

PDG-AB 908

FILE

PORTUGAL LOW-COST HOUSING PROJECT

150-HG-003

Project Paper

September 28, 1984

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET		1. TRANSACTION CODE <input type="checkbox"/> A = Add <input type="checkbox"/> C = Change <input type="checkbox"/> D = Delete	Amendment Number _____	DOCUMENT CODE 2
2. COUNTRY/ENTITY PORTUGAL		3. PROJECT NUMBER <input type="checkbox"/> 150-HG-003		
4. BUREAU/OFFICE NEAR EAST <input type="checkbox"/> 03		5. PROJECT TITLE (maximum 40 characters) <input type="checkbox"/> Portugal Low-Cost Housing		
6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 1 2 3 0 9 0		7. ESTIMATED DATE OF OBLIGATION (Authorization) (Under "B" below, enter 1, 2, 3, or 4) A. Initial FY <input type="checkbox"/> 8 4 B. Quarter <input type="checkbox"/> 4 C. Final FY <input type="checkbox"/> 8 7		

8. COSTS (\$000 OR EQUIVALENT \$1 = 140 ESC)

A. FUNDING SOURCE	FIRST FY <u>85</u>			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(200)	()	(200)	(600)	()	()
(Loan)	()	()	()	()	()	()
Other U.S.						
1. Housing Guaranties	15,000		15,000	75,000		75,000
2.						
Host Country and Beneficiaries		2,500	2,500		15,000	15,000
Other Donor(s) IBRD	2,500		2,500	25,000		25,000
TOTALS	17,700	2,500	20,200	100,600	15,000	115,600

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) HG	724		862				25,000		75,000
(2) ESF	660	867				600		600	
(3)									
(4)									
TOTALS						600	25,000	600	75,000

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

11. SECONDARY PURPOSE CODES

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

A. Code	BU
B. Amount	75,600

13. PROJECT PURPOSE (maximum 480 characters)

1. Support GOP policies toward more affordable shelter costs and subsidies.
 2. Build institutional capacity to develop and manage GOP shelter programs.
 3. Introduce alternative programs to lower shelter costs.
 4. Decentralize shelter production and encourage private sector developers.

14. SCHEDULED EVALUATIONS

Interim	MM YY	MM YY	Final	MM YY
	1 0 8 5	1 0 8 6		1 0 8 9

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local HG-NA Other (Specify) _____

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a 84 page PP Amendment.)

17. APPROVED BY	Signature	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DISTRIBUTION, DATE OF DISTRIBUTION MM DD YY
	Title MICHAEL K. LUKOMSKI AID Affairs Officer USAID/Lisbon	

PORTUGAL LOW-COST HOUSING PROJECT

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Glossary

PORTUGAL

CPP	-	Credito Predial Portugues Portuguese Housing Credit Bank
CSOP	-	Concelho Superior de Obras Publicas Public Works Committee
DHG	-	Direccao Geral da Habitacao General Housing Office
DGPU	-	Direccao Geral de Planeamento Urbano Urban Planning Office
FAIH	-	Fundo de Apoio ao Investimento para a Habitacao Housing Investment Support Fund
FFH	-	Fundo de Fomento de Habitacao Housing Development Authority
GAT	-	Gabinete de Apoio Tecnico Technical Assistance Office
GEP	-	Gabinete de Estudos e Planeamento Office of Studies and Planning
GOP	-	Government of Portugal
HG	-	Housing Guaranty
IBRD	-	International Bank for Reconstruction and Development
INH	-	Instituto Nacional de Habitacao National Housing Institute
LNEC	-	Laboratorio Nacional de Engenharia Civil National Civil Engineering Laboratory
MAI	-	Ministerio da Administracao Interna Ministry of Internal Administration
MES	-	Ministerio de Equipamento Social Ministry of Social Equipment
MOF	-	Ministry of Finance
PRID	-	Programa de Recuperacao de Imoveis Degradados Program for Improvement of Decayed Housing
RGEU	-	Regulamentos Gerais de Edificacoes Urbanas National Building Code
SEFC	-	Secretario de Estado de Fomento Corporativo
Exchange rate	-	June 1984, \$1 US = 140 Portuguese Escudos 1,000 Escudos = 1 contos \$1 million = 140,000 contos

1.0 RECOMMENDATION AND SUMMARY

1.1 Recommendation

That a \$75 million Housing Guaranty (HG), AID Portugal Low-Cost Housing Program (Project No. 150-HG-003) be approved as herein described; and that, subject to the terms and conditions of the Project Authorization (Annex B), a \$25 million authorization (Project No. 150-HG-003A) be recommended at this time.

1.2 Program Components

The \$75 million HG Project will provide financing for the following sub-programs:

- (1) Traditional "Social Housing" consisting of one- and two-bedroom apartment units for sale by municipalities, cooperatives and private developers;
- (2) Home improvement loans (PRID program) to be provided by municipalities to low-income families for improvement of residential properties;
- (3) Sites and infrastructure developed for sale as individual lots to low-income families and as parcels for low-income housing by municipalities, cooperatives, and private developers. This sub-program may include the provision of infrastructure and other improvements in existing slum and "clandestine" neighborhoods; and
- (4) Low-cost one- and two-bedroom apartment units, unfinished units, or expandable core housing built for sale by municipalities, cooperatives and private developers, and not exceeding 75 percent of maximum GOP sales prices for traditional Social Housing in these size categories. Larger apartments may also be financed provided that their sales price does not exceed 75 percent of the maximum GOP price for a two-bedroom traditional unit.

No more than 75 percent of the first authorization (\$25,000,000) may be used to finance the traditional "Social Housing" sub-program, with a minimum of 25 percent of the funds to be used for the other sub-programs.

No more than 50 percent of the second authorization (\$25,000,000) may be used for sub-program (1), with at least 50 percent to be used for other sub-programs (2)-(4).

No more than 25 percent of the third authorization (\$25,000,000) may be used for sub-program (1), with at least 75 percent to be used for other sub-programs.

1.3 Borrower

The Instituto Nacional de Habitacao (INH), an intermediate finance institution recently established by the Government of Portugal (GOP) to program and manage public assistance in housing will borrow the funds from U.S. capital markets. HG loans to the INH will be guaranteed by the GOP.

1.4 Project Financing and Loan Terms

The total cost of the entire program is estimated to be \$115 million. HG guaranties will secure GOP loans of up to \$75 million from U.S. capital markets at interest rates based on market conditions at the time of borrowing and with repayment terms of up to 30 years.

It is anticipated that the International Bank for Reconstruction and Development (IBRD) will provide a \$25 million loan, at its current terms and conditions, to the GOP to carry out INH's programs in concert with the AID initiative.

The Government of Portugal and the target beneficiaries' contribution in conjunction with the Program will be approximately \$15 million.

1.5 Program Goals and Purposes

The goal of this \$75 million HG Project is to increase the supply of housing affordable to low-income families at reduced and declining subsidies. This goal will be achieved through the following project purposes:

- Support GOP policies which are aimed at producing low-income housing at more affordable costs and at reduced subsidies.
- Strengthen institutional capacity to develop and manage programs.
- Introduce alternative programs to lower housing costs.
- Support decentralized production and encourage private sector production of low-income housing.

1.6 Brief Project Description

Portugal's urban population of 1.5 million people in 1960 increased to 3.3 million or 35 percent of total population in 1980. Due in large part to the influx of refugees from the former colonies and disincentives to housing construction because of rent control, the housing deficit in urban areas is quite high. The deficit was almost 300,000 units in 1980 and is growing rapidly due to new household formation and the stagnation of formal housing production. The existing housing stock is aging and, because of rent control-related lack of maintenance, is deteriorating rapidly. In addition, many neighborhoods lack urban water, sanitation and electrical infrastructure and the provision of these services is a major problem. The impact of inadequate shelter and urban infrastructure is, of course, felt disproportionately by the poor.

Since 1974, the GOP has tried to resolve its shelter problems through a variety of means (see Section 2.2). Recently, the GOP has made major strides toward programs and policies that will help rationalize public and private investments in the sector. Public rental housing built by a centralized national authority (FFH - Housing Development Fund) was abandoned in favor of a new financing agency (FAIH - Housing Investment Support Fund) in order to encourage decentralized production of owner-occupied housing by municipalities, cooperatives and private developers. By the end of

1983, it was recognized that the structure of the FAIH was inadequate, and that a new institution (INH - National Housing Institution, created in 1984) was needed to focus primarily on developing a policy framework which would serve to guide municipalities, cooperatives, and local developers in their effort to increase shelter production. Enabling legislation has been passed for innovative new program directions including home improvements, sites and infrastructure, and unfinished housing. A commission has been established to find ways to reduce norms and standards, and dramatic new legislation has been drafted to deregulate public and private rents. Work to date clearly demonstrates a willingness to experiment with new approaches to meet the housing demand, and a willingness to reduce and to eventually eliminate the housing subsidies which have been a main drain on the Portuguese economy.

The AID Program will support the GOP initiatives by helping INH and municipalities address the problems of subsidies, affordability, norms and standards, revision of rental laws, and production of new types of housing. In addition to addressing these issues, the GOP will be required to initiate an increasing proportion of less-costly, non-traditional shelter solutions, with each successive authorization of this \$75 million project. AID will also provide technical assistance, from project inception, to help in developing pilot projects which incorporate reduced, appropriate, and affordable standards, as models for replication under the overall GOP housing program.

Decentralization on a large scale in the shelter sector is new to Portugal. Thus, technical assistance will be provided at the municipal level, as well as to INH and other central GOP agencies in order that they may adequately deal with the new policies in the housing sector, and to assure the successful implementation of the project.

The first \$25 million HG authorization will finance INH lending reaching as many as 5,000 low-income families. The total \$75 million HG Project will benefit up to 17,000 families. Timing of the two subsequent \$25 million authorizations will depend upon progress in implementing sub-projects, in achieving the policy objectives of the program and in producing an increased percentage of new, lower-cost shelter solutions. Finally, it is important to note that the nature of this program is fully in accord with current agency developmental thinking. The program seeks to support and encourage important policy change; to expand and enhance institutional capacity and systems of production; to increase the role of the private sector in providing shelter; and to introduce technological innovation by encouraging new types of solutions to meet the shelter needs of lower-income households.

1.7 Project Issues

The issues that were raised in the PID review and included in the Guidance Cable (State 346403 - Annex D) are addressed in the relevant sections of this Project Paper. A brief summary follows:

1.7.1 Lessons Learned

A highly unstable political and economic situation was a major cause of serious delays in implementing the earlier programs. The environment in which this program will be carried out is much more stable; placing greater responsibility for implementation at

the local level and carrying out smaller projects will help to avoid the pitfalls of the previous highly centralized programs; and retention of a percentage of project funds will encourage individual developers to complete projects in a more timely fashion.

1.7.2 Private Sector

Legislation is being prepared to enable the INH to lend to private developers as well as municipalities and cooperatives, and part of the HG financing in the proposed program will be directed to this purpose. As Conditions Precedent to borrowing, AID will require a status report on this enabling legislation. In addition, the Secretary of State for Housing has also prepared major legislation for consideration by the Government that reforms rent control, which has been the major constraint to full private sector participation in the shelter production. Rental projects would be discouraged and generally not financed under the HG Project, until such time as major reforms were to occur.

1.7.3 Disbursement Schedule

The GOP has been informed that HG disbursements will be a function of progress on sub-projects and that authorization of subsequent phases will be a function of progress toward program goals and purposes. A formal evaluation addressing physical achievements, policy actions, institutional progress and other pertinent issues, will be carried out three months prior to the anticipated date of authorization of the second and third tranches in order to provide justification to proceed or to delay.

Schedules and estimates detailed in this Project Paper show that INH could make loan commitments on eligible sub-projects equal to the first \$25 million HG Authorization by the end of CY85 with HG disbursements during that period of up to \$15 million. Estimated disbursement schedules will be revised by INH for review prior to the first HG borrowing and quarterly thereafter.

The rapidity of HG disbursements then will be a function of as yet unproven INH capacity to develop a sufficient volume of eligible lending. It is very possible that the INH could start out more slowly than anticipated by the GOP and that the second HG Authorization, now programmed for FY86, could slip.

1.7.4 Managerial Capacity

INH, the proposed Borrower, has only just been created and is now staffing up and establishing operating policies and procedures.

An important purpose of the proposed program is to help strengthen this new institution. As a Condition Precedent to HG borrowings, AID will require organizational and financial statements, statements of operational policies and procedures, and statements of terms and conditions of arrangements with the Bank of Portugal, municipalities, cooperatives, private developers, and the specialized credit institutions. Early technical assistance will be fielded to help the INH meet these Conditions Precedent so that it can begin lending before the end of this calendar year on a portfolio of loan applications that has been submitted to its predecessor, the Fundo de Apoio ao Investimento para a Habitacao (FAIH), by municipalities and cooperatives. A full discussion of the capabilities of other participating institutions is included in Section 6.1, Institutional Analysis, and the flow and repayment of HG funds is discussed in Section 2.4, Structure of the Housing Guaranty Program.

1.7.5 Absorptive Capacity

An analysis of the GOP's ability to finance its share of the HG and IBRD Programs is included in Sector 3.0, Cost Estimates and Financial Plan. In brief, there is no reason to believe that the GOP will have any difficulty in meeting its financial responsibilities in relation to the Project.

1.7.6 Loan Mix and Affordability

The GOP approach to lower-income shelter has featured three- and four-bedroom apartments with relatively high standards, high subsidies, and minimal rent. The proposed program would limit HG financing of apartments at current norms and standards to one- and two-bedroom units with sales price ceilings linked to affordability by low-income families. The program would help introduce lower-cost alternatives including apartments with reduced norms and standards and would direct 25 percent of the first \$25 million HG authorization to this purpose, 50 percent of the second, 75 percent of the third.

The issue of subsidies is discussed at 6.3.4 of the Financial Analysis section. Briefly, subsidies (1.5 to 5.25 percent) are provided on mortgages bringing interest rates down to a low of 27.25 percent. Variable interest rates are the norm in Portugal and the GOP expects to reduce subsidies as inflation (and interest rates) decline. This can be accomplished by monitoring the current interest rate until the subsidy factor has been eliminated. Mortgage assistance ranging from 3-8 percent depending on income, is also provided for low-income families on a declining basis in the earlier mortgage years. By helping the GOP to develop more realistic shelter standards, the project can have a major impact in reducing current subsidies.

1.7.7 Technical Assistance

The GOP has requested that \$600,000 of anticipated FY85 grant resources be programmed for technical collaboration. The building of the INH is vital to the success of the proposed program. The INH will need assistance in developing organizational and financial plans, operational policies and procedures, staff development, development of relationships with municipalities, cooperatives and private developers working with them, and development of the lower-cost alternative programs to be financed through the HG.

The funds which are to be made available will be sufficient to support a PSC resident consultant and to provide selected short-term technical assistance. In addition, the placement of a direct hire shelter specialist is also anticipated. A full discussion of technical collaboration is included at Section 2.3.4 of the Project Paper.

1.7.8 Economic and Financial Analyses

These analyses are fully presented in Section 3, Cost Estimates and Financial Planning; and Section 6.6, Economic Analysis of this Project Paper. The latter section includes a full discussion of Portugal's ability to service the HG debt.

