infrastructure provision.

###### 4.2.1 Construction of Low Cost Housing

The shift from development and ownership of low income housing through the State run FFH to incentives for local developers to build and sell low-cost housing units with support from the INH has been a major policy objective of current GOP housing policy.

From 1984 through 1988, the INH has approved credit for the construction of 27,480 low-cost units in the amount of 79.8 million contos (US\$484 million). During the same period as many as 12,546 low-cost units developed by cooperatives, private enterprises and municipal governments have been completed. As of December 31, 1988, 10,573 low-cost units financed by INH were under construction.

#### 4.2.2 Land and Infrastructure

The GOP intends to create conditions attractive to developers to produce as much low cost housing as possible. Purchase of land is one of the first obstacles to be overcome by the private developers and cooperatives which have been seeking support from the central and local governments.

As publicly owned land is mostly limited to the ex-FFH integrated plans of Almada, Setubal, Zambujal and Aveiro, private developers are increasingly purchasing land in the market which requires additional financial resources. Regulations permit INH to lend to private developers and cooperatives for purchase of land and the provision of infrastructure.

The CGD, CPP, MG-CEL and INH provide lending to the municipalities for the purchase of land and the provision of infrastructure. In March 1988, the GOP approved an extension of credit to municipalities for the provision of infrastructure in clandestine settlements suitable for upgrading.

Through March 1989, INH lending on land and infrastructure projects totaled approximately US\$5.4 million, of which US\$4 million was disbursed on land acquisition and the remaining US\$1.4 million was invested on new infrastructure. Pending loan closings, an estimated total loan amount of US\$8.8 million will be invested. Approximately 67 percent of the funds already disbursed by INH on this program were allocated to cooperatives.

#### 4.2.3 Social Facilities

Some cooperatives have been involved in the construction of community facilities at their expense, with no financial burden to the GOP. Under current regulation, INH may extend loans for social facilities that are integrated in cooperative low cost housing projects. INH resources allocated to this program cannot exceed 2.5 percent of its share capital. INH gives higher priority for projects that involve more than one cooperative. This program started in 1988 and by year end projects with an INH investment of 68,028 contos (US\$412,300) had been approved. Investments during the period 1989-1992 are projected to increase from 127,299 contos in 1989 to 170,000 contos in 1990.

#### 4.2.4 Rental Housing (Relocation)

Established in 1987, this program was designed to deal with the problems of shanty towns and was therefore expected to deal principally with the three large urban areas of Lisbon, Oporto, and Setubal.

The program combines the resources of the GOP, through the IGAPHE, the INH, and municipal governments, financing 50 percent of a project's cost with a grant. The INH provides long term financing to the municipality to cover the remainder of project costs.

Municipalities identify the target population and area, contract for project design and construction, and following completion, manage the rental contracts of the beneficiaries. The program provides for lease-purchase of the units; it is intended in fact that a good percentage of the units will not remain under municipal management.

To obtain project approval, a city must have serviced land, sufficient funding to cover any costs not covered by the IGAPHE and INH funding, a program of rents related to family income, a construction contract with a reliable firm, and a maintenance program for which funds are or will be available. The INH financing must be in place before the IGAPHE will agree to participate.

Agreements have been signed with some 22 cities, for the production of 18,700 units. By year end 1988, about 3.2 million contos (US\$19.4 million) had been contracted. By mid-year 1989, relocation program projections called for almost four million contos (US\$25 million) to be contracted in 1989, 5.1 million contos (US\$32 million) in 1990, and then decreasing amounts to 4.6 million contos (US\$28 million) in 1991, 3 million contos (US\$18 million) in 1992, and 2 million contos (US\$12 million) in 1993.

#### 4.2.5 Home Improvements

This program consists of the repair, upgrading, and maintenance of owned or rental housing to be carried out by individuals, non-profit institutions, public institutions, cooperatives, and municipalities.

The SCIs and INH may provide financing for this program. The Caixa Geral de Depositos no longer has funding available for this program; some projects were contracted with CGD in 1988 but the program then ended.

Current legislation will be extensively revised as there is a high demand for home improvements. A joint program of the INH and Secretariat of State for Local Administration and Land Use Planning is expected to be launched soon.

The level of funding approved by the CGD from 1984 through 1987 was approximately 750,000 contos (US\$4.5 million). If the program is to be restructured in 1989 it is expected that 1 million contos (US\$6 million) will be spent annually during the period 1989-1991.

#### 4.2.6 Neighborhood Improvements

Urban renewal has been considered in various guises for some time in Portugal, often as part of a process of preservation of the nation's cultural heritage. In the early 1980s the principal urban planning division of the housing ministry supported plans for the renovation of historic centers in several cities. These plans were often reviewed in the absence of an updated Master Plan for the city.

Currently, financial assistance is made available by the GOP through Land Use Planning to local governments for up to 40 percent of the cost of improvements to clandestine and other neighborhoods, and up to 75 percent of the cost of preparatory work, including urban plans for such improvement programs.

#### 4.2.7 Rehabilitation of Private Rental Stock

The RECRIA program, now the principal government vehicle for the improvement of rental housing, and available to landlords, tenants, and municipal governments, began in 1988 in response to weaknesses of the PRID program (Home Improvements) to generate substantial renovation activity.

The principal reasons for the failure of PRID program were (a) initially, the difficulty of recuperating any investment through rent increases (now improved by rent increase legislation); (b) higher risk for the landlord who had to absorb the full cost of rehabilitation (although supported by financing on favorable terms); (c) more complicated bureaucratic process as local governments, not landlords, initiated the request for support; and (d) the landlord is not guaranteed the improved asset value, as Portuguese law continues to provide for inheritance of rental contracts.

The RECRIA program establishes a concept of government grant assistance for repairs made to rental housing. The national and local governments share in the costs of that assistance is provided at a 60/40 ratio. The amount of assistance is based on a formula which establishes a range from 15 percent to 65 percent of the expense, and is dependent on the outcome of the repair budget divided by the monthly rent.

Through March 1989, projects for improvements to 514 dwelling units were either under review or approved for IGAPHE funding. The budget allocation for 1988 was 500,000 contos (US\$3 million). By April 1989, commitments authorized or projected for the near future had reached 150,000 contos (US\$950,000).

Complications which trouble RECRIA are the municipal government commitment and the national credit ceilings which limit a landlord's ability to finance his share. While IGAPHE has 500,000 contos (US\$3 million) available in its budget for RECRIA in 1989, only the City of Lisbon has the necessary funds available for participation. Other cities have set aside budgetary support, but of the 164 projects currently being processed, Lisbon accounts for 123, or 75 percent.

#### 4.2.8 Rehabilitation of Public Rental Stock

The rehabilitation of the publically owned housing stock has been one of the priorities of the IGAPHE since its creation in 1987. The principal objectives of the agency, to divest the stock of units and land, and to increase the yield on the remaining stock so as to cover maintenance expenses, can only be achieved if the existing stock of units is repaired sufficiently to warrant investment or merit market rents. Due to the poor condition of some of the units, IGAPHE initially focused on the more extreme cases, rather than to quickly repair those with little damage that might be more easily sold.

In 1987 IGAPHE spent about 1.7 million contos (US\$10 million) on rehabilitation, in 1988 about 1.3 million contos (US\$7.9 million), and the estimate for 1989 is one million contos (US\$6 million).

#### 4.2.9 Divestiture of Publically Owned Land and Rental Units

IGAPHE and the Institute for the Financial Management of Social Welfare are the owners of thousands of housing units and much land whose divestiture will be carried out over the next five years.

Rental housing can be sold to tenants, spouses, or direct descendents with whom they have lived for one year. The municipality may replace the tenant if he or she decides not to buy the unit. Land can be sold to the municipalities, cooperatives, and private developers.

IGAPHE owns approximately 45,000 rental units and large tracts of land in the Almada, Zambujal, Aveiro, Setubal and other areas for construction that will accommodate approximately 20,000 units. Families who want to buy the low-cost units may apply for long-term borrowing through the INH.

The loan amount of the rented units may be 100 percent of sales price. Sales prices of the units to be divested are determined in accordance with the age of the unit, number of years elapsed since the first occupancy of the unit, and downpayment. Sales prices of public land are calculated through a formula that reflects variables such as infrastructure and varies from 7 to 15 percent of total project cost.

The divestiture of IGAPHE housing stock will be carried out by real estate agencies contracted through competitive bidding; the first four have been contracted.

As many as 2,000 units in Chelas will be sold to the tenants. This divestiture is considered a pilot project and IGAPHE expects to sell 30 percent of the rental units in two neighborhoods. The average sales price of the units is 1,200 contos (US\$7,500). Tenants are eligible to borrow for the purchase of the units through the home purchase credit system. Monthly amortization for a loan in the first year will be roughly equal to the rent the families pay now to IGAPHE.

Divestiture of IGAPHE land started in December 1988. Nineteen competitive biddings for the construction of 1,861 dwelling units are under way by cooperatives and private developers in Almada, Zambujal, Chelas, Vale de Amoreira and Moita.

#### 4.2.10 Direct Assistance to Poor Families

This program consists of shared assistance to local governments and to families living in shanty towns who cannot otherwise afford to purchase low cost housing. Up to 40 percent of the price of a low cost unit can be granted to the low-income families: 20 percent from IGAPHE; 20 percent from the municipality.

Municipalities must request assistance from IGAPHE before starting either the construction of housing projects or the purchase of the dwelling units. Beneficiaries will then borrow the remaining sales prices of the units in accordance with Home Purchase Credit System. Grants will be provided to low income families living in shanty towns which are involved in municipal relocation programs. The IGAPHE budget for this program is included in the relocation program, with a 1989 budget of 4 million contos (US\$25 million).

This program has not been well utilized; the necessary financial contribution is difficult to secure from most municipalities. Only the Municipality of Loures has applied for construction of 220 units requiring an IGAPHE grant of 120,000 contos (US\$750,000); the Municipality of Loures is preparing project documents for another similar proposal.

