

PD A B4-425
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ACTION MEMORANDUM FOR THE ACTING DIRECTOR

FROM: C/PDSO, Elizabeth Warfield *EBW*
THROUGH: A/DDIR, Bambi Arellano *B Arellano*
SUBJECT: Project Assistance Completion Report (PACR) - Low Cost Housing Program (520-0261)
DATE: October 12, 1993

Action Requested:

That you sign below approving the attached PACR.

Discussion:

The Low Cost Housing Program (520-0261) reached PACD on March 31, 1991 for the Grant, although June 30, 1992, was the final date for the Bank of Guatemala to submit requests for reimbursement to USAID under the Guaranty. The attached PACR was prepared by Kim Delaney, EAPRI and reviewed by PDSO. It is in accordance with M.O. 3.2: PACD and Project Phase-out Procedures.

APPROVED *Lawrence Klassen* **DATE:** 10.22.93
Lawrence Klassen
Acting Director

DISAPPROVED _____ **DATE:** _____
Lawrence Klassen
Acting Director

Drafted: PDSO, MAlban *MA* **Date** 10/12/93
Clearance: PDSO, MKromhout *MK* **Date** 10/13/93
C/EAPRI, TTruong *Truong* **Date** 10/18/93
PDSOPUB\DOCS\PACR

11

- b. Guaranty: To test the ability of the private sector's existing mechanisms for the finance and construction of shelter to reach families below the median income. The program responded to the interest of the Government of Guatemala and the private shelter delivery system to satisfy the demand for housing by the emerging poor in the capital and other urban areas.

Outputs

- Number of housing units completed 1,851
- Estimated average cost per unit \$ 6,377
- Estimated number of families 1,851
- Private Banks participating in the program 5
- Public banks participating in the program 1
- Private developers 10
- Project sites:
 - San Jose El Placer 247 units
 - Villas Club 85 units
 - Valles de Sevilla 244 units
 - La Ceiba 40 units
 - Pinares del Norte 299 units
 - Prados de Sonora 262 units
 - Villas Minerva 134 units
 - Ribera del Rio 261 units
 - La Trinidad 104 units
 - Villas San Rafael 28 units
 - Las Margaritas III 37 units
 - Villa Hermosa 21 units
 - Ciudad Peronia 16 units
 - Ciudad del Sol 6 units
 - Residenciales Mirasol 67 units

1,851 units

Construction Characteristics

- Average size of the lots: 90 m2
 - Construction 30 m2
 - Green areas 60 m2

Financing terms

- Estimated cost: \$ 5,400
- Down payment: 20-30% (including registration, fees, and other costs)
- Interest rate: 14%, including 2% charged by the Guatemalan FHA
- Mortgage term: 20 years

Program parameters (Adjusted on Feb. 15, 1991)

- Median Income	Q 1,595.75	\$ 319
- Maximum Sale Price	Q 40,547.00	\$ 8,109
- Monthly Payments	Q 479.00	\$ 96
- Maximum Mortgage financing	Q 38,520.00	\$ 7,704

Background

The Program was authorized on September 29, 1982, and the Implementation Agreement between the Bank of Guatemala and USAID/Guatemala was signed November 7, 1986. The Conditions Precedent for AID's Guaranty of the first disbursement were met on September 7, 1988. The initiation of construction was authorized after September 1988.

The initiation and the actual start up of the program were plagued with a series of obstacles that caused serious and long delays in the implementation of the program. In the absence of a Guatemalan institution with experience in housing matters, and after several years of negotiations, finally the Bank of Guatemala (BOG) assumed the responsibility to carry out the program. The BOG had no prior experience and expertise to execute housing policies and projects, and consequently found itself in the midst of great number of problems and difficulties. Among these were the lack of established financial policies related to subsidies and interest rates.

Project Description

Grant

The major components of the grant portion of the Program were:

1. Long-term technical assistance;
2. Short-term technical assistance:

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- construction and environmental standards,
- credit analysis procedures and criteria, and
- mobilization of resources/housing finance systems and policies.

Guaranty

The principal components under the Guaranty were:

1. Production of low cost shelter solutions;
2. Testing the adaptation of an already existing mechanism which facilitated and encouraged the participation of all existing private and public banking institutions financing basic shelter on a national scale.

The program was based on a mortgage discount mechanism by the BOG, (the Borrower) for debentures issued through the Guatemalan Mortgage Insurance Institute (FHA). Private banks operated as intermediary financial institutions, and private construction firms developed FHA approved projects. The Housing Guaranty program was the only source of long-term mortgage financing in Guatemala.

Constraints

The housing and urban development sector in Guatemala does not receive enough attention and support from the Government, thus creating a critical condition. In Guatemala, severe shortages exist in housing and basic services, both in the rural and urban areas. The latest estimates show that the housing deficit is close to 850,000 units. Existing houses lack basic services and/or adequate construction materials, thus increasing the shortage of quality units.

The main constraints identified were:

1. Housing Policy

The Guatemalan Government has never sponsored a sound housing policy, consequently there is a vacuum in the shelter plans which are developed without institutional coordination, realistic objectives and solid implementation mechanisms.

2. Political Decisions

In spite of good intentions from both the present and past administrations to provide assistance to the sector, the basic shelter legislation and regulations are obsolete and out-of-date. The GOG has to demonstrate its political will to modify and modernize the shelter sector. This should include a new policy and regulatory framework and changing the traditional modus operandi of the local institutions charged with housing matters, whose institutional structure has not changed in the last 25

years.