1.7.9 Policy Package

The Secretary of State for Housing has publicly issued a shelter policy statement, which AID can support and against which sectoral development can be measured. The policy package is summarized as follows:

- A more equitable distribution of housing to all income groups;
- A renewal of housing production, renovation, and policy to respond to social needs;
- The rationalization of the financial system, including stimulating family savings for housing;
- The reformulation of the rent control legislation to stimulate investment in rental housing;
- The provision of urbanized land for housing;
- The restructuring of the institutional arrangements for the promotion and implementation of housing through the public and private sector;
- The modernization of the construction sector to improve the construction process and productivity;
- The restructuring of the financial incentive system to reflect the economic and social characteristics of the target beneficiaries; and
- The bringing up-to-date of the technical norms and standards for housing.

1.7.10 Criteria for Authorization of Additional Funding

The HG Project will provide assistance to the GOP to meet the Housing Sector Policy Objectives which were established in the 1984 Policy Statement of the Secretary of State for Housing and Urbanism.

During the first phase of implementation of the program outlined in this PP, the GOP, INH and USAID/Portugal will review and appraise developments in the Housing Sector and assess the GOP's progress in accomplishing the policy and organizational objectives established by the Secretary. AID anticipates that such a Review will provide evidence that substantial progress has actually been made. The justification for the approval and authorization of the second and third tranches of HG funding under this project will be evidence that progress in the achievement of the following objectives has been accomplished:

A greater emphasis on allocating public shelter financing to mortgage programs for low-income families with a specific target proportion to be negotiated in conjunction with the Project Implementation Agreement. At least half of all INH lending since the beginning of the HG Project has been committed to projects for owner occupancy.

A reduction in the existing level of interest rate subsidies on GOP mortgage loans. Such a reduction will be possible only if future rates of inflation and the overall economic conditions permit a decline in market interest rates. The

general goal of this particular criterion is the elimination of mortgage subsidies by the end of the six year HG Project. Irrespective of inflation rates and economic conditions, the level of mortgage subsidies should not increase above the existing level.

Passage of legislation or the implementation of other appropriate GOP actions which have resulted in a revision of the Rent Control laws which existed at the time the HG Project was approved and authorized. (The intention is to allow rents to reach levels which will stimulate an increase in the amount of private investment in the Housing Sector in Portugal.)

The achievement of a level of staffing and organization growth for INH which will enable this newly created agency to successfully implement the program outlined in the PP. (This organizational growth and staffing will be in accordance with the schedules established in the INH's Financial Plans and Operational Statements which are required as CPs to the disbursement of HG funds.)

The revision of the existing Building Codes so as to allow a reduction of the norms and standards presently used in the production of low-income housing in Portugal.

Implementation of New Programs (i.e., development contracts, etc.) aimed at increasing the level of participation of private developer in the production of low-income housing.

The promotion by the GOP and the adoption by municipalities and cooperatives of specific lower-cost approaches to the solution of the existing housing problems.

The completion of detailed designs for pilot projects in specific areas, which use these new lower-cost approaches. These pilot projects would be implemented and financed during the second and/or third phases of the HG Project.

Section 7 of this Project Paper includes a full description of the evaluation plan for the project.

1.8 Program Design Team

- D. Leibson, Team Leader, RHUDO/NE
- D. Gardner, Senior Consultant, U.S. League of Insured Savings Association
- J. Miller, Consultant, Technical Support Services, Inc.
- J. Hicks, Consultant, Research Triangle Institute
- S. Freundlich, Project Development Officer, NE/PD
- A. Ringuede, PCS Planner, RHUDO/NE

1.9 USAID/Portugal Senior Program Review Committee

M. Lukomski, AID Affairs Officer
J. Trindade, PCS Engineer
J. Pinheiro, Economic Advisor

1.10 PRE/H Review Committee

J. Howley, Deputy Director
D. Olinger, Assistant Director Operations
B. Veret, Legal Advisor
D. Grossman, Program Officer
F. Conway, Assistant Director Program Support
S. Walsh, Assistant Director Finance

2.0 PROGRAM RATIONALE AND DESCRIPTION

2.1 The Housing Problem in Portugal

A current review of the housing sector in Portugal indicates an acute and growing need for affordable housing for low- and lower-middle income families in the urban areas, particularly Lisbon and Porto. Portugal's urban population (continental) has increased from 1.5 million in 1960 to about 3.3 million¹ in 1980, or 35 percent of the total population, with half of the urban population living in Lisbon and Porto.

Portugal had a deficit of some 486,000 housing units at the beginning of 1980 of which about 296,000 were in urban areas. These backlog figures are subject to some debate depending on whether or not "clandestine" housing is included.² Nevertheless, the housing deficit is high, however it is computed, because of a large influx of about 700,000 refugees from the former colonies and the stagnation of new rental construction by the private sector due to stringent rent controls. At the same time, high building standards are increasingly unaffordable by low-income families.

While some 20,000 new households are being created each year in urban areas alone, total formal housing produced, both urban and rural, has only been approximately 30,000 units per year or less than half of total new household formation; thus the backlog is growing.

In addition to absolute need for units is the problem of infrastructure. It was reported in the 1981 census that 62,000 families lived in crowded neighborhoods, 36,732 families were in shanty towns, 26 percent of households were not connected to water, 10 percent had no electricity and 22 percent had no in-house toilet facilities. Finally, the existing stock has been both aging and deteriorating rapidly, a situation indirectly caused by rent controls.

2.2 Background

2.2.1 Background to the Proposed Program

Since the revolution in 1974, the government has attempted to deal with the housing problem through a highly centralized developer, the Fundo de Fomento de Habitacao (FFH Housing Development Fund), and to do this with relatively high-standard housing and substantial subsidies mostly in the form of excessively low rents. It also set up a program of loans to low-income families by specialized credit institutions which carried highly subsidized interest rates. The FFH, however, was unable to meet needs and the GOP has found subsidies increasingly difficult to carry.

¹2.8 million living in cities with populations of 10,000 or more; 2/3 in Lisbon and Porto

²Clandestine housing is built illegally on public and private land initially without infrastructure by both individuals and developers. Some areas have structures which are soundly built but other areas have become slums.

Successive governments have begun to take corrective actions. In 1982, a law was passed abolishing the FFH with a phase-out extending through at least 1984 to permit projects already started to be completed. A financing agency was created, the Fundo de Apoio ao Investimento para Habitacao (FAIH the Housing Investment Support Fund), to on-lend funds to the municipalities as well as directly to cooperatives and private developers for low-income projects. The intent was to decentralize the development and implementation of housing projects to the municipal level where presumably it would be more responsible and effective.

As a part of U.S. Portuguese Azores airbase negotiations which began in early 1982, the GOP suggested that the U.S. consider including a new HC Program in Portugal as part of the settlement. In April 1982, AID/W agreed in principle to up to \$75,000,000 in HG authority on the condition that a mutually acceptable housing program could be identified.

In March 1983, a team of housing specialists visited Portugal to update the Portugal Shelter Sector Assessment (SSA). Following the SSA, USAID and representatives from the AID Office of Housing and Urban Programs (PRE/H) discussed its conclusions with the GOP and delivered an Aide-Memoire which set forth issues and suggestions for new AID/HG programs. In June, a newly-elected Government took office and USAID reopened the dialogue.

The new Secretary of State for Housing and Urbanism confirmed GOP interest in HG financing and appointed a special assistant to oversee the project development process. During mid-1983, USAID, with the assistance of a PRE/H consultant, reviewed current activities of municipal authorities and identified opportunities for HG Projects. Problems requiring further study were also identified and a summary of the review was sent to the GOP for comment. The Secretary of State for Housing and Urbanism responded with program proposals that formed the basis of the PID and shortly thereafter published a statement of housing policy goals to provide the needed framework. The Secretary of State also sent his special assistant to the AID Regional Housing and Urban Development Office (RHUDO) in Tunis; he was accompanied by a USAID representative so as to work together on the proposal. The Secretary of State also urged that AID move expeditiously in project design so that the 1984 GOP budget resources for housing could be allocated to accommodate the AID Program and in accord with IMF stabilization measures.

A PID was prepared and approved at a meeting of the Near East Advisory Committee on December 1, 1983, and a Project Design Team arrived in Portugal shortly thereafter. This team was joined at the conclusion of its work by RHUDO for joint discussions with the USAID and the GOP. Discussions were also held with the World Bank which had fielded a team to develop a project supporting the same goals as AID.

The GOP had originally designated the FAIH as Borrower of this proposed HG Project. By the end of 1983, however, the GOP had determined that the structure it had established with the FAIH was inadequate. In addition to serving the role of financial intermediary, it was decided that an institution with a broader scope was needed, to work with municipalities, cooperatives, and private developers in the translation of program goals to financeable projects. The GOP needed a framework of housing

policies to direct investments, it needed a vehicle to program and manage those investments, and local developers needed guidance toward alternative lower-cost approaches to housing.

As a result of these considerations, the GOP approved a Decree Law in May 1984 establishing a new institution, the Instituto Nacional de Habitacao (INH -National Housing Institute), which will embody all of the major functions in the GOP's housing program: planning and programming, financing, and technical assistance.

In the meantime, AID had developed a closer working relationship on this program with the World Bank to facilitate the achievement of common objectives. PRE/H reached agreement with the Bank on co-financing and both moved ahead to field teams in late May to complete program documentation.

The INH was officially established on May 25 with publication of the Decree Law and assets and liabilities of the FAIH were transferred to it. A Board and President were named by the end of June which met with RHUDO and USAID/Lisbon in July to review the proposed program. This Project Paper reflects the final project design work and those discussions.

2.2.2 Previous AID Involvement in the Sector

AID's initial involvement in the Portuguese shelter sector was the result of discussions between the United States and the GOP shortly after the Revolution in April 1974. The government which assumed power following the revolution, placed emphasis on the construction of public housing for low-income families. The objectives of the GOP were consistent with the policies governing U.S. assistance programs and, as a result, the first of the two AID combined housing guaranty and development loan (HG/DL) programs was initiated in 1975. A crisis in the construction industry in 1976 and an intensification of the housing shortage in the country due to the return of the hundreds of thousands of Portuguese from the former African colonies of Angola and Mozambique led to the approval of the second combined HG/DL program.

The first combined HG/DL program (150-HG-001 and 150-Z-005) was initiated in 1975 and involved \$33.25 million in financial assistance for low-income housing and \$250,000 for technical assistance. The program provided financial assistance to 14 large scale subsidized rental projects known as "direct promotion". The majority of these housing projects were located in urban areas. The projects, although meeting with a number of difficulties, i.e., contractor bankruptcy, inadequate infrastructure, and legal impediments to the expropriation of land for development, were eventually completed. AID made its final disbursement of funds in April 1979.

In 1975 and 1976, the construction sector suffered from a serious recession with unemployment contributing to political and economic instability. At this time it was determined that a second loan and guaranty program (150-HG-002 and 150-K-008) would be instituted. The \$30 million program not only permitted the FFH to continue to pursue its low-income housing programs, but also provided an impetus to the construction industry.

The second program differed from the first in that the range of types of eligible housing projects was broadened. In addition to the subsidized rental units, "direct promotion" projects (which constituted all of the AID assisted projects) and self-help projects were eligible for assistance. The second program included 57 project sites and a total of 4,753 eligible housing units distributed throughout the country.

In summary, both of the AID assistance programs contributed to the goal of providing decent housing to low-income families in Portugal. Together these loans financed the construction of 8,839 units. AID assisted projects also helped to prevent a collapse of the Portuguese construction industry in 1975-76.

2.2.3 Lessons Learned

The experience of these two programs has been well documented by AID (PRE/H prepared a final status review and a formal evaluation, and an AID Auditor General report was issued).

The shortcomings of the first HG/DL program were due primarily to the economic and organizational problems inherent in the public housing planning and delivery systems. The political and economic situation in Portugal since the inception of the AID assistance programs was highly unstable, making it difficult for the FFH to carry out its programs. Several of the projects were ambitious undertakings which required extensive planning and coordination among various government agencies.

Such planning and coordination were virtually impossible given the constant changes in the structure, organization and policies of the various government which came to power since 1975. Inflation in the housing sector also took its toll; the actual construction costs of most projects were significantly higher than the original cost estimates.

The second HG/DL program faced the same problems encountered in the first program: contractor bankruptcy, construction delays, lack of infrastructure, shortages of funds due to inflation and budget constraints, and the ability of a number of municipalities to provide the needed technical assistance and financial support to cooperative and self-help ventures.

The shortcomings of the previous programs will be confronted in the proposed program in the following ways:

- Policy, programming and financing responsibilities will remain centralized, but project initiation and implementation will be at the municipal level. The decentralized implementation model avoids the problems caused by FFH's national implementation responsibilities which it was unable to carry out.
- The political and economic environment in which the proposed program will be implemented is much more stable than in years past. The present government which came to power in June 1983 has not made major changes to the housing sector plans of the previous government. In addition, while the country is still faced with serious economic problems, the GOP is confronting them more realistically with IMF involvement.

- Individual projects implemented under this program will be on a much smaller scale, avoiding the enormous complexities of past ambitious projects of several hundred units.
- The proposed program's project types reflect the GOP policy shift to reduce standards and final costs. Consequently, the continued inflation and rising construction costs should not be as serious an impediment to project implementation as previously.
- The proposed program involves municipal governments as direct promoters and implementers. They have a greater interest in rapid implementation and will be better able to coordinate and resolve local problems. On the other hand, they have little experience. INH assistance and guidance, and AID funded Technical Collaboration will address this problem. In addition, municipalities and cooperatives will be encouraged to contract with local consulting firms for the planning and the management of their projects.
- Municipalities, cooperatives, and private developers will be able to get loans from INH for land acquisition and development. Thus, needed infrastructure will be more easily financed and can be scheduled in advance of housing development.

2.3 Project Description

2.3.1 General

A \$75 million HG Project will be utilized to finance portions of the GOP's total low-income shelter program. The GOP's attempts to resolve its shelter problems over the last decade have involved large public subsidies, unaffordable design and construction standards, and a highly centralized institutional system which has tended to impede shelter production.

Recent progress of the new government (which took office in June 1983) in rethinking housing policies and in reorienting institutions and systems to produce shelter has been impressive. Work to date clearly demonstrates a willingness to experiment with new approaches to meet the housing demand. Subsidies for shelter have been a drain on the Portuguese economy. By providing housing at a lesser per unit cost which is more affordable to beneficiary groups, the GOP can realize major savings, through the reduction or, perhaps, eventual elimination of subsidies.

The movement to a decentralized, locally-driven programming and implementation system is equally important, since the active participation of municipalities, private developers and cooperatives in shelter provisions should increase efficiency and total production. The AID Program will support these GOP initiatives by helping INH and the municipalities to move past the theoretical phase in seeking new types of housing. An increasing proportion of less costly, non-traditional shelter solutions will be required with each tranche of the \$75 million project.

AID will provide technical assistance from project inception to help in developing pilot projects which incorporate reduced, appropriate and affordable standards, as models for replication under the overall GOP Program. The recent establishment of INH as the institution to take the lead in the sector, is viewed as a major opportunity to evolve a system to provide shelter which is productive, efficient, cost-effective and responsive to the needs and realities of the public which it serves.

Decentralization on a large scale in the shelter sector is new to Portugal and AID will work closely with all of the participant public and private institutions to assure its success. Technical assistance will be provided at the municipal level, as well as to INH and the specialized credit institutions, as may be required. INH will be expected to fully set forth its operational policies and procedures, proposed arrangements with municipalities, cooperatives, private developers, mortgage banks and others, and to staff up prior to the disbursement of the HG Program funds. Technical assistance will also be available and important in helping the GOP to define appropriate policies in the sector.