#### 4.2.11 Central Savings Bank (Caixa Geral de Depositos)

The Caixa remains the largest banking institution in the country, and by far the largest lender to the housing sector. To get a feel for the importance of the Caixa as a lender for the sector it is interesting to look at some global information. Housing credit commitments in 1988 are estimated to have been about 4.3 percent of total credit. Housing sector lending is estimated to have been about 204 million contos (US\$1.2 billion). Of that, the Caixa was responsible for 108 million contos (US\$654 million) or 53 percent. Housing credit represented almost 40 percent of the Caixa's total lending activity.

### 4.3 Financial and Economic Analysis

#### 4.3.1 Introduction

Portugal is a small country with a resident population in 1987 of about 10 million people. In recent years population has been growing at 0.8 percent, while the civilian labor force has grown hardly at all. Per capita income of US\$3,748 in 1988 is low by OECD standards. Only Turkey has a per capita income lower than Portugal among the OECD countries.

#### 4.3.2 Country Risk Analysis

Strong economic performances by Portugal in the past five years and a pragmatic policy of moderate growth through controlled inflation, provide strong indications that Portugal should have the ability to adequately service a long-term debt, well in excess of the US\$55 million envisaged in the proposed Housing Guaranty loan. In fact, after examining Portugal's external debt situation and various debt ratios, and measuring against international norms, the World Bank has concluded in its country report of March 1989 that Portugal is experiencing no difficulties in its ability to pay its debt service obligations from new borrowings if necessary.

In the last four years Portugal has made a remarkable macroeconomic recovery from the severe recession of 1983-85. Structural reforms internally and favorable conditions internationally along with entry to the European Economic Community (EC) in 1986 have helped Portugal improve its economic performance over the past several years. Real GDP growth in 1988 at 4.5 percent, though down from 1987, was led by real growth in investment at 13 percent. Transportation, heavy machinery and metallurgic industries along with the construction sector have been particularly dynamic. Buoyant growth has stimulated imports and eliminated the balance of payments surplus achieved in 1987, but net EC transfers of approximately US\$750 million helped keep the current account deficit to about US\$650 million in 1988.

Net repayments, largely of short-term debt, and the effects of currency fluctuations helped Portugal reduce foreign debt by US\$1.2 billion to US\$17.3 billion in 1988. About 40 percent of the debt is dollar denominated; about 14.5 percent of the debt is short-term. Net foreign reserves at year end were US\$13.1 billion. The GOP is not currently operating under any restrictions and no debt rescheduling is anticipated. All Housing Guaranty and U.S. Government loans are current and dollar repayments have been received without any significant delinquencies.

Inflation was brought down from 30 percent in 1985 to 9.5 percent in 1988, though it has begun to rise again (to about 13.4 percent at mid-year) as it has in the rest of the EC; unemployment decreased to 6 percent in 1988; the Government's budget deficit although still high at about 9 percent of GDP, has dropped from 20 percent in 1984.

The Government's economic policies aim at moderate growth and control of inflation with promotion of investment and exports while controlling consumption. Privatization, liberalization of banking, tax and other reforms are all moving ahead, but long term sustained growth and reform will be needed before Portugal overcomes its position as the poorest member of the EC.

The financial system in Portugal has undergone rapid change. The setting of interest rates has been liberalized, and interest rates have steadily fallen in the past few years in nominal terms, while time deposits now earn real rates of return. New banks have opened, and the stock market along with a huge array of new financial instruments have recorded spectacular growth. The markets have recovered after suffering a serious setback in October 1987, and are expected to become a major locus for raising capital for Portuguese development.

In sum, the HG loan will be in U.S. dollars, at a favorable interest rate compared to other options. The amount of the loan is not likely to have profound impact on Portugal's total debt (US\$11.5 billion in 1987). This project is expected to have an impact of less than half a percent on total debt service. Also, the last few years have seen a reduction of more than 20 percent in total external debt (from US\$14.8 billion to US\$11.5 billion). Similar changes are observed in the debt service ratio.

#### 4.3.3 Financial Considerations

The housing finance system in Portugal consists of four components: a general credit system for any homebuyers, or developers; a subsidized credit system for low-income homebuyers; subsidized credit for young homebuyers; and financial assistance to municipalities, cooperatives, and private developers of low-cost housing.

Housing finance is essentially guaranteed by a public institution (INH), and three specialized lending institutions. Since 1986, commercial banks have also been authorized to make housing loans. Total housing sector lending in 1988 is estimated to be US\$1.2 billion, representing 4.3 percent of total credit. GOP targets for the period 1988-1991 are about 245,000 homes (amounting to approximately US\$7 billion); 195,000 for the general public and 50,000 for low income families. If achieved, low-cost housing would rise from less than 10 percent to more than 20 percent of total loans.

The Housing Guaranty loan will provide US\$55 million to the INH to be used as capital for financing short term loans to local developers for housing construction and longer term as well as short term loans for upgrading, land development, infrastructure, and community facilities. The amount will represent about eight percent of INH's estimated disbursement or about six percent of total credit disbursement on those activities.

The INH received an initial capitalization valued at US\$16.1 million, in the form of assets transferred from the liquidated FFH, and subsequently received government budget allocations in each year from 1984-87. At the end of 1987, the INH had US\$61.2 million in capital. The GOP ceased allocating budget funds to support the INH in anticipation of its arrangements for its own financing in the capital market. The INH also inherited a loan negotiated by its predecessor with the National Westminster Bank and valued at US\$25 million. Finally, the European Resettlement Council had made funds available to the Treasury for on-lending to the housing sector. The INH has borrowed 3.7 million contos (US\$25 million), and is in the process of borrowing another 2.9 million contos (US\$20 million) from the fund.

Currently, INH has US\$177 million in capital and long-term debt, a base that should provide sufficient operating flexibility. The average cost of the long term debt as of December 1988 is estimated to be at the rate of 10.9 percent per year. Interest earnings from mortgage loans and investments of US\$154.5 million in 1988 amounted to US\$17.5 million, representing a rate of 11.3 percent per year. INH also has a healthy equity debt ratio of 1:3. In 1988, 23 percent of its gross income came from current assets, reflecting the very liquid condition of the INH.

#### 4.3.4 Economic Considerations

A direct economic benefit from the Program will be stimulation to the construction sector and related services. The construction sector itself plays an important part in the Portuguese economy, representing about 7 percent of GDP and employing about 10 percent of the labor force. Nearly all construction materials are produced in Portugal and a large number of small businesses which produce materials and equipment depend on the sector for survival. Employment in these related industries is traditionally estimated at 15 percent of the labor force.

About 30,000 low cost housing units will be constructed during the three year period of the Program and sold to families in urban areas. The Program will also support investments in infrastructure, community facilities, and home and neighborhood improvements.

Perhaps more importantly, the Program Agenda supports structural changes in the sector that would improve economic efficiency as well as output. Channeling resources to local developers helps get the State out of the business and increases market orientation of the sector; focus on low income families will help control costs; investments in home and neighborhood improvements will help maintain existing stock and reduce needs for replacement; investments in land and infrastructure will help reduce inefficiencies of uncontrolled and clandestine urban growth.

The Program will directly support GOP economic policy in three areas: distribution of credit, interest rate subsidies, and privatization.

##### 1. distribution of credit

A principal economic goal of the government has been to reduce inflation from its high of over 30 percent in 1984 to levels compatible with other EC economies. A principal tool that helped bring inflation to under 10 percent in 1988 has been management of credit supplies through ceilings imposed on all banks, public and private, set on the basis of assets. Up until 1988, low income housing loans had been exempt. In 1988, construction and mortgage lending, including those supported by the Program, were brought into the regulations.

In 1988, credit for housing represented only 4.3 percent of total credit available. The Program Agenda includes support to help improve analysis of market supply and demand in the sector and analysis of trends in housing finance and capital markets with assessment of options for capital mobilization and broader based loan origination through private banks.

The Program Agenda also supports the government's Low Cost Housing Development Plan 1988-1991 which would increase the share of credit allocated for low income families by the Caixa Geral de Depositos from within its credit ceilings. Mortgage lending on units constructed with INH financing have already increased from under 16 million contos (US\$97 million) in all of 1988 to over 2 million contos (US\$12 million) per month by mid 1989 without exceeding overall ceilings.

If planned targets are achieved, the share of available credit reaching low income families would increase from under 10 percent of all housing credit in 1988 to over 20 percent by 1992.

## 2. interest rates

Market rates at around 20 percent provide a substantial net positive interest rate to financial institutions. With inflation under 10 percent at the end of 1988, banking institutions received a spread of ten points and sometimes more. Economic policies restricting credit are expected to keep interest rates high into the near future.

## 3. government transfers

High interest rates put great pressure on the ability of lower income families to have access to decent shelter. As in other priority sectors, the Government of Portugal has budgeted resources to supplement the ability of low income families to pay for their shelter units. These government allocations are calculated in relation to the financing costs paid by the lowest income families and have the equivalent effect of reducing the amount of interest paid by lower income families by 3 to 10 percent. These transfers provide relief to the lowest income families while permitting positive interest rates in the sector and assuring the viability of shelter finance institutions.

The policy of the government is to continue to reduce these allocations as much as is permitted by the decline in the rate of inflation and the consequent decline in the market rates of interest. Moreover, these allocations on shelter loans now phase out over the first 4 to 8 years of the loan and are further reduced with increases in income which families now have to report annually. Limiting the allocation outlays even further and increasing the focus of this direct assistance to the lowest income families will be an important element in the policy agenda.

With the GOP out of direct production and the INH fully capitalized, budgetary outlays for both capital and subsidies related to shelter finance have been reduced to a manageable 0.9 percent of the national budget.

## 4. privatization

The past several governments have promoted private sector development, and in 1989 the Parliament successfully passed a Constitutional amendment permitting divestiture of companies that had been nationalized and, since 1974, have been wholly owned by the State. Even before the amendment was passed, minority ownership of two of those were put on the market, and sales were over-subscribed. Though privatization of public enterprises in Portugal will necessarily proceed gradually, further offerings to the public are being scheduled in many key industries even including, for example, petroleum and banking.

This policy of increasing market orientation has been carried over to housing. Over the past five years the government has accomplished a major shift from a parastatal structure based on public sector construction, ownership and management of low income rental housing to an incentive system that encourages private sector development of affordable homes built for sale.

