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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

Chile

PROJECT PAPER

Private Sector
Cooperative Housing II

AID/LAC/P-587

Project Number: 513-HG-009

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number

DOCUMENT CODE

3

COUNTRY/ENTITY

CHILE

3. PROJECT NUMBER

513-HG-009

4. BUREAU/OFFICE

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5. PROJECT TITLE (maximum 40 characters)

Private Sector Cooperative Housing II Pro.

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
01 31 94

7. ESTIMATED DATE OF OBLIGATION
(Under 'B' below, enter 1, 2, 3, or 4)

A. Initial FY 90 B. Quarter 4

C. Final FY 94

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)						
(Loan)						
Other U.S.						
1. HG	5,000		5,000	5,000		5,000
2.						
Host Country					500	500
Other Donor(s)						
TOTALS	5,000		5,000	5,000	500	5,500

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. 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. Grant	2. Loan
(1)									
(2)	HG	724	865		-0-		5,000		
(3)									5,000
(4)									
TOTALS									

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

862 864

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code BU RGEN COOP TECH PART

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To support efforts of private housing cooperatives and NGOs in expanding their production of low-cost shelter solutions nationwide.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
0 9 9 2 0 29 4

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

17. APPROVED BY

Signature

Title

A.I.D. Representative

Date Signed

MM DD YY
10/6/25/94

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY
10/7/16/90

GUARANTY AUTHORIZATION
(Authorization No. 513-HG-009)

PROVIDED FROM: Housing Guaranty Authority

FOR: Chile - Private Sector Cooperative Housing II

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 of not to exceed Five Million United States Dollars (U.S. \$5,000,000) in face amount. The guaranties shall assure against losses (of not to exceed One Hundred Percent (100%) of the investment and interest) with respect to loans, including any refinancings thereof, made to support the generation of domestic resources for shelter in Chile. These guaranteed loans shall be made to the housing cooperative umbrella organization COVIP, or such other financial institution as A.I.D. may otherwise agree, (Borrower) to provide financing for the construction of eligible housing units produced by the housing cooperatives, in Chile.

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 ten years (10) from the date of disbursement and may include a grace period of up to four (4) 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.
3. Foreign Exchange Risk Management: The Loan guaranteed hereunder shall be structured in a manner to minimize the foreign exchange risks inherent in dollar lending for local currency earning ventures. A currency swap arrangement with the Chilean

Central Bank shall be established, with an option on the part of the Borrower to transfer the A.I.D. guarantee to a local currency loan should that be deemed necessary.

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.

James H. Michel

 James H. Michel
 Assistant Administrator
 Bureau for Latin America
 and the Caribbean

September 13, 1990

 Date

Paul Fritz, AID/Rep/Chile	<i>(by telephone)</i>	Date: <u>8-17-90</u>
Sonny Low, RHUDO/SA	<i>(by telephone)</i>	Date: <u>8-1-90</u>
Francis Conway, RHUDO/SA	<i>(by telephone)</i>	Date: <u>8-1-90</u>
Julie Otterbein, PRE/H	<i>(by telephone)</i>	Date: <u>8-2-90</u>
Sean Walsh, PRE/H	<i>(by telephone)</i>	Date: <u>8-2-90</u>
Jeffrey Evans, LAC/DR	<i>(by telephone)</i>	Date: <u>8-17-90</u>
Robert Queener, LAC/SA	<i>(by telephone)</i>	Date: <u>8-16-90</u>
Bastiaan Schouten, LAC/DP	<i>(by telephone)</i>	Date: <u>8-16-90</u>
Fred Kirschstein, PPC/PD/PR	<i>(by telephone)</i>	Date: <u>8-14-90</u>
Michael Kitay, GC/PRE	<i>(by telephone)</i>	Date: <u>8-20-90</u>
Frederick Schieck, DAA/LAC	<i>(by telephone)</i>	Date: <u>9/13/90</u>

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CHILE PRIVATE SECTOR COOPERATIVE HOUSING II

513-HG-009

Project Paper

LIST OF ACRONYMS

AID	Agency for International Development
BOP	balance of payments
COVIP	Corporacion para la Vivienda Popular
CPI	consumer price index
FNDR	Fondo Nacional para el Desarrollo Regional
GC/PRE	Office of the General Counsel, Bureau for Private Enterprise
GDP	Gross Domestic Product
GOC	Government of Chile
HG	housing guaranty
IBRD	International Bank for Reconstruction and Development (The World Bank)
IDB	Inter-American Development Bank
INE	Instituto Nacional de Estadisticas
LAC	Bureau for Latin America and the Caribbean
MINTER	Ministerio del Interior
MINVU	Ministerio de Vivienda y Urbanismo
NGO	non-governmental organization
PEV	Programa Extraordinario de Vivienda
PPC/WID	Bureau for Program and Policy Coordination/Office of Women in Development
RHUDO/SA	Regional Housing and Urban Development Office/South America
SERVIU	Servicios Regionales de Vivienda y Urbanismo
TA	technical assistance
TIP	tasa de interes promedio (average deposit rate of interest)
UF	Unidad de Fomento (development unit, an inflation-adjusted measure of monetary value)
VAT	value-added tax

I. SUMMARY AND RECOMMENDATIONS

A. RECOMMENDATIONS

The AID Representative to Chile recommends authorization of a \$5,000,000 Housing Guaranty to finance the Chile Private Sector Cooperative Housing Project II (513-HG-009), as described in this paper. The loan, to be repaid over ten years, will provide liquidity to expand the market currently served by the Chilean housing cooperatives:

- to include families below the third decile of the urban income distribution, and
- to extend services to areas outside the metropolitan region of Santiago.

The Chilean cooperatives will provide \$500,000 in counterpart financing.

AID will provide \$650,000 over three years from the LAC Regional Inter-Country Technology Transfer Project to fund a resident housing finance advisor as well as short-term technical assistance and training to support the implementation of the HG project, as well as a planned new HG project for FY 91.

The proposed borrowing arrangements and disbursement procedures are the same as those in use in the existing project 513-HG-008. The housing cooperative umbrella organization, COVIP, S.A., will be the borrower. The \$5,000,000 in HG financing will be made available as an advance. The local currency proceeds of the HG loan will be placed in an escrow account in the Santiago branch of a U.S. bank. The funds in escrow will finance the construction of eligible housing units produced by the housing cooperatives. The U.S. bank will manage and monitor this construction financing on behalf of A.I.D. COVIP will liquidate the HG advance against the value of mortgage financing provided to eligible beneficiaries.

The Project is expected to finance 4,400 units over three and one-half years based on two rotations of the \$5,000,000 HG advance and of the \$500,000 in counterpart funding.

B. PROJECT SUMMARY

1. Background

Chile is undoubtedly in the forefront among Latin American countries in effectively addressing the housing needs of its low-income population. It has developed a system over a period of years that is presently able to produce and sell about 75,000 new units per year, enough to meet new demand and prevent housing conditions from worsening. Production at this level has only been achieved in the last couple of years, however, and a significantly

greater effort will be required over the next decade at least to reduce an estimated backlog of about 1.2 million substandard units. This project will support efforts by the Chilean cooperative housing movement intended primarily to alleviate the problems of over-crowding and of double-occupancy. According to a recent World Bank staff appraisal report the backlog broke down as follows:

	<u>Percent</u>	<u>No. of Units</u>
Units w/o basic services	35%	420,000
Units of non-permanent materials	29%	348,000
Over-crowded units (3 or more/room)	23%	276,000
Double occupancy	<u>13%</u>	<u>156,000</u>
	100%	1,200,000

In 1978, the Chilean government established a new policy for the housing sector which essentially remains in place to this day. It is a policy that seeks to keep government interventions in the sector to a minimum, and that also seeks to ensure that necessary governmental interventions, including subsidies for low-income families, are explicit, fully-budgeted and fully-financed. The incoming Aylwin government has emphasized the reduction of the accumulated housing backlog as a major priority, and is committed to continuing and reinforcing the government's longstanding policies. Changes that will be made are aimed primarily at increasing production of low-cost housing and making such housing more accessible to the poor by improving the operations of the existing subsidy system, increasing funding for progressive housing construction, and rapidly eliminating the few indirect, hidden, subsidies that remain in the housing finance system.

AID has provided support to the Chilean housing sector for a number of years, and has an active ongoing housing guaranty program. The existing \$5 million project, Chile Private Sector Cooperative Housing, 513-HG-008, was implemented during FY88, and has the distinction of being the first housing guaranty extended by AID under the Worldwide Private Sector HG Program directly to a private sector borrower and implementing agency, COVIP, S.A. COVIP is an umbrella organization owned by five private open housing cooperatives and NGOs¹. It will again be the borrower and implementing agency for the new housing guaranty loan, 513-HG-009, as proposed in this project paper. COVIP has performed exceptionally well under HG-008. The mid-term evaluation completed during March 1990 reported that it is expected to exceed initial production targets in that project by as much as 60 percent.

¹ INVICA, Provicoop, Habitacoop, Conavicoop, and the Corporacion Habitacional de la Camara Chilena de la Construccion.

2. AID Strategy in Chile

AID strategy in Chile is fundamentally aimed at supporting the country's transition and return to a working political democracy built on a dynamic and participatory market economy. Despite significant gains in important areas such as basic education and health, deprivation and poverty in an absolute sense are far from having been eliminated in Chile. The newly elected Aylwin government, while committed to the preservation and encouragement of free enterprise and market-based incentives, also must be responsive to the pent-up needs and demands of heretofore underprivileged groups. AID, in a number of areas including housing -- one of the areas of most serious pent-up demand -- is intent on assisting the new government of Chile in finding ways to encourage the private sector to apply their resources and skills to develop sustainable, market-based, ways of addressing the needs of the poor.

The World Bank (IBRD) and the InterAmerican Development Bank (IDB) have signalled the weight that they place on alleviating the low-income housing shortage in Chile through two new loans to the government for \$150 and \$70 million, respectively. The World Bank's resources are primarily aimed at supporting the production of housing through the subsidy and financing program of the Ministry of Housing and Urban Development (MINVU), while the IDB's resources and efforts are designed to support a large-scale infrastructure upgrading program. AID is alone at this stage in providing direct support to private institutions in the low-income housing construction area. Future AID efforts may focus on the development of new financial instruments and markets to mobilize private sector resources for the sector.

Building on the successful experiences developed during the first two years of HG-008, the proposed follow-on housing guaranty is intended to consolidate the position of private sector institutions as providers of low-cost housing in Chile. The experience gained by the participating COVIP members through HG-008 included the production and sale of housing affordable by families whose incomes were as low as the third income decile. HG-009 will enable and encourage these cooperatives to produce basic, completed, units affordable by the second income decile, and progressive solutions designed to be accessible all the way down to the first decile of income. In addition, while so far about 90 percent of HG-008 resources have been used to provide shelter in the Metropolitan Santiago Area, under HG-009 the cooperatives will utilize an estimated 60 percent of AID resources in provincial cities outside of the capital and its environs.

An important feature of the subsidized low-income housing system as it functions in Chile is that subsidies are designed to complement, not displace, household savings. Low-income families are, in fact, required to have accumulated savings equivalent to a minimum 12.5 percent downpayment before they can become eligible for a subsidy and long-term mortgage financing. The non-profit cooperatives that AID will continue supporting through HG-009 play an important role in assisting low-income families in carrying out

a systematic savings plan, and otherwise qualifying for the award of a subsidy and gaining access to mortgage financing. In so doing, the cooperatives help to mobilize private sector savings.

TABLE 1
SUMMARY COST ESTIMATE
AND FINANCIAL PLAN

(Thousands of U.S. \$)

	<u>FY1990</u>	<u>FY1991</u>	<u>FY1992</u>	<u>FY1993</u>	<u>TOTAL</u>
<u>Project Activity:</u>					
Technical Assistance	150	250	250		650
Shelter					
Amount Financed	-	3,667	3,667	3,666	11,000
	=====	=====	=====	=====	=====
<u>Totals</u>	150	3,917	3,917	3,666	11,650
<u>Source of Funds:</u>					
AID:					
Inter Tech Proj.	150	250	250	-	650
HG	-	5,000	5,000 ¹	-	10,000
	-----	-----	-----	-----	-----
Sub Total AID	150	5,250	5,250	-	10,650
COVIP	-	500	500 ²	-	1,000
	=====	=====	=====	=====	=====
<u>Totals</u>	150	5,750	5,750	-	11,650
<u>PRODUCTION</u>					
No. of Units	-	-	2,200	2,200	4,400

¹/Reflows from rotation of HG advance

²/Reflows from rotation of counterpart funds

4. Implementation Arrangements

As in the case of HG-008, COVIP, S.A. will be the borrower and implementing agency for HG-009. As indicated above, COVIP, S.A. is a non-profit corporation owned by three open housing cooperatives and two other non-profit NGOs. All of them have significant long-term experience in the housing sector. They will

be the sub-borrowers and prime contractors in the organization and construction of individual housing sub-projects.

Dollars borrowed in the U.S. financial market will be protected from transfer and foreign exchange rate risks through a currency swap with the Central Bank of Chile². This procedure is being followed in the case of HG-008 as a means of assuring that COVIP has access to the dollars it will need for the repayment of principal at a known forward exchange rate. As in the case of HG-008, COVIP will have the option of prepaying the dollar loan if the Central Bank ceases to offer currency swaps, or if the cost of such swaps becomes unfavorable in relation to a local currency borrowing. If COVIP decides to prepay the dollar loan, the AID guaranty would be transferable to a replacement local currency loan, up to the equivalent of \$5 million, and so long as the originator of the local currency loan is a U.S.-owned financial institution operating in Chile. In the case of HG-008, for example, Citibank/Chile has committed itself to convert the dollar loan to a peso loan under the guaranty arrangement if COVIP should determine that it needs to prepay the dollar loan received from Citibank/New York. With respect to HG-009, the project paper team met with executives of the branches of three U.S. banks in Chile, and determined that each would be able and interested, in principle, in extending a Chilean peso loan in favor of COVIP with U.S. government guaranty.

Again as in the case of HG-008 the full \$5,000,000 loan proceeds of HG-009 will be provided as an advance to COVIP. The local currency generated either from the Central Bank currency swap (or from the alternate local currency loan) will be placed in escrow with a custodian bank, which will be contracted from among the local branches of U.S. banks operating in Chile. The custodian bank will disburse funds from escrow to COVIP, against collateral in the form of first mortgages on land and/or improvements. The custodian bank will disburse up to 90 percent of the value of collateral pledged.

The custodian bank will also arrange for appraisal and engineering inspection services required to ensure that projects financed through HG-009 comply with the local standard of care for such housing and with AID eligibility requirements. The bank will regularly monitor project operational and financial status, and will regularly report its findings to AID.

COVIP will begin partial repayment of principal at the end of year 4 with a planned payment of \$1 million. Subsequent, estimated payments of \$1, \$1.5 and \$1.5 million in years 6, 8 and 10 will gradually reduce the outstanding loan balance and corresponding AID exposure. The programmatic objectives of the project, namely the facilitation of entry by private cooperatives

² At the present time, the Central Bank of Chile is only offering swaps for a maximum term of 2 years, meaning that they will need to be renegotiated several times during the proposed life of the guaranty.

into new geographical and cost segments of the Chilean housing market, are planned to be achieved by month 42, before the end of the fourth year. AID will strictly monitor compliance during the first 42 months to ensure that program objectives are followed. After this period, the AID monitoring requirement will be reduced to the level necessary to ensure the continuance of prudent financial practices and the timeliness of loan repayment.

5. Feasibility Findings

The research and analysis reported in the body of the attached project paper indicate that, in the judgment of the AID Representative to Chile and RHUDO/SA, the proposed project satisfies the feasibility criteria of the Agency. Specifically, investigations conducted by the project paper team indicate that:

- . the project is technically feasible on the basis of known construction costs, and its products are affordable by the target population, ensuring the existence of adequate effective demand.
- . the project is financially feasible on the basis of the standing and creditworthiness of the proposed borrower, the availability of adequate long-term financing to ensure the saleability of the housing that is produced -- thus virtually eliminating commercial or market risks for AID as guarantor -- and on the further basis of the adequacy of procedures instituted to generate collateral to cover disbursements, monitor loan performance, and insure against the major transfer and foreign exchange rate risks.
- . the project is justified on economic grounds on the basis of the efficiency with which production is organized to meet the shelter demands of low-income Chilean consumers -- creating direct and indirect employment and income in the process -- and also because the system whereby production takes place and demand is generated is one which is fully financed, and which does not introduce any significant distortions in the domestic goods, labor, or financial markets.
- . the project is sound from a social perspective in that the product which is generated is culturally and sociologically appropriate for the target population, which is evident from the ample effective demand that exists for products with the same characteristics.
- . finally, the project is found to be institutionally sound in that the proposed implementing agencies have adequate technical, managerial, organizational and financial resources to expand their level of involvement in AID-supported activities to the full extent that will be required for the proposed loan guaranty program. Together, the five institutions that make up COVIP have accumulated 83 years of successful operating experience

-- through good times and bad -- and have demonstrated their ability to adapt to operations in the low-cost segment of the Chilean housing market through highly satisfactory performance on another ongoing HG loan program.

C. PROJECT ISSUES

1. Relation of HG-008 to the Proposed New Authorization

It is anticipated that HG-008 will continue to operate in tandem with HG-009, at least until FY92 under its present authorization, and more likely for six additional years beyond that if the period of guaranty is extended from the original 4 years to 10 years as will be requested by the AID Representative for Chile. HG-009 will increase the volume of activity of the borrower in the low-cost housing markets of Chile, will support the participation of COVIP in still lower cost markets than it has been able to be involved in to date, and will encourage the expansion of COVIP activity to the provinces of Chile. It is essentially a complementary activity, however, one that will help to make more efficient use of installed institutional capacity rather than straining that capacity in any foreseeable way. In the judgment of USAID/Chile and RHUDO/SA, COVIP and its members have ample ability to jointly manage these two small HG programs successfully.

2. HG Borrowing Arrangements

By allowing COVIP the option of transferring the AID guaranty to a local currency loan if the Central Bank of Chile should cease to offer currency swaps at a competitive cost, AID will be essentially authorizing to guaranty a local currency loan directly. Such optional transferability of the AID guaranty has been extended, but not exercised as yet, for HG-008.

As in the case of HG-008, GC/PRE has determined that a local currency loan guaranty is appropriate under governing legislation. At the same time, the AID Representative to Chile and RHUDO/SA believe that this would be an appropriate use of the guaranty authority, for the following reasons.

First, the commercial risk exposure assumed by AID is the same, and small, for both a dollar loan guaranty covered by a currency swap arrangement and for a local currency loan guaranty. Housing is built by the cooperatives on the basis of assured buyers and assured financing, and housing is priced on a fully-indexed basis. There is relatively little risk, therefore, of the borrower not being able to generate the local currency to service a local currency loan or to purchase dollars to service a foreign loan on the terms offered by a currency swap arrangement.

Secondly, a local currency loan clearly does not generate any transfer or foreign exchange rate risk for AID, and is therefore somewhat more secure than a dollar loan covered by a currency swap. The currency swap arrangement offers adequate protection against these risks, and, therefore, the guaranty of a

dollar loan in favor of COVIP that is covered by such an arrangement should remain acceptable to AID so long as such coverage remains available to the borrower at a favorable cost. By the same token, AID should have no objection to the transfer of its guaranty to a local currency loan -- extended by a U.S. lender in accordance with legislative authority -- because the overall risks to AID are actually reduced in the event of such a transfer.

The two arrangements are administratively equivalent to AID, with most of the monitoring and reporting activity being contracted for through the local custodian bank in either case.

3. Feasibility of Expanding Geographical Coverage

Another apparent issue in the consideration of HG-009 is the capacity of the borrower to expand its activities outside of the Santiago Metropolitan Area, as will be required in the proposed Implementation Agreement. Three of the members of COVIP presently lack³ experience in housing construction outside of the Santiago area³.

The reason for their not having ventured further, however, has nothing to do with either willingness or ability, but rather with the interpretation of their corporate charters which, to date, have been interpreted as limiting their activity to their home province. While it is their understanding that the matter is one of interpretation only, the affected cooperatives have requested legislative clarification that will have the effect of allowing them full scope to operate nationwide. The legislation involved has, according to Ministry of Housing officials interviewed by the project paper team, been approved in principle and is expected to be enacted in July or August of 1990.

The other two members of COVIP, Habitacoop and the Corporacion Habitacional, both have extensive experience operating outside of Santiago, and have demonstrated the technical and financial viability of doing so on an expanded scale. Construction costs in some Chilean provinces are, in fact, higher than in Santiago -- due primarily to the higher cost of servicing land with water and sewage infrastructure -- but this can be compensated for, if necessary, by adjusting the design of the housing unit itself to reduce its cost and maintain affordability among the AID target population. If necessary, Habitacoop and the Corporacion Habitacional could, by themselves, produce the volume of units outside Santiago to be financed through this project. Alternately, the funds earmarked for outlying areas could be reprogrammed if the necessary legislation is not passed, or if some other unexpected developments affect the cooperatives ability to perform in the provinces. The preferred alternative, of course, is that the legislation will be modified so that all members of COVIP can participate in this component.

³ INVICA, Provicoop and Conavicoop.

4. AID Mission Management Capacity

The proposed project guaranty will add to the program management responsibilities of the AID Representative in Chile. The administrative burden that accompanies these responsibilities will be managed largely through the arrangements that will be contracted by COVIP with the local custodian bank, as indicated above. AID monitoring and general project management will be handled through the services of a resident housing finance advisor that the AID Representative proposes to retain for a period of four years. The responsibilities of the resident advisor will include support to the AID Representative in the further development and management of its program in the shelter sector in Chile.