2.3.2 Program Components

The GOP's Social Housing Program will continue to include traditional 1-4 bedroom completed apartment units but will shift significantly over the next few years to include apartment units requiring finishing work by the beneficiaries, core (or starter) housing, sites and services projects, home improvement loans and neighborhood upgrading. The HG Project will fund the following types of activities:

2.3.2.1 Existing Programs

This sub-program will finance traditional "Social Housing" consisting of one- and two-bedroom housing units (T-1, T-2), for sale to below-median-income beneficiaries, and developed by municipalities, cooperatives, and/or private developers. These units will be built pursuant to GOP and INH construction standards (and other criteria) and will not exceed the unit sizes and sales prices shown in Table 2.1.

TABLE 2.1
MAXIMUM UNIT SIZE AND SALES PRICE
(Contos)

	T-1	T-2
Area - All Zones	65 m ²	85 m ²
Construction Cost/m ²	20 (\$143)	20 (\$143)
Sales Prices:		
Zone I - Lisbon, Porto	1,850 (\$13,214)	2,500 (\$17,857)
Zone II - secondary towns	1,800 (\$12,857)	2,400 (\$17,142)
Zone III - small towns	1,700 (\$12,143)	2,300 (\$16,429)

Any projects exceeding these size and price maximums are ineligible for HG financing without specific AID review and approval. It should be noted that dollar values are subject to prevailing exchange rates.

2.3.2.2 New Programs

- **Improvement Loans (PRID Program)**

Under this sub-program, municipalities will make loans to low-income families for improvement of residential property. The loan criteria and procedures are to be in accordance with those established by INH and as approved by AID (RHUDO/NE). The maximum loan amount is 500 contos (\$3,750).

- **Sites and Infrastructure**

This sub-program will finance acquisition and development of housing sites by municipalities, for subsequent sale to low-income families, cooperatives, and private developers. HG financing will be limited to: (a) individual lots with sales prices not exceeding 300 contos (\$2,145); and (b) parcels sold to private developers and cooperatives for development of traditional Social Housing, with HG financing not to exceed 250 contos (\$1,785) times the number of T-1 and T-2 units to be built on the site.

Projects may include infrastructure and other improvements of existing slum neighborhoods including, but not limited to, illegal subdivisions ("clandestino" settlements). Neighborhood selection and specific projects will be submitted by the municipalities to INH for its review, and subsequently to AID for review and approval on the basis of Summary Descriptions and Financial Plans, including recovery of costs. Procedures and criteria for the sale of lots, as established by the municipalities in conjunction with INH, will be reviewed and approved by AID prior to the commencement of such sales.

- **Unfinished and Core Housing (Low-Cost T-1, T-2 and Larger Units)**

This sub-program will finance Social Housing consisting of one- or two- or more bedroom housing units (T-1, T-2, others) for sale to below-medium-income beneficiaries, and developed by municipalities, cooperatives and/or private developers. Units may be of any size so long as they do not exceed 75% of the GOP maximum sales, prices for T-2, as shown in Table 2.2.

TABLE 2.2
MAXIMUM SALES PRICE
(Contos)

	T-1	T-2	Others
Zone I - Lisbon, Porto	1,400 (\$10,000)	1,875 (\$13,392)	1,875 (\$13,392)
Zone II - secondary towns	1,350 (\$ 9,642)	1,800 (\$12,857)	1,800 (\$12,857)
Zone III - small towns	1,275 (\$ 9,107)	1,725 (\$12,321)	1,725 (\$12,321)

Any adjustments in those maximum sales prices are subject to AID approval. Units may be unfinished, or of reduced norms and standards as adopted by the GOP, or may be designed as "core" housing (a small unit which is expandable over time).

2.3.3 Sub-Program Distribution

The HG Project will principally finance existing programs (as described at 2.3.2.1 above) in the first \$25 million authorization, with declining levels of traditional Social Housing in later authorizations. New programs will take longer to prepare and might only be minimally financed in the first \$25 million authorization, but will receive increases in subsequent authorizations as shown in Table 2.3.

TABLE 2.3
USE OF HG FUNDS BY PROGRAM TYPE

	Existing Programs	New Programs
First \$25 million authorization	maximum 75%	minimum 25%
Second \$25 million authorization	maximum 50%	minimum 50%
Third \$25 million authorization	maximum 25%	minimum 75%

While traditional Social Housing is affordable at the one- and two-bedroom size by below-medium-income beneficiaries, the new programs will help to lower-costs and thereby reduce GOP subsidies. The HG Project is designed as a vehicle to support the new project directions of the GOP and to help build the necessary institutional capacity to produce shelter, at scale, for lower-income families. Since the new programs will require further development, it is not possible to state the exact mix of the shelter types that will be produced; however, an illustrative program is included in Table 2.4, HG Financing, Illustrative Program, 1984-88, in Section 3.2, HG Financial Plan.

2.3.4 Technical Collaboration

Achievement of project purposes depends in large part on the institutional capacity of the newly created National Housing Institute (INH) and its capacity, in turn, to assist municipal governments, cooperatives, and private developers in the design and implementation of new low-cost projects.

The INH inherits from the FAIH a portfolio of applications for projects that have already been prepared and for which INH lending can be approved. This will give the INH approximately one year to work with municipalities, cooperatives, and private developers on the next generation of loans. During this year, however, INH will also have to develop and formalize programming and operational procedures.

The Project Design Team and the GOP feel that assistance, especially to the INH, is essential. The GOP has, therefore, requested that \$600,000 FY85 ESF funding commitments to Portugal be allocated to fund this required technical collaboration effort. The \$600,000 will be used to support a personal services contract (PSC) Resident-Advisor for three years and to finance a variety of short-term consultancies, studies, and training.

The Resident Advisor will have an institutional management and housing finance background. The Advisor will be assigned to the INH and attached to the Office of the President. During the first year, the Advisor will work with the Installment Committee that has been named to manage the INH until the appointment of the permanent Board of Directors. He will advise them on the development of programming and operational procedures, financial planning, staff development and training, and assist the INH in discussions with municipalities, cooperatives, and private developers on new programs.

Short-term consultants will be provided to assist the INH with initial organizational plans, programming and operational procedures required as conditions precedent to HG and IBRD loans (see Section 8.0). Consultants will also be provided to work with the INH and municipalities, cooperatives, and private developers on the preparation of new programs. If necessary, immediate needs for consultants can be forward funded by PRE/H for reimbursement when ESF grants are authorized in FY85.

As the INH and the proposed program move forward, further consultancies will be scheduled to assist with specific institutional and program implementation needs including the design and review of sub-projects.

Related to both institutional and program needs, the INH will need assistance in the development of information systems to monitor its loan portfolio, manage current lending, and for short- and long-range financial planning.

Short-term consultants and financing for studies will also be provided to the Office of the Secretary of State for Housing and the Office of Studies and Planning (GEP) of the Ministry of Social Equipment on the development of housing policies and planning (see Sections 5.2 and 7.1.1).

Staff development will be a major short- and long-range concern of the INH. The Resident Advisor and the short-term consultants will help plan ongoing programs for in-house training, and selected staff will be invited to participate in international workshops and special courses.

Seminars and workshops in Portugal will also be used to discuss programs and policies in the sector.

An illustrative budget for technical collaboration is included in Section 3.3, Technical Collaboration Financial Plan.

2.4 Structure of the Housing Guaranty Program

The lender will be a private U.S. investor to be selected by the Government of Portugal (represented by the Treasury). The borrower will be the new National Housing Institute (INH). Aid will guarantee the U.S. lender against losses. The GOP will guarantee the U.S. Government against losses. Loans to be provided will have a total repayment period up to thirty years including a grace period on payment of principal of up to 10-15 years for a loan guaranteed by the full faith and credit of the U.S. Government at the time the GOP borrows and dependent on whether the GOP selects fixed rate or variable loans and any other special conditions. HG loans will be disbursed with AID approval by the U.S. lender to the INH through the GOP Secretary of State for Treasury. The exact terms that the GOP reaches with the US lender will affect the disbursement of HG funds. One approach would be to have one or two disbursements made by the U.S. lender to an escrow account. Subsequently, five disbursements from escrow of \$5 million each would be made over the life of the first \$25 million tranche, approximately 36 months. More frequent or greater disbursements could be made if project progress warrants. Dollars disbursed directly by the U.S. Investor or from escrow, will be converted to escudos by Treasury, at the prevailing rate of exchange and then passed on to INH. Repayments of the HG loan will be made by INH in escudos to the GOP Treasury at a rate to be determined but not less than the HG and not greater than the prevailing discount rate. The GOP Treasury will cover exchange rate risks and will forward dollar repayments to Riggs National Bank, which is the Paying and Transfer Agent for repayments to the U.S. lenders.

The INH will disburse to municipalities, cooperatives, and private developers pursuant to procedures to be approved by AID. These funds will be used for the purposes of realization of the projects and to make home improvement loans. Disbursements, in turn, will be based on INH approval to extend construction financing to developers for Social Housing projects meeting INH's feasibility criteria.

The INH will establish agreements with the Specialized Credit Institutions for the long-term mortgage of units constructed. As projects are completed and units are sold, the Specialized Credit Institutions will originate the mortgages and the construction the AID financing provided by INH using HG funds, will be liquidated. The HG funds will then be used by the specialized credit institutions to provide the long-term mortgages.

It is understood that U.S. legislation governing AID requires that benefits of the Program, to the extent financed by the HG, flow directly to households earning less than the urban median-income in Portugal. This is currently estimated at 59,000 escudos (\$425) per month. AID and the INH will from time-to-time review this estimate.

Since the HG resources will go to support the overall program of the GOP, the remaining part of the program not financed by the HG loan will come from four other sources, including the IBRD, the GOP budgetary resources, long-term financing from the Special Credit Institutions, and individual borrowers who will contribute down-payments which will be 5% at the lower-income levels financed by the HG.

2.5 Cooperation with Other Donors

The International Bank for Reconstruction and Development (IBRD) is the only other substantial donor which plans to extend financial assistance to the GOP for housing. The IBRD conducted an Identification Mission in September 1982 which eventually led to an Urban Sector Discussion Paper in March 1983. A Pre-Appraisal Mission was carried out in October 1983, and the Bank's Appraisal Mission for a potential project was carried out simultaneously with the HG Project Design Team in December. PRE/H and the RHUDO have maintained close contact with Bank personnel involved in project preparation and in both December 1983, and May 1984, when IBRD and RHUDO field visits took place simultaneously. In each case, the RHUDO met with the Bank teams at the beginning and end of their missions to compare programs.

Essentially, the IBRD is putting together a program similar to AID's. The Bank will finance the same types of housing solutions, seeking to strengthen the same institutions, and supporting the same policy objectives. The social housing needs in Portugal are great enough to absorb lending programs from both AID and the Bank. The absorptive capacity of the institutional structure, however, will bear more careful scrutiny and continued close coordination will be necessary. This can be best achieved if financing of the GOP's Program is carried out jointly, which is the intention at present. As the two projects continue to develop, AID and the IBRD, with GOP agreement, will coordinate their efforts in order to increase the effectiveness of the assistance provided to the GOP.

3.0 COST ESTIMATE AND FINANCIAL PLAN

The capital inputs to the program through the HG Project will be \$75 million over a six-year period with \$25 million to be authorized on the approval of this Project Paper. The remaining \$50 million will be authorized in two \$25 million tranches occurring at approximately 18 month intervals and dependent on a demonstration of a need for the additional financing and on progress in the achievement of project goals and purposes. Additional capital inputs to the program will be forthcoming from the IBRD (\$25 million), from beneficiaries in the form of downpayments (\$6 million), from municipalities, cooperatives and private developers (\$9 million), and from the GOP in connection with its total Social Housing Program, which is discussed below. Some \$600,000 will also be provided from Portugal's FY85 ESF grant to fund technical collaboration related to the program.

3.1 GOP's Social Housing Investment Plan

The financial plan for the Social Housing Program derives, in the first instance, from the government's three-year targets for units to be started. In early December 1983, the government's projected program for Social Housing starts for the three year period 1984-1986 was 16,500 units, 14,000 units and 16,000 units, respectively.

The Planning and Studies Division (GEP) of the Ministry of Social Equipment has since prepared the more realistically achievable targets shown on Table 3.1 of 10,000 starts in 1985 increasing to 14,000 starts per year by 1987. Table 3.2 indicates that to achieve these targets, more than \$100 million would be needed in 1985, and that this requirement will increase to \$300 million by 1987.

Table 3.3 shows funding available to the INH to meet these targets. This Table includes carryover from the FAIH, GOP capitalization, HG and IBRD loans, GOP subsidies, and projections of repayments of principal and interest earnings on loans to be made by the INH. The Table also shows expenditures including, in addition to the projected financing from Table 3.2 (line 6), refinancing of mortgage loans made by the specialized credit institutions, and debt servicing. Most importantly, Table 3.3 shows that to meet these targets, the INH will have to raise more than 10 million contos (\$71.4 million) in 1986 and 1987 from unidentified "other" loans.

Using the figures from Table 3.3, however, for carryover from the FAIH and for GOP capitalization, and excluding HG, IBRD and all other loans as well as income on its portfolio, it can be seen that the INH has about 7.4 million contos (\$52.8 million) available for lending now and expects 10 million contos (\$71.4 million) in GOP capitalization over the next 4 years. The total 17.4 million contos (\$124.3 million) will allow it to finance approximately 7,000-10,000 units in addition to those financed by HG and IBRD loans at current prices depending on their size and mix.

While this total number of units would fall short of GOP targets, if the proposed program is successful in helping to establish and strengthen the INH, it is reasonable to project that the mortgage banks in Portugal will provide some of the "other" loans required on Table 3.3. Indeed, the Caja Geral de Depositos (CGD - the largest) has already indicated it may be willing to do so.