The Fundo de Fomento de Habitacao (FFH), a classic parastatal public housing authority, has now been completely liquidated. In its place, the government has established two agencies. One, the Instituto do Gestao e Alienacao do Patrimonio Habitacional do Estado (IGAPHE) is responsible for management and divestiture of rental apartments and land that had been built and owned by the FFH. While this will take time, already some land has been sold to housing cooperatives and private developers and rental properties are being prepared for sale to tenants.

The other agency, the INH, is responsible for management of public initiatives and resources channeled on favorable terms (see discussion above) to stimulate local authorities, housing cooperatives and private developers and encourage them to target low income families. The INH is demonstrating that developers can build and market low cost housing. Their success, with A.I.D.'s assistance, has allowed the government to get out of the housing business and focus on new initiatives, (supported by the proposed Program) that encourage investment in existing neighborhoods and low income housing stock.

#### 4.4 Environmental Considerations

Although A.I.D. will not be involved in the approval of individual projects, and the Initial Environmental Examination concluded with a categorical exclusion, the program provides the opportunity for A.I.D. to support the environmental components in the Master Plans prepared by local governments. Local governments are under increasing pressure from the GOP to upgrade local land use planning. Since 1987, the GOP has included provisions in laws and regulations that will deny funding of social facilities to municipalities that do not have approved Master Plans by 1992.

The GOP has been revising legislation governing regional plans for land use, subdivisions, and municipal permits in order to protect the natural resources and to ensure a balanced development. Environmental concerns are included in Master Plans reviewed by the Regional Coordinating Commissions, within the Ministry of Planning and Land Use Management.

Prior to approval by INH of a loan for land acquisition, infrastructure or construction, the developer must show municipal approval in accordance with an approved Master Plan. If a Municipal Master Plan has not yet been approved, the subdivision plan accompanied by an environmental impact statement must also be approved by the Regional Coordinating Commission.

Projects financed by the INH are reviewed by its Office of Research and Project Analysis according to a matrix of design criteria that include environmental components in site selection, site preparation, potable water, drainage, and waste disposal.

Funding from the Technical Consultant and Training Grant may be made available to provide assistance to the local governments and to INH in identification and promotion of alternative concepts for improved community planning and environmental soundness of developments financed by the INH. In that context, broader concerns may be addressed:

- The character of the land may be changed in preparation for construction. This will, of course, foreclose other uses. Applying sound site selection criteria, however, will assure that other land uses as important as low-cost housing will be considered.
- Population is increasing rapidly in many developing areas and increasing pressure on all systems. Sound project planning offers opportunities to assure that green space and community facilities are incorporated at the neighborhood level and that water, sewers and other infrastructure will meet current and future demand.

- Employment patterns may change as a result of improved housing in a serviced neighborhood. Comprehensive planning of new communities can offer opportunities for new businesses and economic development with less disturbance than uncontrolled growth.

#### 4.5 Social Soundness

According to the 1981 census, Portugal has a population of almost 10 million people, representing about 3 million households. Compared to the 1970 census, resident population and households increased by 15.6 percent and 26 percent, respectively. In 1981, Portugal's urban population was approximately 3.3 million, or about one-third of the total population.

In 1981, the housing stock totalled about 3.5 million units, including shanties and clandestine units. An estimated 100,000 families still live in shantytowns, and another 300,000 in clandestine units, lacking basic services. The aging of the housing stock in Portugal is also a major concern. More than 40 percent of the standard family dwelling units were built before 1945.

Based on a survey of the current shortage of units, the needs of a growing population and rehabilitation of obsolete units, housing construction requirements for the decade of 1981-1990, were estimated at about 70,000 annually. In contrast, during the period 1981-1986, an average of 40,000 units were constructed annually. This represents a shortfall of about 30,000 units every year.

With the help of the HG loan, INH lending for construction will enable at least 10,000 low income families a year (or more than 30,000 during 1989-91) to buy affordable new homes. These beneficiaries may be new families which were formed over the project period; families that are currently living in overcrowded conditions; and families which are able to move from the informal to the formal housing sector. Furthermore, pilot infrastructure and improvement projects undertaken with INH financing might initially benefit some 2,000 or more families, and success of those programs could ultimately benefit many of the 300,000 families now living in clandestine and deteriorated urban neighborhoods.

Housing cooperatives, currently the dominant developers of low income housing, have been an effective vehicle for direct participation of beneficiaries in the housing planning and production process. Moreover, the ongoing involvement that they provide has resulted in better care and maintenance of those communities which usually include neighborhood centers, shops, cafes, playgrounds, and often day care or even primary school facilities.

The INH has successfully encouraged collaboration among municipal governments, housing cooperatives, and private builders in the production of low cost housing. Those public/private partnerships will be particularly important in the land, infrastructure and improvement programs that will be increasingly financed by INH.

The median price for new housing in the Lisbon or Oporto regions in 1988 was about US\$53,000, while the median family income in urban areas was less than US\$700 per month. A median income family, therefore, cannot afford a median priced house. The current project, by containing costs and providing assistance to buyers, enables the low income families to purchase their dwellings.

Rents in Lisbon and Oporto have been frozen since 1945. As a result, new rental unit construction declined from 50 percent of all new production in 1970 to less than 3 percent in 1985, and lack of maintenance has led to serious decay of existing stock. In 1986, legislation was revised permitting rents to gradually rise and allowing new rentals to be contracted on an uncontrolled basis. Most older rental units, however, are starting at such a low base that even with gradual increases it will be years before the rent begins to approach market levels.

IGAPHE programs are, nevertheless, designed to encourage rental property owners to invest in improvements and repairs and in some areas this is already beginning to occur as investors start to look to future values of their assets. Successful divestiture by IGAPHE of rental property owned by the State will take time and will depend on careful pricing as well as gradually rising rents. Even so, many tenants will prefer not to buy and IGAPHE is exploring management options including conversion to cooperative ownership.

Most homes are purchased by married couples. Under Portuguese law, unless otherwise agreed in marital contracts, all property is divided 50 percent to the surviving spouse and 50 percent to children. Mortgages are co-signed by both spouses.

Credit institutions do not discriminate against single women or female heads of households in their lending policies or practices. Women are legally free and in practice do own and rent their own homes. However, as in many countries, lower average incomes of women compared to men may keep needed housing out of their reach.

Women are active leaders in many of the housing cooperatives. Cooperatives are the principal developers of the majority of low cost housing projects financed by the INH. Many of those cooperatives include nursery or child-care facilities in their projects that enable women who are members to work.

By increasing the share of credit that is directed to financing of low cost housing, the Program will significantly improve access of low income women to affordable housing.

USAID/Portugal will seek assistance of A.I.D.'s Office on Women in Development in the design of the first year evaluation and information systems to help track performance.

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SUBJECT: PID REVIEW: LOW INCOME HOUSING IV PROJECT  
(150-0001), PORTUGAL

1. SUMMARY. PRC MET ON JUNE 15 AND APPROVED THE PID SUBJECT TO THE GUIDANCE AND COMMENTS AS PRESENTED IN THIS CABLE. IT WAS AGREED THAT THE PP WILL BE REVIEWED IN AID/W.

2. THE PRC MET JUNE 15, 1989 TO REVIEW THE LOW INCOME HOUSING IV PID. MEETING WAS CHAIRED BY ANE/PD DIRECTOR, BRUCE ODELL. DAVID LEIBSON, AIDREP/LISBON, PRESENTED THE PID. AID/W OFFICES REPRESENTED WERE ANE/PD/ME, PRE/H, PRE/GC, AND ANE/EE. ISSUES WERE DISCUSSED AND DECIDED AS FOLLOWS:

3. PID REVIEWERS EXPRESSED SOME DIFFICULTY IN DEFINING PROJECT OBJECTIVES AND THEIR RELATIONSHIP TO INPUTS, CONDITIONALITY, INSTITUTIONS, ETC. IT WAS CONCLUDED, HOWEVER, THAT DIFFICULTIES STEMMED MOSTLY FROM PID PRESENTATION, WHICH ASSUMED A CLOSE FAMILIARITY WITH THE OPERATION AND EVOLUTION OF THE AID-FINANCED HOUSING

PROGRAM IN PORTUGAL. THE PRC RECOMMENDED THAT THE PP PROVIDE ADDITIONAL BACKGROUND AND A MORE COMPREHENSIVE APPROACH ALONG THE LINES TAKEN BY LEIBSON IN PRESENTING THE PROJECT TO THE PRC. PP SHOULD ALSO INCLUDE MORE ~~DISCUSSION OF THE PROBLEMS/CONSTRAINTS~~ TO LOW INCOME HOUSING AVAILABILITY, AND ACCESS BY THE TARGET GROUP AND IDENTIFY WHICH OF PROBLEMS AID WILL ADDRESS GIVEN ITS PRIORITIES. PP SHOULD SET FORTH THE TOTAL RESOURCES AVAILABLE TO FUND OR SUPPORT THE PROPOSED PROJECT, I.E., HG, ESP, PROJECT (150-0001), AND HOW OTHER PROBLEMS/CONSTRAINTS MAY BE MET, E.G., BY GOP AND/OR OTHER DONORS.

4. HG INPUTS, THEIR RELATIONSHIPS WITH THE PROBLEMS TO BE ADDRESSED, AND PROGRAM OBJECTIVES -- MR. LEIBSON DESCRIBED THE PROGRAM AS A POLICY-ORIENTED HG, "OPERATING ON TWO TRACKS." THE PP WILL DESCRIBE THE FIRST "TRACK," LOCAL CURRENCY INVESTMENTS IN SHELTER AFFORDABLE FOR BELOW MEDIAN INCOME FAMILIES, AND THE SECOND "TRACK," THE POLICY AND ADMINISTRATIVE

IMPROVEMENTS IN THE SHELTER SECTOR EXPECTED AS A RESULT OF THE PROGRAM INPUTS.

HG (DOLS 55 MILLION) DISBURSEMENTS AND TECHNICAL ASSISTANCE WILL SUPPORT POLICY DIALOGUE DIRECTED AT SUCH OBJECTIVES AS IMPROVING THE ALLOCATION BY MORTGAGE BANKS (PRIMARILY STATE-CONTROLLED) OF FINANCING FOR LOWER INCOME BUYERS; FACILITATING REHABILITATION OF PUBLIC AND PRIVATE RENTAL STOCK, AND DIVESTITURE OF PUBLICLY OWNED RENTAL STOCK; AND BROADENING LINES OF CREDIT AVAILABLE TO LOCAL DEVELOPERS FOR INVESTMENT IN LOW COST HOUSING, LAND AND INFRASTRUCTURE.