II. PROJECT BACKGROUND AND DETAILED PROJECT DESCRIPTION

A. PROJECT BACKGROUND

1. Overview of the Shelter Sector

Chile has long been a leader among Latin America countries in pursuing innovative solutions in the field of low-income housing. Since the turn of the century, the Government of Chile (GOC) has experimented with a wide variety of housing policies and programs. Laws affecting the housing sector were first passed in 1906, self-help housing programs were operational in the early 1950s, and the country's first comprehensive housing policy was in place 10 years later. Sites and services programs were experimented with in the mid-1960s and during 1970-73 Chile tested the feasibility of heavily subsidized public housing programs on a massive scale but found this model to be economically unsustainable. A savings and loan system was in place until the mid-1970s. The GOC also instituted payroll taxes for housing and utilized the social security system as a source of finance for housing investment.

In order to increase sectoral productivity and extend the benefits of housing to the poorer segments of Chilean society, the GOC introduced a new shelter policy in 1978 characterized by limited public intervention and the use of progressive and transparent housing subsidies. Although the new policy has required a significant level of public expenditures for the subsidy component, its results have been positive and have resulted in considerable private sector participation. Since the new shelter policy became operational in 1979, over 419,000 units have been built, compared with 135,400 units during the 1974-78 period.

Despite these efforts, the housing problems of Chile remain severe. Varying estimates place the backlog of substandard housing within the range of 800,000 to 1.2 million units nationwide. The latter estimate, adopted by the World Bank in the preparation of their most recent housing sector loan in 1989, includes over 400,000 units classified as substandard because of inadequate access to public services, including water, sewerage and electricity. Slightly more than half of the remaining units are classified as substandard because of severe overcrowding (more than 3 persons per room) or because they are shared out of necessity by more than one family. The remainder are classified as substandard because of their construction from impermanent materials.

Chile is somewhat distinct from other Latin American countries, therefore, in that existing production roughly covers the needs of new households, and that a major portion of the backlog is due to over crowding and involuntary doubling-up. Resolving these problems clearly requires additional new construction, which AID will be supporting in this project through assistance to private cooperatives, alongside the World Bank financed public sector construction activity and IDB's work in infrastructure upgrading.

The GOC has three major programs aimed at remedying the problems of inadequate housing for lower-income families: the programs of the Ministry of Housing and Urban Development (MINVU); the Low-Income Urban Area Improvement Program of the Ministry of the Interior (MINTER); and the activities of the National Fund for Regional Development (FNDR).

In order to increase and upgrade the basic housing stock available to low-income families, MINVU implements three programs targeted at low-income population groups: a) a basic housing program allows poor families to purchase units directly from MINVU with a direct housing subsidy of up to 75 percent of the cost of the solution; b) the rural housing subsidy program enables rural residents to acquire or construct houses with a subsidy of up to 75 percent of the cost of the house; and c) the unified subsidy program grants negotiable vouchers whose value varies inversely with the sale price of the units, thereby allowing beneficiaries to purchase housing constructed by the private sector or build their own units either directly or through cooperatives.

AID has been participating in the third of these programs since 1988 through support for a group of private sector housing cooperatives who assemble potential beneficiaries of unified subsidies, assist them in qualifying for the program by saving systematically, and organize the production and sale of homes to their members according to their tastes and financial abilities. Most of the regular members of these cooperatives are families with below-median income, and in their activities supported by AID through an existing housing guaranty loan, 513-HG-008, they have been able to successfully produce housing affordable by the third and fourth income deciles .

2. GOC Goals and Priorities in the Housing Sector

The new Chilean Minister of Housing and Urban Development, Mr. Alberto Etchegaray, recently emphasized the need to expand low-income housing production in order to continue addressing the needs of newly-formed households while more aggressively attacking the accumulated urban housing deficit ⁴ .

As mentioned above, in Chile the consequences of the housing deficit are manifested to a high degree through severe overcrowding. Spontaneous land invasions have been strictly controlled during the last 16 years, leaving new families that lack access to independent housing with no option other than that of seeking shelter in the homes of family members or friends. As many as 423,000 housing units are occupied by their owners and by other families who live as long-term boarders, or "allegados" as they

⁴ Speech presented at "Chile 90-94: Un Desafio Comun", a two-day seminar held between key government officials and private sector representatives under the auspices of the Christian Union of Businessmen and Executives (USEC) at the Hotel Sheraton, Santiago, June 5 and 6, 1990.

have come to be known in Chile, for periods of years before they can save enough and achieve the seniority required to gain access to a government-assisted low-income housing unit.

The problem of the "allegados" will receive top priority in the housing program proposed by the new government. A key instrument for attacking this problem will be the organization of a sharp increase in the production of progressive shelter solutions in the country, an approach that seeks to maximize the impact of available subsidies by concentrating on the provision of serviced lots and sanitary cores to begin with, followed by further assistance in the finishing of units on either an individual or group basis. During 1990, the government plans to support the production of 30,000 sanitary cores, or first-stage progressive housing solutions. It will also provide subsidies and access to credit for families interested in expanding their livable areas in an additional 9,000 existing sanitary core units, and will continue delivering shelter under the ongoing low-income housing programs described above. A total of 66,000 completed units are planned under these programs, including 20,000 basic core units.

The Ministry of Housing and Urban Development has identified a number of policy priorities that are fundamental to achieving its housing sector objectives. Key among these, as clearly enunciated by Minister Etchegaray, are:

1. Enhancing the role of the private sector in the provision of low-income housing in order to promote innovation and competition for further reducing costs, and also to make better use of the ability of private sector institutions -- corporate and cooperative -- to organize demand into groups of families large enough to sustain projects that can generate scale-economies.
2. Improving the functioning of Chile's housing subsidy system, through removing the few indirect or implicit subsidies that remain, and improving the targetting of subsidies in general. A gradual reduction in the overall level of resources devoted to housing subsidies is also to be implemented in the context of agreements reached with the World Bank for a major new housing sector loan.
3. Developing greater depth and breadth in the country's long-term financial markets to increase the liquidity and reduce the cost of low-income mortgages. A financial sector development program that addresses the development of a secondary mortgage market is also to be implemented with World Bank support.
4. Promoting more decentralization in the provision of shelter and services throughout the various regions of the country.

The housing guaranty loan proposed in this document, 513-HG-009, is responsive to the goals and priorities of the newly-

inaugurated government of Chile in its involvement of private sector housing cooperatives in the production of significantly lower-cost shelter solutions than they have been able to produce on a large scale before, and in inducing a major reorientation of their activities to regions outside of Metropolitan Santiago.

3. HG-009 Linkages with GOC Democratization Efforts at the Local Government Level

Another high priority of the Aylwin government is to introduce constitutional reforms that will result in the democratization of institutions⁵. Within this context are reforms that will enable Chile to return to a local government system wherein municipalities are headed up by mayors, city council members, and Neighborhood Advisory Council members (Juntas de Vecinos) who have been directly elected by the local residents of the community. Besides the decentralization and return of power to local governments, the Aylwin government has conceived other reforms that will transfer to municipal governments the authority and responsibility for the formulation and approval of policies, plans, budgets and spending programs.

Local community and urban development programs are to be overseen by Development Councils, whose members will be drawn from the popularly elected Neighborhood Advisory Councils. Current plans of the Aylwin government are to put in place the constitutional reforms and necessary mechanisms to formalize the abovementioned democratization initiatives in time for their implementation through the municipal elections scheduled for April/May 1991.

AID/Chile's Private Sector Cooperative Housing Project II, 513-HG-009, will be highly complementary and supportive of the Aylwin government's reform efforts aimed at decentralization and devolution of power to local governments. The HG-009 project targets 60 percent of its funding for low-cost housing projects to be developed in the provinces outside of the Santiago Metropolitan Area. Funds targeted for the provinces would translate into increased resources to be channelled via private sector cooperatives and builders to municipalities. Their use for projects in local communities would be subject to the approvals of democratically elected mayors and City Councils, as well as that of the elected Neighborhood Advisory Council members serving on the above mentioned municipal Development Councils.

Furthermore, HG-009's financing of progressive development housing solutions will coincide with the Aylwin government's special interest in meeting the shelter needs of the poor and homeless "allegados". The HG-009 project's support of affordable progressive development housing solutions will offer local governments a viable alternative to condoning illegal land invasions while promoting the orderly urban development of their

⁵ Presidential Message and Report to the Nation, presented by President Patricio Aylwin to the Chilean Congress, May 21, 1990.

communities.

4. AID Strategy in the Shelter Sector

AID's overall goal in Chile is to support the country's return to a working democracy. In this context, AID is promoting a number of strategic initiatives that, in the case of the shelter sector, depend crucially on encouraging the private sector to apply the country's free enterprise system to develop sustainable, market-based, ways of addressing the needs of the poor.

While not a unique situation in Latin America, income distribution has become quite skewed in Chilean society, at least partly as a result of the profound structural changes and resultant expansion of the economy since the mid-1980s. The modernized segment is truly internationally attuned and highly productive, in sharp contrast to the many thousands of families of unskilled or semi-skilled workers and underemployed youth who are becoming increasingly frustrated with life in substandard and overcrowded housing.

The newly elected democratic government of Chile is conscious of the need to address these social inequities and expand social services, including access to housing. However, it is also aware that this must be balanced by the need to maintain sound fiscal and monetary policies and avoid the rapid expansion of large unsustainable public sector programs. The country's ability to address the housing problem and also deal with other pressing social challenges will depend, in part, on the willingness of business associations, cooperatives, foundations, the academic community and other non-governmental organizations to respond to social issues and public concerns more directly than in the past. In this regard, USAID/Chile seeks to assist those progressive elements within the private sector that have a vested self-interest in participating in the production of low-cost shelter solutions.

Since 1988, a US\$5 million Housing Guaranty loan (HG-008) extended to the Chilean private sector has succeeded in increasing the availability of housing affordable to families below the median income level and strengthening the institutional capability of COVIP, a coalition of non-governmental organizations active in producing low-cost housing. Initial projections for the HG-008 project anticipated that the project would finance a minimum of 2,000 solutions for low-income households over a four year period. At the end of 1989, 644 homes had been built and another 476 were under construction. At this rate of production it is expected that over 3,200 units will be constructed and sold by the end of the fourth year, more than 60 percent in excess of the program's initial target.

5. Other Donor Activity in the Shelter Sector

The World Bank (IBRD) has participated in Chile's housing sector through two loans totalling US\$280 million. These loans provided assistance for the basic housing and housing subsidy programs executed by MINVU and were primarily designed to increase

and improve Chile's housing stock. The IBRD's first loan in 1984 has been used to construct approximately 80,000 units under the basic housing program. A second loan approved in 1989 in the amount of US\$150 million represented external financing for a US\$1.014 billion program. These resources are expected to increase the housing stock by 165,000 units and, through the formalization of titles and rehabilitation and extension of existing houses, to improve an additional 38,000 units over a three year period.

The Inter-American Development Bank (IDB) has provided Chile with three loans to improve low-income urban areas and develop sites and services programs. The most recent loan was approved in 1989 in the amount of US\$70 million. The purpose of the IDB Low-Income Urban Area Improvement Program is to provide assistance to about 47,000 families living in marginal conditions with basic housing solutions. Complete residential water supply, sewerage, and electric power systems will be installed; streets and alleys are to be paved; land will be subdivided and deeds of ownership provided to all beneficiaries; and sanitary units installed and progressive consolidation of permanent housing encouraged.

While AID's programs in the shelter sector are relatively smaller than those of the IBRD and IDB, AID is nevertheless playing a key role as the major source of direct support for private institutions working in the sector.

B. PROJECT DESCRIPTION

1. Introduction

The objectives of the proposed project are to support the continued involvement of private sector institutions in the implementation of Chile's low-income housing programs, and to encourage these institutions to expand their activities into lower-cost segments of the market and into new regions of the country. The proposed implementing agency, COVIP, S.A., is a group of open housing cooperatives and NGOs, that have been active in this area for about 20 years, and that have, as a group, been working with AID since 1988 in another ongoing housing guaranty program, HG-008. A recently completed mid-term evaluation of the ongoing project states that: "before its half-way mark, the Program will have produced approximately 67 percent of the total housing foreseen for the full Program period", and that "COVIP states that the use of Program funds has allowed it to increase its housing production by about 15 percent and that, in general, the availability of Program funds has permitted housing cooperatives to initiate programs they could not otherwise have funded with commercial banking lines"⁶.

⁶ International Science and Technology Institute, Inc., Chile Private Sector Cooperative Housing Guarantee Program Interim Evaluation, prepared for the U.S. Agency for International Development, LAC/PS, May 1990.

HG-009 will allow COVIP member cooperatives to continue the programs initiated under HG-008 and expand their coverage substantially in both geographical and product-line terms. It is also intended to serve as a bridge to a larger planned effort, HG-010, which will begin to address the limitations in private commercial funding for low-income housing directly through support for broad ranging legislative and regulatory reform and the development of new instruments to help Chilean private financial institutions mitigate the risks inherent to working in the low-income segment of the market.

2. Project Description

Project Goal and Purpose

The goal of the project is to encourage the Chilean private sector to expand its involvement in the production and sale of low-cost shelter.

The purpose of the project is to assist housing cooperatives to expand the production of low cost shelter solutions nationwide, and to progressively reduce their cost to address the shelter needs of a broader segment of the urban poor.

Project Inputs

The Project will provide \$5 million in Housing Guaranty authority, which together with \$500,000 in counterpart funds will finance a broad range of housing units affordable to urban families throughout Chile with below-median incomes.

Up to 650,000 in grant funds from the LAC Regional Inter-country Technology Transfer Project to fund

- a resident housing finance advisor for three years,
- 11 person/months of short-term technical assistance, and
- related training and participant travel

Project Outputs

Units are planned to be produced in four categories:

UNIT TYPE	AVG. PRICE	MORTGAGE AMOUNT	% OF FUNDS	TOT. UNITS
sanitary core/lot	\$1952/	488	5%	1,127
special program	\$5466/	2,050	15%	805
low-cost coop	\$6246/	2,732	25%	1,007
standard coop	\$7808/	4,099	55%	1,476
PROJECTED UNITS PRODUCED:				4,415
40/60 Santiago/provincial split:	Santiago units			1,766
	Provinces			2,649

In the past, the COVIP network has shown its ability to produce a product which is affordable to families below the median income and which is widely accepted by those in this income group. It has not extended its production to very low income families unable to acquire a complete house of the standard to which most aspire in the current market. Under this new program, construction financing will both be available for new products.

55% of the project funds will be utilized to continue the production of "standard" cooperative units which are affordable to families with monthly incomes above \$167 and below the median of \$199.

25% of project funds will finance the construction of reduced-cost units with an average cost of \$6,246 per unit. These will be habitable but smaller and, most likely, less finished units affordable to those in the third decile with monthly incomes of at least \$131.

15% of the available financing will be applied to the construction of homes under the Extraordinary Housing Program (PEV), which will benefit groups of workers with incomes in the second decile, earning at least the minimum wage, which is expected to increase to \$87 per month in July 1990. The advantage of the PEV program to participants is the priority treatment it will receive from MINVU, making it possible for beneficiaries to obtain a unit in a shorter period of time than other programs.

The remaining 5% of the units financed will be accessible to the lowest income groups, including families in the first decile, by providing a serviced lot with a sanitary core or other expandable structure. It is anticipated that this segment of the project will be particularly complementary to one of the innovations forthcoming from MINVU, which would involve a two-step subsidy: A participant would first obtain a basic lot or sanitary core, then would apply additional savings in order to qualify for a second subsidy to permit the construction of a more complete unit.

60% of the financing provided under HG-009 will be used in the provinces outside the Santiago Metropolitan Region. Changes in the law which restricts the operation of cooperatives beyond the regions in which they were chartered is imminent, and these resources will complement the cooperatives' legal ability to expand their geographic service areas.

Another output of the HG-009 program will be the expansion of cooperative and other nonprofit institutional capacity in the provinces, and the encouragement of participating organizations to retain a measure of involvement with their members over a longer period of time. Among the objectives to be pursued following the completion of the principal product--houses and home improvements--is the continued relationship between members and providers to initiate additional projects. These will include savings mobilization for community projects, such as street paving, or the development of small parks or other community facilities.

Most significant is the impetus the funds will provide to these progressive private sector institutions for innovation and for a focus on the housing demand of those segments of the working population which have not been served by the private sector in the past. While there are increased risks involved for this delivery network in extending its production to the lower-income market, it is expected that the combination of A.I.D. financing and MINVU subsidies will make it possible to demonstrate that the private sector can make profitable and sustainable advances into this market which will be able to be continued on a sound financial basis in the future.

Beneficiaries

The beneficiaries of this project will be families whose monthly household incomes are below the median, estimated by the project design team as UF10.17 (US\$199) at the end of March 1990. A range of solutions will be provided by COVIP under this project to permit families whose monthly incomes fall between the first and the fifth deciles to participate in the project. The project's beneficiaries will pay a minimum downpayment of 12.5 percent of the sales price of the solution from their own savings and will receive a direct subsidy in the form of a voucher from the GOC ranging from UF60 (US\$1,172) to UF140 (US\$2,734) depending on the type of solution purchased. Project beneficiaries will pay up to 20 percent of their income to amortize a long-term mortgage from the Banco del Estado. Mortgages will be amortized over a period of either 12 or 20 years, with 20 years being the norm.

Institutional roles in Project Implementation

COVIP will be the principal implementing institution for the Project. It will:

- Act as HG borrower,
- Coordinate the activities of the sub-borrowers, the various housing cooperatives which produce and sell the housing units,
- Coordinate with A.I.D. the technical assistance inputs, and
- In general, promote the Project and identify the actions required to meet the Project purpose

A U.S. bank operating in Chile will act as custodian of local currency funds held in escrow on behalf of A.I.D. It will:

- Disburse local currency proceeds of the HG advance against evidence of acceptable collateral to finance the construction of eligible units,
- Manage the local currency escrow account
- Cooperate with COVIP in arranging currency swaps, as required, to protect A.I.D. from the foreign exchange and transfer risks.

The member institutions of COVIP will build and sell the eligible units throughout Chile to be financed through this Project.

Borrowing and disbursement procedures

The proposed borrowing arrangements and disbursement procedures are the same as those in use in the existing project 513-HG-008. The housing cooperative umbrella organization, COVIP, S.A., will be the borrower. The \$5,000,000 in HG financing will be made available as an advance. The local currency proceeds of the HG loan will be placed in an escrow account in the Santiago branch of a U.S. bank. The funds in escrow will finance the construction of eligible housing units produced by the housing cooperatives. The U.S. bank will manage and monitor this construction financing on behalf of A.I.D. COVIP will liquidate the HG advance against the value of mortgage financing provided to eligible beneficiaries.

The Project is expected to finance 4,400 units over three and one-half years based on two rotations of the \$5,000,000 HG advance and of the \$500,000 in counterpart funding.

TABLE 2
SUMMARY COST ESTIMATE
AND FINANCIAL PLAN

(Thousands of U.S. \$)

	<u>FY1990</u>	<u>FY1991</u>	<u>FY1992</u>	<u>FY1993</u>	<u>TOTAL</u>
<u>Project Activity:</u>					
Technical Assistance Shelter	150	250	250		650
Amount Financed	-	3,667	3,667	3,666	11,000
	=====	=====	=====	=====	=====
<u>Totals</u>	150	3,917	3,917	3,666	11,600
<u>Source of Funds:</u>					
AID:					
Inter Tech Proj.	150	250	250	-	650
HG	-	5,000	5,000 ¹	-	10,000
	-----	-----	-----	-----	-----
Sub Total AID	150	5,250	5,250	-	10,600
COVIP	-	500	500 ²	-	1,000
	=====	=====	=====	=====	=====
<u>Totals</u>	150	5,750	5,750	-	11,600
<u>PRODUCTION</u>					
No. of Units	-	-	2,200	2,200	4,400

¹/Reflows from rotation of HG advance

²/Reflows from rotation of counterpart funds

Technical Assistance Plan

The proposed technical assistance plan is designed to support the accomplishment of the broader policy agenda and institutional development objectives of the Project. The TA plan will serve to place a resident housing finance advisor who will support the AID Representative to Chile with the management of the shelter sector programs. The short-term technical assistance and training initially will support the development of new, lower-cost solutions by the housing coops and subsequently will support the evaluation of that experience and the dissemination of the findings.

The TA plan will put in motion a process through which product innovations, new markets served, new collaborative relationships forged, and improvements to the beneficiary support systems developed by the TA can continue beyond the completion of the Project.

Summary TA Plan

The total cost of grant-funded technical assistance and training, and its breakdown by major components is:

	<u>Person/Months</u>	<u>Cost</u>
A. <u>Long-term advisor</u>		
Resident Housing Finance Advisor	34	\$470,000
B. <u>Short-term T.A and Training</u>		
1. Support for program implementation		
1.1. New product development	4	50,000
1.2. Beneficiary support systems development	2	25,000
1.3. Related training/seminars	n/a	10,000
C. Evaluations		
1. Program Evaluations	5	70,000
2. Dissemination of Findings	<u>n/a</u>	<u>25,000</u>
	45	650,000

Grant funding of all TA and training activities described will be provided from the LAC Regional Inter-country Technology Transfer (ITT) Project (598-0616.06) for ADC countries. To support the diverse TA and training activities associated with the implementation of the HG-009 program as well as those related to a planned new HG project for FY 91, AID/Chile will allot \$650,000 of grant funds from the ITT project's PSEE functional account between FY 90 and FY 92. Proposed grant funding to be allotted will be as follows: a) FY 90 - \$150,000; b) FY 91 - \$250,000; and c) FY 92 - \$250,000.