TABLE 3.1
CONSTRUCTION STARTS
GOP PROGRAM, 1984-88

<u>Programs</u>	<u>No. of Units</u>				
	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
I SOCIAL HOUSING					
1. By Municipalities	3,000	3,500	3,500*	4,000*	4,000*
2. By Cooperatives	4,000	5,000	6,000	6,000	6,000
3. By Developers	-	1,500	2,500	4,000	4,000
<u>SUB-TOTAL</u>	<u>7,000</u>	<u>10,000</u>	<u>12,000</u>	<u>14,000</u>	<u>14,000</u>
II HOME IMPROVEMENT LOANS (PRID)	1,333	2,222	1,852	2,315	1,929
III SITES AND INFRASTRUCTURE	3,947	5,482	5,474	4,573	3,807
<u>TOTAL</u>	<u>12,880</u>	<u>17,704</u>	<u>19,326</u>	<u>20,888</u>	<u>19,736</u>

*25% rental units

Source: GOP, Gabinete de Estudos e Planejamento (GEP), Ministerio do Equipamento Social

TABLE 3.2
ESTIMATED NEEDS FOR FINANCING
GOP PROGRAM, 1984-88
(Contos)

<u>Programs</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
I SOCIAL HOUSING					
1. By Municipalities	1,453,500	4,360,500	8,138,800	10,744,000	13,396,000
2. By Cooperatives	1,938,000	6,589,200	12,557,900	17,582,300	22,438,300
3. By Developers	-	1,453,500	5,116,200	10,325,000	14,568,200
<u>SUB-TOTAL</u>	<u>3,391,500</u>	<u>12,403,200</u>	<u>25,812,900</u>	<u>38,651,300</u>	<u>50,402,500</u>
II HOME IMPROVEMENT LOANS (PRID)	500,000	1,000,000	1,000,000	1,500,000	1,500,000
III SITES AND INFRASTRUCTURE	750,000	1,250,000	1,500,000	1,500,000	1,500,000
<u>TOTAL</u>	<u>4,641,500</u>	<u>14,653,200</u>	<u>28,312,900</u>	<u>41,651,300</u>	<u>53,402,500</u>
(\$U.S. equivalent - millions - if the value of the dollar to the escudo increases 20% per year)	(33.2)	(104.7)	(202.2)	(297.5)	(381.4)

Source: GOP, Gabinete de Estudos e Planejamento (GEP), Ministerio do Equipamento Social

TABLE 3.3
PROVISIONAL FINANCIAL PLAN
GOP PROGRAM, 1984-88
(Contos)

		1984	1985	1986	1987	1988
INCOME	1. Carry over from previous year	5,460,867	2,607,923	444,283	854,853	1,235,673
	2. Sources of Financing	1,893,706	7,490,400	16,880,000	16,883,000	8,349,000
	2.1. GOP Capital Contributions	-	3,500,000	2,500,000	2,000,000	2,000,000
	2.2. IBRD Loan	-	694,400	1,111,000	1,389,000	278,000
	2.3. AID Loan (HG)	-	1,736,000	2,639,000	2,944,000	1,861,000
	2.4. Other Loans	-	1,560,000	10,630,000	10,550,000	4,210,000
	3. GOP Subsidy	159,650	1,318,000	3,238,300	5,208,100	6,939,300
	4. Repayment of Principal (FAIH/INH Loans)	100,000	574,600	997,100	7,659,850	22,848,600
	5. Interest Payments (FAIH/INH Loans)	510,200	4,417,800	11,199,700	20,161,800	28,82,800
	A. TOTAL INCOME	8,124,423	16,408,723	32,757,583	50,767,603	67,855,373
EXPENDITURES	6. Construction Loans	4,641,500	14,653,200	28,312,900	41,651,300	53,402,500
	7. Refinancing Mortgage Loans	-	-	135,000	970,000	3,450,000
	8. Debt Servicing	875,000	1,313,040	3,454,830	6,910,630	9,402,830
	8.1. IBRD Loans	-	69,440	249,980	499,980	666,680
	8.2. AID Loans (HG)	-	173,600	611,100	1,169,400	1,649,900
	8.3. National Westminster Bank Loan	875,000	875,000	875,000	875,000	875,000
	8.4. Other Debt	-	195,000	1,718,750	4,366,250	6,211,250
	B. TOTAL EXPENDITURES	5,516,500	15,966,240	31,902,730	49,531,930	66,255,330
C. BALANCE (to carry over, A-B)	2,607,923	442,483	854,853	1,235,673	1,600,043	

(\$US-millions at 138,9 ESC./\$US)

(18.8)

(3.2)

(6.2)

(8.9)

(11.5)

Source: GOP, Gabinete de Estudos e Planeamento (GEP), Ministerio do Equipamento Social

3.2 HG Financial Plan

HG financing is restricted to shelter units or solutions affordable to urban families earning below the median-income. As discussed in Section 6.2.2, the maximum size unit affordable by families below the median-income level ranges in some areas up to a completed three-bedroom apartment (HG financing will probably be limited to two-bedroom units). Some home improvement lending and loans for site acquisition and development may get underway in 1984, but it is probable that the bulk of the Social Housing Program starts for 1984 will be standard completed apartment units directly promoted by municipalities and cooperatives.

Thus, if the HG Project is to get started in 1984, financing must go primarily for such units. One of the objectives of the HG Project, however, is to support efforts by the GOP to reduce standards and, therefore, costs of low-income housing solutions through innovative programs. Thus, agreement has been reached with the GOP on an HG financing plan which will progressively reduce the amount of financing going for finished units and increase the amount of financing over the life of the project going for such solutions as sites and services, core housing, unfinished apartment units, etc.

Another major objective of the project is to increase the participation of private developers in the GOP's social housing program through the introduction of a revised "development contract" program. Although many of the solutions built by private developers under this program may not differ substantially from direct promotion by the municipalities and cooperatives, financing opportunities and incentives will be provided to encourage innovative lower-cost solutions.

Table 3.4 shows an illustrative program indicating number of units started by year and type and the resultant allocation of HG resources. This Table was prepared in discussions with the Planning and Studies Division (GEP) of the Ministry of Social Equipment. Actual programming will be prepared by the INH prior to the first HG borrowing and financial projections will be revised periodically thereafter based on actual performance. GEP estimated that INH will be able to lend against HG-financed housing starts and home improvements totaling 5,700 by the end of CY85 representing loan commitments by INH of \$27.3 million. GEP estimates that close to 17,000 starts will be possible by 1988, representing HG-financed commitments of \$75 million.

Estimates of INH and HG disbursements based on this illustrative programming are shown in Table 3.5. They indicate that INH can disburse about \$13.8 million by the end of CY85 against which HG disbursements of \$12.9 million will have been made. To assure that when projects are completed they are then mortgaged through the specialized credit institution, RHUDO/NE will approve HG disbursements of up to 90 percent of INH disbursements, retaining 10 percent until the mortgage conversion is made. As projects are completed INH's short-term (construction) loans to developers will be converted to longer-term and mortgage loans with beneficiaries. It is estimated that full disbursement of the \$75 million HG loans will be complete in 1989 or 1990. Finally, a summary cost estimate and financial plan (illustrative) is presented in Table 3.6.

TABLE 3.4
HG FINANCING
ILLUSTRATIVE PROGRAM

A. Number of Units Started

<u>Unit Type</u>	<u>1984 (CY)</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>Units</u>
I-1, I-2 municipalities	150	400	400				950
I-1, I-2 cooperatives	150	400	400				950
I-1, I-2 private developers		400	400	150			950
PRID - home improvements	300	1,100	1,400	1,400			4,200
sites and infrastructure	700	2,100	2,800	2,800			8,400
Low cost I-1, I-2, I-3			400	500	600		1,500
	<u>1,300</u>	<u>4,400</u>	<u>5,800</u>	<u>4,850</u>	<u>600</u>		<u>16,950</u>

B. HG Financing Allocations by Year

<u>INH Loan Commitments</u>	<u>(thousand contos)</u>					
I-1, I-2 municipalities	270	720	720			1,710
I-1, I-2 cooperatives	270	720	720			1,710
I-1, I-2 private developers		720	720	270		1,710
PRID - home improvements	120	440	560	560		1,680
sites and infrastructure	140	420	560	560		1,680
Low cost I-1, I-2, I-3			560	700	840	2,100
	<u>800</u>	<u>3,020</u>	<u>3,840</u>	<u>2,090</u>	<u>840</u>	<u>10,590</u>
(\$U.S. millions at 140 esc/\$)	(5.7)	(21.6)	(27.4)	(14.9)	(6.0)	(75.6)

Assumptions:

I-1, I-2: average sales price 2,100 contos
INH financing 85% rounded to 1,800 contos

Low cost I-1, I-2, I-3: average price 75% of
2,100 contos; INH financing
85% rounded to 1400 contos

PRID: average loan 400 contos

All prices 1984

sites and infrastructure: average INH loan 200
contos/lot

TABLE 3.5
HG FINANCING
ILLUSTRATIVE DISBURSEMENT SCHEDULE

A. INH Disbursements

(Thousand Contos)

<u>Unit Type</u>	<u>1984 (CY)</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>Total</u>
I-1, I-2 municipalities	81	324	585	504	216		1,710
I-1, I-2 cooperatives	81	324	585	504	216		1,710
I-1, I-2 private developers		216	504	585	324	81	1,710
PRID - home improvements	120	440	560	560			1,680
sites and infrastructures	70	280	490	560	280		1,680
Low cost I-1, I-2, I-3			168	434	700	798	2,100
Total (1984 prices)	352	1,584	2,892	3,147	1,736	879	10,590
(\$US million at 140 esc/\$US)	(2.5)	(11.3)	(20.6)	(22.5)	(12.4)	(6.3)	(75.6)

B. HG Disbursements

(Million/Dollars)

Reimbursements (90% of INH Disbursements)	(2.2)	(10.2)	(18.5)	(20.2)	(11.2)	(5.2)*	(67.5)*
Release of Retentions (10%, see Table 3.2)	<u>(0.1)</u>	<u>(0.4)</u>	<u>(1.1)</u>	<u>(2.3)</u>	<u>(2.3)</u>	<u>(1.3)**</u>	<u>(7.5)</u>
Total A + B	(2.3)	(10.6)	(19.6)	(22.5)	(13.5)	(6.5)**	(75.0)

Assumptions:

I-1, I-2 subprojects disbursed 30% in the first year; 40% in the second; 30% in the third.
PRID home improvement loans disbursed in one year.
Site and infrastructure projects disbursed 50% in the first year, 50% in the second.

*adjusted so that rounded total equals \$75.0 million

**will carry over in 1990 (see Table 3.2)

3.3 Technical Collaboration Financial Plan

A preliminary budget for technical collaboration is shown in Table 3.7. The total \$600,000 is to be made available from FY85 ESF funding commitments to the GOP. PRE/H will provide additional funding as available and will fund consultant reviews necessary to AID approvals and program authorizations. AID and the GOP will develop work plan schedules and budgets for technical collaboration on a year-by-year basis. It is anticipated that the principal funding requirement will be over the three-year period FY85-87.

TABLE 3.6
SUMMARY COST ESTIMATE AND FINANCIAL PLAN
(U.S. Millions)

	HG-003A	HG-003B	HG-003C	TOTAL
HG Authorization	FY84	FY85-86	FY87	
Project Starts (CY)	1984-86	1986-87	1987-88	
Disbursements (CY)	1985-88	1987-89	1988-90	
1. <u>HG Loans</u>	<u>25.0</u>	<u>25.0</u>	<u>25.0</u>	<u>75.0</u>
Existing Program*	<u>18.5</u>	<u>12.5</u>	<u>6.5</u>	<u>37.5</u>
Municipalities	7.0	4.0	1.5	12.5
Cooperatives	7.0	4.0	1.5	12.5
Private Developers	4.5	4.5	3.5	12.5
New Programs	<u>6.5</u>	<u>12.5</u>	<u>18.5</u>	<u>37.5</u>
Home Improvements	3.0	4.5	4.5	12.0
Sites and Infrastructure	3.5	4.5	4.0	12.0
Low Cost T-1, T-2, T-3		3.5	10.0	13.5
2. <u>IBRD Loans</u>	<u>25.0</u>			<u>25.0</u>
3. <u>Downpayments</u>	<u>3.0</u>	<u>1.5</u>	<u>1.5</u>	<u>6.0</u>
4. <u>Municipalities, Coops, Developers</u>	<u>5.0</u>	<u>2.0</u>	<u>2.0</u>	<u>9.0</u>
Total	58.0	28.5	28.5	115.0

(Allocations are illustrative and will be revised prior to borrowings)

*T-1 & T-2 Apartments

TABLE 3.7
INITIAL BUDGET FOR TECHNICAL COLLABORATION
(PM - Person months; \$U.S. thousands)

	FY 85	FY86	FY87	FY88-90
Initial Short Term Assistance Organizational and Program Planning	2 PM \$20,000*			
Personal Service Contact Advisor	9 PM \$ 85,000	12 PM \$95,000	12 PM \$95,000	3 PM \$25,000
Short Term Consultants	5 PM \$50,000	5 PM \$50,000	5 PM \$50,000	3 PM \$50,000
Participant Training	\$20,000	\$20,000	\$20,000	
Studies, Seminars	\$20,000	\$20,000	\$20,000	

* May be forward funded by PRE/H

4.0 IMPLEMENTATION PLAN

Under Portugal's present institutional structure, the INH will be the borrower of the HG loan and the Ministry of Social Equipment (MES), which supervises INH jointly with the Ministry of Finance and Plan, will sign the Program Agreement and coordinate its implementation. This Program Agreement will define eligible units, expenditures, and beneficiaries for the Program. It will also detail conditions precedent for disbursements and general covenants. The Government of Portugal will provide a guaranty for the loan. In summary, municipal governments, cooperatives, and private developers will present projects to the INH that meet HG-approved criteria for financing under this project.

The MES will establish priority areas for INH lending based on program submissions by the municipalities, and take into account local housing needs and national decentralization policies. It is likely that ten to twenty cities will participate in the initial program including Lisbon and Porto.

The MES will be responsible for carrying out the policy objectives mutually agreed to between AID and the GOP. The INH will be responsible for: allocating HG funds to municipalities; preparing enabling legislation, budgeting and developing procedures for Direct Promotion, Cooperative, and Development Contract Programs including completed and unfinished apartments, core houses and sites and services; and providing guidance and assistance to municipalities in the implementation of these programs.

The INH will undertake a major promotion campaign in which it will initiate dialogue with local promoters and establish the criteria and process by which they can secure financing. The INH staff will visit the municipalities to assist them in developing acceptable project proposals and to assure that necessary technical assistance is available. A small number of pilot projects (core housing, sites and services, and unfinished units) will be identified and implemented to illustrate that acceptable projects of reduced costs can be produced.

INH will review and approve all sub-projects to be financed by the HG project and will enter into Loan Agreements with municipalities, cooperatives and private developers for financing construction and other costs. Standard GOP procedures for procurement and contracting shall be followed. INH will disburse its loans pursuant to procedures and criteria to be approved by AID. As its loans are disbursed, INH will submit financial reports and requests to AID for reimbursement from the HG of that part of its disbursements which are eligible. Specific criteria for HG disbursements will be set forth in the Program Agreement. In general, HG disbursements will not exceed 90 percent of the disbursements by INH on eligible loans to municipalities, cooperatives and private developers. The remaining 10 percent will be disbursed as projects are completed and long-term mortgages are provided.

Upon completion of construction financing (full payment is due INH upon unit sale, within six months of construction completion), the beneficiary families, except in the case of rentals, will secure long-term financing from one of the Special Credit Institutions, (CPP, CGD, CEL, etc. described in Section 6.1, Institutional Analysis). Thus, the HG loan funds will initially be disbursed for construction financing, and will be rolled-over to long-term financing. In the case of ownership units, this will take

the form of an INH loan to the special credit institutions to support the long-term mortgages and in the case of municipal rental projects it will take the form of a ten-year loan to the municipality. HG financing, however, will be limited to ownership programs.

The chronology contained in Table 4.1 represents an illustration of the implementation actions that will be undertaken over the life of the first \$25 million tranche. Prior to the first HG disbursement, the INH will be required to submit a detailed Program Delivery Plan.