5. TECHNICAL ADVISORY SERVICES AND PLANNING AND ANALYTICAL STUDIES IN SUPPORT OF POLICY/ADMINISTRATIVE CHANGE WOULD BE FUNDED PRIMARILY FROM THE FY 1990 ESF ASSISTANCE PROGRAMMED FOR PORTUGAL (DOLS. 500,000). SOME DOLS. 100,000 WILL ALSO BE AVAILABLE FOR PROJECT DESIGN, AND FOR TA FROM THE EXISTING TECHNICAL ASSISTANCE AND TRAINING PROJECT (150-3001).

6. CONDITIONALITY -- PRC AGREED THAT APPROPRIATE CONDITIONALITY UNDER THE HG AGREEMENT SHOULD BE REFLECTED IN BOTH THE ELIGIBLE ITEMS FOR FINANCING (E.G., MORTGAGES) AND GOP PERFORMANCE IN THE POLICY AREA. IN THE CASE OF THE FINANCING OF LOCAL CURRENCY INVESTMENTS, THIS WILL INVOLVE TRADITIONAL A.I.D. "CONDITIONS PRECEDENT" (CPS) TYPE CONDITIONALITY TO

DETERMINE ELIGIBLE USES OF THE HG DISBURSEMENTS. IN THE CASE OF THE POLICY COMPONENTS OF THE PROJECT, COVENANTS (I.E. PORTUGAL GOVERNMENTS UNDERTAKING AND THE PACE AND DIRECTION OF THE REFORM AGENDA) WOULD BE USED AS OPPOSED TO CP'S TO DISBURSEMENT. AUTHORIZATION OF THE SECOND AND THIRD TRANCHES OF THE HG AUTHORITY WOULD DEPEND (A) UPON ADEQUATE PROGRESS IN ADDRESSING THE POLICY/ADMINISTRATIVE AGENDA, AND (B) UPON AGREEMENT ON A WORKPLAN IN THESE AREAS FOR EACH SUBSEQUENT YEAR. AID REP LEIBSON POINTED OUT THAT THE ADVANTAGE OF THIS APPROACH IS TWO-FOLD - IT IS MORE ACCEPTABLE TO THE PORTUGUESE WHO REPRESENT A RELATIVELY DEVELOPED AND RESPONSIVE SOCIETY, AND IT WOULD ALLOW AID TO VARY ITS AGENDA ACCORDING TO SHIFTING PRIORITIES AND TARGETS OF OPPORTUNITY.

THE PRC AGREED THAT THE PP NEEDED TO FIRM UP AND PRIORITIZE THE POLICY AGENDA, AT LEAST FOR THE FIRST YEAR OF THE PROJECT. THE PREFERRED APPROACH WOULD BE TO DEFINE THE "CORE" CONDITIONALITY, OR "MUST HAVE" ITEMS, REQUIRED TO PROCEED AS WELL AS A NUMBER OF OPTIONAL POLICY REFORM AREAS IN WHICH A GENERAL PATTERN OF

PROGRESS COULD BE EXPECTED BUT NOT NECESSARILY MANDATED IN ALL CASES. SUBMISSION OF SUBSEQUENT YEAR WORKPLANS WOULD PRESENT AN OPPORTUNITY TO UPDATE THE AGENDA AND REPORT ON PROGRESS AS PART OF THE AID REVIEW PROCESS. BENCHMARKS NEED TO BE ESTABLISHED AS A BASIS BOTH FOR AGREEING UPON AN OPERATIONAL AGENDA WITH THE PORTUGUESE, AND FOR DISCUSSING PROGRESS.

7. STRUCTURE OF PROJECT AGREEMENT(S) -- PRC AND AIDREP AGREED THAT THE ESF FUNDING FOR TA SHOULD BE AUTHORIZED AND OBLIGATED AT THE SAME TIME AS THE HG AND AS PART OF THIS PROJECT RATHER THAN IT BEING OBLIGATED UNDER PROJECT 150-0001. THIS WOULD PRESENT THE PROJECT IN ITS TOTALITY, AND WOULD ASSURE THE GOP IS COMMITTED TO FUNDING THE TOTAL PACKAGE -- HOUSING FINANCE AND EFFORTS TO ADVANCE THE POLICY AGENDA. IT WAS ALSO AGREED THAT WHILE A SINGLE AGREEMENT FOR BOTH THE HG AND THE ESF APPEARED DESIRABLE AND POSSIBLE, GC/PRE WOULD WORK WITH THE FIELD AND PD TO DETERMINE HOW THE AGREEMENT OR AGREEMENTS WOULD BE PREPARED.

8. PRIVATE VERSUS PUBLIC SECTOR -- PRC EXPRESSED SOME CONCERN OVER ASSISTANCE TO STATE ENTERPRISE, INH, AS OPPOSED TO A PRIVATE ENTERPRISE. AIDREP LEIBSON INDICATED THAT THE INH IS A GOVERNMENT ENTITY, BUT OPERATES ALONG COMMERCIAL LINES WITHOUT GOP BUDGET

ALLOCATIONS. AIDREP EXPLAINED IT WAS SET UP RELATIVELY RECENTLY, AS A TRANSITIONAL ORGANIZATION, WITH THE PURPOSE OF INCREASING FINANCING TO THE PRIVATE SECTOR IN ORDER TO CLOSE OUT GOP CONSTRUCTION AND MANAGEMENT OF HOUSING.

THE PP SHOULD DESCRIBE THE ORGANIZATIONAL MAKE-UP AND OPERATIONS OF THE INH, AND STATE HOW AID WILL PROMOTE PRIVATIZATION OF ITS FUNCTIONS. MR. LEIBSON NOTED THAT AID'S FOCUS WILL BE ON GETTING INH TO DEVELOP A STRATEGY FOR MOVING, OVER A PERIOD OF YEARS, AWAY FROM ITS CURRENT ROLE AS A FINANCING INSTITUTION AND TOWARDS A LESS INTRUSIVE ROLE AS A REGULATORY AGENCY AND FUND-RAISING AGENCY.

9. TARGET GROUP, INCLUDING WOMEN AS BENEFICIARIES - THE PRC AGREED THAT THE PP SHOULD PROVIDE MORE INFORMATION ON THE SOCIAL AND ECONOMIC CHARACTERISTICS OF THE TARGET GROUP, AND HOW THE PROJECT WOULD REACH INTENDED BENEFICIARIES. LEIBSON NOTED THAT THE HOUSING CONSTRUCTED WITH THE PRIOR HG FINANCING HAS BEEN SOLD AT HALF OF THE MEDIAN PRICE IN PORTUGAL. WITH RESPECT TO WOMEN AS BENEFICIARIES, THE PID NOTED THAT THERE WERE NO LEGAL IMPEDIMENTS TO WOMEN PURCHASING HOMES. HOWEVER, THE QUESTION WAS RAISED WHETHER WOMEN HEADS OF HOUSEHOLDS HAD THE INCOME TO MAKE SUCH PURCHASES? LEIBSON POINTED OUT THAT THE SCOPE OF THE PROJECT COULD NOT IMPACT ON INCOME. THE PRC URGED THAT SOME INVESTIGATION BE UNDERTAKEN PRIOR TO, OR IN THE COURSE OF, THE PROJECT TO ADDRESS THE QUESTIONS OF WOMEN'S

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ACCESS TO HOME OWNERSHIP AND WHETHER THERE IS AN OPPORTUNITY TO PROMOTE THIS VIA THE PROJECT. FYI: PPC/WID HAS MATCHING FUNDS WHICH COULD BE AVAILABLE FOR THIS TYPE OF EFFORT.

10. SUBSIDIES — AID REP NOTED THAT THE GOP, WITH THE ASSISTANCE OF PRIOR HGS, HAS MOVED AWAY FROM CONSTRUCTION AND ALLOCATION OF LOW INCOME HOUSING ITSELF, AND HAS DIRECTED THIS FUNCTION TOWARDS THE PRIVATE SECTOR. IN ORDER TO ASSURE THE AVAILABILITY AND ACCESS OF LOW INCOME FAMILIES TO ADEQUATE HOUSING, THE GOP CURRENTLY PROVIDES SOME INCOME TRANSFERS TO THE LOWER INCOME GROUP. THIS IS DONE BY SUBSIDIZING CONSTRUCTION FINANCING THROUGH THE INH SO AS TO MAKE DEVELOPMENT OF LOW INCOME HOUSING ATTRACTIVE TO DEVELOPERS WHO WOULD OTHERWISE FIND MORE PROFIT IN UPSCALE HOUSING (INH OPERATES ON A COMMERCIAL BASIS WITH THE SUBSIDIES PASSED THROUGH FROM THE PORTUGUESE

TREASURY) OR BY SUBSIDIZING MORTGAGE INTEREST RATES TO LOW INCOME PURCHASERS. THERE IS ALSO THE POSSIBILITY OF OUTRIGHT GRANTS TO THE POOREST GROUPS. THE PID INDICATES THAT THE PROJECT WILL ADDRESS POLICY RELATING TO INTEREST RATE SUPPORT AND GRANTS, AND NOTES THE RATIONAL APPROACH THE GOP HAS TAKEN TO DATE MINIMIZE SUBSIDIES. THE PR SHOULD PROVIDE MORE INFORMATION ON THE VARIOUS PROGRAMS BY WHICH THE GOP ACCOMPLISHES INCOME TRANSFERS TO THE LOWER INCOME GROUP TO PROMOTE THEIR ACCESS TO HOUSING, AND WHAT FURTHER PROGRAMS/POLICIES SHOULD BE APPROPRIATELY PURSUED UNDER THE PROJECT TO REDUCE OR ELIMINATE DIRECT SUBSIDIES.