III. TECHNICAL FEASIBILITY

Introduction and Summary

The technical feasibility analysis examined the Project from the perspectives of design cost, affordability, construction capacity and capability, and acceptability of the proposed building standards in terms of the applicable building codes and regulations.

HG-009 will finance the construction of units of a type that is known in the Chilean marketplace, but which have to date been built and sold primarily by the Ministry of Housing regional building units, the SERVIU. Some of the members of COVIP, namely the Corporacion Habitacional and Habitacoop, also have experience building the range of unit types proposed for the program, which has allowed the verification of the feasibility of the proposed designs from the cost perspective.

Affordability analysis, as described below, indicates that the completed units that are proposed will include some that are affordable by households whose monthly incomes are only \$102 and who occupy the second decile of the national income distribution. Progressive shelter solutions that will be offered will be affordable down to the first income decile, and all solutions proposed are affordable to households below the median income level of approximately \$200 per month.

COVIP members have extensive experience in their specialty, and are producing housing at an annual rate that is more than five times greater than the additional level of output to be financed by HG-009. That is, meeting the programmed levels of output for HG-009, assuming that all output were additional to current levels, would mean an expansion of only about 12 percent. This is a rate of expansion that can be absorbed by the technical, administrative and other support structures that are in place among COVIP's membership. However, it is not anticipated that the HG-009 output will be totally additional, as it is expected that some of the production will replace ongoing, higher-priced construction activity.

A. DEFINITION OF THE HOUSING MARKET FOR PROJECT BENEFICIARIES

In order to determine the technical feasibility of the proposed project, an analysis of the payment capacity of families at various deciles below the median income was conducted to determine the maximum monthly mortgage payment, and by extension, maximum solution costs, affordable to targeted beneficiaries. As illustrated in Table 3, the median household income estimate for this project was estimated at UF10.17 (US\$199). The income distribution depicted in Table 3 is derived from the National Statistics Institute's (INE) supplemental survey of household income conducted during the fourth quarter of 1988 adjusted for real increases in wage and salary income during the period December 1988 through March 1990 and expressed in UFs.

Table 3.

**Chile: Estimated Payment Capacity of Target Beneficiaries
Category I, Unified Subsidy Program**

(End-March 1990; Values in Unidades de Fomento 1/)

Income Decile	Monthly Household Income 2/	Monthly Mortgage Payment As A Proportion of Income		Unit Sales Price	Mortgage Amount 3/ S=UF150	Monthly Payment 4/ 20 Year	Mortgage Amount 5/ S=UF140	Monthly Payment 20 Year
		@ 25%	@ 20%					
1	3.29	0.82	0.66	400	200.00	1.74	210.00	1.82
2	5.25	1.31	1.05	390	191.25	1.66	201.25	1.75
3	6.70	1.67	1.34	380	182.50	1.58	192.50	1.67
4	9.55	2.14	1.71	370	173.75	1.51	183.75	1.59
5	10.17	2.54	2.03	360	165.00	1.43	175.00	1.52
6	11.76	2.94	2.35	350	156.25	1.36	166.25	1.44
7	14.93	3.73	2.99	340	147.50	1.28	157.50	1.37
8	19.27	4.82	3.85	330	138.75	1.20	148.75	1.29
9	27.59	6.90	5.52	320	130.00	1.13	140.00	1.21
10	94.53	23.63	18.91	310	121.25	1.05	131.25	1.14
				300	112.50	0.98	122.50	1.06
				280	95.00	0.82	105.00	0.91
				250	68.75	0.58	78.75	0.66

1/ The adjustable development unit (UF) is a constant currency measure whose value varies daily in concert with the CPI.

2/ Data from the National Statistics Institute's supplemental survey of household income conducted during the fourth quarter of 1988 adjusted for real increases in wage and salary income during during the period December 1988 through March 1990 and expressed in UF.

3/ Unit sales price minus 12.5 percent representing beneficiaries' down payment minus GOC subsidy of UF150 for units in the UF250-400 range.

4/ 8.5 percent interest in real terms amortized over a 12 or 20 year period.

5/ Unit sales price minus 12.5 percent representing beneficiaries' down payment minus GOC subsidy of UF140 for units in the UF250-400 range.

Assuming that between 15 and 25 percent of monthly household income is available for mortgage debt service⁷, monthly mortgage payments were calculated for the range of solutions eligible for subsidization under Category I of the Unified Subsidy Program. Monthly mortgage payments were calculated on the basis of the existing maximum subsidy of UF150 (US\$2,928) as well as for reduced subsidy levels of UF140 (US\$2,733) and UF130 (US\$2,538) which MINVU intends to phase in over the near term. The Banco del Estado offers mortgage credit at terms of either 12 or 20 years, the latter, of course, allowing for lower monthly payments.

Table 3 indicates that a UF400 (US\$7,808) unit, representing the ceiling price of the subsidy program, is affordable by potential beneficiaries with income levels in the fourth income decile and above. Moving down the range of solution costs to the UF360 (US\$7,027) level, affordability is possible for potential beneficiaries earning an average monthly income equivalent to the third decile, UF6.70 (US\$131), and above. Housing priced at or below UF320 (US\$6,246) becomes affordable to potential beneficiaries in the second income decile and above earning an average of UF5.25 (US\$102) per month even when the maximum subsidy is reduced to UF140 (US\$2,733). Solutions priced at UF250 (US\$4,880), the minimum price eligible for a subsidy under Category I of the Unified Subsidy Program, are theoretically affordable to a family earning the first decile's average of UF3.29 (US\$64) per month assuming a subsidy level of UF140 (US\$2,733), a mortgage with a twenty year term, and 20 percent of monthly income allocated for mortgage amortization.

B. SHELTER SOLUTION TYPES AND ESTIMATED COSTS

1. Standard cooperative unit. This is the most common product currently produced by the cooperative member providers of COVIP. Prices range from 350 UF to 400 UF (US\$6,825 to \$7,800) and are broken down as follows for sample projects in Metropolitan Santiago:

<u>Cost Component</u>	<u>350 UF unit</u>	<u>400 UF unit</u>
land	35 (\$683)	40 (\$780)
site development	50 (\$976)	50 (\$976)
unit construction	200 (\$3904)	235 (\$4587)
technical costs	15 (\$293)	20 (\$390)
financial costs	25 (\$488)	29 (\$566)
legal fees	20 (\$390)	20 (\$390)

⁷ The Banco del Estado uses 20 percent of household income for qualifying borrowers for long-term mortgages, and the CPI uses a weight of about 25 percent for total housing expenses.

reserve/contingency	5 (\$ 98)	6 (\$117)
Total costs/sale price	350 (\$6835)	400 \$7812)

As noted, costs -- particularly those for site development -- are often higher in areas more distant from Santiago.

It is anticipated that the maximum subsidy that will be allowed for units in the 250 to 400 UF price range (\$US4,880 to \$7,800) by the new government is 140 UF (US\$2,373).

Assuming that this maximum subsidy would be available to each homebuyer in the program, the 350 UF (US\$6,830) unit would be affordable to families with monthly incomes of \$72, while the 400 UF (US\$7,800) unit would require a monthly income of \$142, if 12.5% of the purchase price is contributed from savings, with a mortgage at 8.5% for 20 years. This would result in the 350 UF (\$US6,830) unit being affordable to those in the second income decile, with the 400 UF (US\$7,800) unit affordable to families in the fourth decile.

2. A lower-cost cooperative product with an average price of 320 UF (US\$6,246) would be a house of smaller size on a smaller lot, such as the small townhouse currently being built by the Housing Corporation (Corporacion Habitacional). Less interior finish work could be expected for this price. A family seeking to obtain housing of this type must have a monthly income of \$107, which includes those in the third decile. 25% of program resources will be available for such units.

3. 15% of the houses built under this project will be for an average unit cost of 280 UF (US\$5,466). Assuming the application of the maximum unified subsidy -- 140 UF (US\$2,733) -- beneficiaries will need to earn \$102 per month. This will, therefore, also include households in the second income decile.

4. A sanitary core house will be developed for 5% of the solutions produced under this program. Typical costs are expected to be 100 UF, or US\$1,952. Currently, a subsidy of 75 UF (US\$1,464) is available for this unit, and no savings is expected to be applied by beneficiaries.

Three possible scenarios might be envisioned for the progressive housing program following the first stage provision of a sanitary core: First, the lowest income family may not be able to acquire any additional resources for the construction of additions to the core house. In such cases, the buyer of a sanitary core will seek the most minimal shelter solution, such as the purchase of used building materials for the construction of a simple, 18-square meter house attached to the sanitary core. Pricing inquiries for such recycled materials as they are confirmed to be available in Santiago provides an estimate of \$200 for use in this example.

Second, a family may seek to acquire an intermediate solution, such as the purchase of a prefabricated wooden unit produced by Hogar de Cristo. Financing for such solutions may be made available by MINVU through a second loan at rates and terms comparable to other programs. Assuming that a second subsidy is available for 50% of the subsequent loan, a household might expect to have to borrow \$400 of an estimated \$800 cost of this type of unit.

Third, those with more ability to borrow might also obtain a second loan, but one to construct a unit half the size of the standard cooperative product. Based on the costs estimated for the standard cooperative unit above, unit construction could be projected at 125 UF (US\$2,440). In such a case, a 50% subsidy for the second loan would require borrowing approximately \$1,220.

The affordability of these three cases is examined below:

<u>Solution</u>	<u>Lot</u>	<u>&</u>	<u>House</u>	<u>=</u>	<u>Loan Amt.</u>	<u>Income Required</u>
core only	488	+	200	=	\$ 688	\$24/month
core&wood	488	+	400	=	\$ 888	\$31/month
core&unit	488	+	1220	=	\$1708	\$60/month

Of course, it is unlikely that credit would actually be available to the lowest income family seeking to build with recycled materials in the first case. A loan for the core house alone would result in monthly payments of \$4.23. If 15% of income is presumed to be available for repayment of this amount, then monthly household income of about \$28 would be sufficient. The remaining 10% of income assumed to be available for housing costs, or about \$3 per month, would permit only a very slow construction process even if inexpensive recycled materials are used. A family earning the first decile median of \$64 per month, and able to spend 25% of this amount on housing, could afford the \$28 payment on the lot and could acquire building materials over a period of a few months for self-construction of a minimal house.

All three second-phase progressive housing solutions described above would be affordable to families in the first income decile. Individual resources and the timely availability of additional credit and subsidies would determine which option actually would be employed.

All four housing types projected to be built using HG-009 are, therefore, affordable to households with below-median incomes. They are, in fact, responsive to the needs of the lowest income deciles, and offer alternatives which can and will be produced by the private sector to meet a wide range of housing needs.

Sixty percent of all solutions will be built outside the Santiago Metropolitan Region. The actual location of these units is expected to include some of the secondary and smaller cities in which COVIP members currently operate. The cities in which production capacity exists are:

Arica	Iquique	Antofagasta	Vina del Mar
Melipilla	San Antonio	Rancagua	San Fernando
Curico	Talca	Chillan	Concepcion
Temuco	Valdivia	Osorno	Puerto Montt
Punta Arenas			

COVIP members and other will develop proposals for projects in the above categories for selection based on cost and overall feasibility. COVIP will market the fund and encourage applications which will use the lower-cost housing solutions. There is already considerable demand for financing for development of the standard cooperative house, which will continue to utilize 55% of program resources. Local producers are expected to collaborate with MINTER and SERVIU officials and with local public works offices concerning the selection of sites and housing solutions. Local staff members of organizations in the COVIP network already have considerable experience and personal capability in marketing their current range of products. Through seminars and other efforts to share information about the progress of this program, combined with their efforts to work closely with local officials and employers, they are expected to perform as capable promoters of this expanded list of housing alternatives.

C. ENVIRONMENTAL CONSIDERATIONS

HG-009 will provide financing to a coalition of private sector institutions active in the organization of construction of low-income housing in Chile, and will require that, in the aggregate, the housing financed with HG resources meet certain tests based on sale price and geographical distribution. AID will periodically monitor the program to ensure that the HG-financed "portfolio" of individual development projects remains within the established criteria, but AID will have no direct knowledge of or control over individual subprojects prior to financing.

Section 216.2 (c) (ii) of AID's Environmental Regulations states that Initial Environmental Examinations, Environmental Assessments and Environmental Impact Statements are not required when "AID does not have knowledge of or control over, and the objective of AID in furnishing assistance does not require, either prior to approval or financing or prior to implementation of specific activities, knowledge of or control over, the details of the specific activities that have an effect on the physical and natural environment for which financing is provided by AID". Based on A.I.D.'s review of this project, however, the environmental determination is deferred until such time an in-country review of

COVIP's environmental assessment procedures is carried out.

Nevertheless, the project paper team requested a statement from COVIP that describes their customary site selection and site development procedures, a summary of the water supply, garbage and sewage disposal standards applicable for their projects and other information pertinent to the protection of natural aesthetic values in the processes of project design and development. Over the years, COVIP has developed policies, standards and procedures to guide their project development activities which reflect substantial concern and rigor in evaluating environmental impacts associated with project development, and which provide relatively clear environmental quality standards to their operating units.

In 1981 COVIP contracted Asesoria CPC/INVICA, a local Chilean firm, to develop a model which has since become fully operational and is currently implemented by COVIP and all of its members to guide them through proper site selection and development, including the location of traditional housing projects financed with local and AID funds. The "Dynamic Model of Design" rates the adequacy and acceptability of specific sites for potential housing projects according to a numerical scale of 0 to 3. The ratings are determined by comparing different aspects of the sites with applicable municipal and governmental norms and standards through three means: (a) physical site surveys; (b) sociological surveys of potential site residents; and (c) review of technical field studies. The criteria covered by the model include:

1. Quality of Environmental Conditions

- a. Environmental Quality (noise, air pollution, and solid waste management)
- b. Security against accidents for residents.
- c. Topography, climate, and physical surroundings
geology: soil type, hydrological conditions,
stability of site with respect to faults and
slides)

2. Construction

- a. Housing type
- b. Housing design and siting
- c. Project size
- d. Relationship of open space to construction
coverage of site
- e. Relationship of open space and developed site
- f. Distance of home to place of employment

3. Infrastructure

- a. Type, amount, and quality of community facilities
- b. Distance of housing to community facilities.
- c. Type, amount, and quality of public transportation
- d. Type and quality of roadways, green space,
developed sites versus common areas

4. Services

- a. Potable water
- b. Sewerage disposal
- c. Electrical services
- d. Fire prevention
- e. Garbage collection
- f. Storm drainage
- g. Police protection

Suitable scores must be assigned to each potential site for each of the above criteria before they are approved for development. Employment of the model will afford adequate review of environmental considerations associated with the development of traditional housing projects financed by COVIP and its members, which represent 95% of total output of the proposed HG project (HG-009).

COVIP and its members also recognize that progressive housing solutions under the new HG-009 project represent a departure from the traditional housing projects. New site and unit design and review procedures will be required to parallel the progressive solutions, which will amount to 5 percent of total project output. Specifically, COVIP and the coops will have to arrange for technical assistance and monitoring of individual beneficiaries to insure that proper attention is given to seismic resistant construction.

COVIP, as part of its project implementation under the HG-009 Project, will introduce appropriate changes to its existing practices and procedures to ensure that adequate treatment of environmental considerations are built into the housing development process and all housing designs. AID assistance will not be required to do this. With these changes, COVIP and its members will be giving adequate attention to environmental issues associated with the development of progressive and traditional housing solutions.

RHUDO/SA is also in receipt of several-volume studies commissioned by COVIP to provide their members with project development guidelines reflecting environmental concerns. Such detailed information on the utilization of environmental guidelines by COVIP members is available for review from the RHUDO/SA.

As part of project implementation, RHUDO will review further with COVIP the procedures that COVIP follows to ensure that its projects are environmentally sound. Technical assistance will be provided to COVIP on these environmental issues as appropriate.

IV. FINANCIAL ANALYSIS

Introduction and Summary

The financial analysis examined the broader financial context within which the project is expected to operate. The objective was to determine that the project can function as designed within that framework. Also the analysis examined the creditworthiness of the proposed borrower and arrangements that have been made to manage the financial risks to AID and the Housing Guaranty Program. In the specific case of Chile and HG-009, alternative borrowing arrangements involving different means of managing transfer and foreign exchange rate risks were also examined.

The financial mechanisms that will be employed for HG-009 are not new to this project, but have been in use by AID and COVIP since 1988 under HG-008. As in the case of HG-008, it has been found that HG-009 is workable within the prevailing financial framework for low-income housing in Chile. This is one in which commercial financing continues to be limited to higher-income segments of the market, and where an extensive system of government-supported subsidies and long-term mortgage credit makes possible the participation of some private builders such as the COVIP members. The process whereby low-income families must first establish minimum savings in order to be prequalified for a subsidy and a mortgage loan is one that helps COVIP members minimize the commercial or market risk they assume. In essence, the housing they will produce with HG-009 financing will be presold on the basis of prearranged subsidy payments and long-term mortgages before they are built.

Two acceptable alternatives exist for managing transfer and foreign exchange rate risk: a currency swap agreement with the Central Bank of Chile, or the extension of the AID guaranty to a local currency loan contracted with the Chilean branch of a U.S. bank. Both alternatives are acceptable from the AID perspective, and it is therefore recommended that funds be contracted with a currency conversion option, as was the case for HG-008.

Finally, the financial stability of the proposed borrower and additional measures to reduce AID exposure have been examined. As indicated in the text that follows, COVIP members fully merit the high credit-standing they have established in the Chilean markets, and have sufficient capital to assume the proposed additional indebtedness safely. Furthermore, AID will be fully protected by liens on land and other real property owned by COVIP members and offered by them as security against advances of the HG loan.

A. STRUCTURE OF CHILE'S HOUSING FINANCE SYSTEM

A unique and highly effective public/private sector partnership exists and functions in Chile for the development, construction and marketing of low-income housing. Mortgage financing for the sale of units valued at less than 400 U.F. (about

U.S. \$7,800) is available only from government sources. The government agencies that provide long-term mortgages for low-income housing are the Banco del Estado and the Ministry of Housing and Urban Development (MINVU), with the latter directly originating mortgage loans only in the case of the lowest-cost serviced lot, sanitary core, and basic core units.

Savings and loan companies, historically important actors in the Chilean housing finance system during the 1950s and 1960s, disappeared during the mid-1970s as a consequence of their inability to survive an extended inflationary period that coincided with the lifting of deposit interest rate regulations that previously set a cap on funding costs. These changes took place as part of a broad financial sector deregulation effort that the savings and loans were not able to survive. Commercial banks, on the other hand, were empowered by the same regulatory reforms to become multi-purpose banks and to enter the field of mortgage lending, a field which they continue to dominate for middle and upper-middle income mortgage borrowers.

As another consequence of that deregulation, and since that time, commercial banks have been empowered to act in the area of mortgage lending on the basis of funding through the market placement of letras de credito hipotecario (letras). These are long-term instruments issued at maturities that match existing mortgages held by the issuing bank, though they are not directly secured by these mortgages. The main buyers of these letras have been pension funds and life insurance companies, and, as of September 1989 about U.S. \$1.5 billion in letras issued by the banking system were outstanding.

Private commercial banks have thus far only been able or willing to provide mortgage loans for units valued at over UF400, affordable only by families with above median incomes⁸. They are therefore of scarcely any importance in mortgage lending to low-income families.

Private commercial banks are, however, an important source of construction financing for housing cooperatives and other private groups that focus on low-income housing development. About 80 percent of the construction organized by the COVIP -member cooperatives, for example, is financed by commercial banks.

The output of private groups building for the low-income market, including the Hogar de Cristo and housing cooperatives is

⁸ The unidad de fomento, UF, is a constant-value currency measure whose value increases (or decreases) daily in concert with the previous month's consumer price index for that day. At the end of March 1990, the value of one UF was US\$ 19.53. The rate of change in the value of a UF (equivalent to last month's rate of change in the consumer price index) is also widely used to index financial transactions. Interest rates are often expressed as "UF + X %". The interpretation of "X" is the real portion of the nominal interest rate to be charged.

important -- estimated at about 33,000 units in 1989 -- but still about 25 percent

less than government-financed construction. MINVU's Servicios Regionales de Vivienda y Urbanismo (SERVIU) produced about 44,000 units, including sanitary cores, during 1989. COVIP members produced just under 5,000 units in 1989, of which about 15 percent were financed through the ongoing AID HG- 008 program.

Production and sale of low-income housing units in Chile are heavily influenced by an elaborate system of direct and indirect subsidies administered by MINVU and the Banco del Estado. This system is briefly described in the following section.

B. DIRECT AND INDIRECT SUBSIDIES

There are basically three direct, or explicit, subsidy systems operating in the urban areas of Chile:

- The marginal urban program is designed to provide sites and services and basic core units to the poorest income strata, and grants direct subsidies equivalent to 75 percent of unit sale prices
- The unified urban subsidy program is operated for housing units in three price and subsidy ranges: Category I provides a subsidy of (US\$2,700) on units ranging from \$4,500 to \$7,200 in price; Category II provides a subsidy of \$2,340 (lower than Category I) for units in the \$7,200-16,200 range; Category III provides a subsidy of \$1,980 for housing that costs between \$16,200 and \$36,000.
- The special program is designed to encourage private sector institutions and NGOs to become involved in and financially support low-income housing construction for workers or other affiliated groups. The subsidy amount is \$1,080 for units designed to sell for about \$4,700.

The organizations affiliated with COVIP provide housing that is eligible for subsidies under Category I of the unified urban subsidy program and under the special program.