TABLE 4.1
SUMMARY PROGRAM IMPLEMENTATION

MONTH	ACTION	RESPONSIBILITY
9/84	Authorization first 25 million dollar HG	AID/W
10-12/84	A) Negotiate and sign program agreement B) Assistance INH organization and operating procedures C) Approve 1984 project applications D) First disbursements to municipalities and cooperatives E) Advertise criteria for new project applications F) Prepare program delivery plan including conditions precedent and updated 1984-86 financial plan	RHUDO/GOP TA/INH INH INH INH
1-3/85	A) Approve program delivery plan B) Place resident advisor C) Select municipalities cooperatives and private developers for new programs D) Preparation certificates eligible project disbursements to date E) Review certificates/approval borrowings reimbursing INH for 90 percent eligible project disbursements to date F) Advertise and select U.S. lender G) Negotiate and sign loan agreement H) First HG disbursement	RHUDO RHUDO INH INH RHUDO GOP/RHUDO GOP/Lender U.S. Lender
1/85-6/86	A) Approval 1985 project applications including private developers B) Start of all first phase projects	INH Municipalities Cooperatives Private Developers
1/85-12/88	A) Complete and sale first phase projects B) Complete disbursements first phase projects C) Convert financing to mortgages as projects completed	Municipalities Cooperatives Private Developers INH INH Mortgage Banks
1/85-12/88	D) Review certificates and approval HG borrowings E) Completion HG borrowings first 25 million F) Assistance new programs and development INH	RHUDO GOP/Lender TA/INH
1-6/86	A) Prepare evaluation of program implementation and policy development B) Design any program modifications C) Authorization 2nd 25 million HG D) Approve 1986 project applications	RHUDO/INH/GOP TA/INH AID/W INH

TABLE 4.1 (Continued)
SUMMARY PROGRAM IMPLEMENTATION

MONTH	ACTION	RESPONSIBILITY
1-12/86	A) Start of all second phase projects	Municipalities Cooperatives Private Developers
1/86-12/88	A) Complete projects 2nd phase	Municipalities Cooperatives Private Developers
	B) Complete financing 2nd phase projects - 2nd 25 million	INH, Mortgage Banks
	C) Complete HG borrowings 2nd 25 million	GOP/Lender
	D) Assistance new programs and development of INH	TA/INH
	E) Approval 1987-88 project applications	INH
	F) Start of all third phase projects	Municipalities Cooperatives Private Developers
6-12/87	A) Prepare evaluation of program implementation and policy development	RHJDO/INH/GOP
	B) Design any program modifications	TA/INH
	C) Authorization 3rd 25 million HG	AID/W
1/88-12/90	A) Complete final projects	Municipalities Cooperatives Private Developers
	B) Complete financing final projects	INH Mortgage Banks
	C) Complete HG borrowings 3rd 25 million	GOP/Lender
	D) Final evaluation	RHJDO/INH/GOP

5.0 MONITORING PLAN

The AID U.S. Direct Hire presence in Portugal has been reduced to one person, the AID Affairs Officer (AAO). RHUDO/Tunis staff will make monthly visits to Portugal until the program is well underway and, thereafter, continue to make regular visits. During those visits the RHUDO will be able to target specific technical assistance needs. The RHUDO will assign a staff person to be responsible in Tunis for all follow-up work, such as reports, cables, and technical assistance arrangements.

Given, however, the size of the proposed program, the political interest in it, the difficulty of the policy issues and objectives, the need for coordination with the IBRD, and the scope of the technical collaboration to be provided, the Program designers strongly urge that the NE Bureau assign a Direct Hire Housing Officer position to Lisbon, and that PRE/H place an experienced officer who can establish close working relationships with the Ministries of Finance and Social Equipment as well as the INH.

Such an officer should receive policy guidance on the Program from the PRE/H Assistant Director of the Near East in Tunis, country guidance from the AAO in Lisbon and technical support from RHUDO/Tunis.

In addition to the direct-hire personnel assigned to the program, there will be two contract staff involved in monitoring. One is a Portuguese engineer who has worked directly for the USAID for the past six years and is now on an AID contract which splits his time between AID work in Cape Verde and Portugal. For the duration of his contract, he will work virtually full-time on HG program monitoring while in Portugal. He will assist RHUDO/Tunis in management responsibilities and perform construction site inspection.

The second individual will be on a long-term personal service contractor stationed in Lisbon. This person will be contracted by RHUDO/Tunis and will provide technical assistance to the implementing institutions. The person will be the RHUDO's representative on a daily basis and will be able to identify and report implementation progress and problems.

As the program moves forward, it may be necessary for the RHUDO to utilize U.S.-based consultants for additional site inspections and verification of work progress and subproject completions. Together, these resources, under the direction of the RHUDO, will monitor progress on GOP program administration as well as verify the progress and requests for HG loan disbursements.

6.0 SUMMARY OF PROJECT ANALYSES

6.1 Institutional Analysis

6.1.1 Government Housing Policies and Programs

6.1.1.1 Background (1974-1982)

Housing has had a high priority in the post-1974 governments. The housing sector goal of these governments has been consistent: provide increasing accessibility to acceptable housing to the Portuguese population. Policies and programs designed to attain this goal have also been consistent in orientation, but there have been considerable changes in implementing details.

During this period the policy emphasized rent control, direct government supply of low-income housing and interest rate subsidies for privately constructed low-cost "Social Housing". In general, rental values have been consistently lower than market rates, and publicly constructed or sponsored dwelling units have been heavily subsidized.

As a result, the rental market—traditionally an important source of shelter in large cities—has dried up. In 1974, rental units accounted for 50 percent of new housing construction. Currently, it accounts for about 3 percent. Furthermore, because of measures to protect tenants and favorable rental values, families have had little incentive to purchase FFH sponsored housing.

Major government housing programs during this period include:

- **Direct promotion (Promocao Directa)** by FFH which accounted for 21,346 starts between 1976-1983.
- **Prefabricated Units (Casas Pre-Fabricadas)**, or industrialized housing. This program has been discontinued.
- **Municipal Loan and Co-participated Programs (Emprestimos as Camaras Municipais)**; a major source of municipal housing finance. Proportionally modest in the GOP Social Housing Program, this element is expected to gain in future importance.
- **Loans to Cooperatives and Owner Associations (Emprestimos as Cooperativas de Habitacao Economica e Associacoes de Moradores)**; an alternative tried to stimulate housing production by private developers. Unit production has been second only to direct promotion.
- **Self-Help (Auto-Construcao)** program providing credit to lower-income families which provide labor for home construction. The program has been modest using conventional construction standards. No core housing has yet been tried.
- **Development Contracts (Contratos de Desenvolvimento)** seek to stimulate private sector participation in the low-income housing market while keeping tight public supervision. Because of high building standards beneficiaries have been largely middle-income households.

- **Program for Home Improvement (PRID)** involving loans and technical assistance to municipalities, individuals and cooperatives for shelter upgrading. Reportedly, 26,242 units received PRID-sponsored assistance between 1977-81.

Throughout this period the Central Government exerted full control over shelter production through the FFH. This, strong centralized control of programs left the municipalities out of the planning and implementation process and there was growing pressure to dissolve FFH because it was ineffective.

As a result, the government began to make organizational changes in 1982. The FFH was technically abolished in May 1982 but was authorized to continue operating until all projects underway, as well as those where applications had already been submitted, had been completed.

On the financing side the government created a new institution, the Fundo de Apoio ao Investimento para a Habitacao (FAIH - The Housing Investment Fund). FAIH was to provide construction financing for low-cost housing projects initiated by municipalities, private developers and cooperatives. The aim was to promote local initiative with overall planning and policy coming from the central government and long-term financing coming from the institutions normally providing mortgage financing.

It was at this point, early 1983, that AID began initial discussions with the GOP on a new housing program.

6.1.1.2 Current Policies and Programs (1983-1984)

Most of the policies described in the previous section are essentially intact today. However, government authorities are acutely aware of their undesirable effects and are moving to ameliorate these effects. In addition to organizational changes, the government has indicated a clear willingness to reexamine fundamental policies, especially in the rent control, credit subsidy and building standards areas.

With regard to rent control policy, the Government has proposed substantial changes in the policy. These would essentially place housing rentals on the same status as that of current commercial rentals: free setting of initial rents with periodic adjustments according to official indices of monetary correction. New legislation should be effective by January 1985. With regard to building standards, a task force was established to recommend revised standards. The report is essentially completed and should be finalized soon.

The government has also taken initial steps to deal with the unrealistic interest rate subsidies and has established a transition system until December 1985. During this period studies will be undertaken to examine the entire housing credit system. Resolution of this problem will be a major focus of attention.

A major thrust of current and expected GOP housing policy, however, and one which the HG Program will support, is greater decentralization in policy and program formulation and an increased participation of the private sector in program implementation. Broad policy and program definition will occur at the level of the Ministry of Social Equipment. Specific policy and programming will take place at the municipal level.

Direct supervision of low-income projects will be the responsibility of municipalities, cooperatives and private developers. Commercialization and management of specific housing projects for sale and/or rental will be concentrated in municipal authorities and private developers. Thus, national housing policy is expected to be implemented through loans to municipalities, cooperatives and development contracts.

To carry out these policies and programs the Instituto Nacional de Habitacao (INH - The National Housing Institute) was created in May 1984 assuming certain Ministry and FFH functions and all of the functions of the FAIH. INH will operate as an intermediary: carrying out the overall planning function, marshalling resources, applying ministry-defined criteria to project loan applications, providing technical assistance and extending construction financing.

The government expects that the combination of a more realistic rent control policy, a decentralized policy-programming-implementation structure, and greater private sector participation will stimulate housing production in the long run. A reduction in physical standards utilizing the core house concept and the sites and infrastructure approach will be adopted to make low-income housing more affordable at reduced subsidies.

Finally, legislation is currently under study regarding land-use controls and subdivision regulations which could have a significant impact on the status of clandestine or informal housing. The GOP is beginning to recognize the contribution of informal housing in meeting shelter needs and some neighborhoods have been upgraded.

The above policy changes and proposed changes provide a clear indication that the government is changing its concept of affordability in low-income housing: from the current concept of accepting, as given, construction standards and costs and making conventional units affordable to low-income families through rent control and credit subsidies, to the concept of accepting as a short-run constraint the incomes of families and adjusting construction standards and costs to make unsubsidized housing affordable to low-income families.

6.1.2 Government Organization in the Housing Sector

6.1.2.1 Ministry of Social Equipment

With the formation of the current government in June 1983, the Ministry of Social Equipment was reorganized as shown on the organizational chart (Figure 6.1) to include two functional secretaries: public works and housing and urbanism. Each is headed by a Secretary of State reporting to the Minister. In addition, the Gabinete de Estudios de Planeamento (GEP, the Office of Studies and Planning) prepares appropriate studies and advises the Minister on policy and programming matters. It has a 75-member staff of which 30 are professionals. Also reporting directly to the Minister are the National Council on Public Works and Transportation which includes the Technical Regulation Committee for codes and standards, and the National Civil Engineering Laboratory (LNEC) which is heading the task force to reduce standards for low-income housing.

Under the Secretary of State for Housing and Urbanism, the General Directorate for Urban Planning (DGPU) is responsible for the implementation of local planning laws. For each municipality, it approves urban plans and priority urban development projects and provides guidance on land use standards. In the context of this project, the DGPU will play an important role in developing and adapting municipal land use plans and integrating them with the housing programs. It will also have a role in formulating national policy on land use and subdivision standards.

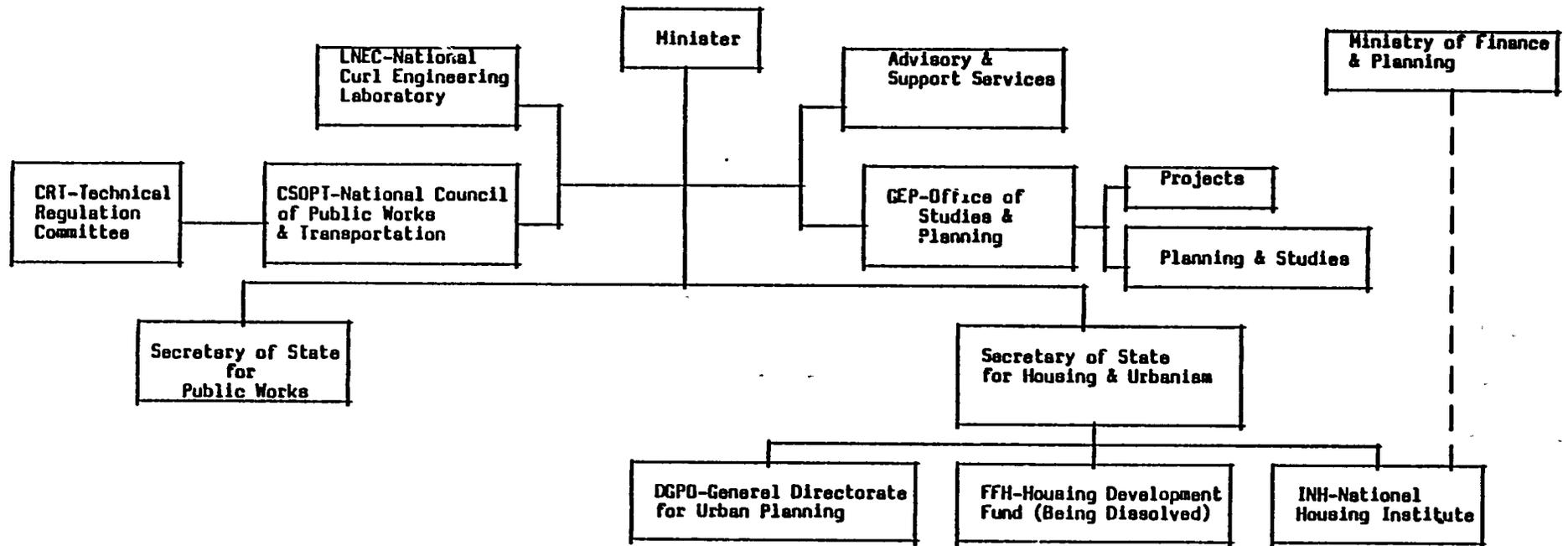
The housing function has been a problem area. The previous government had prepared a detailed proposal to create a General Directorate for Housing which contained a staffing plan and functional statements but this was postponed when the current government assumed office.

In the interim the Secretary of State formed a small working group in the immediate Office of Secretary to perform some of these functions particularly relating to policy formulation (legislative initiatives) and the programming process. It was this group which did all of the preliminary work with AID on the development of the proposed HG.

The lack of a fully functioning department or agency with full responsibility for housing has contributed up to this point to the slowness in getting the current Social Housing Program underway. In addition, there were complaints that FAIH was conducting too rigorous a review of projects submitted for financing. The result has been that there was basically no new starts in 1983 under the government's current housing program and none through the first half of 1984. The establishment of a strong organizational unit responsible for housing became imperative. This led to the creation of INH and the abolishment of FAIH.

FIGURE 6.1

ORGANIZATION CHART
MINISTRY OF SOCIAL EQUIPMENT



6.1.2.2 The National Housing Institute: The Instituto Nacional de Habitacao (INH)

• **Organization, Functions and Staffing**

The INH officially came into being on May 25, 1984. The statute is contained in Annex L. Its main activities will be to carry out the planning and programming function relative to the government's Social Housing Program and provide technical assistance to municipalities in developing and implementing this program. It will assist in formulating policy proposals relative to housing and drafting legislation pertaining to housing and will collaborate with the GEP in undertaking analytical work and studies in the housing sector. Finally, INH will provide financing for the government's housing programs and, in this connection, assume all of the assets and liabilities, files and project applications of FAIH.

Its creation represents the embodiment in one institution of all of the major functions relating to the government's housing programs and will facilitate the planning, implementation and financing process. As such, it is a major departure from where the government was six months ago when the financing aspect was under the FAIH, the planning and programming function was being carried out directly by the Secretary of State's office and the technical assistance function had not been assigned.