11. ENVIRONMENT -- ANE/PD/ENV CONCURRED IN THE RECOMMENDED ENVIRONMENTAL THRESHOLD DECISION CONTAINED IN SECTION III, H, P. 20 OF THE PID THAT THE PROPOSED PROGRAM IS EXCLUDED FROM FURTHER ENVIRONMENTAL REVIEW UNDER THE PROVISIONS OF AGENCY ENVIRONMENTAL PROCEDURES, 22 CFR 210.2 (C) (1) (II). THEY COMMENDED THE GOP FOR INCLUDING ENVIRONMENTAL CONCERNS IN THE DEVELOPMENT OF

MUNICIPAL MASTER PLANS AND FOR REQUIRING ENVIRONMENTAL IMPACT STATEMENTS FOR LAND ACQUISITION WHERE APPROVED MASTER PLANS ARE LACKING. ANE/PD/ENV WOULD APPRECIATE FURTHER INFORMATION (TO BE PROVIDED OUTSIDE OF THE PP) ABOUT THIS PROCESS AND EXAMPLES FOR POSSIBLE USE WITH OTHER COUNTRIES.

12. EVALUATION -- IT WAS AGREED THAT AN EVALUATION PRIOR TO AUTHORIZING THE FINAL TRANCHE OF THE HG SHOULD BE INCLUDED IN THE PROJECT DESIGN.

13. STAFFING -- PRE AND ANE CONCUR THAT THE DECISION AS TO WHETHER TO RETAIN AN OFFICER IN LISBON TO MANAGE THIS HG PROGRAM, OR TO RELOCATE USDEH STAFF TO THE RHUDO, WILL REST WITH PRE/H. PRE/H CONTINUES TO BE RESPONSIBLE FOR OE BUDGET COSTS OF THIS POSITION.

14. PP AUTHORIZATION - GIVEN THAT LISBON IS A ONE-PERSON AID POST, THE FRC CONCLUDED, WITH AIDRFP CONCURRING, THAT IT WOULD BE MOST APPROPRIATE TO REVIEW AND AUTHORIZE THE PP IN AID/W. BAKER  
BT

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UNCLASSIFIED STATE 233669/03

THE HOUSING GUARANTY PROGRAM

STATUTORY CHECKLIST

NAME OF COUNTRY

PROJECT NO. 150-HG-007

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

A. General Criteria Under HG Statutory Authority.

Section 221(a)

Will the proposed project meet the following criteria.

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

Yes

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

Yes

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

Yes

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

Yes

Section 222(a)

Will the issuance of this guaranty cause the total face amount of guaranties issued and outstanding at this time to be in excess of \$125,000,000?

No

Will the guaranty be issued prior to September 30, 1989?

Yes

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Section 222(b)

Will the proposed guaranty result in activities which emphasize:

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

Yes

---

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

Yes

---

(3) slum upgrading projects designed to conserve and improve existing shelter; or

Yes

---

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

Yes

---

(5) community facilities and services in support of projects authorized under this section to improve the shelter occupied by the poor?

Yes

---

Section 222(c)

If the project requires the use or conservation of energy, was consideration given to the use of solar energy technologies, where economically or technically feasible?

NA

---

Section 223(a)

Will the A.I.D. guaranty fee be in an amount authorized by A.I.D. in accordance with its delegated powers?

Yes

---

Section 223(f)

Is the maximum rate of interest allowable to the eligible U.S. Investor, as prescribed by the Administrator?

Yes

---

- 3 -

Section 223(j)

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

---

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

---

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

---

- (4) Will the issuance of this guaranty cause the face value of guaranties issued with respect to the host country to exceed \$25 million in any fiscal year? No

---

- (5) Will the issuance of this guaranty cause the average face value of all housing guaranties issued in this fiscal year to exceed \$15 million? No

---

Section 238(c)

Will the guaranty agreement provide that will cover only lenders who are "eligible investors" within the meaning of this section of the statute at the time the guaranty is issued? Yes

---

B. Criteria Under General Foreign Assistance Act Authority.

Section 620/620A

- (a) Does the host country meet the general criteria for country eligibility under the Foreign Assistance Act as set forth in the country eligibility checklist prepared at the beginning of each year? Yes

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

No

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3M(2) - PROJECT CHECKLIST

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

PORUGAL LOW INCOME HOUSING PROGRAM IV:  
Technical Consultants and Training Project

Project No. 150-0026

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

Yes to both questions

A. GENERAL CRITERIA FOR PROJECT

1. FY 1988 Continuing Resolution Sec. 523; FAA Sec. 634A. If money is sought to obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified?

Project will be financed with FY 1990 ESF.  
Congress will be properly notified prior to obligation.

2. FAA Sec. 611(a)(1). Prior to an obligation in excess of \$500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance, and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

Yes (a), (b)

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

No legislative action is required.

4. FAA Sec. 611(b); FY 1988 Continuing Resolution Sec. 501. If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.)

N/A

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

N/A

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

No

7. FAA Sec. 601(a). Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

(a), (d), (f): Project will have no impact.

(b) Project will support Government policies that shift production of low income housing from public sector agencies to private developers and increase credit available to them.

(c) Project will encourage development of housing cooperatives. Assistance will be provided in the implementation of projects developed by coops and the conversion of public rental housing to cooperative ownership.

(e) Project will improve efficiency of the construction industry by helping developers acquire land and in turn better program their investments thus reducing inefficiencies in scheduling of labor, capital and equipment.

8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Approximately \$500,000 of the proposed \$600,000 will finance services by U.S. experts and training at U.S. institutions.

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

Implementing institutions will be providing consultant support, international air fare for participants in training programs, and facilities for local seminars.

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

No

11. FY 1988 Continuing Resolution Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

N/A

12. FY 1988 Continuing Resolution Sec. 553. Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

No

13. FAA Sec. 119(g)(4)-(6). Will the assistance (a) support training and education efforts which improve the capacity of recipient countries to prevent loss of biological diversity; (b) be provided under a long-term agreement in which the recipient country agrees to protect ecosystems or other wildlife habitats; (c) support efforts to identify and survey ecosystems in recipient countries worthy of protection; or (d) by any direct or indirect means significantly degrade national parks or similar protected areas or introduce exotic plants or animals into such areas?

No (a), (b), (c), (d)

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

N/A

15. FY 1988 Continuing Resolution. If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

N/A

16. FY Continuing Resolution Sec. 541. If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

N/A

17. FY 1988 Continuing Resolution Sec. 514. If funds are being obligated under an appropriation account to which they were not appropriated, has prior approval of the Appropriations Committees of Congress been obtained?

N/A

18. FY Continuing Resolution Sec. 515. If deob/reob authority is sought to be exercised in the provision of assistance, are the funds being obligated for the same general purpose, and for countries within the same general region as originally obligated, and have the Appropriations Committees of both Houses of Congress been properly notified?

N/A

19. State Authorization Sec. 139 (as interpreted by conference report). Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

The Technical Consultants and Training Grant Agreement will not be subject to Case-Zablocki requirements as funding will be limited to \$600,000.

#### FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

N/A

2. Development Assistance Project Criteria (Loans Only)

N/A

3. Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

Yes, to both parts.

b. FAA Sec. 531(e). Will this assistance be used for military or paramilitary purposes?

No

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

N/A

LOGICAL FRAMEWORK  
PORTUGAL LOW INCOME HOUSING PROGRAM IV  
150-HG-007 and 150-0026

Life of Program: 3 years; Inputs: \$55 million Housing Guaranty Loans; \$600,000 Technical Consultant and Training Grant

**NARRATIVE SUMMARY**

Program Goal

To improve the housing and neighborhood conditions of low income families

Project Purposes

Promote improvement of living conditions in existing homes and low income neighborhoods.

Promote increased production by local developers of new housing affordable for ownership by low income families.

Promote increased supply of land and services suitable for low cost housing.

Project Outputs

Strengthened existing programs and operational new programs that address obstacles to the provision of shelter and urban services to the target group by providing credit for construction financing to housing developers; mortgage loans to home purchasers; home improvement loans to property owners; loans for purchase of land and provision of infrastructure to housing developers; and improvements to infrastructure and community facilities.

**OBJECTIVELY VERIFIABLE INDICATOR**

Indicators of Goal Achievement

Increase in ownership of low cost housing units and improvement of infrastructure in clandestine and deteriorating neighborhoods.

End of Project Status

Institution of new programs, and studies conducted; disbursement of target amount of loan and grants for rehabilitation of rental stock and development of infrastructure.

Disbursement of target amount of mortgage and construction loan to target population and local developers.

Sale of land by IGAPHE to cooperatives and private developers; disbursement of loans by INH and SCIs to local developers of low cost housing to purchase land and provide infrastructure and community facilities.

Magnitude of Outputs

Loans of \$500 million authorized by INH

Loans of \$130 million authorized by INH

Mortgages amounting to \$450 million approved and contracted by SCIs for low cost homes

Sale of land to accommodate 20,000 low-cost housing units

\$600,000 technical consultants and training programs

**MEANS OF VERIFICATION**

Goals of Verification

Records of the INH, SCIs and IGAPHE.

Records of INH including annual reviews and project reporting; records of IGAPHE and CGD.

Records of INH including annual reviews and project reporting. Records of SCIs

Records of INH, SCIs, and IGAPHE

Records of INH including annual reviews and project reporting

Records of INH including annual reviews and project reporting

Records of SCI and other banks providing mortgage for low cost housing

Records of IGAPHE

Records of USAID/Lisbon

**ASSUMPTIONS**

Assumptions for Achieving Goal

Continued political support for low-income housing and continued controlled growth of the economy.

Continued stability and growth of the economy.

Allocation by SCIs of adequate share of mortgage credit available within current ceilings.