3. Financial System

The sector has never been supported by permanent long-term financing and ample credit lines. Most of the programs have been financed by small government financing or by piece-meal foreign funding. The housing programs have been or are heavily subsidized by long-term mortgages and low interest rates, which only serve to decapitalize local lending institutions. There is no sectoral policy as to how capital funds should be raised or how the shelter sector should fit into the national financial policy. In addition, there is no regular monitoring of basic sectoral information, such as housing output levels, land prices, or infrastructure investments, costs and financing.

4. Inflationary Process

The high inflationary process, estimated at 72% per annum during 1989 and 1990, seriously affected the housing market. Shelter mortgage financial conditions were established under fixed long-term and low interest rates that are not readjustable to the constant value of the loans. The lack of flexibility erodes the working capital available for housing and discourages private investment for shelter development.

5. Sectoral Approach

Shelter programs are based and developed following the traditional planning methodology, that is dealing with the particular problem in an isolated way and in a highly centralized decision making process. The lack of a comprehensive sectoral approach, encompassing urban development, basic public services, environmental concerns, municipal development, land occupation policy, housing matters, financing, etc. severely affects overall sector performance.

6. Public and Private Institutions

None of the public entities charged with housing development has been successful in the last 10-15 years. The FHA is an under-utilized insurance institution, with no financial means to keep its operation in the next few years. Unless the FHA changes its status to become a financial institution or there is funding available in the market to maintain its operation, it runs the risk of disappearing.

The BOG, charged with the administration of the HG, has no expertise or experience in housing matters; consequently it participated in the HG program with little enthusiasm.

Several private banks demonstrated their interest in participating in housing programs. Unfortunately, they were not

able to cope with the high inflation and economic conditions that characterized the 1983-1990 period. Their participation has been more passive than aggressive and subject to the assurance of obtaining high benefits.

The private shelter developers in the country are used to dealing with government low cost housing programs; their interest is to continue to have access to subsidized loans or construction projects sponsored or financed by public institutions.

Accomplishments

The Constraints section of this report paints a bleak picture of the housing sector in Guatemala. There is no doubt, however, that the program funding provided through the grant and the HG positively affected the Guatemalan housing sector.

A summary of the main accomplishments during the life of the program are:

1. Shelter Network

The shelter network was established comprising around 35 public and private institutions related to housing construction, financing, and urban development matters. The support provided to private and public sector leaders belonging to the network proved to be very successful and resulted in the drafting and submission of a new housing law to the Guatemalan Congress.

The Housing Committee, which was a part of the network, was made up of representatives of the BOG, FHA, and USAID/Guatemala and successfully coordinated and supervised the implementation of the HG program. The Housing Committee was the only operational body of its nature in the country.

2. Training

The grant funded the participation of Guatemalan leaders in several short courses, seminars and conferences and sponsored other related activities. The beneficiaries were members from the Guatemalan Construction Chamber, FHA, BOG, Federation of Cooperatives, FUNDAZUCAR, and other organizations. They all participated actively in various sector activities in promoting needed changes.

3. Construction Standards

The program successfully guided the FHA to lower minimum standards to a 13 square meter shelter solution, expanding the housing market to include lower income groups. Likewise, the private developers were encouraged to promote minimum standard shelter solutions for the first time in the country. Starting in 1991, private developers began providing housing units of 28 m².

1

4. Private Sector Participation

Through the program, the private sector was heavily involved in the provision of shelter solutions. After the reactivation of the program in March 1991, five private developers participated and completed around 50% of the total housing units built with HG financing.

5. Project Outputs

A total of 1,851 housing units were built during the life of the program, benefiting around 1,851 low income families. One indicator that was not included in the program was employment. During the months of March and December 1991, the peak construction phase, around 850 workers were employed among the seven construction sites.

By the end of the project, the total cost of the 1,851 units will be of \$ 11.8 million, with \$ 2.3 million in counterpart contribution provided by the Bank of Guatemala and \$ 9.5 million from HG funds.

As stated at the beginning of this report, Guatemala faces a severe housing deficit, not only in terms of the number of houses required, but also in terms of other factors, such as the lack of a housing financing system, appropriate housing laws, housing finance and a sectoral planning approach, among others.

The HG and companion grant were not intended or designed to solve or concentrate on all of the above mentioned problems. The program basically served two purposes: 1) it provided for the building of housing units, and 2) it alerted the private and public Guatemalan leaders of the need to take a serious and comprehensive approach of the problem. Within its limitations, the program was successful. First, it helped alleviate the enormous housing deficit by providing around 1,851 units, and second, Guatemalan leaders and institutions dealing with housing became aware of the information and tools required to change the present situation.

Recommendations and Lessons Learned

The Guatemalan shelter sector requires a new legal and regulatory framework, as well as a comprehensive planning approach for the best utilization of the scarce available resources, oriented towards the establishment of a permanent long-term sustainable housing finance system.

- The immense shelter problems in Guatemala will not be solved by piece-meal housing and community development projects.
- The Central Government has a critical role to play in establishing the policy and regulatory framework for a new sectoral strategy.

- Guatemala's shelter problems must be solved utilizing both human and financial local resources, avoiding dependance on external financing and assistance.
- The Government must establish a permanent financing and policy institution in charge of shelter sector needs. This should include the creation or transformation of institutions to become "second floor" developing/financing entities, and the provision and utilization of public and private resources.

Conclusion

There is still a long way to go, and much more needs to be done. Basically, the future of the shelter sector is in the hands of political and community leaders of the country. A follow-on program in this sector would not be recommended until there was a clear political commitment on the part of the Government of Guatemala to establish an appropriate policy framework to support low-income housing production.