Mortgage loans associated with these direct subsidy programs are further subsidized indirectly (implicit subsidies) in two ways. First, mortgages are guaranteed to the lender by the government for up to 75 percent of the unrecoverable outstanding balance in the event of default, at no cost to the borrower or the lender. Second, the government supports the refinancing of fixed real-rate mortgages by directly compensating pension funds and other investors in mortgage notes for the difference between the face value paid to the issuing banks (set at par, and paying a fixed real coupon yield) and the discounted value of such notes calculated on the basis of the prevailing long-term market rate of interest. Until recently, low-income mortgage lending in Chile has been at U.F. plus 8 % (8 % real) for terms ranging from 12 to 20

years, while the nominal coupon yield of letras de credito hipotecario has been in the range of U.F. plus 4 to 5 %. This coupon yield has been substantially below market for long-term instruments during the early part of 1990, which has meant that the government has had to reimburse investors in letras issued by the Banco del Estado to the extent necessary to raise their effective yields to a competitive level.

The Aylwin government proposes to rapidly eliminate hidden or implicit subsidies of these kinds, and will also gradually reduce the total amount of public resources devoted to housing subsidies. Over time, as real rates of interest in the Chilean financial markets are reduced to lower levels comparable with other countries at a similar stage of development, the need for direct subsidies to maintain access to housing for low-income families can be expected to be reduced as well.

C. FINANCIAL IMPACT OF ALTERNATIVE IMPLEMENTATION ARRANGEMENTS

Two options have been considered for HG-009 regarding the application of AID's guaranty. The first option is to adopt the framework already established for HG-008, which is as follows:

- . AID provides a dollar guaranty for a dollar loan extended by a U.S. lender, and COVIP assures its ability to obtain dollars at a preestablished exchange rate for timely repayment of its dollar obligations by entering into and maintaining a currency swap with the Central Bank of Chile. If COVIP is unable to maintain such coverage, it may prepay the loan or exercise its right to convert that loan to a peso loan already committed to by the Chilean branch of the U.S. lender, retaining and transferring the AID guaranty for this purpose.

Alternately, the option of soliciting offers from U.S. banks resident in Chile for an AID-guarantied peso loan has also been analyzed.

U.S.-owned financial institutions resident in Chile and eligible to participate in the HG program have been consulted with respect to their interest and ability to participate in a guarantied local currency loan of the desired 10-year maturity. Three such institutions have informally indicated both ability and interest, and there are at least three more (out of a total of 11 U.S. banks operating in Chile) who would qualify to bid on an AID housing guaranty loan.

AID has already established a precedent with respect to extending its guaranty to cover a local currency loan (made, as required by the HG legislation, by a U.S. lender) by having approved the convertibility clauses contained in the HG-008 loan agreement. HG coverage is already available to COVIP for HG-008 if the currency swap option with the Central Bank becomes too expensive or ceases to exist.

The determining factors, then, in deciding whether to apply a new housing guaranty for HG-009 to a U.S. dollar loan or to a Chilean peso loan would appear to be the following:

1. Is the Central Bank offering to enter into currency swap arrangements at the time that HG-009 loan funds are being contracted?
2. What is the relative cost to COVIP of obtaining credit in U.S. dollars vs. Chilean pesos?

Real interest rates are several times higher in Chile than in the U.S. at the present time. For example, the U.S. prime rate, at 10 percent per annum, is probably equivalent to a real rate of 4-5 percent, depending on what measure of inflation is used to estimate it. In Chile, fully indexed loans have averaged about 8 percent p.a. for the last five years, in real terms, and spiked up as high as a 16-18 percent real rate in the early second quarter of 1990⁹.

The prevalence of high real rates of interest in Chile over an extended period is due to a combination of excess demand and perceived market and country risk factors, as is discussed briefly in Chapter V. There is good reason to believe that these are conditions that will change over the next several years, but only gradually. Hence, we have assumed that real interest rates will continue to be higher in Chile than in the U.S. for all or most of the life of HG-009.

The significance of this assumption is that -- assuming COVIP can negotiate and renew currency swaps with the Central Banks on terms at least as good as are available now -- borrowing dollars will be cheaper for COVIP than borrowing locally, even when the cost reductions attributable to the AID guaranty of a local currency loan are factored into the calculations.

The first two-year currency swap agreement entered into between COVIP and the Central Bank to implement HG-008 lapses at the end of June 1990. COVIP has therefore been engaged in careful analysis of the relative costs of entering into a new swap arrangement under a somewhat higher Central Bank commission structure than prevailed two years ago, versus paying off the dollar loan and activating the AID-guarantied local currency loan from Citibank/Chile that was negotiated as an option for COVIP

⁹ As of mid-June, real rates have begun to trend downward, to about 14-15 percent for one-year money, and they are expected to gradually return to levels in the neighborhood of 8 percent such as experienced during the last few years. The spike observed in early 1990 was clearly due to the severity of the stabilization measures imposed by the Central Bank to slow inflation, and was clearly unusual. The continuation for the next several years of real rates in the range of 8-10 percent is considered to be highly probable, however, and is assumed in the comparative financial cost analyses performed for the project paper.

under HG-008. The details of that comparative cost analysis are presented in Appendix 4A. The conclusion of that analysis is that maintaining the HG-008 dollar loan and entering into a new currency swap agreement with the Central Bank will cost COVIP the equivalent of a 12.7 percent real annual rate of interest -- all fees included -- while exercising the option to convert HG-008 to an AID guaranteed local currency loan would result in a real financial cost to COVIP of approximately 14.7 percent per annum.

The same cost differential would apply to the implementation of a new loan via the two alternative routes. The strategy for HG-009, therefore, is that the new loan be contracted on the same terms as HG-008. That is, assuming no radical change in the U.S. and Chilean interest rate assumptions presented in Appendix 4A, AID and COVIP will initially contract a new dollar loan with a U.S. lender that has a local branch in Chile, will seek and maintain a new currency swap agreement with the Central Bank so long as it remains financially advantageous for COVIP to do so, but will also preserve the option introduced in HG-008 of converting the dollar loan into a guaranteed local currency loan when and if future conditions so warrant.

In negotiating a new currency swap agreement with the Central Bank, COVIP will attempt to negotiate a longer term and a lower commission rate than is currently available. Presently, the Central Bank is offering to enter into currency swap agreements for a maximum of two years, is charging a commission of 2.6 percent annually -- in dollars and payable in advance -- and is fixing the dollar repurchase rate at UF (domestic inflation) minus 3.4 percent (estimated hard currency inflation)¹⁰. COVIP plans to propose a term for a new currency swap agreement for HG-009 and future HGs to match the term of the AID guaranty (10 years for HG-009), and to request a lower commission rate to reflect the economic advantages to the Central Bank and Chile of having the use of the HG dollars for an extended period of time.

Only if, for some unexpected reason, the Central Bank decides not to offer currency swaps, or if the financial cost of obtaining forward coverage through a swap arrangement becomes prohibitively high, will AID and COVIP proceed directly to the solicitation of offers and contracting of a guaranteed peso loan from a U.S. bank operating in Chile. Desirable features that will be required of such a local currency loan -- whether contracted directly or only as an optional conversion feature of a dollar loan -- include the following:

guaranty amount to be expressed in U.S. dollars to permit expansion of the peso loan fund in the event of continuing moderate devaluation of the peso against the dollar. To cover the eventuality of a peso appreciation, additional collateral and accelerated

¹⁰ That is, the Central Bank is offering to commit access to future dollars at the projected parity rate.

repayment features would be incorporated in the loan agreement to maintain the coverage of the guaranty.

local currency loan to be implemented as a rotating line of credit available to COVIP for a total up to the peso equivalent of the AID guaranty, repayable at the end of each 12 to 18 month draw (calculated to correspond to the expected length of the site acquisition, construction and sale cycle for the project being financed), and capitalizing interest during the period of the rotation. The latter two features mimic standard practice for construction lending in the domestic market, minimize the cash management burden for the borrowers, and reduce credit risk for AID by permitting closer monitoring of repayment performance at each rotation of the credit line.

D. FINANCIAL STABILITY OF THE PROPOSED BORROWERS AND ASSESSMENT OF AID CREDIT RISK

The five owner-members of COVIP -- the five end-borrowers under HG-008 and proposed end-borrowers under HG-009 -- declared a combined net worth as of December 31, 1989 equivalent to U.S. \$27,779,140. This represented an increase in combined net worth of \$1,935,703 over yearend 1988, and reflects full disbursement of the \$5 million HG-008 loan on the liabilities side of the combined balance sheets¹¹. Total reported assets were U.S. \$73.7 million. COVIP members clearly possess ample capital and reserves to back the additional \$5 million in long-term indebtedness represented by the proposed HG-009 loan.

Together, the five institutions have accumulated 83 years of successful operating experience, an average of almost 17 years each, and they have demonstrated the ability to manage their operations effectively so as to weather even some of the exceptionally unfavorable financial and economic conditions that have been experienced in Chile during the last 10 years.

During 1989, COVIP affiliates built 4,736 housing units which were sold to cooperative members on a non-profit basis. The five institutions were, nevertheless, each able to show a small operating surplus, for a combined total of approximately \$80,000.

COVIP-member cooperatives operate exclusively within the system of "Unidades de Fomento". This indexation system applies to the pricing of housing units sold and insulates them from inflation, except to the extent that construction costs increase

¹¹ This aggregate increase in net worth obscures a large (approximately U.S. \$1.6 million), but non-recurring, loss suffered by the Fundacion INVICA as a result of a sale of land located in the La Florida district of Santiago. While obviously serious, the exceptional nature of this loss only serves to further emphasize the fundamental stability of the COVIP membership.

more rapidly than the consumer price index. Generally, the indexation system provides adequate coverage and permits the cooperatives to plan and manage their operations in a way that has yielded positive real returns on their investments over the years.

COVIP members face almost no market risk in their operations since all housing that is built is essentially presold to the families that are members of the cooperatives, and because takeout financing in the form of family savings, direct subsidies from the government and long-term mortgage financing from the Banco del Estado is virtually assured. Thus, AID faces relatively little risk in providing guaranty coverage of construction loans applied within the cooperative building system.

The HG loan will be a general obligation of the cooperatives backed by all of their assets and not just those generated in this project. As noted above, their combined net worth at the end of 1989, following full disbursement of HG-008, is almost \$28 million, or over 5 times the amount of the proposed HG-009. To reduce the commercial risk even further, AID will require first rights over all land and improvements financed under the loan, and disbursements only up to 90 percent of the value of such collateral that is pledged will be authorized.

The mid-term evaluation of HG-008 indicates better-than-anticipated operational and financial performance, and gives every reason to believe that COVIP members can meet their obligations under HG-008 and HG-009, if the transfer and foreign exchange risks are managed adequately through one of the two alternatives discussed above.

V. ECONOMIC ANALYSIS

A. RECENT ECONOMIC PERFORMANCE

After experiencing a severe recession during 1982-83, the Chilean economy has staged a strong recovery. Gross capital formation rose from less than 15 percent in 1985 to nearly 21 percent at the end of 1989. Even more impressive, the level of national savings increased from 5.4 percent of gross domestic product (GDP) to 16.9 percent during the same period. Both the corporate and financial sectors have also been strengthened considerably.

Between 1985 and 1989, the Chilean economy averaged an annual growth rate of 7.2 percent in real terms; during the same period, the annual rate of inflation declined from 26.4 percent to 12.7 percent in 1988 before rebounding to 21.4 percent in 1989. Unemployment, which amounted to about 12 percent of the labor force in 1985 declined to 5.3 percent in 1989. Underlying these gains in economic performance was an expanding export sector. Between 1985 and 1989 exports more than doubled in U.S. dollar terms, reflecting a virtual doubling in copper prices during 1987-88 and the strong growth of noncopper exports, which rose by an average of nearly 12 percent in volume terms. As a result, the current account deficit declined significantly, from over 8 percent of GDP in 1985 to less than 1 percent in 1988. During 1989, however, the current account registered a deficit equivalent to about 3 percent of GDP, reflecting a large increase in imports financed mainly by short-term capital inflows.

In 1990, the government has applied strong adjustment measures to slow the growth of the economy and maintain a realistic exchange rate. Nevertheless, the external sector's accounts are highly vulnerable to copper price movements and the current account is expected to continue recording moderate deficits over the near-term as unusually high copper prices decline gradually. Chile's external accounts are also vulnerable to a rise in international interest rates, especially in light of the country's high level of external debt, although no such rise is anticipated at this time.

Private savings and investment have traditionally been lower in Chile than in other countries with similar income levels. Recent Government of Chile (GOC) efforts to increase private savings -- pension reform, tax reform, a subsidized housing program based on private ownership, and a stable policy environment -- helped increase private savings from less than 1 percent in 1985 to more than 11 percent of GDP by 1988. Investment also rose from 13.7 percent of GDP in 1985 to 17 percent in 1988, a level surpassing those of the 1970s.

Financial markets have revived and the banking sector is stronger than at any time since the financial crisis of the early 1980s. However, it remains vulnerable to a sharp downturn in the economy.

Despite the considerable progress made during the past few years in reaching and maintaining macroeconomic stability through the adoption of structural reforms, sustained growth will require stable and disciplined financial policies and a continuing process of structural reform. The GOC has set annual real growth rate and inflation targets of 4-5 percent and 10-15 percent, respectively, for the medium-term. This will require a concomitant rise in the level of gross fixed investment. These targeted rates of growth, together with a manageable external current account, are dependent on maintaining the current level of national savings which, in turn, will require the maintenance of real interest rates conducive to encouraging private savings and increasing the efficiency with which savings flow to investment.

B. EFFECTS OF THE ECONOMIC PROGRAM ON HOUSING SECTOR

Although GOC reform programs have succeeded in markedly increasing domestic savings, these savings need to be channelled more efficiently to the private sector through a broader range of financial instruments. At present, the bulk of available financing is short-term in nature, yet the funding needs of various sectors of the economy, especially those for housing, are long-term. As a result, the GOC, with World Bank assistance, is embarking on a program to change the pattern of domestic financial intermediation so that more avenues will be created for the private sector to secure needed financing. The introduction of new financial instruments to securitize and sell mortgages will permit pension funds and other cash-rich institutions to invest in mortgage instruments thereby expanding the availability of mortgage credit at reduced risks and costs. This will offer much needed alternatives to the present system of indexed- mortgage financing with its automatic adjustment of payments and mortgage balances in line with the consumer price index. The present system is considered by many, especially, lower income Chileans, to be too expensive and has discouraged many such people from seeking housing loans.

C. MONETARY POLICY AND LENDING RATES TO FINAL BORROWERS UNDER HG-009

The country's recent monetary policies primarily focused on maintaining positive real rates of interest consistent with the GOC's objectives in the areas of economic growth, inflation, and the balance of payments. Nearly all financial instruments are indexed for inflation and real interest rates are influenced directly through the Central Bank's open market operations.

The Central Bank implemented several measures during early 1990 to restrict the growth of the money supply, reduce inflation and slow the pace of economic growth. One such measure was the issue of a new Central Bank instrument with a 10 year maturity designed to absorb excess liquidity and lengthen the average maturity of the Central Bank's liabilities. Also steps were taken to restrict commercial banks' ability to rediscount at the Central Bank and to borrow to cover part of their reserve requirements.

As a result of these measures, real interest rates increased sharply, and by end-February 1990, real rates of interest on deposits and lending at commercial banks for 90-365 day terms had risen to 11.8 percent and 14.9 percent, respectively. Projections for 1990 include the maintenance of relatively high real interest rates, an increase in the demand for money, and inflation subsiding.

Private commercial banks are allowed to originate and/or service mortgages, but residential mortgage lending, especially for lower cost dwellings, is not considered to be a high-profit activity. The Banco del Estado, the public commercial bank, is the only financial institution providing mortgages for housing ranging in cost from UF250 (US\$4,880) to UF400 (US\$7,808) -- Category I of the Unified Housing Subsidy System (see Chapter IV). As such, the Banco del Estado is the only planned source of mortgage credit for HG-C09. It is currently making mortgage loans for 12 to 20 years at an annual interest rate of 8.5 percent above inflation for housing that qualifies for the Unified Housing Subsidy. This rate is obviously positive in real terms, and comparable to average real rates charged by the banking system in recent years. Momentarily, however, this rate is lower than rates currently being charged by commercial banks for other types of shorter-term loans.

COVIP itself does not lend money. Under the terms of this project, COVIP will borrow funds for land acquisition and construction financing at positive real rates of interest and incur financial costs until project beneficiaries secure a long-term mortgage for the final purchase their homes. The sales price of each unit produced by COVIP will include these financial costs in an amount which reflects its borrowing expenses. Financial costs currently represent 7.3 percent of the total cost of a UF400 (US\$7,808) unit produced by COVIP.

D. ANALYSIS OF THE GOC'S HOUSING SUBSIDY PROGRAM

As mentioned above, the GOC has established and maintains an economic policy which, essentially because of continuing capital scarcity relative to other economies, allows financial markets to adequately reflect capital scarcity through high real interest rates.

This is generally recognized to be a sound policy, one that has resulted in growing private savings and high-efficiency in the allocation of capital resources, which in turn has contributed to the good growth performance of the economy.

The high-interest rate policy would, however, have had a devastating effect on housing affordability among low-income families had the GOC not devised a compensating fiscal policy based on the transfer of direct subsidies to low-income home buyers. These direct subsidies are funded through the budget process, and financed from general revenues and government borrowing.

The GOC has maintained small fiscal deficits over recent

years, and have been able to finance social programs --including low-income housing subsidies-- without serious inflationary consequences.

In their present form, Chile's housing subsidies exist primarily to enable lower income segments of the population to afford housing that would otherwise be beyond their ability to buy. By making for a more stable market on the demand side, the subsidies also contribute to the stability of the private construction industry.

Total public expenditure (including subsidies) in the housing sector has grown in constant 1988 dollars from \$54.6 million in 1982 to \$318.6 million in 1988, the most recent year for which data is available. This level of spending represented 7.7 percent of Chile's national fiscal budget for social expenditures and 4.1 percent of the GOC's total expenditures net of debt service during 1988. Direct subsidies for low-income housing under Chile's four housing subsidy programs in 1989 were about \$172 million, distributed among approximately 79 thousand recipients.

As a condition precedent to the World Bank's Second Housing Sector Project, the GOC has agreed to begin to initiate a 5 percent annual reduction in the average level of subsidies allocated for housing priced between UF250 and UF2,000 (US\$4,889- \$39,040) beginning with the 1990 fiscal year. This corresponds to eligible units in Category I of the Unified Subsidy Program (USP) described in Section IV above. The GOC has the option of either adjusting the allocation criteria to give more weight to the amount of subsidies requested or by reducing the upper limit of the subsidy range.

More than 90 percent of the subsidies are allocated for lower income groups, and nearly 60 percent are targeted for "extreme poverty" groups, defined as those who can only afford a solution priced below UF220 (US\$4,294). Subsidies are awarded on a competitive basis in response to a "call" for applications issued by the GOC every four months. The last "call" in April 1990 resulted in the award of 71,000 subsidy vouchers based on a system of points which objectively considers four factors: 1) the amount of subsidy requested (more points awarded for a lower request); 2) family size; 3) amount of savings accumulated by the applicant; and 3) length of the applicant's savings effort. The subsidy system is not a substitute for household savings, but, on the contrary, is predicated on the savings effort made by the family. The housing subsidy system does not distort the financial markets in any significant way, but does, however, have the impact of increasing effective demand to a level beyond what it would normally be in the absence of a subsidy.

Upon award of a subsidy voucher, beneficiaries are given 20 months either to select a suitable solution on the open market, or build a house individually or through a housing cooperative. Subsidy vouchers are redeemed for cash by the contractor or cooperative upon delivery of the house to the beneficiary; approximately 30 percent of all subsidy vouchers issued are

redeemed by cooperatives and other NGOs. From an administrative point of view, the system is relatively simple and is well-regarded by the Chilean population.

Criticism conceivably might be leveled against the system on the basis of the subsidies' contribution to the fiscal deficit, while supporters of the program argue that the subsidies, in combination with a system based on high real mortgage rates, do not represent a drain on public resources. To test the validity of such criticism and to analyze the efficiency of the subsidy system in making home ownership more accessible to lower income households, the design team conducted sensitivity analyses of the affordability of shelter solutions in the UF250 to UF400 range (US\$4,880-US\$7,808) under various assumptions of reduced subsidy levels and lower real interest rates. The results of those analyses are illustrated in Tables 4 and 5. The data presented in Table 4 indicates that the amount of the subsidy over the 1982-88 period averaged only 4.3 percent of total social expenditures of the central government, and hence could only contribute to the consolidated public sector fiscal deficit in a very minor way.

Table 5 presents the estimated payment capacity of target beneficiaries with incomes below the median under varying interest rate and subsidy level reduction scenarios. The results of these sensitivity analyses illustrate that if both the level of subsidy and the real rate of interest on long-term financing were reduced by 50 percent (to UF140 and 4.25 percent, respectively), housing priced below UF380 (US\$7,418) would still be affordable to those families corresponding to the third decile of the income distribution. Housing priced below UF320 (US\$6,246) would also be affordable to those households with average incomes in the second decile.

These data suggest that the use of subsidies is but one means of enabling lower income segments of the population to afford housing that would otherwise be beyond their ability to pay. The use of fiscal policy rather than monetary policy to intervene in the housing sector appears to be a conscious decision of the authorities to maintain tight control over aggregate domestic demand while preserving access to a basic level of housing for the lower income strata of the population.

Economic growth has brought with it a high level of demand for resources in the Chilean economy, one that exerts steady pressure on available sources of domestic and external savings. Excess demand pressures, coupled with uncertainty regarding the stability of the Chilean economic and political recovery, have resulted in the need to maintain high real rates of interest over an extended period. Such high rates would surely have made access to housing altogether impossible for lower income households in the absence of the subsidy system that has been established.