Continued financial soundness of INH

Continued financial soundness of INH

Allocation of SCI of adequate share of mortgage credit available within current ceilings

Continued political support for low-income housing

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LOGICAL FRAMEWORK  
 PORTUGAL LOW INCOME HOUSING IV  
 150-HG-007 and 150-0026

(continued)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATOR	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Divestiture of government owned land for the construction of new low cost housing, and the divestiture of government owned and managed rental property for ownership by low income families and cooperatives.</p>			
<p>Shelter services valued at the equivalent of US\$55 million and affordable to below median income households. This Output is the escudo expenditure for shelter services represented under the pre-qualified GOP programs. These expenditures will be for home ownership, land and infrastructure improvements, improvements to rental and owned properties, and neighborhood improvements.</p>			
<u>Project Inputs</u>	<u>Implementation Target</u>		
Program Agenda	Negotiated and Agreed Agenda	Regular meetings; annual evaluation	Political support for low income housing
Housing Guarantee Loans	US \$25 million in 1990 US \$15 million in 1991 US \$15 million in 1992	Records of AID	Housing Guaranty loans authorized in 1990, 1991, and 1992.
AID Grant expenditures	US \$600,000 1990-1992 US \$150,000	Records of AID	
<ul style="list-style-type: none"> <li>• Technical consultants</li> <li>• PSC</li> <li>• Annual reviews/evaluation</li> <li>• Short-term training</li> <li>• Long-term training</li> <li>• Institutional linkages</li> </ul>	<ul style="list-style-type: none"> <li>US \$85,000</li> <li>US \$120,000</li> <li>US \$90,000</li> <li>US \$80,000</li> <li>US \$75,000</li> </ul>		ESF authorization FY 1990, 1991

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## INSTITUTIONAL RESPONSIBILITIES

### 1. Secretariat of State for Construction and Housing

The Secretariat of State for Construction and Housing is under the Ministry of Public Works, Transport and Communication. This Secretariat is responsible for preparation of government shelter policies, application of policies approved by GOP, and sponsorship of INH and IGAPHE. It works in close collaboration with the Secretariat of State for Local Administration and Land Use Planning on land use issues.

The Low Cost Housing Development Program (PDH) is prepared by this Secretariat with active participation of the INH which is responsible for the annual update.

The PDH calls for the following:

- a) Consolidation of legislation relative to the Low Income Housing Program in one single law;
- b) Readjustment of the cooperative laws particularly the housing component with a view to reinforcing a sense of community in the context of competitive business management;
- c) Revision of the legal framework for Housing Development Contracts (Contratos de Desenvolvimento de Habitacao - CDHs) with a view to stimulating participation of private enterprise;
- d) As a follow up to the law on Regional Development Plans, revision of laws related to Municipal Master Plans and the laws on land and expropriations in order to permit rapid regional development and the strengthening of land supply;
- e) Revision of the permit system for private works in order to simplify administrative procedures; and
- f) Application of regulations by which the permit holder for construction and public works projects is recognized, in fact, as financially and technically responsible.

In this context, reinforcement of technical and administrative assistance to local authorities, private developers, and cooperatives from the INH, IGAPHE, the National Engineering Laboratory (LNEC), the Directorate of Land Use Planning, and the Directorate of Local Administration (DGAA) assumes particular importance.

It is planned that one percent of the annual profits of the INH and two percent of the public investment of the IGAPHE will be channeled to actions which aim not only at applied operational research with respect to projects and urban integration, to the technical aspects of the construction process, and to the standardization of construction materials and components, but to formation of new cooperatives and participation of a greater number of municipalities and private enterprises as well.

The LNEC will have a more active role along with the INH in the technical analysis of projects and the readjustment of the Technical Recommendations for Low Income Housing (Recomendacoes Tecnicas de Habitacao Social - RTHS) in order to gradually and progressively improve the quality/cost ratio of construction.

Assistance in the preparation of Municipal Master Plans (PDM) assumes strategic importance in that they are an important instrument in urban development whose linkages with the PDH will contribute to overcoming the housing needs of the most disadvantaged.

Training for technicians, agents and the institutions involved, and promotion and public information about the Low Income Housing Program as an alternative that offers quality at compatible prices will be permanent activities to be developed throughout the period of the PDH and throughout the country by way of exhibitions, conferences and meetings.

## 2. Secretariat of State for Local Administration and Land Use Planning

This Secretariat of State is under the Ministry of Planning and Land Use Management. This Secretariat of State is also responsible for application of the new policy of decentralization of authority for land use control, and the accompanying program of technical support for improved regional and local land development planning. This is important for low cost housing since the availability of land suitable for development at reasonable prices is one of the greatest constraints in the development of housing policy.

Under the Ministry of Planning and Land Use Management, there are five regional coordinating commissions (CCR), established as the operating arms of the new planning process since local governments do not have the technical staff capacity to meet the national demands for local plan preparation.

## 3. Secretariat of State for Treasury

The INH is under the joint supervision of the Secretaries of State for Treasury and Housing, the Treasury being responsible for the financial aspects of INH activity, specifically the approval of the requests for HG disbursements and concurrence of the selected U.S. investor. The policy and institutional framework to achieve program purposes will be the responsibility of both the Secretary of State for Construction and Housing, and the Secretary of State for Treasury, who will co-sign the Program Agreement with A.I.D. As in the current program, loans will be disbursed to a Treasury account and Treasury will transfer the Portuguese escudos to INH.

In the context of national finance policies, the Secretary of State for Treasury is considering the viability of creating mortgage-backed securities. This would be a new security in the financial market and since the INH and the CGD are relatively liquid, such an instrument requires considerable study to determine its impact on the financial sector, the effect on the Caixa Geral de Depositos, and its potential to affect the production of low cost housing. This is an appropriate subject of A.I.D. technical assistance to the Secretariat of State for Treasury.

4. The National Housing Institute - The Instituto Nacional de Habitacao

Established in 1984, the INH carries out the planning and programming function relative to the GOP Low Cost Housing Development Program and provides technical assistance to local developers in developing and implementing this program. It formulates policy and drafts legislation pertaining to housing, and provides financing for the GOP housing programs.

Since its creation in 1984 through 1988, the INH has provided credit for the construction of 23,181 low cost units in the amount of 62.8 million contos (US\$380 million).

Three categories of developers have participated in the INH programs, the largest being the cooperatives. INH disbursements on each of the programs have increased from the program start in 1984 to 1988. However, in the last three years disbursements on municipalities and private developer programs have shown almost a five fold increase, whereas cooperatives have achieved a 20 percent increase.

The structure of INH sources of finance have evolved over the last five years. In the first two years, financing of INH activities was undertaken solely from GOP budget allocation and capitalized assets inherited from FFH. Since then, FRCE loans and HG disbursements have amounted to a large proportion of total disbursement. In 1987, GOP ceased budget allocations to INH, and since then the Treasury reimburses only the interest rate subsidy extended by INH.

INH has a staff of 106 employees (expected to increase 5 percent annually over next four years) of which 49 are department heads and technicians, and the remaining 57 are administrative staff. As the organization chart on the following page shows, the INH has the full range of functional departments necessary to provide policy guidance and technical implementation in the sector.

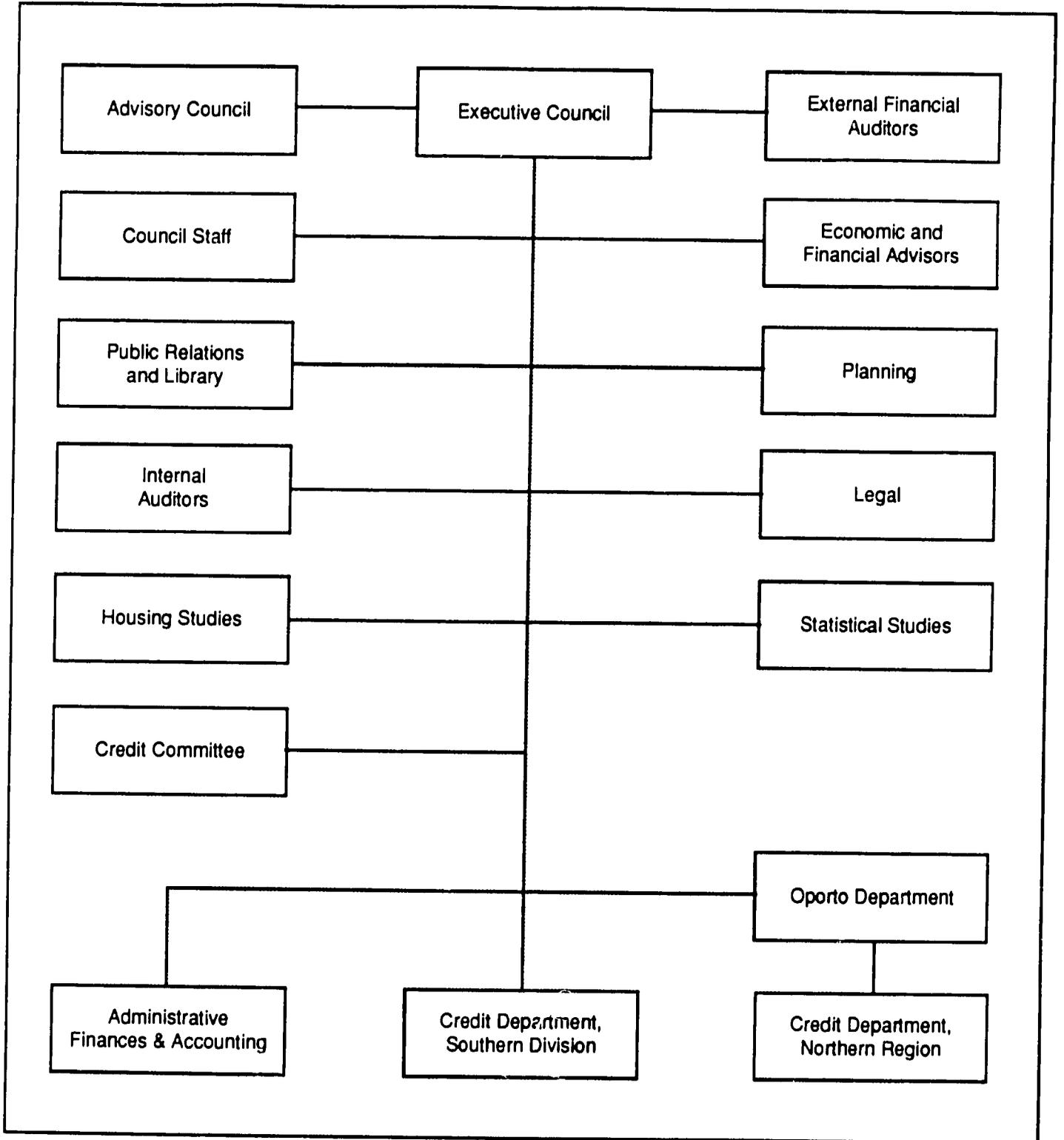
The objective of INH is to ensure housing management and financial interventions in the low cost housing sector by:

- studying the housing situation in order to formulate policy, legislation, and regulatory proposals;
- preparing the National Housing Plan and the annual and multi-annual investment plans in the sector;
- coordinating and preparing a policy framework for the financing of low cost housing programs developed by cooperatives, municipalities, and private developers; and
- supervising the implementation of housing policy and programs, including the provision of technical assistance to housing developers.