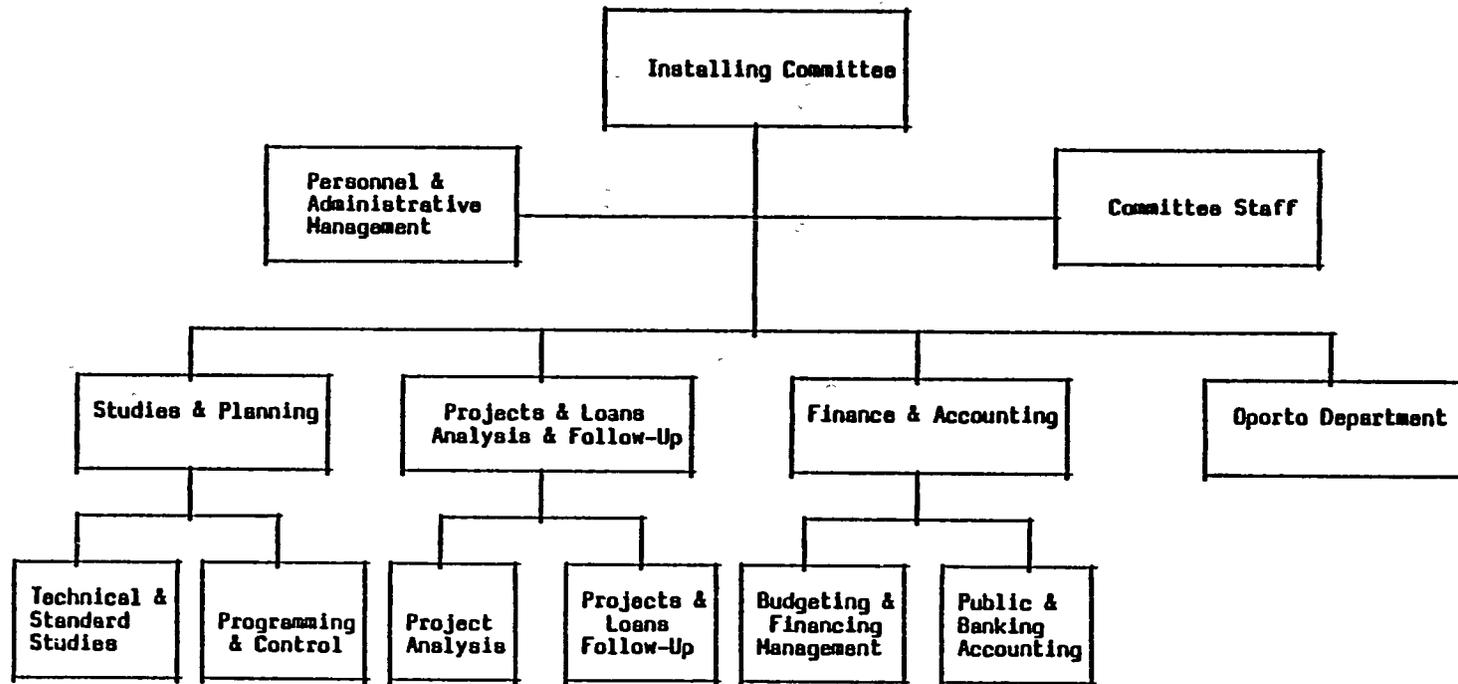
The institute will be under the joint supervision of the Ministry of Social Equipment (Secretary of State for Housing and Urbanism) and the Ministry of Finance and Planning. Thus, although it will be responsive to meeting the nation's housing needs, it will do so by adhering to sound financial practices. The Institute is charged with carrying out the new emphasis on a decentralized housing delivery system and will initiate no project on its own. Therefore, it will not move back toward the old FFH concept of large direct government projects.

An Installation Committee consisting of five members, including the new Director, has been appointed to oversee the formation of the Institute as to policy, organization, staffing and procedures. This process will take some time but it is now underway. It is not, however, possible to be precise as to the ultimate level of staffing. The organization chart is shown as Figure 6.2.

As to staffing, it is expected that many of the staff of the FFH will join INH. FFH still has a staff of several hundred which represent a substantial resource of professional, technical and programmatic housing expertise. On the financial side, INH plans initially to obtain its staff from the housing finance department of the Caixa Geral de Depositos, the large government savings bank which provides most of Portugal's long-term housing loans. The GEP will assist INH in the programming process until staff can be obtained.

FIGURE 6.2

INH ORGANIZATION CHART
NATIONAL HOUSING INSTITUTE



- **Programming and Lending Procedures and Current Status**

A government resolution in January 1983 requires a three-year housing program for each municipality to be updated each year as a condition for access to central government housing credit. Each municipality's program should contain an annual projection of activities, including proposals of municipal direct promotion, cooperative and development contract housing programs, as well as housing upgrading programs. The three-year program must eventually be approved by the Secretary of State.

There are three basic criteria currently used for programming of Social Housing at the municipal level.

- An estimation of housing needs, based on a GEP study using results of the 1981 census.
- An evaluation of the municipality's housing program implementation capacity.
- Reference to Social Housing targets established by the MES.

The Resolution provides that the deadline for submission of municipal program proposals is May of each year for the three following years. In late winter/early spring of 1983, the Secretary of State sent to each of the 305 municipalities a communication with a general description of the government's new Social Housing Program and its requirements. Each municipality must present its program by type of project (e.g., direct promotion), type of unit (i.e., number of rooms) and provide cost estimates and sources of investment funds. In early 1983 the program only provided for the traditional (FFH) type of housing.

Since this decentralized programming process was new and since institutional questions were still uncertain, both program submittals and actual project applications were slow to be submitted. Many applications which were submitted were incomplete and returned by the FAIH.

Because new regulations had not been published for development contracts, unfinished housing and upgrading (PRID) loans, these categories were not included in those programs which were submitted, although eventually some proposals for development contracts were received. Most of the proposals, both in terms of program submittals and actual applications, were for direct promotion projects by municipalities and corporate projects. These delays carried through to the 1984-86 program.

During the first six months of 1984 the Ministry staff continued to put together 1984 program proposals while the FAIH processed applications which had been received. At the time that FAIH was abolished (May 25), it had approved for financing projects containing some 3000 units but loan agreements had not been

formally signed. Thus the new Institute can begin to pick up immediately where the FAIH left off in processing loan affiliations. As soon as these project appraisals are confirmed by the INH's senior staff these loans can move forward.

Because 1984 is well along and the INH will take several months to get underway, it was decided to revise the program target for 1984 to levels that appeared achievable considering the delays. Since there were no new starts in 1983 and none during the first half of 1984, it was decided to skip the program due to be submitted by municipalities in May 1985. This will provide time for the INH to process and catch up with this backlog.

INH will provide construction financing to municipalities, cooperatives and private developers for projects which meet the government's definition of Social Housing and which will be sold to the beneficiaries. The loan must be repaid within six months of project completion which will entail periods up to three years. INH will also provide long-term financing (10 years) for municipal projects developed for rental.

Up until now, municipalities and cooperatives, in their programs with FFH, haven't had to submit the kind of information and back-up which were required by FAIH and will be required by INH. Nor were they charged interest on loans since much of the FFH program was rental directly administered by FFH. Thus, there will be an educative process required which must be carried out by INH.

Loans are to be made in accordance with certain general rules and standards prescribed for Social Housing which include maximum unit costs and sales prices, size limitations, family eligibility, etc. Separate regulations govern the sub-programs for municipalities, cooperatives and private developers.

Long-term financing for ownership housing will come from the three specialized credit institutions now providing the bulk of such financing. Because the HG funds must eventually be utilized for long-term financing, the INH will re-lend funds (or re-finance) to the SCI's for long-term mortgage loans arising from projects where the construction loans have come from HG funds. Thus, the INH will develop procedures for carrying out such financing with the SCI's.

In summary, the INH will provide the framework for the government to effectively carry out its Social Housing Program and to do so in a way that will support both a more decentralized approach to the problem and a more active and expanded role for the private sector. Financing provided through the HG Program and related technical assistance should play an important part in ensuring the Institution's success as it gets underway.

6.1.3 Decentralization and the Municipalities

With decentralization being one of the keystones of the government's new housing policy and one which is being supported by the HG, it is important to establish the feasibility of the municipalities' capacity to implement the program.

The previous section indicated that the municipalities as a whole have been slow to develop projects under this new programming process. There is no doubt that the large and more sophisticated municipalities in the Lisbon and Porto areas will be able to carry out the proposed programs including the newer concepts of sites and services and core housing. This is not so clear, however, for smaller municipalities. One of the major roles of INH will be the technical assistance it must provide to these municipalities. The structure exists to do this.

INH will work closely with the Ministry of Internal Administration which deals with municipal administration and regional development. Under the Ministry is a Commission for Regional Coordination which provides direct ministry support to local governments through approximately 52 regional offices called Gabinetes de Apoio Tecnico (GATS - Technical Assistance Offices). They are now the only organizations of the central government currently charged with providing decentralized technical assistance to municipal governments. INH will need to work out a coordinated role with the GATS.

As part of the overall decentralization process, a law was passed in 1979 which was intended to reverse the high financial dependence of local governments on the central government. This law created a number of exclusively municipal revenues, including property taxes, fees, licenses and betterment levies. More details on municipal operations and finance are contained in Annex F, Institutional Analysis - Section 2.6, Municipalities.

As part of the design process, however, AID personnel visited five municipalities which were deemed to have good housing experience to assess whether this experience could be transferred to an expanded effort in low cost housing.

Each of the five cities visited has a housing service department separate from the urban planning department. These housing service departments have the responsibility for preparing and implementing housing projects. The officials in each case identified the following concerns:

- The need to reduce the high standards for housing unit areas and finishings;
- The problem of high interest rates;
- Most believe that the new program will be slow in providing financing for their immediate housing needs.

All are preparing the required three-year plans but have provided only basic cost data with little accompanying analysis.

The conclusion is that if the program is to be successful on a broad basis that is, that all municipalities will be able to participate to the extent that they want, technical assistance will be an important requirement. Thus, both the INH, and AID through its TA component, will have to address this area.

6.1.4 The Financial Sector and Housing Finance

6.1.4.1 The Financial Sector

All private Portuguese-owned financial institutions were nationalized in 1975 with the exception of some smaller savings and cooperative banks and two already government-owned institutions, the Caixa Geral de Depositos (CGD), the large savings bank, and the Banco de Fomento (BFN), an industrial development bank. In addition, the partly government-owned savings bank, Credito Predial Portugues (CPP), was completely nationalized.

The principal institutions which compose the financial system are the Bank of Portugal, which is the Central Bank, eight government-owned commercial banks (which represent some consolidations), the CGD, by far the largest banking institution, and the CPP, both of which engage in commercial banking activities, and three foreign commercial banks which deal primarily with foreign trade and the BFN. To this can be added the other savings banks, mostly small and almost all mutuals (any new savings bank must be a mutual), the insurance industry and several new private investment companies and leasing companies which are just getting off the ground. The stock market is practically non-existent, although there is a market for government issues.

Before 1974, commercial banks operated not only as lenders but also as basic investors providing seed capital to industry. In 1975, however, they were prohibited by law from making loans with a term greater than twelve months. Today, with the government continuing to use monetary instruments as its primary means of control, depository institutions operate under strict credit ceilings which are fixed for each institution by the Central Bank on a monthly basis. With these constraints the excess liquidity of the banks goes to finance the government deficit through the purchase of Treasury bonds and bills.

In addition to the commercial banks, the two large government-owned savings banks, CGD and the CPP, also operate partly as commercial banks. The CGD makes long-term loans for both housing and industry and the CPP has over 50 percent of its lending in housing (see below for more details on housing finance). There are also some twenty private savings banks in Portugal, all but three of which are mutuals, and the largest of which, the Caixa Economica de Lisboa (CEL), plays a significant role in housing finance (see below).

The new constitution which was adopted in late 1982 permits legislation to re-open banking and insurance to private capital and such a law has been passed and implementing decrees have been issued. A competitive banking system continues to exist but it is generally felt that the banks do not operate efficiently or imaginatively, although this is due to external constraints such as the credit limitations.

6.1.4.2 Housing Finance

As to housing finance, 9.5 percent of the total loan portfolio of the banking system in 1980 was for housing but it was concentrated in the CGD and CPP. Only 1.8 percent of the commercial banks' portfolios was in housing loans and this was concentrated on construction lending.

The private production of housing has constituted almost 90 percent of all housing produced in Portugal in recent years. Of that housing built by developers or constructed by individuals, some 90 percent of the long-term financing comes from three institutions, the Caixa Geral de Depositos, the Credito Predial Portuguese and the Caixa Economica de Lisboa. All of these institutions are classified as savings banks and the CGD is the largest banking institution in Portugal. Although aggregative and comparative data are difficult to obtain, these three institutions provide almost all of the long-term housing loans, both by number and by amount and, of this, the CGD provides more than half. Commercial banks provide a small amount as do other savings banks and, to some degree, the insurance companies.

According to Central Bank statistics, new housing credits for terms in excess of five years totalled about 56.9 billion escudos in 1981. Figures provided by the individual institutions indicate CGD individual loans amounted to 35.3 billion escudos from 37,640 loans, CPP 13 billion escudos from about 11,000 loans and CEL about 9.2 billion escudos in loans.

Because of the credit limitations and the increasing costs of finance and construction, both CGD and CPP loan approvals drastically decreased in 1982. CGD has about 40 percent of its loans in housing and this percentage has been increasing; CPP has 55 percent in housing with a goal to increase this to 60 percent and the CEL lends almost entirely for housing.

All three institutions are also significant lenders for construction financing. They all give first priority to any applicant for a mortgage loan who is buying from a developer who has obtained a construction loan from the institution. Thus, individuals who are applying for loans where this is not the case must wait for long periods of time to receive a loan. Particularly hard hit by this situation are commercial banks who have extended construction financing to developers who cannot sell because of the lack of long-term financing to buyers.

Also receiving priority, particularly in the case of CEL, are buyers at higher-income levels who do not need to participate in the interest subsidy schemes. The end result is that both CPP and CGD, which have the best statistics, indicate waiting periods of up to two years for mortgage loan approvals for what would appear to be families at the middle- and lower-middle-income level. These policies are particularly important with regard to the availability of the long-term financing for the government's social housing program.

Supervision and regulation of housing finance activities are carried out as part of the general overall supervision of banking institutions by the Central Bank and by laws which govern the making of mortgage loans. All mortgage loans

must be made in accordance with the current law (which has been modified almost yearly in recent years) and little flexibility is allowed the lending institutions with regard to interest rates, down payments, terms and payment schedules.

Prior to the revolution, the government allowed the private housing finance system to operate without interference and on a market basis. Generally, mortgages were made on a long-term fixed rate basis and, with a low inflation rate, at interest rates of 7 to 9 percent. Following the revolution, there were several factors which affected the provision of housing finance. First, a freeze on rentals resulted in a significant reduction in construction activity. Secondly, there was a large influx of people returning from the former African colonies. Third, the new government intended to provide each family with a home while maintaining certain quality standards.

In addition to directly financed government programs, mostly rentals implemented through FFH, the main tool for achieving the government's housing objectives was interest rate subsidies on mortgage loans. The subsidies came from three sources, the government itself, the Central Bank and the housing finance institution making the loan, and were applied against the current long-term interest rate ceiling set by the Central Bank.

The subsidies varied according to a complex matrix which was constructed taking into account the family income and the cost of the housing unit with the largest subsidies going to the lowest-income families and an upper limit after which no subsidy applied. The laws and regulations governing the system have been modified several times in order to adjust to increasing construction costs, rising interest rates (both of the former obviously being affected by inflation) and family incomes which have not kept pace. Introduced during this period into the mortgage instrument were the new concepts of variable interest rates coupled with a graduated payment with payments reduced in the early years. The subsidy element was also reduced during the life of the mortgage.