Until such time as easier access to external financing can be restored for Chile, until domestic savings can respond to financial incentives, and until a continued period of steady growth succeeds in fully restoring confidence to domestic and foreign

Table 4.

Chile: Housing Subsidies and Social Expenditures 1982-88

(Millions of 1976 U.S. Dollars)

Year =====	Housing Subsidies =====	% Of Social Expenditures =====
1982	26.3	1.35%
1983	51.2	2.69%
1984	79.4	3.87%
1985	90.3	4.43%
1986	91.6	4.41%
1987	107.0	5.49%
1988	153.4	7.73%

Source: Central Bank of Chile

Table 5.

**Chile Estimated Payment Capacity of Target Beneficiaries
Under Varying Interest Rate and Subsidy Scenarios**

(End March 1990; Values in Unidades de Fomento 1/)

Income Decile	Monthly Household Income 2/	Monthly Payment Percent of Income		Unit Sales Price	Mortgage Amount 3/ S=UF140	Monthly Payment 20 Year	Mortgage Amount 5/ S=UF70	Monthly Payment 6/ 20 Year
		@ 25%	@ 20%					
1	3.29	0.82	0.66	400	210.00	1.82	280.00	1.73
2	5.25	1.31	1.05	390	201.25	1.75	271.25	1.68
3	6.70	1.67	1.34	380	192.50	1.67	262.50	1.63
4	8.55	2.14	1.71	370	183.75	1.59	253.75	1.57
5	10.17	2.54	2.03	360	175.00	1.52	245.00	1.52
6	11.76	2.94	2.35	350	166.25	1.44	236.25	1.46
7	14.93	3.73	2.99	340	157.50	1.37	227.50	1.41
8	19.27	4.82	3.85	330	148.75	1.29	218.75	1.35
9	27.59	6.90	5.52	320	140.00	1.21	210.00	1.30
10	94.53	23.63	18.91	310	131.25	1.14	201.25	1.25
				280	105.00	0.91	175.00	1.08
				250	78.75	0.68	148.75	0.92

1/ The development unit (UF) is a constant currency measure that varies daily with the CPI.

2/ Data from the National Statistics Institute's supplemental survey of household income, 1988 Q4, adjusted for real increases in wage and salary income through March 1990, in UF.

3/ Unit sales price minus 12.5 percent representing beneficiaries' down payment minus GOC subsidy of UF140 for units in the UF250-400 range.

4/ 8.5 percent interest in real terms amortized over a 20 year period.

5/ Unit sales price minus 12.5 percent representing beneficiaries' down payment minus GOC subsidy of UF70 for units in the UF250-400 range.

6/ 4.25 percent interest in real terms amortized over a 20 year period.

investors, high real rates of interest, by international standards, will probably continue to be a reality in Chile. Subsidies are clearly needed in such an environment to maintain access to basic housing for low-income families, and, in Chile, much has been accomplished in this regard with a relatively low expenditure of resources. At such time that real interest rates can be safely allowed to fall to more "normal" real rates, the analysis presented above clearly demonstrates that subsidies can be reduced commensurately without affecting the affordability of basic housing for the poor. The unfolding of such a scenario for real rates of interest should signal an opportunity for AID to open a new chapter of its housing sector policy dialogue in Chile, and should, we believe, be carefully watched for in the context of the development of future activities in the sector.

E. HOUSING COST ESCALATION

As measured by the construction cost index, which includes construction materials, labor and other miscellaneous costs real costs have escalated somewhat faster than inflation in recent years.. According to statistics published by the Chilean Construction Council, the construction cost index increased by an annual rate of 23.5 percent from the end of 1985 through the first quarter of 1990. The overall consumer price index -- to which the UF is pegged, and by extension, the selling price of housing -- increased at a lesser annual rate of 20.1 percent during the same period. The construction cost index is expected to increase at an even faster pace through the remainder of 1990 when the effect of an imminent increase in the minimum wage is factored in; labor carries a relative weight of nearly 30 percent in the index.

Increases in the real costs of construction which are not reflected in the consumer price index -- hence not reflected in the indexed sale price of housing units -- may create a short term problem for COVIP members who have locked in sales prices at the beginning of an 18-month construction. It is expected, however, that the increase in minimum wages will have been absorbed by the CPI by the time the first HG-009 advance is made, and will therefore be incorporated in sales prices contracted at that time. At this time, no other major increases in the real cost of construction are anticipated.

This phenomenon does not bode well for maintaining housing prices at affordable levels over the long-term. In the context of this project, marginal increases in the per unit cost of construction which are not covered by the daily readjustment of the UF in accordance with the consumer price index will have to be absorbed by COVIP's associate institutions and/or their contractors since COVIP's target beneficiaries lock in at a set sales price denominated in UF at the beginning of the 18 month housing development cycle.

VI. SOCIAL SOUNDNESS ANALYSIS

A. BACKGROUND AND NEED

Chile has the highest percentage of urban population in South America 85% - and one of the lowest rates of urban population growth in the region 2.1% (only those of Uruguay and Argentina are lower). Informal sector shelter production also is low by regional standards and is declining. From 1960 to 1970 roughly 45% of new units were generated by the sector. From 1970 to 1982 the share dropped to 26% (compared to 70 and 90% for Peru and Bolivia respectively). The principal shelter problem is overcrowding caused by having two households living in the same unit, although estimates of the incidence of this problem vary widely from 5 to 30%.

The problems of overcrowding and doubling-up, unlike the problems originating from large-scale informal construction of substandard housing such as commonly takes place in other Latin American countries, require the construction of new units for their resolution. To date, new housing solutions in Chile have concentrated on the provision of homeownership opportunities in various forms. The ability to have a home of one's own is readily identified by people at all income levels as a principal aspiration. There does not appear to be a large supply of rental houses and apartments, nor does there appear to be a system of tax incentives or direct credit to encourage the development and provision of rental housing. Neither are there vouchers or subsidies provided to tenants or potential tenants to enable them to gain access to housing on a rental basis.

The 1982 Census of Housing reports that there were 2,457,142 housing units in the country, of which 1,551,579 or 63% were owner-occupied. Only about 19%, or 459,470 units, were rented. Slightly less than half of the remainder were provided free, with a slightly larger percentage (8.6%) provided by employers as a condition of service. Interviews of a small number of workers in this last category revealed some dissatisfaction with employer-owned housing, both in terms of the inadequate conditions it offered for family life and the fact that tenancy was conditioned on employment. One family, for example, expressed concern about the future, with regard to the lack of employment options as well as lack of access to any housing following retirement. In this case, the family was involved in a savings contract for a cooperative unit, and looked forward to being out from under the employer's roof.

Doubling-up and overcrowding are common in urban areas. 286,156 units were identified as providing shelter for more than one family. A 1985 study by Sergio Wilson noted that 43% of housing units had more than three persons per bedroom¹².

¹² Sergio Wilson, La Otra Ciudad. Santiago, Chile: AVEC.

Access to shelter solutions in the Chilean market is a function not only of income, but of the savings required for a down payment or for the direct purchase of housing. Those who lack a minimal level of savings must either share with those who already have a home, obtain employment which provides housing to the worker and his or her family, or build their own shelter on land from which they may be displaced. Despite demand, this last course of action has not been open to residents of Santiago, in particular, due to the political decisions to enforce the law under which "tomas," or land invasions, are illegal. This intensified the situation of "allegados" in the Santiago area, which is estimated at 100,000 households.

B. DEMAND FOR PROJECT SOLUTIONS

The extensive system of housing subsidies functions as a structure for organizing the demand for housing, at least among those who are above the poorest category. The number of families seeking to acquire housing through each of the subsidy programs, therefore, may serve as an indication of effective demand.

In 1989, there were 415,806 total savings accounts for housing. During this same year, MINVU provided 78,023 subsidies. This, combined with the 19,000 core houses developed, still left a shortfall of 318,783 units.

In addition to the 415,806 savings accounts established for housing purposes, an indication of the level of demand for the Basic Housing program is evidenced by the number of applicants for the program throughout the country. The total, as of February 1990, was 329,317 families of marginal income, of which 156,905 are in the Santiago Metropolitan Region. Regions V (Valparaiso/Vina del Mar/San Antonio) and VIII (Concepcion/Chillan/Los Angeles) also have high numbers of applicants for this program, with nearly twice the number of applicants from the next largest regional group. However, it should be noted that prices outside Santiago are higher, with the typical unit priced at 220 UF (US\$ 3,960). This would, of course, require a higher monthly payment.

These figures compare with the total 35,207 Basic Houses and sanitary core houses built by MINVU during the year, which met approximately 9.7% of the demand shown by this income group.

Qualified households remaining on the MINVU roster and waiting for the Unified Subsidy totalled 14,726 nationwide as of December 1989, with over half--8,275--in the Santiago Metropolitan region. This compares with the 30,000 such subsidies issued by MINVU during 1989.

If it is assumed that the 415,806 savings accounts for housing--a number reported by MINVU for 1989--were proportionately held by households in all income levels reporting deficits, an

initial picture of demand might be indicated by these figures:

32% marginal income= 133,058 accounts
 34% low income = 141,374 accounts
 32% middle income = 133,058 accounts

Among low income families, if 141,374 held housing savings accounts during the year, and 30,000 received Unified Subsidies and loans, net demand for this group would be 111,374. Even if only half of new households are able to open a savings account during each year, the resulting figure of 32,274 exceeds the number of Unified Subsidies available during each of the past several years, indicating that demand among low and middle income households is likely to remain high.

C. GENDER ISSUES

The project paper team included a specialist in research into and analysis of gender issues as they impact and relate to development of housing projects. The specialist, provided through PPC/WID's Genesys Project, participated fully in field work and was able to provide valuable guidance to the team.

Not all of the participating cooperatives keep records on the number of female beneficiaries or on female-headed households who are cooperative members. Provicoop, however, examined files on 77% of its beneficiaries, and found that 1,883, or 42%, of them are female heads of household.

Field research and interviews conducted with beneficiaries, with staff of home builders including members of the COVIP network, with lawyers and advisors of these builders, and with MINVU officials all support the view that there is no systematic or deliberate discrimination against women who seek housing opportunities for themselves or on behalf of their families. Women themselves, among them a regional MINVU official, architects, staff members of cooperatives, and beneficiaries residing in the cooperatives, voiced the opinion that women have access to credit and housing on their own. They also share the rights to home ownership in the case of marriage; and these rights are preserved in the event of a divorce.

Therefore, no evidence was obtained regarding differential access to housing by gender except for the view that income, rather than gender, was the determining factor. While it is likely that female heads of household earn less than their male counterparts, it was also found that they have access to some of the jobs held by several members of cooperatives such as those in San Antonio and Talca, including those of schoolteacher and hospital/public health worker.

Operational guidance will be provided to COVIP-members through the planned technical assistance on the development of

information systems that will present a better picture of the role of women in the savings process, and in the dynamics of cooperative organization and decision-making. Such data and its analysis should provide cooperative management with the means to improve the effectiveness of their marketing and the quality of their services. AID will also work with cooperative management to encourage more equitable consideration of women for senior management positions within the cooperatives themselves.

Appendix 6 contains a fuller discussion of the role of women in Chile's housing cooperative and broader housing system. It is largely a qualitative analysis, as statistical data is scarce.

VII. INSTITUTIONAL ANALYSIS

Background

COVIP S.A. was constituted in 1987, on the basis of a previous association set up in 1983, to act as a service organization for the various associations participating in the Program. COVIP's shareholders and their respective percent of ownership are as follows:

- Cooperativa Abierta de Vivienda (CONAVICOOP), 20 percent;
- Cooperativa de Financiamiento, Construcción y Servicios Habitacionales de Vivienda (HABITACOOOP), 26 percent;
- Corporación Habitacional, 22 percent;
- INVICA, 16 percent; and
- PROVICOOP, 16 percent.

COVIP functions as a trade association whose members build housing within the context of GOC low- and middle-income housing programs. The institutions which belong to COVIP operate as open cooperatives, which means that they continuously seek new members, who are formed into groups for the purpose of acquiring housing. Members deposit their savings with the cooperative. This allows the member to accumulate savings for the 18 months required to qualify for GOC housing subsidies. Member savings provide the resources needed for site acquisition. Current membership of all open cooperatives affiliated to COVIP is about 40,000 families.

While COVIP is a nonprofit organization, and so are its member-cooperatives, it must function on a purely private sector basis. As with any other private sector business, COVIP members must earn enough from each project to support their own operations. Economies of scale are an important consideration. COVIP members seek to produce housing in groups of not less than 80 to 100 units. Projects of a smaller scale are unlikely to generate sufficient income.

Most COVIP members try to build in the 350-400 UF (US\$6,800 to \$7,800) range for a few basic reasons: 1) There seems to be considerable demand in this range. 2) Unified Subsidies, as described above, are available to write down the costs of these units by up to 150 UF (US\$2,900). 3) This range provides COVIP members with enough of a margin per unit to maintain the cooperatives' own financial viability.

The cooperatives are run like private businesses with a board of directors to set policy and managers to oversee the effectiveness of programs and the flow of funds. The cooperatives are also participatory, democratic institutions. This is evident at the project level. There, a group of members -- potential coop home buyers -- have the opportunity to make decisions about the design and operation of the project in which they take part.

Local coop members, in their group, participate in meetings to learn about the choices available to them, to decide how much to save, what type of house to buy, and the features and location of the group of homes within the constraints of the narrow market afforded by the Unified Subsidy program, in combination with the local land market and the cooperative's efforts to acquire and develop land. They elect their own officers, but are guided by the professional cooperative staff. Homes are purchased and owned on an entirely individual basis, with clear title to the individual lot. The coop group members may choose what, if any, activities are to be sustained by this group after the houses are actually built and purchased.

In the field, cooperative members were universally supportive of the goals and methods of the cooperatives, not only in terms of their ability to deliver houses to the members, but in other important areas as well:

- . Members agree that they were able to obtain a better product than they would have acquired through other developers building to the same subsidized market.
- . Many members viewed their alternatives as being direct government housing programs built by SERVIU. These were perceived as having negative aspects not experienced in the cooperative system. These include the lower quality of SERVIU construction, the smaller lots and more crowded communities, and the fact that beneficiaries are assigned to a house without respect to individual preferences.

Further information on the characteristics of each of the current COVIP members is presented in Appendix 8.

COVIP's performance and that of the member housing cooperatives

From the interim evaluation of the HG-008 project completed in March 1990, COVIP's performance in representing the interests of its members relative to the AID loan was characterized as follows:

"The management officials of COVIP's member associations were unanimous in declaring their satisfaction with COVIP's effectiveness as their representative in the Program, as well as with its performance as their agent and group spokesman before GOC authorities."

The same evaluation describes the successful performance of COVIP and its member institutions with the implementation of the HG-008 project:

"(COVIP's member coops)... have a fifteen-year track record of successful development of housing projects, including a \$55 million HG-financed program in the mid-seventies.

The HG-008 project was being implemented by following the established procedures of the cooperatives, which include:

- Any person needing a house can become a member of the cooperative (hence the term "open" cooperative).
- The coop members join a savings plan, which will help them in the purchase of an affordable house.
- The cooperatives invest a large share of the members' savings in the purchase of land as sites for future development of housing projects for their membership.
- The cooperatives also assist their members to qualify for a housing subsidy from the Government of Chile. Approval of the subsidy also includes assurance of a long-term loan to finance the portion of the house price not covered by the accumulated savings and the subsidy.
- Once a group of members have been notified that they are qualified to receive the subsidy, effectively providing 100% assured pre-sales of all units, the cooperatives seek bids for the construction of the houses from private firms and secure construction financing from private commercial banks. In the case of this Program, Citibank Santiago is managing the construction financing, using HG loan funds held in escrow in that bank.
- Once the houses are completed, the cooperatives help the members to complete all of the paperwork to formalize both the government subsidy and a long-term mortgage loan. The cooperatives, which are completely self-financing and unsubsidized, include full payment for their services in the sales of the houses.
- Ownership of the houses is individual, not cooperative. The cooperatives have no role in the management of the housing project nor do they participate in the administration or in the risk of the mortgage loan portfolio".

The above proven and established procedures used successfully in the implementation of the HG-008 will continue to be used in the implementation of the new HG-009 program to assure success in its implementation.

Institutional Capability to Operate Outside Santiago

The two COVIP members who can operate outside the Santiago Metropolitan Area already have established in numerous locations throughout the country fully staffed and operational branch offices which could easily assume the responsibilities for managing additional activities generated by the HG-009 program.

The Housing Corporation of the Chilean construction industry's trade association currently has branch offices in seven major cities from the extreme north to the south of Chile. HABITACOOP, the largest of COVIP's coop members, maintains fully staffed branch offices in six major cities of the country. Again, HABITACOOP's branch offices are located in cities ranging from the extreme north to the extreme south with others located in the central regions of the country.

Among the three COVIP members who currently are not authorized to operate outside the Santiago Metropolitan Area, present plans call for the start up of operations in the provinces under the direct supervision of personnel from their existing offices in Santiago.

INVICA/PROVICOOP currently visualizes the start up of its operations in the provinces, once it is given the green light, to do so in the Valparaiso area. PROVICOOP owns land there suitable for development into housing projects. After a project is started at one of the provincial locations, PROVICOOP would contract and place at the site a minimal staff. A social worker would be contracted to organize and prepare the beneficiaries to assume their new responsibilities as homeowners. A technical person, knowledgeable of construction, would be contracted to provide on-site field supervision of the project's development and construction. All administrative details related to the establishment of beneficiary savings plans, and processing of applications for the government subsidies and the mortgage loans would be handled by PROVICOOP's Santiago office.

Not until the volume of its operations in the provinces reaches a scale which can justify the establishment of branch offices outside of Santiago will INVICA/PROVICOOP do so.

CONAVICOOP envisions a similar scheme to that of INVICA/PROVICOOP relative to the initiation of its operations in the provinces.

VIII. TECHNICAL ASSISTANCE PLAN

The proposed technical assistance plan is designed to support the accomplishment of the broader policy agenda and institutional development objectives of the Project. The TA plan will serve to place a resident housing finance advisor who will support the AID Representative to Chile with the management of the shelter sector programs. The short-term technical assistance and training initially will support the development of new, lower-cost solutions by the housing coops and subsequently will support the evaluation of that experience and the dissemination of the findings.

The TA plan will put in motion a process through which product innovations, new markets served, new collaborative relationships forged, and improvements to the beneficiary support systems developed by the TA can continue beyond the completion of the Project.

A. RESIDENT HOUSING FINANCE ADVISOR

The advent of the proposed HG-009 program combined with the responsibilities related to the management of the existing HG-008 will clearly add to the program management responsibilities of the AID Representative in Chile. The resident advisor will support AID in monitoring the implementation of the Housing Guaranty programs (HG-008 and 009). The advisor will also coordinate short term technical assistance and training to facilitate the accomplishment of the policy agenda and institutional development objectives of these programs. The AID Representative proposes to fund this finance advisor's services for three years.

B. SHORT-TERM T.A. AND TRAINING

1. Support for program implementation

a. T.A. to COVIP and its members for new project development

COVIP and its members will be serving different lower income groups, such as the "allegados", than they have served. Some COVIP members will be broadening the geographic service areas which they will serve and finance housing solution types not familiar to them. The TA plan will include funding for studies which will enable COVIP and its members to review and analyze in depth the administrative, financial, and policy implications which would impact upon them to enter into any such new areas of intervention.

b. Beneficiary support system development

The HG-009 project will increase the volume of AID-financed low cost housing to be produced by COVIP and its members. To insure that AID assistance under the HG-009 program is properly used to address the

shelter needs of poor Chilean families, the TA plan will fund services and training to address such areas as the following:

- Assistance to COVIP members to properly address beneficiary service needs and to clearly delineate housing provider roles and responsibilities with housing recipients relative to complaints resolution, payment problems, etc.
- Assistance to COVIP housing providers to develop continuing relationships with program beneficiaries relative to the provision of complementary services and activities --i.e. guaranty and maintenance programs to address deficiencies of newly delivered houses, savings mobilization for community projects such as street paving, parks, community facilities, etc.
- Assistance to COVIP to identify and address issues affecting women who seek to participate in cooperative housing projects.
- Mortgage counseling of beneficiaries to insure the proper performance of the loan portfolio generated by the HG-009 project.

c. Related training/seminars

The TA plan will include funding for a series of seminar/workshops to be organized by COVIP plus training and participant travel to facilitate the accomplishment of the program's policy agenda and institutional development objectives in such areas as the following:

- New collaborative relationship development, information exchange and dissemination between COVIP members, other NGOs, such as Taller Norte/Hogar de Cristo and public sector (MINVU)/other private sector entities on their experiences with the implementation of progressive development shelter programs in the Chilean provinces;
- Public/private sector experiences related to serving beneficiaries --i.e. "allegados"-- different from those currently served by COVIP members including treatment of such diverse topics as building techniques, feasibility planning, financial risk and cost analysis, marketing and organizational strategies, project beneficiary qualification systems, etc.
- Orientation to COVIP members and other private sector NGOs participating in this program on how to make adjustments to current product and operations to integrate their project programming with new GOC policies, priorities, and resource allocations --i.e.

MINVU's proposed two step subsidy program to increase production of progressive development sites and services solutions to meet the allegados shelter needs.

C. EVALUATIONS

1. Program Evaluations

TA funds will finance two planned performance evaluations. The first will be an interim project evaluation planned to be conducted two years into the life of the project and the second will be conducted at the end of the implementation period when all program funding will have been fully disbursed for eligible program activities.

2. Dissemination of Findings

The program evaluations will produce findings and recommendations documenting the experiences of the Chilean coops and NGOs which should be shared with the broader private sector community in Chile. Also, the evaluations will produce findings and recommendations requiring the program participants to make adjustments to the program design or the implementation of the program. T.A. funds will be provided to finance seminars/workshops, training and participant travel to disseminate these evaluation results.