The 1989-1992 INH strategic plan was prepared in accordance with the credit ceilings and actual financial and economic capacities of the INH. That plan calls for a response to the nation's housing problems through several means:

- provide adequate information on government policies and programs to housing developers;

# INH Organization Chart



- encourage greater participation by all housing promoters (municipalities, cooperatives, and private developers);
- widen intervention of the INH in order to reach a larger number of families;
- encourage the purchase and development of land for construction of low cost housing;
- increase lines of credit for home improvements;
- increase lines of credit for the construction of unfinished housing;
- analyze the cost-quality ratio of construction, particularly as this relates to construction and area standards; and,
- undertake a detailed survey of the housing situation at the regional level for establishing geographic priorities in construction lending.

The INH 1989-1992 strategic plan assumes that (a) average construction lending is 3,300 contos (US\$20,000) per dwelling unit; (b) average financing for infrastructure is 400 contos (US\$2,100) per dwelling unit; (c) average period for use of the proceeds from loan varies between 15 and 20 months; and (d) reflow on INH loans runs between 8 to 10 months.

In 1988, with A.I.D.'s financial and technical assistance, the INH was already disbursing about 16 million contos (US\$96.3 million) a year to cooperative, municipal, and private developers. As shown on the table below, from 1984 through 1988 INH invested over US\$288 million in the construction of 23,181 low cost units by local developers. US\$50 million of that US\$288 million has been supported by HG disbursements, equivalent to 17.3 percent of total INH investments.

It is worth noting several terms of housing finance: Construction financing is short or medium term, 12 to 18 months, up to three years for the final repayment of the final disbursement, and funds are disbursed according to the flow of construction expenditures. A loan to a buyer of a home, which loan is collateralized by a mortgage on the property, is long term financing, since it usually has a term of at least five years or more. Takeout financing occurs when the long term financing assumes the debt of the construction financing.

INH investments during the period 1984-1988 show that cooperatives make up a major share of the disbursed investment (82 percent), followed by municipalities (13 percent) and private developers (5 percent). However, the last three years witnessed a much higher rate of growth in INH disbursement to municipalities and private developers than the cooperatives. INH disbursements to municipalities and private developers have risen 400 percent between 1985 and 1988, compared to a 15 percent increase in disbursements to cooperatives in the same period.

Total credit available, however, will continue to be limited by government monetary policy. The State Secretaries for Treasury and for Housing undertook measures to assure adequate shares for low income families and to improve targeting of GOP subsidies. The Caixa has already approved 3,500 units for which mortgages have been transferred from INH to CGD for takeout financing. INH expects that all 3,500 mortgages will be provided by CGD within the next six months.

Unit Completion and INH  
Disbursements by Housing Promoters

Promoters	Disbursements (Thousand Contos)					
	1984	1985	1986	1987	1988	Total
Municipalities	145.2	472.2	1,073.8	1,321.4	3,064.1	6,076.7
Cooperatives	1,219.0	7,136.1	9,602.3	10,088.8	11,007.4	39,053.6
Private Developers	0	0	12.9	684.4	1,821.5	2,518.8
<b>Total</b>	<b>1,364.2</b>	<b>7,608.3</b>	<b>10,689.0</b>	<b>12,094.6</b>	<b>15,893.0</b>	<b>47,649.1</b>
U.S. Dollar	8.3m	46.1m	64.8m	73.3m	96.3m	288.8m

Units Completed						
Municipalities	0	100	268	659	305	1,332
Cooperatives	0	948	3,496	3,558	2,810	10,812
Private Developers	0	0	0	54	348	402
<b>Total</b>	<b>0</b>	<b>1,048</b>	<b>3,764</b>	<b>4,271</b>	<b>3,463</b>	<b>12,546</b>

In these ways, the government seeks to encourage market solutions to low income housing problems without increasing overall investment at levels that would over-stimulate the economy.

5. Institute for Management and Divestiture of Public Housing Stock

The IGAPHE was created in 1987, with the following objectives:

- the management and divestiture of 45,000 ex-FFH units of public housing stock and 10,000 hectares of ex-FFH land;
- the liquidation of ex-FFH debts to the GOP Treasury of 41,250 thousand contos (US\$250 million) by sale of land and rental housing stock;
- the administration of the existing housing stock and improvement of the condition of the units prior to divestiture; and
- the implementation of other appropriate programs such as relocation and rehabilitation of private rental housing.

The IGAPHE is supported by GOP budget allocations of approximately 6.5 million contos (US\$40 million) per year. The organization chart on the following page

reflects its functions as the principal GOP agency addressing problems of the nation's rental stock. IGAPHE programs are the following:

Rehabilitation of public rental stock, with expenditures decreasing from 1.7 million contos (US\$10 million) in 1987 to about 1.3 million contos (US\$7.8 million) in 1988 to an estimated one million contos (US\$6 million) in 1989.

Rental Housing Relocation of Families in Substandard Housing (Realojamento). Agreements have been signed with some 27 cities covering a potential production of 7,700 units. By year end 1988, about 1.5 million contos (US\$9 million) had been contracted. Projections call for more than doubling that pace in 1989.

Rehabilitation of Private Rental Stock (RECRIA). At the end of first quarter 1989, projects dealing with 514 dwelling units were either under analysis or approved for funding. The budget allocation for 1989 is 500,000 contos (US\$3.5 million), of which commitments for the near future had reached 156,000 contos (US\$950,000) by April 1989.

Divestiture of Public Housing Stock and Land. Divestiture of public land was initiated in December 1988; sale of land for construction of 1,861 low cost units has been negotiated. Divestiture of public housing stock is planned to start in August 1989 with the Chelas project in Lisbon, where IGAPHE owns 2,000 rental apartments.

#### 6. Municipalities

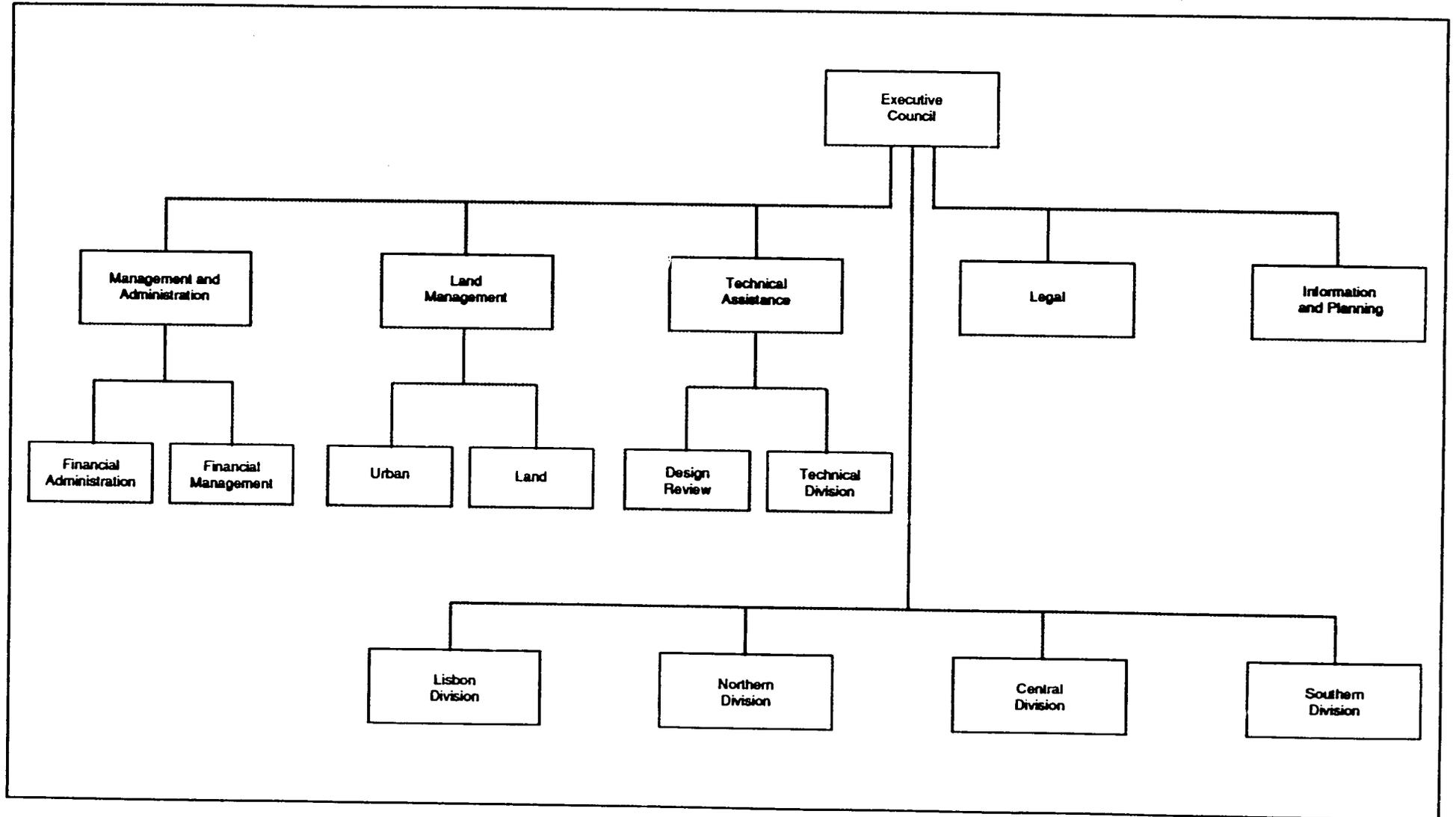
Municipalities play an increasingly important role in the production of low cost housing, as they take on responsibility for land development and planning, neighborhood improvement programs, and relocation of families living in shantytowns. From 1984 through 1988, INH commitments for construction of 4,846 low cost units developed by municipalities amounted to 11.1 million contos (US\$67.2 million), representing 18 percent of total INH commitments. Through 1988, INH, IGAPHE and 22 municipalities signed agreements for the construction of 18,735 units for families living in shantytowns with a total investment of 55 million contos (US\$333 million). As of February 1989, over 2,400 units were under construction, with INH financing of approximately 6.4 million contos (US\$39 million).