With regard to the graduated payment approach, this is an attempt to make the mortgages affordable to a wider income range. Generally, down payments have ranged from 5 to 25 percent and the repayment period from 15 to 30 years, depending on the class of the loan (income and cost), with lower-income families obtaining the most favorable terms. The GPM currently in effect has been adjusted to make payments even lower in initial years (but obviously higher in later years). Such a system presents potential problems in the future if a family's income does not keep pace with the rate of increase of the mortgage payments.

From an institutional standpoint, there is no problem in handling the long-term finance for the government's expanded housing program. The problem is the willingness of the institutions to devote their own funds to low-cost housing. Since the INH will be prepared to lend to the specialized credit institutions on a long-term basis to finance the individual houses for projects it has financed, mortgage financing will not be a problem for the project.

6.1.5 Private Production of Housing

In its targets for new housing starts in 1984, the government has projected 30,000 units for the "private sector" i.e. presumably developers and individuals utilizing their own builders or contractors. In fact, in recent years, the private production of housing has constituted almost 90 percent of all housing produced in Portugal. Something on the order of 75 percent or more has been by individuals arranging to have their own houses built and the rural sector is probably almost entirely handled this way. For individual houses, many are built where the owner engages skilled workers on an individual contract basis, i.e., painters, plumbers, masons, carpenters, etc.

High building standards imposed by the government and the difficulty in obtaining both construction and long-term financing have cut down on the activities of private developers. The strict rental control laws have discouraged investors and developers from building rental units. The FFH and its activities, including development contracts, thus became an important source of financing for private developers. Even in this case, slow payments by FFH eventually forced many smaller builders to default and work slowed down.

The new Development Contract Program being reinstated by the government should provide a real stimulus to private developers. It appears that there are competent firms who would participate, some of whom feel that significant improvements in cost reductions could be made, particularly if revised building codes and standards were issued to permit this.

In summary, the capacity for substantial private development of housing exists in Portugal. This capacity can be directed in a larger way toward low-cost housing if the proper incentives and regulations are provided and this is one of the objectives of the HG Program.

The other area in which the private sector is involved in this program is through housing cooperatives. Though cooperatives have existed in Portugal since 1894, they have received the greatest impetus since 1974 with the passage of a law which initiated the program of social assistance to housing cooperatives and subsequent laws have expanded that assistance. Cooperatives are regarded by the GOP as a potential major promotor of Social Housing and by the citizens as presenting a unique opportunity to acquire their own home at a reasonable cost. There are currently 76 housing cooperatives in the country.

Cooperatives are regarded as an effective means of Social Housing production due to the self-help aspect of such endeavors. The membership is motivated and, in many cases, the members can provide labor. It is this possibility, in fact, that makes the unfinished apartments a particularly attractive option to a cooperative.

The proposed HG includes a major role for housing cooperatives. There is a demonstrated large demand for financing by cooperatives -- at least 66 cooperatives submitted proposals to FAIH for the financing of nearly 3,700 units.

Families who are members of many of these cooperatives earn below the median-income. Many applications which have been submitted, however, frequently contain

housing at a cost greater than can be afforded by the members of the cooperative and, in fact, greater than permitted by law. Such planning is a consequence of poor articulation and dissemination of public policy and has the predictable result of alienating the housing cooperative movement from the GOP. It is precisely this promotion and technical assistance from the new INH to the cooperatives that the proposed program will support.

6.2 Technical Soundness Analysis

6.2.1 Technical Capability of Implementing Entities

6.2.1.1 The National Housing Institute

The National Housing Institute, which will have a key role in implementing the project, was established by Decree Law No. 177/84 of May 24, 1984. As a new institution, it is just beginning the process of identifying staff and establishing procedures. A major objective of this project then, is to help INH in strengthening its institutional capacity to develop and manage shelter programs. INH starts with an important advantage compared to its predecessor agencies in that it will combine all of the key central responsibilities (policy formulation, housing planning and programming, finance and technical assistance) while serving to guide a locally-led, decentralized implementation process. Further, with regard to staff, it may draw upon a reservoir of excellent technicians, available from FFH, CGD, and elsewhere in Portugal and, should therefore, have little difficulty in rapidly assembling a highly-qualified core staff.

In order to assure that INH has the technical capability to carry out the project, conditions precedent to first disbursement are to focus on INH's organizational arrangements and structure, personnel and staffing plans, programming procedures (including the 1985 program), criteria for review of proposals, policies, and procedures for project monitoring and disbursements, implementation of pilot projects, and plans for providing technical assistance to municipalities and other sub-borrowers.

6.2.1.2 Municipalities

The Project Design Team visited five municipalities in order to gain an understanding of municipal capacity in housing development. In each case, the city had a separate housing service department with responsibilities for preparing and implementing housing projects. Taking the municipality of Evora as an example, this city has been involved in several types of housing programs, including home improvement loans within the walls of the old city, multi-story elevator apartments (under a previous AID/HG loan) and urbanized lots. Two of its current projects are the kind suitable for HG financing, one of which - core housing - represents an excellent example of an approach to housing that AID would support.

While some cities, such as Evora, have the competence to develop and implement shelter programs, institutional capabilities across the 305 municipalities will vary considerably. As a result it may be especially difficult to carry out programs which are different from those previously attempted. The project in

its design, makes allowances for this situation by accepting a higher percentage of traditional housing units in its first phase and by converting new types of housing on a pilot basis and in those cities which are best equipped to carry out innovative projects. Efforts will be made from the beginning to network the cities with pilot projects to others so that successful experiences may be transferred to other places. Assistance to develop institutional capabilities will also be provided to the municipalities by INH and through external collaboration. Making decentralized shelter provision work is a second prime purpose of the project.

6.2.1.3 Others

The Specialized Credit Institutions (SCI's) are to use HG funds to provide the long-term mortgage (take-out) financing upon the completion of individual project construction. The three prime institutions which will carry out this role are the Caixa Geral de Depositos (CGD), the Credito Predial Portuguese (CPP) and the Caixa Economica de Lisboa (CEL). Almost all of the long-term financing for shelter comes from these institutions, with the CGD, the largest banking institution in Portugal, providing more than half. These institutions are fully experienced in making and servicing shelter mortgages and no problem is envisioned with regard to their meeting project responsibilities.

Private housing developers and builders produce over 90 percent of the shelter built in Portugal and some 20,000 construction-related firms exist in the country. Although difficulties in obtaining construction and long-term financing, inflation and disincentives to private development resulting from rent control, have slowed down operations recently, the industry is still very vigorous. By reinstating the Development Contract Program, the GOP should stimulate private sector shelter development. Private developers have indicated a willingness to seek cost reductions in building methods, especially given changes in building codes and standards which are likely to take place. Given appropriate incentives, the capacity of the private sector to produce the type of shelter for low-income beneficiaries contemplated under the project, should be substantially more than adequate.

Cooperative housing organizations have existed in Portugal for some 90 years. There are presently some 76 cooperatives functioning, of which 66 proposed developments - which have not yet been approved - to FAIH. Although the cooperative movement is well received and accorded an important role in GOP shelter plans, at times the cooperatives have favored projects with designs and costs beyond what can be afforded by their below median-income membership. Cooperatives are especially attractive in the shelter picture, because they often include a self-help aspect in the form of labor contributed by their members. In order to fully capture the many positive aspects of the cooperative movement, the INH will provide technical assistance, in relation to project design and development, to selected cooperative housing organizations.

6.2.2 Technical Standards

Compared to developing countries, GOP established dwelling unit standards and costs are high. However, as Portugal views itself as a member of the European community, their standards are considered modest. Standards adopted in February 1984 set 20,000 escudos (\$143) per square meter of gross area as the maximum construction cost excluding land, infrastructure and indirect costs. The following minimum and maximum square meter sizes for various size bedroom apartment units in 1983 include:

TABLE 6.1
GROSS AREA BY APARTMENT SIZE
(square meters)

	1 BR	2 BR	3BR	4BR
Minimum	52	72	91	105
Maximum	65	85	100	114

Maximum sales cost for each size unit are also established among zones in Portugal including 1) Lisbon and Porto; 2) District Capitals and secondary cities; 3) and small towns and rural areas as shown in Table 2.1 of Section 2.3, Project Description.

Cost analysis of a one bedroom unit in Zone 1 indicates a sales price of 28,460 escudos (\$203) per square meter which is 43 percent greater than the dwelling unit construction cost alone. A typical low-cost housing unit was found to include the following cost breakdown: construction 69 percent; land and infrastructure 10 percent; and indirect costs 21 percent.

A Working Group has recently been formally established to prepare technical recommendations for the design and construction of Social Housing. The Group is to provide clear and detailed technical characteristics that should be applied to the conceptualization, design, and construction of Social Housing. The Group's proposals will be prepared in such a way that they might be incorporated directly into the existing National Building Code (RGEU).

The working group, however, has not been focussing on unfinished units, core housing, sites and services, but rather on traditional apartment units. The report recommendations will bring the building code sections on Social Housing more up to date and current with existing practices. They will reflect GOP concern with the location and capacity of land, urban development characteristics, building types, unit types, construction characteristics, plumbing and wiring, management and maintenance of buildings, exterior works and infrastructures, and cost reduction. The report's recommendations for design changes will result in cost saving in traditional units and in floor area ratios (gross to living areas), number of floors, roof types, standardization of doors and windows, etc.

This effort is very much in the right direction and the working group should be encouraged to continue, focusing on the types of solutions proposed as "New Programs". Variations of these programs have been carried out previously in Portugal in the informal sector and with official Government sponsorship. Redefining the requirements to encourage innovative lower-cost solutions is a basic purpose of the program and one which is increasingly appealing to the GOP.

The proposed program will finance four types of housing projects over the life of the loan. As described in Section 2.3, there will be a decreasing percentage of traditional units and increasing percentage of alternative units as the latter become widely adopted by the municipalities. Each type of housing project is described below.

6.2.2.1 Traditional Units

These units are those which the GOP and FFH have financed and constructed for many years, through cooperatives, municipalities, or through direct contracts. Many have been high-rise elevator buildings, but those to be financed under this program will consist of no more than four floors, of fifteen to twenty units in a complex of several such buildings, ranging in size from 1 to 2 bedrooms and totaling some 20 to 200 units in a project.

6.2.2.2 Unfinished Units

Cost reductions with respect to traditional units will be achieved in two principle ways. A reduction in the established minimum square meter areas of the various unit types and a reduction in or exclusion of finishing standards, from the completed unit.

The size of the units is the one standard that most affects final costs. More efficient designs can provide equally adequate habitable living space in smaller gross square meter units. The concept of unfinished units reflects the reality that low-income families improve their homes as their own human and financial resources become available. This is evident in clandestine construction throughout Portugal, and, in fact, in any home ownership situation that begins with only a piece of land. The challenge that confronts the public housing sector in Portugal now is to lower final costs by a reduction in standards and finishing while producing a marketable, acceptable housing unit.

A study undertaken by Portuguese engineers for AID concluded that by leaving certain elements of the unit for the owner to finish, a significant reduction in construction costs can be attained.

The notion of selling an unfinished unit is not a new one in Portugal. It represents an evolutionary concept in which the owner adds to or makes changes to his home as his resources and time permits. Decree Law no. 460/83 of December 30 and ruling of 1/84 of January 2 regulates the unfinished units as a part of the Social Housing Program. It provides the municipality the authority to give temporary occupancy permits. Unfinished units should be completed within a period of 1-3 years. As soon as units are completed, homeowners must get the municipality to inspect the units and give final occupancy permits.

6.2.2.3 Core House Units

The GOP has little experience with core units, but the concept is accepted by ministry policy-makers and local authorities. Core housing construction represents the most promising long-term approach to the provision of non-multi-story housing for low-income families in the country's intermediate sized cities, particularly where land costs are relatively low. The family buys the lot with infrastructure and the nucleus of a house (one room, kitchen, and bathroom) and adds other rooms as it can afford them. The mortgage loan provides for the purchase of the improved lot and the core house. The core is designed by the developer to be expandable, and conformance to those designs is strictly enforced.

Costs for a core unit are estimated at 24 thousand escudos (\$171) per square meter, including construction, land, infrastructure, and indirect costs. At about 30 square meters of construction, a unit will cost 720,000 escudos (\$5,142), and will be easily affordable by the target beneficiary group.

The municipality of Evora promoted and financed a 20 unit core project in 1982-83. The project is occupied, units are being expanded, and it has been regarded as a small, but successful and affordable response to the low-income families' housing needs.

6.2.2.4 Sites and Infrastructure

This component of the proposed program (land and infrastructure) has been utilized extensively by upper income households and is now regarded by the GOP as an integral part of its public low-cost housing strategy. A new law and set of regulations has been approved to permit access by municipal governments to INH financing as part of the governments Social Housing Program to the special credit institutions to obtain loans for land purchase and development. Loan terms will be one to three years for land acquisition with immediate construction, five years for land and infrastructure for immediate construction, and fifteen years for either land reservation by the municipality or for infrastructure of land which will be given in at surface right. There will be a credit limit of 190,000 escudos (\$1,360) per lot.

The intent in this plan is that the beneficiary family will purchase the serviced lot from the municipality and build its house, usually to standard specifications, over a two-year period.

6.2.3 Sub-Project Approval and Construction Process

As projects are developed by municipalities, cooperatives, and private developers pursuant to a program allocation process, described as Program and Lending Procedures and Current Status under Section 6.0, Institutional Analysis (sub-section 6.1.2.2 - INH), they will be submitted to INH for its review and to assure compliance with AID requirements under the HG loan. AID's primary purpose in this regard is to encourage an acceptable minimum standard which is reasonable in cost for below median-income families. Technical assistance will be widely applied, especially during the pilot project phase, to help municipalities, cooperatives, and private developers to attain this objective. Upon approval, contractor procurement for municipally sponsored projects will take place in accordance with standard GOP competitive procedures. Construction

financing will be provided by INH from HG funds, through municipalities with provisions for retention to assure satisfactory completion. Construction supervision will be provided by the municipality in the first instance, and by INH. From time-to-time, staff assigned to RHUDO/NE will check progress in the field to assure that technical quality is being maintained and that the physical requirements of the project are being met. AID will also work closely with INH and through it, with the municipalities, to help design acceptable beneficiary selection processes. When beneficiaries are chosen and at the conclusion of construction, INH's construction loan will be liquidated and a long-term mortgage will be provided by a specialized credit institution.

6.3 Financial Analysis

6.3.1 Existing Programs

Traditional "Social Housing" will be financed on a declining basis over the life of the project, in order that the institutional participants may continue to produce housing affordable by lower-income families, while developing new less-costly programs and approaches and adjusting to changing institutional roles and responsibilities. Only one- and two-bedroom traditional "Social Housing" units are included in the project since they have been determined to be affordable by below-median-income beneficiaries.

The unit and cost figures of the Illustrative Program included in the Cost Estimate and Financial Plan (Table 3.4, HG Financing - Illustrative Program) indicate that some 2,850 units of this type of shelter will be produced over the life of the project at an average cost of \$15,000 (2100 contos) of which some \$2,150 (15 percent) would be beneficiary downpayment and the remaining \$12,850 (per unit) financed by the project. Total project financing required for traditional "Social Housing", then, would be some \$36.6 million with the remainder to come from the beneficiaries. Should the GOP institutions be able to develop and implement new types of shelter solutions more rapidly, these funding requirements would be reduced accordingly and the difference would be shifted into the new types of programs.