SUMMARY TA PLAN

The total cost of grant-funded technical assistance and training, and its breakdown by major components is:

	<u>Person/Months</u>	<u>Cost</u>
<u>A. Long-term advisor</u>		
Resident Housing Finance Advisor	34	\$470,000
<u>B. Short-term T.A and Training</u>		
1. Support for program implementation		
1.1. New product development	4	50,000
1.2. Beneficiary support systems development	2	25,000
1.3. Related training/seminars	n/a	10,000
<u>C. Evaluations</u>		
1. Program Evaluations	5	70,000
2. Dissemination of Findings	<u>n/a</u>	<u>25,000</u>
	45	\$650,000

Grant funding of all TA and training activities described will be provided from the LAC Regional Inter-country Technology Transfer (ITT) Project (598-0616.06) for ADC countries. To support the diverse TA and training activities associated with the implementation of the HG-009 program as well as those related to a planned new HG project for FY 91, AID/Chile will allot \$650,000 of grant funds from the ITT project's PSEE functional account between FY 90 and FY 92. Proposed grant funding to be allotted will be as follows: a) FY 90 - \$150,000; b) FY 91 - \$250,000; and c) FY 92 - \$250,000.

PROCUREMENT PLAN FOR TA
METHODS OF IMPLEMENTATION AND FINANCING

<u>Item</u>	<u>Amount</u>	<u>Method of Payment</u>
A. Long Term Resident Advisor	\$470,000	AID/Chile "buy in" of services from Regional Housing Finance TA and Training Support Project to be executed by RHUDO/SA with IMCC, an 8(a) firm.
B. Short-term TA/Training		AID/Chile "buy in" of services from Regional Housing Finance TA and Training Support Project to be executed by RHUDO/SA with IMCC, an 8(a) firm.
1. Support for program implementation		
- New Product Development	50,000	
- Beneficiary Support Systems Development	25,000	
- Related Training/Seminars	11,000	
C. Evaluations		AID/Chile "buy in" of services from Regional Housing Finance TA and Training Support Project to be executed by RHUDO/SA with IMCC, an 8(a) firm.
1. Program Evaluations	70,000	
2. Dissemination of Findings	25,000	

IX. IMPLEMENTATION ARRANGEMENTS

A. ROLES AND RESPONSIBILITIES OF PARTICIPATING ENTITIES

The principal institutions and their responsibilities in the implementation of the loan will be as outlined below:

Qualified U.S. Investor

- . will mobilize and lend U.S. dollars or Chilean pesos (if a local currency loan is used) to COVIP under the terms negotiated for the AID loan guaranty.

Central Bank of Chile (for a U.S. dollar loan only)

- . will enter into a two-year or longer swap arrangement with COVIP to exchange U.S. dollars for local currency, in effect protecting COVIP as the borrower from the foreign exchange rate and convertibility risks related to foreign currency borrowings used to finance local currency investments in the shelter sector.

Local Custodian Bank

- . (If a U.S. dollar loan) will bring the funds arising from the dollar loan into the country in accordance with the international exchange laws of Chile and will implement the swap through a contract for the sale of foreign currency with the Central Bank with an agreement to repurchase (swap).
- . will have custody of the Chilean pesos deposited in a special account in the name of COVIP.
- . will make disbursements from escrow against real collateral to finance land purchase, improvements and related costs incurred by COVIP in the development and construction of eligible housing units.
- . will ensure that appropriate amounts of counterpart funds are invested by COVIP at all times.
- . will make periodic inspections of the land acquired by COVIP in order to examine the feasibility of their being used for the purpose of the project.
- . will monitor the construction that is being carried out under the project to ensure that it is being developed correctly by COVIP and that adequate administrative procedures are followed.
- . will present monthly reports on the status and movement of funds in escrow.

- . In the case of a U.S. dollar loan, will assist AID in addressing the repayment risk by:
 - Providing a line of credit to COVIP to ensure that it may make timely payments due on the foreign loan
 - Agreeing to originate a local currency loan to COVIP with AID guaranty at COVIP's option if it determines to prepay the dollar loan from the U.S. investor either because a currency swap is unavailable from the Central Bank or becomes too costly in comparison with a local borrowing

COVIP

- . will negotiate the HG loan on behalf of its member institutions and act as borrower of record.
- . will intermediate the flow of funds from the local currency escrow account to its member institutions by
 - obtaining and presenting to the custodian bank the documentation in support of requests for draw downs from escrow.
 - preparing and maintaining an overall financial plan and cash flow for the consolidated project to ensure that all on-going housing construction will be fully funded until completion and sale.
 - maintaining the accounting for the overall Project.
- . will prepare and present to AID quarterly reports indicating activities funded to date and providing projections until Project completion.
- . will prepare and process requests to AID for advances and for liquidation of advances under the HG loan.

Member institutions of COVIP

- . will organize demand for new shelter solutions affordable to their membership
- . will mobilize savings among their membership
- . will invest members' savings in the purchase of land as sites for future development of housing projects
- . will assist its members to qualify for a housing subsidy from the Government of Chile
- . will seek bids for the construction of shelter solutions from private firms and utilize the HG funds held in escrow by the local custodian bank for construction financing

- . will help its members to complete all of the paperwork required to formalize both the GOC subsidy and a long-term mortgage loan from the Banco del Estado

Private Contractors

- . will obtain municipal and other approvals
- . will construct new solutions
- . will promote low-cost building materials and techniques

B. COVENANTS

Distribution of Solutions

COVIP will exert its best efforts, subject only to a marked change in the conditions affecting effective demand or to other factors beyond its control, to comply with the unit cost and regional distribution targets agreed to with AID and summarized in Chapter II of this Project Paper. Such compliance is expected to be evident not later than the end of the second year of project activity, when the first of two evaluations is scheduled. Following this, COVIP will strive to maintain project resource allocations within +/- 15 % bounds of program targets at all times, and to ensure that cumulative resource allocations will be within +/- 5 % of all program targets as of the project completion date.

Housing Guaranty Loan Risk Management

In the event of a U.S. dollar HG loan, COVIP shall maintain in force at all times currency swap agreements with the Central Bank of Chile, or other insurance against exchange risk as has been approved before its purchase by RHUDO/SA, sufficient to cover the total outstanding balances of loan principal owed by COVIP in U.S. dollars.

With regard to local currency risks, COVIP will maintain at all times with the custodian bank either cash or collateral equivalent to U.S. \$5,000,000.

3. Dissemination and Collaboration Initiatives

COVIP undertakes that it will ensure that the lessons of its experience with the organization and implementation of low-income housing programs supported by AID are shared widely with other cooperatives, NGOs, and other institutions of the Chilean private sector that are, or wish to become, active in the provision of such services for low-income Chilean families.

COVIP will formally examine the possibilities of opening its membership to interested private sector institutions of the abovementioned kinds, and will communicate its determinations and reasoning in this regard to AID.

Whenever possible, COVIP will seek to initiate collaborative arrangements with other private sector institutions providing complementary services to low-income families seeking to improve their housing conditions. Such institutions include the Taller Norte and Hogar de Cristo, for example, and may include a wide range of other groups active in other areas such as community self-help, or home-improvement lending.

COVIP will make special efforts to develop effective dissemination, association and collaboration programs involving other private sector groups active in regions outside of the Santiago Metropolitan Area.

C. MONITORING PLAN

Monitoring of HG-009 will be one of the responsibilities of the housing finance advisor who is expected to take up service with the AID Representative in Santiago no later than the beginning of FY 91. The housing finance advisor will be supervised and supported in this activity by the staff of the Regional Housing and Urban Development Office for South America based in Quito.

Both the implementing institutions, COVIP, and the local custodian bank will prepare and present to AID periodic reports on the financing and general performance of the Project. Such reporting will include:

- Monthly reports from the custodian bank on the status and movement of local currency funds held in escrow and on the collateral held against disbursement from that account.
- Quarterly reports from COVIP on the overall performance of the Project, reflecting activities carried out to date and projections until Project completion.

D. EVALUATION PLAN

The key objectives of HG-009 are to induce housing cooperatives and other private sector institutions in Chile to:

- . begin serving still lower-income segments of the housing market than they have yet been able to serve effectively, including, specifically, the market for progressive housing solutions, and;
- . to expand the geographical coverage of services provided by these cooperatives and other private sector institutions, favoring much increased coverage in cities outside of Metropolitan Santiago.

The principal objectives of the two performance evaluations are, therefore, to verify compliance with the unit price and regional commitments formally undertaken by COVIP members, as well as to gather lessons that will serve for future projects regarding the degree and manner in which outreach and innovation have been fostered through the project. It is expected that the evaluations

will be analytical in their treatment of both sets of issues, and that they will serve both to guide any corrective actions that may need to be taken during the course of project implementation, and to formulate recommendations for future project designs involving direct interaction with the private sector in Chile or in other HG-program countries.

Both evaluations will specifically investigate and report on the financial performance of the borrowing institutions, their financial situation, and continued creditworthiness.

The project's Logical Framework, presented as Appendix 1, identifies specific indicators of performance that will be investigated and reported on in the course of the evaluations.

The evaluations will be scheduled at mid-point, roughly 24 months after initial implementation of the Project and at the conclusion of the 42-month implementation period.

E. AUDITS

During the implementation of this project, COVIP, the borrower, will be required to maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to how project funding provided by A.I.D. is used. These project books and records are to be maintained for three years after the date of the project's completion and for three years after the loan is fully repaid. Separate accounting records for project funds will also be established.

Moreover, until the project loan is fully repaid to A.I.D., COVIP will be required to make arrangements for and sustain the full costs of having the project books and records audited annually. The audits are to be conducted by independent auditors in accordance with generally accepted auditing standards. Comments on the performance of project loans shall be part of the audits submitted annually to A.I.D.

Provisions relating to COVIP's adherence to the audit requirements described above for the A.I.D. funding it receives are traditionally included in project implementation agreements executed by A.I.D. with project borrowers. This will also be the case with this project.

The requirement that COVIP bear the full costs of independent annual audits of its use of A.I.D. funds obviates the need for USAID/Chile to set aside grant funds for meeting the A.I.D. audit requirement.

On an as needed basis, the Inspector General may schedule audits of the project.

Appendix 1: Logical Framework

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 90 to FY 94
Total U.S. Funding \$5.65 million
Date Prepared: June 20, 1990

Project Title & Number: CHILE Private Sector Cooperative Housing II 513-HG-009

Page 1

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<u>Program or Sector Goal</u>			
To involve Chilean private sector institutions more fully in the provision of shelter services to the urban poor.	Chilean private sector institutions will have increased their production of low-cost housing solutions, and will have broadened the range of services offered to below median-income families.	Comparison with base year data	GOC will continue to operate a system of direct subsidies and long-term financing that facilitates and encourages private sector participation in the production of low-cost housing solutions.

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 90 to FY 94
Total U.S. Funding \$5.65 million
Date Prepared: June 20, 1990

Project Title & Number: CHILE Private Sector Cooperative Housing II 513-HG-009

Page 2

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<u>Project Purpose</u>			
To support efforts of private housing cooperatives and NGOs in expanding their production of low-cost shelter solutions nationwide.	<ul style="list-style-type: none"> a. Private cooperatives and NGOs will have increased the number and proportion of low-income shelter solutions produced in relation to prior performance. b. Private cooperative and NGOs will produce shelter solutions sold at lower unit prices than previously. c. Private cooperatives and NGOs will increase their production of low-cost shelter solutions in provincial cities outside Metropolitan Santiago. 	<ul style="list-style-type: none"> a. Implementing agency reports b. AID records and reports c. custodian bank records and reports d. performance evaluations 	<ul style="list-style-type: none"> a. GOC maintains policy environment conducive to stability in construction costs measured in real terms. b. GOC will prepare and publish new regulations defining its progressive housing program and providing for private sector participation. c. GOC will amend legislation that presently restricts activities of some of the cooperatives outside of Santiago.

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 90 to FY 94
Total U.S. Funding \$5.65 million
Date Prepared: June 20, 1990

Project Title & Number: CHILE Private Sector Cooperative Housing II 513-HG-009

Page 3

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<u>Project Outputs</u>	<u>Magnitude of Outputs</u>		
a. Open housing cooperative organizations and other private sector institutions familiarized with and actively participating in construction of low-cost housing throughout Chile. b. Private sector participation in the GOC's progressive housing program. c. Private savings mobilization equivalent to 12.5% of the value of housing produced.	a. At least 1,475 shelter solutions costing less than \$7,808 (400 U.F.) built in provincial cities outside of Metropolitan Santiago. b. At least 1,800 solutions costing no more than \$6,246 (320 U.F.) built in Metropolitan Santiago. c. At least 1,125 first-stage progressive shelter solutions costing approximately \$1,952 (100 U.F.) built and sold to low-income families.	Implementing agency records and reports.	a. Project remains active for 3.5 years and two rotations of \$ 5 million HG advance are achieved b. GOC maintains present system for generating long-term mortgage finance for low-income families or successfully develops private sector alternative:

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 90 to FY 94
Total U.S. Funding \$5.65 million
Date Prepared: June 20, 1990

Project Title & Number: CHILE Private Sector Cooperative Housing II 513-HG-009

Page 4

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p><u>Project Input</u></p> <p>1. Financial: a. AID/HG Loan b. AID grant funds for studies, TA, dissemination activities, and performance evaluations c. Counterpart funds</p> <p>2. Technical Assistance: a. Consultant services</p>	<p><u>Target Levels</u></p> <p>1. a. \$5.0 million b. Approx. \$650,000 c. \$500,000</p> <p>2. a. Approx. 45 person-months</p>	<p>1. Project monitoring 2. Periodic evaluations</p>	<p>1. HG loan capital will be available in the U.S. or Chilean financial Markets.</p> <p>Counterpart funds are available.</p> <p>Suitably qualified technicians and consultants are available.</p>

- 19'

Appendix 2: Statutory Documents

- A. Statutory Checklist
- B. Environmental Threshold Decision
- C. Borrower's Request
- D. RHUDO's Reply to Request

THE HOUSING GUARANTY PROGRAM

Appendix 2.A.

STATUTORY CHECKLIST

NAME OF COUNTRY

PROJECT NO. -HG-

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 \$1,718,000,000?

NO

Will the guaranty be issued prior to September 30, 1984?

YES

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- 2 -

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

NO

- (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?

NO

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?

N/A

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, not more than one percent (1%) above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development?

YES

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



COVIP S.A.

FONOS 6984261 — 6985428
ERASMO ESCALA 1835 - SANTIAGO - CHILE

Santiago, Junio 15 de 1990.

Señor
Francis J. Conway
Director RHUDO A.I.D.
Embajada Americana
Avda. 12 de Octubre y Avda. Patria
Quito - Ecuador

Ref.: Solicitud de Garantía para
Préstamo por US\$5.000.000.

Estimado señor Conway:

De acuerdo a los antecedentes y proposiciones presentadas a usted según carta del 23 de Abril de 1990 CSA # 191/90, nos es grato de enviar a usted una solicitud de una garantía de AID, para un préstamo de un inversionista de Estados Unidos de Norteamérica por US\$5.000.000, destinado al financiamiento de la construcción de viviendas sociales para sectores socioeconómicos de ingresos familiares inferiores a la mediana nacional, a través de las Cooperativas Abiertas de Vivienda y Entidades sin fines de lucro afines que integran COVIP S.A.

Esta solicitud configura un requerimiento financiero adicional al que ya existe, que opera bajo el Programa 513-HG-008, desde hace 2 años.

El cumplimiento exitoso del programa antes señalado, adelante en vigencia y toda la experiencia de años anteriores, de vinculación de nuestras Instituciones con A.I.D., permiten que nuestra solicitud tenga el respaldo de confianza y eficiencia que se necesitan para lograr un buen resultado en el desarrollo del nuevo programa propuesto.

Sobre el particular, es importante destacar que en este nuevo requerimiento planteado, la acción habitacional que se desarrollaría, estaría orientada, dentro de las condiciones antes señaladas, a lograr su aplicación preferentemente en las distintas regiones del País y también en los programas habitacionales de viviendas progresivas, en la medida en que las Instituciones miembros de COVIP S.A., están legalmente habilitadas en relación a su extensión territorial, y además puedan permitirles las futuras reglamentaciones que aún no se conocen sobre la vivienda progresiva.



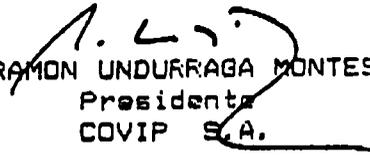
COVIP S.A.

FONOS 6984261 — 6985428

ERASMO ESCALA 1835 - SANTIAGO - CHILE

Confiando que este planteamiento novedoso, ya conversado con el señor Low, señor Bovet y señor Fuentes, esté de acuerdo con la política de vuestra Institución y esperando poder absorber cualesquiera observación, quedo a la espera de vuestra respuesta y aprovecho de testimoniarle mi especial reconocimiento y mi mayor consideración de su persona.

Sin otro particular, se despide atentamente de usted,


RAMON UNDURRAGA MONTES
Presidente
COVIP S.A.

Appendix 3: Technical Documents

A. Environmental Analysis: Justification for
Deferred Determination

Appendix 3.A Environmental Analysis: Justification for Deferred Environmental Determination

Chile Private Sector Cooperative Housing II
513-HG-009

A. Description of the Project

The goal of the Private Sector Cooperative Housing II project is to involve Chilean private sector institutions more fully in the provision of shelter services to the urban poor. Its project purpose is to support efforts of private housing cooperatives and NGOs to expand their production of low-cost shelter solutions nationwide. The project is intended to support new efforts by COVIP, a coalition of private cooperatives and non governmental organizations (NGOs) involved in low-cost housing production, to serve families with even lower incomes than those they have served up to now by producing progressive shelter solutions affordable by families currently excluded from private sector housing programs in Chile. In addition, the project will support COVIP's efforts to expand and broaden the geographic coverage of its low-income housing production outside of the Santiago Metropolitan Area thus allowing other regions of the country to benefit from COVIP's activities.

A predecessor project, HG-008, was initiated in 1988 and the first US\$5 million in Housing Guaranty (HG) authority provided under that project was targeted at providing low cost housing to families below the median income level. That project also aimed at strengthening the institutional capacity of COVIP.

Under the new project, COVIP will operate a loan fund for the timely purchase of land and construction financing for a variety of housing solutions affordable to below median income households. Access to the loan fund will be available to members of the COVIP coalition and to other qualified NGOs which have demonstrated the capacity of delivering housing to the target group.

COVIP will organize savings plans which will enable members to purchase affordable shelter solutions, purchase land with their member's savings, assist members to qualify for government subsidies, seek bids for the construction of a variety of solutions by private contractors, and help members with the paperwork necessary to formalize both the subsidy and long-term mortgage credit. COVIP will recover all of its costs from beneficiaries in the sales prices of various solution types produced. Reflows will enable the loan fund to be rolled over more than seven times during the ten year life of the project, given a typical production cycle of 18 months from start to finish for the

shelter units to be financed which will allow COVIP effectively to gain access to more than US\$36.7 million.

B. Potential Environmental Impacts

Although USAID/Chile is concerned about the potential environmental impacts of the projects it manages, it will not be involved in the design of various solution topologies to be financed by this project nor will it have any role in their actual construction. Nevertheless, USAID/Chile will instruct the local bank who assumes custody of the HG loan proceeds to ensure that environmental assessment procedures are adequately addressed by the private sector contractors to be employed by COVIP members during the course of the bank's requisite inspection and supervision responsibilities related to the shelter solutions to be financed by this project.

C. Justification for Deferred Environmental Determination

Section 216.2 (c) (ii) of AID's Environmental Regulations states that Initial Environmental Examinations, Environmental Assessments and Environmental Impact Statements are not required when "AID does not have knowledge of or control over, and the objective of AID in furnishing assistance does not require, either prior to approval or financing or prior to implementation of specific activities, knowledge of or control over, the details of the specific activities that have an effect on the physical and natural environment for which financing is provided by AID". Based on A.I.D.'s review of the HG-009 project, however, the environmental determination is deferred until such time an in-country review of COVIP's environmental assessment procedures is carried out.

Nevertheless, the project paper team requested a statement from COVIP that describes their customary site selection and site development procedures, a summary of the water supply, garbage and sewage disposal standards applicable for their projects and other information pertinent to the protection of natural aesthetic values in the processes of project design and development. Over the years, COVIP has developed policies, standards and procedures to guide their project development activities which reflect substantial concern and rigor in evaluating environmental impacts associated with project development, and which provide relatively clear environmental quality standards to their operating units.

In 1981 COVIP contracted Asesoria CPC/INVICA, a local Chilean firm, to develop a model which has since become fully operational and is currently implemented by COVIP and all of its members to guide them through proper site selection and development, including the location of traditional housing projects financed with local and AID funds. The "Dynamic Model of Design" rates the adequacy and acceptability of specific sites for potential housing projects

according to a numerical scale of 0 to 3. The ratings are determined by comparing different aspects of the sites with applicable municipal and governmental norms and standards through three means: (a) physical site surveys; (b) sociological surveys of potential site residents; and (c) review of technical field studies. The criteria covered by the model include:

1. Quality of Environmental Conditions
 - a. Environmental Quality (noise, air pollution, and solid waste management)
 - b. Security against accidents for residents.
 - c. Topography, climate, and physical surroundings (geology: soil type, hydrological conditions, stability of site with respect to faults and slides)
2. Construction
 - a. Housing type
 - b. Housing design and siting
 - c. Project size
 - d. Relationship of open space to construction coverage of site
 - e. Relationship of open space and developed site
 - f. Distance of home to place of employment
3. Infrastructure
 - a. Type, amount, and quality of community facilities
 - b. Distance of housing to community facilities.
 - c. Type, amount, and quality of public transportation
 - d. Type and quality of roadways, green space, developed sites versus common areas
4. Services
 - a. Potable water
 - b. Sewerage disposal
 - c. Electrical services
 - d. Fire prevention
 - e. Garbage collection
 - f. Storm drainage
 - g. Police protection

Suitable scores must be assigned to each potential site for each of the above criteria before they are approved for development. Employment of the model will afford adequate review of environmental considerations associated with the development of traditional housing projects financed by COVIP and its members,

which represent 95% of total output of the proposed HG project (HG-009).