Under the INH program for purchase of land and development of infrastructure by the municipalities, five projects have been approved for INH lending of 234,773 contos (US\$1.4 million).

Municipalities also play a key role in the RECRIA program, as part of the grants provided by the Municipalities. The municipality of Lisbon has budgeted 200,000 contos (US\$1.2 million) for this program.

Rehabilitation of clandestine settlements is eligible for INH financing but the municipalities have not thus far applied for this credit. Nevertheless, the municipalities of Sintra, Oeiras, and Cascais are already involved in the rehabilitation of clandestine settlements from their own resources.

IGAPHE Organization Chart



7. Cooperatives

At the local level, the largest developers of low cost projects are housing cooperatives often working on a turnkey basis with private builders. Most housing cooperatives, about 120 out of approximately 200, are members of the National Association of Housing Cooperatives (FENACHE), which provides technical assistance and training to member cooperatives. Approximately four percent of the total production of new housing (2,000 units per year) is by cooperatives. Their membership includes a wide range of income groups, though most are middle income and below.

Support to housing cooperatives is by far the largest INH program. It represented 83.5 percent of total INH investment during the period 1984-1986; 73.2 percent in 1987, and 54.9 percent in 1988. This gradual reduction of the percentage of cooperative programs is due to more active participation of municipalities and private developers. Through 1988, INH has provided construction lending for 16,907 cooperative units with a total investment of 47,541,776 contos (US\$288 million).

Average INH financing per cooperative unit during the period 1984-1988 is 2,650 contos (US\$16,700). As the percentage of INH financing is about 85 percent of sales price, average sales price of cooperative units is 3,120 contos (US\$18,910), affordable by low income families.

8. Private Developers

Private developers are increasingly taking advantage of INH financing and targeting their projects to lower income markets. The CDH (Housing Development Contracts) program is the vehicle for private developers to participate in low cost housing production. New legislation has been passed to reduce municipal involvement in the approval process, thus encouraging private developers to apply for INH financing. Private developers are also eligible for INH financing for land acquisition and development of infrastructure.

From 1984 through 1986, only one private developer project with 54 units had been financed by INH. In 1987 and 1988, 23 such projects with 1,374 units were eligible for INH financing.

9. Specialized Credit Institutions

The Specialized Credit Institutions (SCIs) are the Caixa Geral de Depositos (CGD), the Credito Predial Portugues (CPP) and Montepio Geral - Caixa Economica de Lisboa (MG-CEL), the three prime institutions that provide the long-term mortgages (takeout) financing upon completion of individual low cost units. All long-term financing for low cost housing comes from these institutions, with the CGD, the largest banking institution in Portugal, providing 53 percent of housing sector lending.

Housing sector lending by the SCIs in 1988 is estimated to have been about 204 million contos (US\$1.2 billion). In 1988, the CGD signed some 35,000 loan contracts for the housing sector, below the 50,000 goal of sector policy and projections, and well below the 52,000 signed in 1987. This is largely the result of the reactivation of credit ceilings for all lending institutions.

The CGD is responsible for an estimated 90 percent of the long term mortgage financing for low cost housing units financed by INH construction loans. The CGD has recently agreed with the Secretaries of State for Treasury, and Construction and Housing to give priority to processing of mortgages on low cost units built with INH financing through a targeting of a larger share of the available credit. As many as 3,500 completed low-cost units financed by INH have recently been approved by CGD for long-term mortgages. However, processing of applications and other bureaucratic steps, such as title transfers, will delay closings expected to take place over the next six months.

## PORTUGUESE ECONOMY

Portugal is among the poorest country in the European Community (EC) with per capita income at approximately one-fourth of the EC average. About nine percent of its GDP originates from the agricultural sector, 40 percent from the industrial sector, while the remaining 51 percent originates from the service sector, of which tourism represents an important activity. Despite agriculture's low share in total production, it still employs about 21 percent of the labor force. Portugal's agriculture is diverse, reflecting a great variety of agroclimatic growing conditions. The main products include forestry products, a variety of cereals, wines, livestock, dairy products, and fruits and vegetables. Through most of the seventies and eighties, agriculture has experienced negligible, if not negative, overall growth. Industry has performed somewhat better. Manufacturing industry grew by 8-10 percent for most of the seventies and, after a hiatus following the disruptions of the second oil shock, has recently resumed rapid growth. Industry essentially comprises two subsectors: private manufacturing industry largely engaged in the production (and export) of light manufactures (textiles, clothing, footwear), and public enterprises with a concentration in heavy industries (shipbuilding, steel, petrochemicals). These latter enterprises grew rapidly in the mid to late seventies when many large investment projects, financed by foreign borrowing, were undertaken. However, they ran into difficulties in the early eighties when markets collapsed, financial charges soared and inefficiencies in scale of operations and management became apparent. Private manufacturing industry has, on the other hand performed somewhat better.

Since 1974, Portugal's economy has largely experienced expansion and growth but its external position has remained unstable; substantial deficits were created in the post 1974 period, temporarily adjusted in 1978, only to deteriorate again in the early eighties. In 1983, following a series of other measures, Portugal adopted a stabilization program supported by an IMF stand-by agreement which improved imbalances in the economy. Despite improvement in key macroeconomic factors, the resulting recessionary impact of stabilization measures and international atmosphere created the severest recession in Portugal's post-war history. However, the country emerged in better shape in 1985 to take advantage of the improvement in external conditions.

In the past three years Portugal has made a remarkable recovery from the severe recession of 1983-85. In addition, the country has taken the opportunity of joining the European Community in 1986, to begin the fundamental, long-term restructuring of the agricultural and industrial sectors necessary to assure reasonably high growth into the next century. Membership of the EC, both through its financial provision (net positive transfer of EC budgetary and other sectoral funds), as well as through the dynamic effects of increased competition, foreign investment, trade and capital flows and general enhancement of economic opportunities, has created profound initiatives in numerous areas to rapidly secure the greatest benefits of membership while establishing an economic policy environment that assures sustained growth. Some of the impressive achievements in the macroeconomic fronts as stated in the World Bank report of March 1989, are:

1. Output growth has risen to about 5 percent per year in 1986-87, from 0.3 percent per year in the previous three years, when a stabilization program was in effect.

2. Consumption and fixed investment expenditures have recovered strongly, with the private sector fully participating in the investment recovery.
3. Inflation has declined from an annual rate of 30 percent in 1985 to about 9 percent in 1987, while unemployment has fallen from previous highs of about 11 percent to 7 percent; real wages have grown by about 3 percent annually in 86-87.
4. The current account of the balance of payments has swung from serious and unsustainable deficits of about 14 percent of GDP (1982) to small surpluses of about 2 percent of GDP (1985-87).
5. Some external debt has been prepaid, about half the short-term debt has been retired, and a sizeable fraction of the remaining debt has been refinanced at favorable rates; the various external debt ratios all show improvement.
6. Public sector deficits have been substantially reduced from about 20 percent of GDP in 1984 to about 11 percent in 1987. Most of the improvement has occurred through improvements in the financial condition of some public enterprises. General government arrears to the public enterprises have been reduced, public enterprise arrears to the banking system have been reduced, and the government has taken over some of the external debts of a few public enterprises.
7. The government has begun to finance its deficits through the (non-inflationary) issue of debt to the private sector and begun to pay market (and real) rates of interest.

On the external account, Portugal has run current account surpluses in the balance of payments for the past three years averaging about 2 percent of GDP, in strong contrast to the 82-84 period when deficits averaging 8 percent were experienced. The most important influence in this improvement has been a 20 percent recovery in the terms of trade since 1985, due to the fall in oil prices, and increases in the prices of manufactured exports.

The recovery in the terms of trade has, however, masked a serious deterioration in the real resource balance. The volume of merchandise imports grew extremely rapidly in 1986-87 (by 18 percent per year) while the volume of merchandise exports grew at a respectable, but much slower rate of 9 percent per year. While the earlier stabilization period saw an acute contraction in the real deficit as exports grew very rapidly relative to imports, there has since been a sharp reversal. The current account has now regained some of its vulnerability to sudden changes in external prices.

There are self-correcting mechanisms at work which will limit further deterioration in the real deficit. In particular, the recent rush to invest (and, by extension, import investment goods) is a reflection of cyclical tendencies to refurbish and rebuild capital stock after the massive investment declines of the 83-84 recession, when fixed investment declined by over 25 percent in volume. After the accelerated phase of investment has occurred, the growth of investment, and demand for imports of investment goods, should fall. Similarly, the inventory cycle is apparent as the economy has imported heavily to rebuild stocks.

Portugal's domestic adjustment in 1983-85 was accomplished through a massive cut in investment spending, which declined from about 36 percent of GDP in 1982 to 22 percent of GDP in 1985. Investment has since recovered to about 26 percent of GDP in 1987.

Savings also declined in 83-85 as households attempted to maintain consumption levels in the face of recessionary declines as in real incomes. Since 1985, domestic savings have made a strong recovery as the buoyant demand conditions have swelled profits and the retained earnings of enterprises. This recovery in savings has been the key to continuing adjustment in 1986 and 1987, just as the collapse in investment underpinned adjustment in the recession.

Encouraging private fixed capital formation has been a prime objective of government policy in the last three years. A number of investment tax incentives and stock market financing incentives have been provided to achieve this end. The outcome, aided by a significant surge in foreign direct investment in late 1987, has been quite successful. While information on the components of investment is limited, survey data indicate that the private sector strongly participated in the investment recovery, and that much of the investment has consisted of new plant and equipment. Moreover, in conformity with government intentions, public enterprise investment was strictly controlled; the average productivity of investment that has taken place may well, therefore, be higher than in the past.