COVIP and its members also recognize that progressive housing solutions under the new HG-009 project represent a departure from the traditional housing projects. New site and unit design and review procedures will be required to parallel the progressive solutions, which will amount to 5 percent of total project output. Specifically, COVIP and the coops will have to arrange for technical assistance and monitoring of individual beneficiaries to insure that proper attention is given particularly to seismic resistant construction.

COVIP, as part of its project implementation under the HG-009 Project, will introduce appropriate changes to its existing practices and procedures to ensure that adequate treatment of environmental considerations are built into the housing development process and housing designs. AID assistance will not be required to do this. With these changes, COVIP and its members will be giving adequate attention to environmental issues associated with the development of progressive and traditional housing solutions.

RHUDO/SA is also in receipt of several-volume studies commissioned by COVIP to provide their members with project development guidelines reflecting environmental concerns. Such detailed information on the utilization of environmental guidelines by COVIP members is available for review from the RHUDO/SA.

As part of project implementation, RHUDO will review further with COVIP the procedures that COVIP follows to ensure that its projects are environmentally sound. Technical assistance will be provided to COVIP on these environmental issues as appropriate.

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D.C. 20523

LAC-IEE-90-51

ENVIRONMENTAL THRESHOLD DECISION

Project Location : Chile

Project Title : Private Sector Cooperative Housing II

Project Number : 513-HG-009

Funding : \$5 million (HG Loan)

Life of Project : Five years (FY 90-94)

IEE Prepared by : Sonny Low
RHUDO/SA

Recommended Threshold Decision : Categorical Exclusion

Bureau Threshold Decision : Deferred Determination

Comments : Pursuant to 22 CFR 216.3(a)(7), the environmental review is being deferred until after project authorization. Specific activities have not yet been identified in sufficient detail to permit meaningful environmental review. The review will occur at the earliest time in design or implementation at which meaningful review can be undertaken, but in no event later than when specific activities are identified and planned. It is anticipated that review will occur in connection with an assessment of the environmental review procedures of COVIP by REA/SA, Howard Clark. To avoid an irreversible commitment of funds before completion of the environmental review, the project agreement will include a covenant providing that no activity for which environmental review is deferred may be implemented until (i) an environmental review has been completed with respect to that activity and (ii) any recommendations resulting from

the environmental review have been incorporated into the design of that activity.

Copy to : Paul Fritz, Director
USAID/Chile

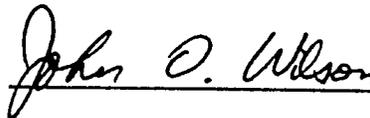
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 Date SEP -6 1990

John O. Wilson
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Appendix 4: Financial Documents
A. COVIP Cost Analysis

Appendix 4.A.: COVIP Cost Analysis of Borrowing Alternatives

As indicated in Chapter VIII, Implementation Arrangements, COVIP will seek to preserve the flexibility it now has with HG- 008 with respect to the currency in which it borrows under HG- 009. As shown below, under the conditions that are currently expected to prevail, COVIP will have lower financial costs by borrowing in U.S. dollars and assuring itself the ability to repay those dollars by contracting a currency swap agreement with the Central Bank, than it would by borrowing Chilean pesos under an AID local currency guaranty. This comparative cost assessment may change in the future, however, and it is in COVIP's interest to preserve the option to convert its indebtedness to Chilean pesos when it initially contracts a dollar loan under HG-009. The comparative financial cost calculations performed by COVIP, and their underlying assumptions, are documented below for future reference and to facilitate recalculation should the need arise.

Calculation of Approximate Effective Annual Rate of Interest for a U.S. Dollar Borrowing with Currency Swap Coverage vs. Local Currency Borrowing

<u>Item</u>	<u>Annual Cost in %</u>	
	<u>dollar loan</u>	<u>peso loan</u>
180 day LIBOR	8.50 ^{a,b}	
Fee, U.S. investor	0.50 ^b	
Guaranty fee, AID	0.50 ^c	0.50
Agency fee, Riggs Bank	0.10 ^b	
Tax (4 %) on foreign remittances	0.38 ^d	
Fee, local custodian bank	1.77 ^e	1.77
COVIP fixed admin. fee	0.30 ^e	0.30
COVIP variable admin. fee	0.47 ^f	0.59
Annualized closing costs	1.00 ^g	1.00
Central Bank fee for currency swap	2.60 ^h	
Central Bank discount, \$ repurchase	(3.40) ^h	
Marginal cost-of-funds, local bank		9.00 ⁱ
Lending spread, local bank		<u>1.50</u>
Total annual cost	<u>12.72</u>	<u>14.66</u>

Notes:

- a. Assumes that the U.S. dollar exchange rate will remain stable against the Unidad de Fomento, U.F.
- b. Payable at the end of each semester
- c. 1 % payable at origination, then 0.5 % semiannually thereafter
- d. 4 % tax applicable to remittances of first four items
- e. Includes 18 % value-added tax, VAT

- f. Includes 18 % VAT. 0.50 % fee applied to balances borrowed by COVIP members, assumed 80 % of guaranty amount, on average.
- g. 3 % closing costs, including 1 % AID guaranty origination fee, payable at closing, annualized over six years.
- h. The Central Bank of Chile charges a fee, currently 2.6 percent, payable in advance, for the coverage of a currency swap agreement. It also offers a discount, currently 3.4 %, applicable at the unwinding of the currency swap, on the resale price of U.S. dollars, expressed in U.F. Both values are subject to change.
- i. Estimated marginal cost-of-funds, reflecting reserve requirements and an average deposit rate (TIP) of U.F. plus 8%. All rates are expressed in relation to the U.F. and hence should be considered "real".

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Appendix 5: Economic Documents

A. Housing Guaranty Eligibility Issues

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Appendix 5.A.: Housing Guaranty Country Eligibility Issues

In accordance with the Office of Management and Budget and AID Bureau for Program and Policy Coordination requests to review potential Housing Guaranty countries in terms of country risk, the following section analyzes Chile's ability to service additional external debt with a U.S. Government guaranty.

Given the fact that Chile is currently eligible for World Bank lending, it is presumed, a priori, that it can service Housing Guaranty (HG) loans with comparable repayment terms. The GOC is current on both its existing HG debt service and all official and private obligations. Both official (including existing HG indebtedness) and commercial debts were rescheduled during 1988 in accordance with an extended arrangement with the International Monetary Fund. It does not appear that the GOC will need to reschedule its official obligations in the near future. However, as a result of the 1988 rescheduling, approximately US\$3 billion in commercial amortization payments will fall due during the 1991-93 period. As currently structured, it is unlikely that Chile will be able to make these payments and will, in all likelihood, attempt to restructure its commercial debts.

In an effort to generate quantitative indicators of Chile's ability to service its external debt without serious difficulty over the next three to five years, the following financial risk indicators have been developed. These indicators collectively describe a country's ability to generate the foreign exchange necessary to service foreign investment and repay international loans.

1. Current Account-to-Exports Ratio

The current account portion of a country's balance of payments represents the net balances on all transactions of goods and services and of unilateral transfers completed within a one year period. The current account measures the difference between foreign exchange flowing in and out of a country as a result of these yearly transactions. It is generally held that if a country's current account is positive, i.e., foreign income exceeds foreign expenditures, there is no cause for concern. Small deficits on current account, resulting in small negative values for the current account-to-export ratio, can generally be easily financed and also should be interpreted as not serious. Although Chile's current account-to-export ratio has declined from alarming levels exceeding -- 30 percent during 1985-86 to - -2.4 percent in 1988, its deterioration during 1989 should raise a note of caution (see Table 5).

2. Debt Service Ratio

The debt service ratio is that proportion of exports of goods and services required to meet annual interest and principal repayments on a country's external debt. Debt includes both public debt (government borrowings abroad from other governments and international institutions) and private borrowings (government borrowings from private institutions).

The debt service ratio is an indicator of a nation's ability to repay loans based on its earnings from exports in a given year. Foreign exchange used to repay foreign debt is unavailable for use in other sectors of the economy. A ratio between 20 and 30 percent is considered to be reason for concern. During the past three years, Chile's debt service ratio has averaged about 30 percent (Table 1).

3. Import Compressibility Ratio

Food and fuel are considered to be essential imports vital to a country's economy. The proportion of food and fuel in a country's import bill determines import compressibility. The ability of a country to discourage imports by adjusting its exchange rate depends in large part on the composition of its imports. Comparatively high dependence on essential imports such as food and fuel reduces the practicality of devaluation as a means of bringing total imports down to more manageable levels and encourages import restrictions which have potentially negative ramifications. A proportion of food and fuel in the import bill of less than 25 percent, as in the case of Chile, is considered satisfactory.

4. Reserve-to-Imports Ratio

International reserves consist of a country's holdings of foreign exchange, gold, and its Special Drawing Rights and reserves position with the International Monetary Fund. These reserves are used to protect a country from fluctuations in foreign exchange earnings. International reserves divided by imports of goods and services yields the reserves-to-imports ratio. This proportion, in turn, is expressed as the number of months the reserves on hand could cover current imports. Generally, a level of reserves adequate to cover three months of imports is about average for developing countries. During 1989, Chile had reserves in excess of four months of imports (Table 1).

5. Vulnerability Index

This index is defined as imports of goods and services, plus short-term debt, minus reserves excluding gold holdings, divided by exports of goods and services. The vulnerability index is a measure of a country's ability to meet its short-term commitments,

Appendix 5A, Table 1.

Chile: Selected Financial Risk Indicators, 1985-89

(Millions of U.S. Dollars)

Item =====	1985 =====	1986 =====	1987 =====	1988 =====	1989 =====
Current Account Balance	(1,353)	(1,110)	(808)	(167)	(905)
Exports (f.o.b.)	3,804	4,199	5,224	7,052	8,080
Imports (c.i.f.)	2,955	3,099	3,994	4,833	6,502
International Reserves	1,098	1,186	965	1,947	2110 1/
Reserves Net of Gold	1,023	1,110	889	1,870	2033 1/
Total External Debt	20,529	20,829	20,660	18,971	18,043
Short-Term Debt	1,794	1,687	2,017	2,186	2,973
Imports of Foodstuffs	271	169	210	258	120 1/
Imports of Fuel	546	428	474	628	380 1/
Gross Domestic Product (Ch\$B)					
Real Prices	357	377	398	427	470
Current Prices	2,577	3,246	4,160	5,411	6,745
Fiscal Surplus (Deficit) (Ch\$B)	(67)	0	(15)	197	N.A.
Ratios =====					
Current Account-to-Exports	(35.6)	(26.4)	(15.5)	(2.4)	(11.2)
Debt Service	53.1	45.6	31.3	29.6	N.A.
Import Compressibility	27.6	19.3	17.1	18.3	16.5
Reserves-to-Imports (months)	4.5	4.6	2.9	4.8	4.2
Vulnerability Index	89.4	87.5	93.7	97.1	91.2
Debt-to-Exports	539.7	496.0	395.5	269.0	223.3
Fiscal Surplus (Deficit)-to-GDP	(2.6)	(1.9)	(0.4)	3.6	N.A.
Real GDP Growth Rate	2.5	5.6	5.7	7.4	N.A.
Per Capita GDP (US\$)	1,321.4	1,364.9	1,512.3	1,732.3	N.A.
Inflation Rate	30.7	19.5	19.9	14.7	16.2

1/ First Six Months

Sources: Central Bank of Chile
National Institute of Statistics (INE)

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namely imports and short-term debt. As these short-term commitments rise, pressure on a country's external position increases. If reserves are plentiful, it is easier for a country to finance its short-term commitments. A value of less than 135 percent for this index is considered satisfactory. For the past five years the value of this index in the Chilean context has been below 100 percent.

6. Debt-to-Exports Ratio

This ratio is defined as total outstanding disbursed public and publicly guaranteed debt divided by exports of goods and services expressed as a percentage. This ratio is regarded as a long-term solvency measure. The larger the ratio, the less creditworthy the country. A ratio in excess of 200 percent is generally considered alarming. During the past five years, Chile's debt-to-exports ratio has declined significantly, from 540 percent in 1985 to about 223 percent in 1989.

7. Fiscal Surplus/Deficit-to-GDP

Expressed as a percentage, this ratio indicates fiscal management policy. Persistently large deficits (e.g., in excess of 5 percent of GDP) cause inflation as well as internal and external debt problems, and generally indicate an inability to manage the economy. Chile's fiscal deficit declined to a 6 year low in 1987 but subsequently rose significantly during 1988.

8. GDP Growth Rate

The annual percentage change in GDP is a measure of a country's overall economic health. A strong growth rate often implies a healthy economy and a sustained ability to service its external debt. Very high growth rates, however, if coupled with inflation and increasing debt, can imply impending economic problems. During the past five years, the rate of GDP growth in real terms has averaged over 7 percent per annum; between 1988 and 1989, GDP increased by over 10 percent in real terms.

9. Per Capita GDP

This indicator is a measure of the relative wealth of a country. The lower the ratio, the lower the country's capacity to service debt. Per capita GDP for Chile in 1988 was US\$1,732, a satisfactory level.

10. Inflation Rate

The percentage change in the consumer price index is an indicator of economic and fiscal management policies. A high inflation rate hampers a country's ability to service its debt. After peaking at 30.7 percent in 1985, the average rate of

inflation declined to 16.2 percent in 1989.

Table 5 A.2 summarizes the ten financial risk indicators considered in this analysis and categorizes them as satisfactory, cautionary or alarming. Three of the ten indicators were found to be in the "cautionary" or "alarming" categories which places Chile in the medium default risk category.

Appendix 5A, Table 2.

Chile: Summary of Financial Risk Indicators

Indicator =====	Satisfactory =====	Cautionary =====	Alarming =====:
Current Account-to-Exports Ratio	Deteriorating		
Debt Service Ratio		Improving	
Import Compressibility	Stable		
Reserves-to-Imports Ratio	Stable		
Vulnerability Index	Stable		
Debt-to-Exports Ratio			Improving
Fiscal Surplus/Deficit-to-GDP	Deteriorating		
Real GDP Growth Rate	Improving		
Per Capita GDP	Improving		
Inflation Rate		Improving	

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Appendix 6: Social Documents
**A. Secondary City
Case Studies**
B. WID Issues

Appendix 6.A.: CASE STUDIES

San Antonio:

This relatively low income community with an economy based on the fishing industry was the epicenter of the 1985 earthquake. The result was the destruction of a large portion of the already-inadequate housing stock. This small city of 65,000 people lies in Region V, to the west of Santiago. The fact that the port itself was destroyed during the earthquake has hampered economic recovery and growth. Town officials argue that local capacity to generate resources is minimal, necessitating reliance on external assistance and investment.

The town has been successful in attracting some resources from outside: The Interamerican Development Bank (IDB) is providing assistance through its infrastructure loan program for water, sewerage, and for the development of sites and services projects. \$10 million is sought from the IDB. The Fondo de Solidaridad y Inversion Social (Solidarity and Social Investment Fund) of the Scandinavian governments is also expected to donate resources which will provide funding to San Antonio among other beneficiary communities. IDB funds flow through the Ministry of the Interior, while the Fondo de Solidaridad channels resources through the Planning Ministry.

Domestic resource redistribution is also important to this community due to its inability to generate its own resources. Funds flow from local taxes at a level of 60% of receipts to the central government, with San Antonio expecting to benefit from the reflow out of Santiago. The Director of Public Works for the city estimates that only 14% of properties actually pay the required taxes. While reforms are needed, they are difficult to bring about without the resources and training to do so. It was not known how much would return to San Antonio for infrastructure investment from this Fondo Nacional del Desarrollo Regional (National Fund for Regional Development, or FNDR).

Habitacoop has been a significant actor in the local housing market, with local officials offering the view that it provides the best low income housing. It is estimated that San Antonio's housing deficit is 3,200 units. SERVIU cannot keep pace with the demand for its subsidized programs, but tries to build 400 units per year. Their Basic Houses program has constructed large groups of homes, with 800 in the 30 de Marzo Project in the city, and many more in neighboring Llo Lleo.

The market for Habitacoop includes some members of the fishing industry, along with teachers and hospital or public health

workers. Members have incomes of up to 10 UF a month, which is high for San Antonio, whose local officials estimate that 7 or 8 UF is a higher-level income among residents of the city as a whole.

Some hospital workers who have joined the coop have incomes as low as 3 UF, while teachers are more likely to earn 5 to 7 UF. Fishermen have variable incomes, and the coop has been able to work out a payment schedule for those able to comply with the initial savings requirement.

Coop members include these workers, as well as small business employees, including a vendor of bottled gas and the manager of a small store. Houses produced for 400 UF are habitable but unfinished: Water and electricity are hooked up, but to be "finished" the unit needs interior drywall or stucco, flooring, improvement of the ladder-type steep stairway to the second floor, bathroom tiles or other improvement on the bare concrete, bathtub or other enclosure for the basic concrete shower, doors to rooms other than the master bedroom, and the installation of a hot water heater. In this sense, the unit is "progressive" and its comfort depends on the initiative of its owners. Many had already begun to make significant interior improvements, and some had added outdoor walls, grass, and other landscaping.

The concept of some degree of progressive construction appeared to be well-accepted locally. It is common to use one's resources to buy the best structure possible, using future resources of one's own to make improvements. The city expected good response to the IDB-sponsored serviced site/sanitary core house program, with participants expected to proceed quickly with building their own liveable space on the site. With the Habitacoop units so desirable, it is likely that there is--in San Antonio and elsewhere--some "buying down" among the relatively more affluent in order to acquire the maximum subsidy. In such cases, the purchase of the largest possible shell or space is sought, because there are other resources to make improvements.

Talca:

Habitacoop is involved in completing the first two groups of homes in this secondary city and provincial capital in which plans call for the construction of 1,500 cooperative units. Here, high costs for land and infrastructure threaten to push up the required incomes of beneficiaries. 30 to 35 UF (US\$ 540 to \$630) is needed to purchase a site, with another 40 to 45 UF (US\$720 to \$810) for site development. The success of the first phase of 100 units, and those which follow, is dependent on the Ministry of Public Works' ability to extend off-site infrastructure. Habitacoop depends on member savings to buy the land, and tries to negotiate with several different landowners at once to try to get the best price at the right time. Here, the implicit subsidy which exists as part of the SERVIU solutions becomes more apparent: Were this not available,

the cost of land and site development would surely increase unit costs significantly.

Now, 200 units are under construction in the second phase of the La Conquistador development. Many residents of the first phase will be hospital and health workers with incomes in the range of 4.5 to 9 UF, or between US\$80 and \$160. A number of others work for the railroad, while others are teachers or engaged in a variety of other occupations. Typical units valued at 400 UF are a 36 square meter storey-and-a-half model whose owner can finish the upstairs, and a 45 square meter single-storey unit. The members typically have saved 15 UF (US\$270) over a three-year period. An estimated 35 UF (US\$630) would be required to complete the interior finishing on the houses and to make them comfortable and modern inside.

Problems of the availability of serviced land limit development in general and, in particular, expansion of the coop program. This is a problem common to other towns of the Maule Region (Region VII), whose overall housing deficit is estimated to be 45,000, or 10.72% of that of the whole country. In Talca Province, the deficit is said to be one of the country's most serious, with 16,000 units needed. 6,918 are registered with SERVIU for future houses available through the Basic Houses program. It is also estimated that there are 15,376 families of "allegados", and 2,441 families in informal settlements around the periphery of the city.

Other provinces within the region evidence similar needs, with a 6,641-unit housing deficit in Linares, where Habitacoop has been successful in developing coop units in the 320 to 350 UF price range. 3,594 families in Linares are said to live in "marginal" conditions, with 13,813 allegado families and over 700 in owner-built informal settlements.

Curico' lacks a further 6000 units, with over 11,000 "allegado" families, while Cauquenes requires 2500. There, SERVIU is building 142 units in response to a waiting list of 1,063 families.

On the whole, the region has a serious lack of serviced land to enable any housing construction to take place. The availability of private market housing solutions is hampered by the fact that this region has Chile's lowest median income, with the typical household earning slightly over 5 UF (US\$90) per month, and many more in unstable agricultural employment and earning much less. A SERVIU official said that it is not uncommon for a local family earning 2.5 to 3 UF (US\$45-54) per month to have to spend 1.5 UF (US\$27) on housing, leaving little income available for other essential expenditures.

The local economy is based on agriculture. Insufficient

resources are generated locally to extend the network of water and sanitation services to areas otherwise suited for development. SERPLAC has plans to develop 1800 progressive housing solutions in Talca and Curico, with another 1500 spread throughout the area. IDB resources are essential to this effort. Local capacity and commitment to infrastructure or other improvement is not being fully utilized pending definition from MINVU as to the future form and availability of housing subsidies.

Many of the sites and services efforts have placed beneficiaries far from the city center, without the transportation needed to obtain better employment. Many are not interested in spending their savings on a core house of 8 square meters. The Talca public works director says that the Interamerican Development Bank program of sites and services will address some of the needs of the "poorest of the poor."

There are simple local plans available for sites and services and core housing solutions: The public works office recommends their construction on 120-square meter lots, with a "sanitary core" of 8 square meters comprising a bath and kitchen. The total area of a concrete slab for the construction of a basic house could cover about 24 square meters, which would offer space for two small bedrooms and a living area.

Local officials argue that it is difficult, if not impossible, to save with a household income below 7 UF or US\$126 per month. High local costs require a minimum of 2 UF (\$36) for housing costs, and another \$100 for food. Allegados pay up to \$18 per month to rent a room. Many people--presumably among those employed in productive local farms--find ways to pay for their needs in goods instead of pesos, but this is not enough to prevent a high level of poverty and of poor conditions and treatment particularly for women and children.

While need is great, demand will have limits in an area whose officials characterize many families as having to choose between spending money on housing or on food. A family earning the local median of \$100 per month could afford to finance only about 150 UF or \$2,700, which does not go very far--even in combination with available subsidies -- towards acquiring the solutions available from the cooperatives. A family with marginal income from agriculture of about \$50 a month might be able to participate in a program of highly subsidized sites and services in combination with a credit program of \$1000 loans (55 UF) for construction of minimal wooden houses or another type of progressive housing solution.

Based on interviews with residents of local "poblaciones," who did not want to contribute their savings in return for only a sanitary core house, the opportunity to acquire a simple but habitable house would appear desirable. There was a clear interest

on the part of these poorest residents for land of their own, and a house that could be added to or improved as resources permit. Among some poblacion residents there is a feeling that they deserve a "house" and should not be obliged to pay anything at all for what they consider inadequate housing solutions. Even among some long-term residents of poor neighborhoods, there is a measure of defiance about paying for their lot and mediagua, and recognition that loan collectors were unlikely to pursue them.

This attitude is reflected in a May 29, 1990 story in the daily El Mercurio that notes 322,000 delinquent accounts among SERVIU borrowers.

Appendix 6.B.: The Role of Women in Chile's Cooperative Housing System

The following is the analysis prepared jointly by Dr. John Lozier, special consultant provided to support the project paper team by the PPC/WID GENESYS Project, and Dr. Jeanine Kleimo, housing specialist.

Generally, it appears that the formation of a household is the key event which results in the demand for housing. This new household is more likely to be based on the presence of a woman than a man. There are female participants in the complete variety of housing situations examined in the fieldwork portion of the research conducted for the project paper exercise, but a man is not always present in each household. A woman is more likely to have her children live with her; therefore, a family unit of more than one person more often includes a mother and children or a husband and wife than a man and other than a conjugal relationship.

It appears that a woman's interest in establishing a separate household from that where she currently resides is the key event that results in additional housing demand. While there are numerous cases of allegados or multiple-household residences in Chile, the lack of access to housing may function to impede the establishment of new and stable nuclear families.

Women are most likely to work outside the home before they get married, with many continuing until they have children. While there is no data available on the amount earned by women before they become mothers, interviews indicate that what is earned by a woman at this time can form an important component of the savings of new households or young families. Unmarried women typically live at home with their parents or with relatives, and their presence does not result in additional housing expenses. In the case of households with the least resources, a single woman able to earn and contribute to household income may not only be significant, but essential, leaving little or nothing for savings that could permit the acquisition of a housing solution separate from those who have come to depend on these earnings.

The ideal, in Chile, is for a woman to be able to stay at home and care for her children and family. There is resistance to permitting a situation in which her income is needed to meet family expenses, because a woman feels it is a mistake to put herself in the role of wage earner and homemaker, with double the work. Women able to attain university educations seek and pursue careers, often after bearing children. However, they experience both the advantage of employing other women at significantly lower wages to care for their children and homes, and the disadvantage of cultural expectations which consider these the responsibilities of wives and mothers.

Among cooperative members and beneficiaries, the traditional model of the husband as breadwinner and wife in the home with children appears to prevail. Adult female residents may have worked in the past, but now that their goal of acquiring a house has been achieved, there is little or no interest in returning to the labor force. Some women, whose family incomes may be among the lowest of cooperative members due to their husbands' work in fishing and agriculture with their seasonal and unpredictable flow of earnings, admitted that financial necessity could warrant their return to work outside the home.

In cooperative housing developments, like most other residential communities, very small enterprises are commonly located within or adjacent to the home of their owners. For families able to save after their house purchase, there is the choice of adding on a simple structure for selling bread and other essentials for which there is demand within the neighborhood. These appear to provide a supplemental source of family income, as they are often run by women or by families whose adult women contribute to its operation. Thus, to some extent, the ability to acquire a home is a step towards owning a business which a woman can run without quite having to leave her children and household behind.

It is also of interest to note that virtually all the families acquiring permanent housing through the cooperative network view their homes as permanent locations for the conduct of family life for the indefinite future. These are not steps on the way to a bigger or better house, but a basis for improvement and expansion. Women view themselves as investing considerable time and energy in the maintenance and improvement of their home, and do not generally have aspirations of more.

The initiation of the demand for housing on the part of a family may be generated by either member, although a man who is a coop member or who can otherwise provide a house for his prospective bride is well regarded. It would be interesting to know but difficult to determine the extent to which the availability of housing induces the formation of new families.

With regard to the market that the cooperatives are serving to fill, it is clear that they are providing a product that is consistent with widely-held aspiration levels among all those not freely able to acquire their dream home through individual action in the market. This model of a simple and solid, though unfinished, small house is so widely perceived as desirable that there are genuine difficulties in achieving the acceptance of lesser solutions.

In some informal settlements, women complained about the suitability of the sanitary core or "caseta" as a solution to their

housing needs, arguing that they preferred to wait and try to save till they could get something that they could actually live in. The wives of agricultural and other poorly-paid workers commented in several cases that the SERVIU solution of putting the next family on the list in the next available unit failed to consider their objectives for their own families, which include choosing one's neighbors and living with people of certain moral values and social behavior.

Among the poorest families, there is considerable pride among those who have provided a solution for themselves, as in the cases of "mediaguas" (self-constructed wooden houses), whether they are located on titled lots or in tomas. For women, some combination of not being beholden to others, while achieving a measure of physical privacy, may be considered to be key motivational factors.

Women's Financial Ability to Participate

As elsewhere, women in Chile earn less than men. However, it should not be said that women have lower earning capacity. It is more correct to say that society offers women a lower or lesser cultural opportunity for remunerative activity. Various cultural aspects could be cited (traditional female occupations are traditionally underpaid; presumed maternal and family allegiance challenges loyalty to job; female culture stresses cooperation over competition; etc.).

Tending to compensate for women's limited cultural opportunity to earn is a social responsibility placed upon men to provide household income (cash or other resources). Of course, many men cannot meet this traditional responsibility, due to their occasional unemployment, high prices, and low salaries in Chile.

When housing is the good to be purchased, the important issue is not men's or women's financial ability, but household financial ability. Family status or household composition are important factors in the decision to buy a house for occupancy and use, rather than for financial gain. In this context, a simple analysis of income by gender will not do.

In the conjugal collaboration, the wife's traditional economic role is to guard household financial ability by economising (cost-avoidance, benefit-stretching). Chilean fieldwork has revealed that within a conjugal pair, the woman is often the key figure for maintenance of a savings program.

A woman's financial ability can also be enhanced by access to contributions from outside the household. Where children are involved, an interest in the protection of a household extends to kin, to neighbors, and to society as a whole. A mother can ask for and receive assistance, without the burdensome presumption that it will need to be repaid. A mother's own parents, for example, are

strongly interested in providing housing for grandchildren. Of course, ascending kin are a real resource only when they care and when they have something to spare; in extreme poverty, one or both of these requirements may be unmet.

Men's greater earnings would seem to offer higher ability to pay for housing, but at minimal salaries, earnings alone are not enough. Cast in the role of provider, men cannot as easily ask for (or expect) outright donations. Whereas a woman who cannot provide for her children is a threatened asset, a man who cannot provide is an expendable liability. Social interest in the family (e.g. from maternal and even paternal grandparents) is likely to bypass the male spouse, to be invested directly in well-being for the younger generation.

Important in this context is the discovery that about 40% of coop members (postulants) are women. (This estimate is based on two independent sources. From Provicoop, a survey of 4,484 out of 5,803 current members, including those not yet in their houses, showed 1,883 (or 42%) to be women. An earlier project document ("Background on the private sector cooperative housing program") provides a profile of the first 453 families to obtain housing through cooperatives; it shows 38% of household heads to be women.) For conjugal households, house ownership by the wife would not be traditional. However, there is no reason to assume that all these women identified as household heads are single; in the absence of specific figures, fieldwork observations suggest that 90% or more of coop households are conjugal. The surprisingly high female rate among coop home-owners can best be understood as a formal consequence of the informal and traditional pattern of investment of social resources for the protection of children, and of women as their mothers.

Since the conjugal model is not always realized in practice, it is important to assure that female-headed single-parent households are adequately provided for. Remarks of coop representatives indicate that such households are included among coop members.

Without further investigation, it can be tentatively said that the coops appear to have demonstrated a reasonable openness to female participation. Still, social policy might well be consciously directed at delivering residential property into the hands of women. This is in fact the policy of Hogar de Cristo, a private religious organization which provides not only emergency housing for the extreme poverty segment, but also modest permanent housing through an open cooperative system. An official of Hogar de Cristo in Santiago explained that a man who approaches the organization for help is required to bring his wife, although a woman is not required to bring her husband. Partly a control to avoid double-dipping, this policy implicitly acknowledges a priority concern for women in providing housing.

For implementation of a program with broad benefits, for children and adults of both genders, the coops can be encouraged to do more of the same, ultimately increasing the proportion of female coop members from the present 40% to at least 50%. Given the linkages of household, family, and maternal/generational values, it would not be amiss to consider targetting 2/3 of housing in the hands of owner-occupant women.

Access to Credit

Do women have equal access to credit, especially for housing? For formal credit institutions, the simple answer is undoubtedly no. Employment and earnings factors suggested above tend to disqualify women for formal credit a lender wants to see evidence of long-term income assurances.

In Chilean society, women's rights are protected in principle by law. Evidence of practical effectiveness is thin. There is a slight under-representation of females among all students enrolled in schools, hardly enough to constitute evidence of gross discrimination (105 males for every 100 females; source: Table 151-01, page 48, Compendio Estadístico, 1989). In the course of fieldwork, two Chilean lawyers (both males) asserted that women are generally protected under law, and specifically protected in conjugal relationships. Whatever traditional sex discrimination has been and continues to be practiced, the trend appears to be toward a realization of equality.

Regarding credit, evidence of sex discrimination has not been found. Sex discrimination could be established only with all other things being equal (similar income and assets). A more immediate concern is that other things are not in fact equal. Elimination of disadvantages in employment and income opportunities for women are matters of priority concern. (Investigating the existence of sex discrimination where financial qualifications were equal would require a specialized study of loan applicants and acceptances.)

Tending to offset women's disadvantaged access to credit would be women's somewhat enhanced access to outright grants of assistance from kin, neighbors, and society at large. This has been discussed above with regard to "ability to pay for housing."

Regarding implementation, the representation of women among coop members (cited above) is direct evidence that the coops are providing credit access to women. Again, the coops can be encouraged to do even more of the same.

Allegados: Gender Characteristics and Access to Credit

Who are the potential beneficiaries of a house? Surely not just the title-holder. Rather, they are also the housemates or

dependents of the title holder, primarily children, who are likely to be of both sexes.

Allegado status (extended temporary residence within a separate household) is a more or less traditional economising strategy. At least in some cases, it can provide the margin which makes possible saving and eventual purchase of a house.

Data from a sample of 1,305 Provicop members (out of 5,362 members already occupying their coops houses) show 66.2% lived as allegados before the house purchase. These data tend to document the performance of the cooperatives in extending benefits to allegados.

Whether these former-allegado beneficiaries specifically include female allegados is not directly indicated. Recalling that about 40% of coop members are female, it is clear that at least some of these must be from allegado backgrounds. It is reasonable to hypothesize that most (or a disproportionate number) of these female coop members are from allegado backgrounds. Unfortunately these data are not at hand. The hypothesis is that allegado arrangements are made by women, and that they typically place allegado households with a wife's female relative such as a sister or cousin.

Gender Analysis: Concluding Comments

Introduction of gender issues challenges traditional male-biased assumptions of economics (e.g. that economic decisions are rationalized through a monetary calculation). At a minimum, a gender-adjusted economic model needs to acknowledge that some human interactions, particularly where conjugal relationships and children are involved, do not fit the exchange model. This controversial point cannot be argued at length here.

This report and the work behind it constitutes an effort to integrate an anthropological view of gender issues into the financial, social soundness, and administrative analyses of AID/Chile's HG-009 project paper exercise. Success of this effort has been limited, in part because of the state of the art (lack of a model for gender-adjusted economic analysis), and in part because of time and other resource constraints. This is a base to build on.

Appendix 7: Institutional Documents
A. Description of Housing Cooperatives

Appendix 7.A.: Characteristics of Individual Housing Cooperatives

Habitacoop

Habitacoop, as mentioned above, is the most capable in a legal sense to build outside the Santiago Metropolitan Area. Its current product is close to the 400 UF (US\$7,800) limit in most cases. It was the first open cooperative to construct housing in Chile over 17 years ago, and has remained the largest of the open cooperatives. By the end of 1989, 9,664 units have been built for its members in Arica, Iquique, San Antonio, Talagante, Curico, Talca, Chillan, Concepcion, and Puerto Montt in addition to several developments in or adjacent to Santiago. Habitacoop claims 15,486 member households, with 4,527 units under construction.

26% of HG-008 funds have been allocated to Habitacoop, or approximately \$1,300,000. The use of these funds to date has financed the construction of 336 houses.

Their typical product is a one- or two-storey duplex with "obra gruesa" or rough finish work, containing a small kitchen, bath, small living/dining room, and two bedrooms. The units offer concrete floors, bare brick walls, wiring for lighting fixtures, cold water in the kitchen sink, bathroom sink and shower, and outside faucet, and no closets or cabinets. Staff estimates ranged from \$50 to \$100 for the cost of materials needed to install floor coverings and other finish work to the level which most residents would consider adequate.

Habitacoop is governed by a twelve-member board of directors, one of whom is a woman, while one additional woman is a member of the administrative staff.

Provicoop

Provicoop builds a similar product as Habitacoop in Santiago, with some units available in the 360 to 400 UF (US\$7,000 to \$7,800) range in townhouse groups with similar features. Since 1977, 11,268 houses have been built. Its founding institution, the INVICA foundation, began its housing efforts in 1959. For 18 years prior to the establishment of the open Provicoop cooperative, its focus was on developing and assisting over 250 closed cooperatives, which built approximately 25,000 units.

Provicoop claimed significant growth during 1989, particularly with regard to the lower income sector: In the five previous years, only 10% of members had incomes below \$90/month. In 1989, this level was increased to 22%. Those with incomes of \$90 to \$180 per month remained a stable proportion of the membership at about 49%, while higher-income households declined.

Provicoop credits A.I.D. financing as the most significant reason for their ability to increase their low income beneficiaries.

3,233 new members joined Provicoop during 1989, all of them in the expanding suburban areas adjacent to Santiago. Their promotion of the coop concept and recruitment of new members is undertaken principally through contact with local industrial employers, trade associations, and churches. During the same year, 506 members dropped out, many of them for economic or health reasons, but a significant proportion to take advantage of other housing opportunities.

Provicoop, unlike the other COVIP members, operates programs of follow-up services to members once they have acquired and occupied their homes. Assistance comes from the Invica Foundation for these various programs of assistance to which Provicoop members have access. These include microenterprise loans, for which over US\$100,000 was made available to 227 borrowers during 1989, along with leadership training, food assistance, and help with a variety of emergencies.

Of a sample of 4,484 member files, Provicoop found that 1,883 or 42% are women. No women are on the Provicoop board of directors, while two serve as key staff or advisors.

Another sample of 1,305 members (24.3% of the total) indicates that 28.3% were renters when they joined, while 66.2% were allegados, with the remainder residing in housing provided for them by their employer.

Conavicoop

Conavicoop also operates principally within Santiago, but has some activity in the area around Vina del Mar along with plans to serve a broader area in the middle region of the country. Its outputs include a smaller but more completely finished unit for 350 UF (US\$6,800), with others ranging in value up to 600 UF (US\$11,700).

Conavicoop has built 5,099 housing units in its 15 years of operation. 944 were completed in 1989, involving 615 unified housing subsidies. This compares with 2,237 new members who joined during the same year, and who await the availability of their own homes.

The A.I.D.-financed portion of Conavicoop's funding has resulted in the construction of a 178-unit development in the Metropolitan Santiago region.

Corporacion Habitacional -- Camara Chilena de la Construcción

The Corporacion Habitacional (Housing Corporation) of the Camara Chilena de la Construcción is the one COVIP member that is not a cooperative. Instead, it is a service organization that builds homes for its members, who are employees of construction-related businesses of all sizes throughout Chile. People are grouped based on their housing demand and preferences, with large projects built of like units. Beneficiaries do not participate in any organized process other than to save and obtain a house. There is an emphasis on individual freedom to decide against residence in a particular project, adding a measure of risk to the Corporation's efforts. Participants can bring their own unified subsidy to the Corporation to seek a house, or they can come as organized groups of workers looking for a collective solution. The management maintains a balance of about 75 applicants for every 50 units in order to ensure demand, but also endeavors to provide each saver with at least two housing locations to choose from in order to reinforce management's view of the importance of individual freedom of choice.

The Corporation builds throughout the country in response to its nationwide membership. The Extraordinary Program (PEV) is used often to serve groups of workers, especially "the richest of the poor." Overall, the typical member earns between 5 and 10 UF (US\$100 to \$200) monthly. This enables them to acquire a rough-finished, small townhouse in densely-developed but well built developments sponsored by the Corporation. While there is no individual choice of units, staff find that there is no lack of demand for the houses developed. The units built are simple but impressive in light of the low incomes served. Care is taken in their design to maximize the small amount of interior and outdoor space available to each home, and the quality and overall appearance of the units exceeds the SERVIU product built at a similar cost.

Non-COVIP Developers

One open cooperative that is not a member of COVIP is Vimacaucoop in Temuco, located in Region IX well to the south of Santiago. It has preferred to retain its independence, arguing that COVIP is too centralized, with a focus on Santiago and other areas with different costs and concerns.

Vimacaucoop has operated since 1976, and has built 1,720 units. Its focus -- and an area of concern to COVIP -- is on housing for a more middle-income membership. Its management argues that there is a market for houses in the second level of the Unified Subsidy program, and that high local costs necessitate construction in this range. Land costs per unit average 70 UF (US\$1,360), while urbanization is 330 UF (US\$6,440). Construction

is only 50% of the total unit cost of 800 UF (US\$15,600), or 400 UF (\$7,800).

It is unfair, however, to argue that high unit costs result from local prices alone. Houses observed were of a higher standard than those of most cooperatives, and were situated on larger lots. Some single family detached homes are among those produced. Vimacaucoop argues that the 45 to 60 square meter size house is typical locally, and cannot be produced for less than 700 UF (US\$13,650). Cultural factors were said to be important to unit design in this rainy and colder climate where people must spend more time indoors.

While land and urbanization costs may not be able to be brought down to levels common in markets closer to Santiago, it would appear that a lower-priced house could be produced for the lower income market. The cooperative agreed that changes could be made, particularly if there were the opportunity to build on a larger scale and in some of the surrounding smaller cities. A proposal to build 4,000 units in a "new town" project complete with ancillary facilities was discussed as a possible undertaking with some support from local government officials.

It is true that this cooperative does not have significant experience in building simpler products for lower income people; however, it is certainly a capable developer who could be encouraged to explore the provision of housing to a broader market. Their management is certain that demand exists, and emphasizes that more local women in the labor force may enable local families to acquire houses of a certain cost than the single income earning households common to other regions. While there was not time to verify whether this impression is valid, the income differentials and participation rates by gender for various regions would be an interesting topic for future research.

Hogar de Cristo

Hogar de Cristo is one of the largest non-governmental organizations in Chile, with a variety of social services offered in addition to its long-standing housing programs. It is a church-sponsored organization with thirty years of experience in producing housing for very low income families. One of its major efforts is the manufacture of 10,000 prefabricated modular wooden shelters per year. In this program, poor families must register for the next available house "kit", and must pick up the materials package for self-assembly on land for which they have made their own arrangements for access. In order to ensure that family groups receive the benefits of the program to the fullest extent possible, and also to prevent duplicate benefits to a single household, the woman of the family must be the applicant for her household.

The packages are ten square meters, with double and triple

kits available to large families.

Hogar de Cristo is also involved in the development of cooperative housing through its alliance with non-COVIP organizations such as the Silva Henriquez cooperative and AVEC. These efforts involve the production of lower-priced housing units that are eligible for MINVU subsidies. Typical costs per unit are about 260 UF (US\$5,070). Production currently is limited to the Santiago Metropolitan Region.

Taller Norte

Taller Norte also works in the Santiago area, and endeavors to develop the capacity of community and neighborhood organizations to address housing needs. They also assist the Silva Henriquez cooperative, as well as another called Liberacion, which assists families with their own land to build houses and improvements for themselves as part of a program called "construyendo juntos."

Taller Norte receives funds from foreign governments and international NGOs, including the governments of Holland and Germany and Catholic Relief Services in the United States. These funds are used to support their staff and training efforts as well as a loan fund which makes small amounts of credit -- usually US\$400 or less -- available to people for land acquisition and home improvements. Taller Norte advocates the idea of progressive housing in which subsidies are used to assist in the acquisition of a developed lot, followed by a loan for the construction or improvement of the shelter. Staff plan to pursue this concept and their ideas for implementing such a program with the Minister of Housing.