6.3.2 "New" Programs

The "new" programs as described elsewhere in this Project Paper include home improvement loans, sites and infrastructure and low-cost (unfinished and core) housing units. Again referring to the Illustrative Program (Table 3.4) we find the following: 4,200 home improvement loans (average cost of \$2,855); 8,400 sites and infrastructure solutions (average cost - \$1,425); and 1,500 low-cost housing units (average cost - \$11,240 of which \$10,000 is a project loan and the remainder is downpayment).

Total project financing to produce some 14,100 shelter solutions is then calculated at \$38.9 million or an average cost of \$2,758 per solution compared with per unit financing of \$12,850 for traditional housing affordable by below-median-income families.

6.3.3 Affordability Analysis

The median urban family income has been calculated at 59,500 escudos (US\$425) per month. Laws governing specialized credit institutions permit housing loan repayments up to 50 percent of family income. However, when unreported family income is considered, this percent would drop considerably. This analysis assumes that 25 percent and 35 percent respectively of family income will be expended for housing among the lowest-income groups and those in the 40th to 50th income percentile group. This is consistent with international norms.

Financing available to households depends on its income category in the home purchase credit system; a complex formula is used which changes each year to reflect inflation, changing incomes and costs. The 1984 payment schedule on which the project affordability analysis is based is found in the Table H-1, Annex H.

Analyzing the GOP's established maximum unit costs by zone as shown in Table 2.1 of Section 2.3, Project Description, in relationship to the payment schedule table, it was concluded that only T-1 and T-2 (1 and 2 bedroom) traditional units are affordable by AID's target group (see Table 6.2). However, the target group can afford T-3 and possibly larger units of the unfinished type. Urbanized sites and core units are also affordable for financing when the legal and policy framework is completed. Maximum loan sizes and unit sales prices for PRID-home improvement loans of 500 contos (i.e., \$3,571), and serviced lots costing 300 contos (i.e., \$2,143) are well within the affordability constraints of the initial HG. Core house costs will reflect those of unfinished T-1, T-2, and T-3 units.

TABLE 6.2
AFFORDABILITY, BY INCOME GROUP, OF TRADITIONAL UNITS

(1) Percentile	(2) (escudos) Monthly Household Income	(3) (escudos) Available for Housing	(4) (escudos) Payment per 1000 contos	(5) (contos) Affordable Loan Amount	(6) (contos) Unit Cost	(7) Unit Sizes Affordable		
						Zone 1	Zone 2	Zone 3
0-10%	27,100	6,775	5,737	1,180	1,243	-	-	-
10-20%	39,200	9,800	5,737	1,708	1,798	T-1	T-1	T-1
20-30%	44,600	11,150	5,737	1,944	2,046	T-1	T-1	T-1
30-40%	53,200	13,300	5,737	2,318	2,440	T-1	T-1/T-2	T-1/T-2
40-50%	59,500	20,825	8,097	2,572	2,700	T-1/T-2	T-1/T-2	T-1/T-2/T-3

(Exchange rate: 140 escudos per dollar)

See Table H-2, Annex H for detailed explanations

6.3.4 Subsidies

Mortgages in Portugal, including those that will be financed through HG and IBRD loans, currently carry an interest rate of 32.5 percent reflecting inflation in the range of 30 percent. The Bank of Portugal and the specialized mortgage banks, however, now provide subsidies of 1.5 to 5.25 percent depending on income, thus reducing the rate for the income groups targeted by this program to 27.25 percent. The rates on mortgage contracts are variable, though, and GOP strategy is to focus on reducing inflation which would bring down mortgage rates. As rates come down, these subsidies would be reduced and then eliminated. The GOP also provides mortgage assistance to low-income families of 3-8 percent depending on income, but this phases out by one-half percent per year in the first 5 years and one percent per year thereafter. As long as inflation and mortgage rates are as high as they are in Portugal, the GOP will have difficulty reducing mortgage subsidies. A critical first step, however, is to help introduce norms and standards for public housing that are affordable without subsidies.

6.4 Environmental Considerations

An Initial Environmental Examination was conducted and indicated that the potential for adverse environmental impacts does exist in situations where land is to be cleared and prepared for new construction.

Except for the home improvement and technical assistance aspects of the project, the program will finance small- and medium-sized construction projects on a variety of locations.

In the absence of identified sites for such new construction projects, the analysis of the potential harmful environmental impact is based on the design and implementation of similar projects in Portugal. The following potential impacts have been identified:

- Land Use. The character of the land will be changed in preparation for construction. This will, of course, foreclose other uses. Applying sound site selection criteria, however, will assure that other land uses as important as low-cost housing will be considered.
- The increased population of those areas - coming from unsound housing in the same urban area - will benefit not only from improved housing, but from previously unavailable physical infrastructure.
- Water Quality. A potable water system will be provided to each project. Existing water sources will be reviewed in the context of existing and future demand and use. In addition, where a waterborne sewerage system is used, it will be designed so as not to pollute the waterways or damage any existing system.
- Atmospheric. The program will cause no adverse environmental impact on air or noise.
- Natural Resources. See Water Quality, above.

- **Cultural.** The program will cause no adverse environmental impact on the culture.
- **Socioeconomic.** The program will have socioeconomic impacts to the extent that employment patterns of the target group may change as a result of improved housing in a serviced neighborhood.

In Portugal, environmental protection is the responsibility of the Ministry of the Quality of Life. This office establishes policies, prepares laws and sets regulations for the protection of agricultural land, the nation's ecological system, water resources, water quality and pollution. No urban development is permitted on agricultural land without the required comprehensive Municipal plans as prescribed by laws and appropriate Ministry approvals. Additional laws and regulations restrict development to protect national ecosystems and water resources. Water pollution is governed by law incorporating the National Building Code's standards on treatment of effluents and provides for penalties of fines and damages. Potable water is regularly inspected by the General Health Office and quality is set by law. Enforcement is carried out by national institutions while comprehensive plans and sub-projects prepared by Municipalities will be submitted for appropriate approvals as required.

In order to assure that any potential adverse environmental impact is avoided, each site proposed for inclusion in the project will undergo an individual environmental evaluation as part of INH's technical review. Identified concerns will be addressed through sub-project design criteria to assure environmental soundness. Site selection, site preparation, potable water, drainage, waste disposal, etc. will be examined in the case of each sub-project. RHUDO will fully review and approve INH's regulations and procedures with regard to sub-project level environmental evaluation, prior to the disbursement of HG funds for any sub-project involving new construction. In addition, AID staff and contractors assigned to work with the program, will perform spot checks in the field to assure that there is local compliance with INH requirements.

6.5 Social Soundness Analysis

6.5.1 Socio-Cultural Context

Between 1970 and 1981, Portugal's national population increased by 14.2 percent rising to 9.24 million—reversing a decline in the previous decade. Its rate of urbanization has also increased significantly from 1.5 percent per annum between 1960-70 to 2.5 percent between 1970-80. The urban population in 1981 was 3.3 million or about one-third of the national total.

Eighty percent of the urban population is concentrated in coastal cities with Lisbon and Porto alone accounting for 50 percent. Since 1970, coastal urban areas absorbed most of the 600,000 refugees from Portugal's former colonies contributing to urban population increases of over 10% in seven coastal districts between 1970-81.

Disaggregated data from the 1981 census is not yet available but 1970 census data provides a general picture of housing conditions.

- 62,000 families lived in crowded quarters
- 35,000 families lived in shanty towns of which 91 percent resided in the Lisbon/Setubel industrial belt
- Forty percent of families were poorly housed in Porto and Lisbon
- The housing shortage was estimated at 650,000 units
- Of the 2.5 million units existing 1 million were built before 1920 and 1.6 million before 1945
- Major urban dwelling units were primarily rental: Lisbon-70.1 percent; Porto-63.4 percent; Setubal-63 percent
- Low levels of service per unit: running water-47 percent; electricity-65 percent; bath and toilet-33 percent.

The aging of the housing stock is of major concern particularly since rent control has seriously contributed to the physical decline of the housing stock which also suffers from a low level of services. Furthermore, as informal housing with no basic services made a substantial contribution to the housing stock between 1970-81, it is likely that standards of service have had no net improvement or have actually declined.

Estimates of household income distribution for Portugal are highly aggregated and based on 1973/74 income and expenditure survey data. A 1983 urban income distribution to the median monthly income assuming increases equal to inflation between 1982-83 with no changes in decile groups is as follows:

TABLE 6.3
HOUSEHOLD INCOME
BY DECILES

Decile	Household Income (contos)	
	(contos)	(\$US)
1	27.1	194
2	39.2	280
3	44.6	319
4	53.2	380
5 (median)	59.5	425

During project design, an effort was made to disaggregate this data at the regional level but due to data constraints this was not possible without introducing significant margins of error. The urban distribution will be used to govern project design and implementation using supplemental data as is available for each settlement and sub-project.

Housing sector policy reforms in Portugal must reflect the needs and income constraints of households living in informal housing as well as the dynamics of this important sector. Currently, the informal sector is largely considered a negative. The HG pilot projects will gradually demonstrate that many of the shelter solutions used in the informal sector such as low-cost upgradable housing are very positive. Closely monitored and documented pilot projects will help overcome socio-cultural biases in this regard.

The formal sector is complex and tightly structured. A myriad of regulations determine access to dwelling unit types, finance, and rental conditions. Though the GOP has made a serious attempt to improve access to acceptable housing, the existence and growth of informal housing is a testament to the inadequacy of these efforts. Use of conventional standards coupled with rising construction costs and interest rates have made formal units increasingly unaffordable by most of the population. This, in turn, has led to greater subsidies.

Between 20-30 percent of new dwelling units in Lisbon are constructed by the informal sector outside the GOP's rent control, construction standards, and credit subsidies. Building in this sector is a function of affordability: the capacity to save and draw on informal credit networks. Units are occupied by both owners and renters with rents freely negotiated.

Households eligible for credit or rental subsidies would generally prefer to remain in the formal sector, but they must compete with other families with similar preoccupations where the ratio of applicants per public rental unit is 100:1. Similarly there is competition in the informal sector for land and rental units as well as infrastructure and legalization. The HG pilot projects will help reduce inordinate pressures in both by incorporating into the formal sector the innovative and positive aspects of informal shelter solutions.

Direct beneficiaries of the HG program will be those families adequately housed by the project: newly formed families in independent housing; families living in overcrowded conditions; and those which move from informal to formal housing. Specific beneficiaries will be selected according to INH criteria, acceptable to AID. In addition to any other criteria (e.g. family size, condition of present dwelling, etc.), below-median-income status will be a specific requirement applicable to all direct beneficiaries of HG Project shelter assistance. Pilot project beneficiaries will participate in the design and implementation of their housing in accordance with their own needs and resources. The project will also stimulate the construction industry, benefit the economy, and reduce unemployment in this sector.

6.5.2 Socio-Cultural Feasibility of the Program and Its Impact

Prior to 1970 population growth and inflation in Portugal were relatively stable. Since then a massive influx of migrants and unprecedented inflation have created great pressures on housing demand and credit. In turn, GOP efforts to control credit and rents have resulted in rising credit subsidies and stagnation of the formal rental market.

This HG Project seeks to demonstrate that decentralized, private sector oriented options which may differ in form from that which has traditionally been provided, are feasible for satisfying low-income family shelter demand. The "new" programs portion of the project, which includes home improvement loans, sites and infrastructure and core housing, in fact, parallels informal sector efforts in meeting the housing shortage. In some cases, the GOP and/or the municipalities have experimented with these types of programs. The PRID (home improvement) program of the GOP and a sites and infrastructure project in Evora are two examples of reasonably successful government sponsored experiences.

There is a considerable willingness on the part of the municipalities to further experiment with innovative shelter solutions, particularly as they see the central government reaching its financial and managerial capacity under the existing scheme. The willingness of low-income families to innovate in meeting their shelter needs has already been amply demonstrated in the informal market. The programs will be especially attractive to lower-income beneficiaries, since they place fundamental emphasis on individual family needs and resources (both financial and human) while guaranteeing security in land tenure.

However, a complete GOP consensus for innovation and decentralization in shelter does not yet exist, and, therefore, pilot projects located in municipalities which have the appropriate implementation capacities, will be carefully selected to demonstrate that the types of programs included under the HG can provide an alternative lower-cost, socially and officially acceptable solution to low-income shelter needs. A focal point of initial technical collaboration will be to assure the success of these first projects and to help to transfer the experience to other municipalities and to the central government, as well. As the pilot projects demonstrate that upgradable housing permits lower-income families to satisfy their shelter needs in an affordable, safe and healthy manner, it is expected that this approach will come to be broadly applied throughout the publicly promoted housing program.

6.6 Economic Analysis

6.6.1 General

Since 1974, Portugal's economy has largely experienced expansion and growth but its external position has remained unstable; substantial deficits were created in the post 1974 period, temporarily adjusted in 1978 only to deteriorate again in the early 1980's. Between 1980 and 1983, the GOP accommodated monetary and fiscal policies which resulted in a rate of growth of real domestic demand higher than the OECD's average. Concurrently, relatively rigid interest and exchange policies contributed to capital outflows through the balance of payment's current account. Portugal's external position was weakened further by a ten percent reduction in trade between 1979 and 1982, high interest rates abroad, the international recession, and poor weather which caused rises in energy and agricultural imports. As a result, the current account of the balance of payments rose from equilibrium in 1979 to 13.2 percent of GDP in 1982.

In 1983, following a series of other measures, Portugal adopted a stabilization program supported by a stand-by agreement with the IMF which improved imbalances

in the economy. The current account deficit dropped to 8 percent of GDP lower than the stand-by agreement target. The budget deficit was also below the ceiling targetted falling from 11.9 to 9 percent of GDP between 1982 and 1983. During this period, merchandise exports rose by 20 percent in real terms and import volumes were reduced by about 9 percent. Exports were encouraged by a 12 percent effective devaluation of the escudo and its continued "crawling peg" devaluation. A sharp reduction in inventories was a major factor in the decline of imports.

Administered price increases to reduce subsidies helped improve the fiscal balance but also resulted in inflation rates on the order of 25 percent in 1983. Wages, on the other hand, only increased at 20 percent resulting in a decline of real income. Unemployment also rose from 7.4 percent in 1982 to 10.4 percent in 1983. Nevertheless, despite the recessionary impact of stabilization measures, real GDP declined by only 0.5 percent because of excellent external sector performance. This was the first negative GDP growth rate since 1978.

The two sectors hardest hit by the economic recession in 1983 were transport equipment and construction. The transport sector experienced a 30 percent decline in sales of commercial vehicles while sales of cement indicate similar declines in construction activity in public and private sector housing expenditures. The latter was particularly constrained by the availability and cost of credit for owner-occupied housing which during 1983 declined by over 8 percent in real terms.

Developments in aggregate supply have reflected the changing orientation of the domestic economy: stabilization in 1977-78; expansion in 1980; and restrained growth in 1981-82. Certain sectors, however, including manufacturing and agriculture production have been affected by exogenous factors much less favorable external demand and climatic conditions respectively. The most dynamic sectors and growth rates achieved during this period included: industry (4.8 percent); construction (4.3 percent) services (3.9 percent) and agriculture (3.6 percent). In 1983, there was a considerable slowdown in all sectors of the economy. Energy was the only sector that posted a positive rate (9 percent).

The industrial sector has historically been the most dynamic element in Portugal's economic development. It accounted for an average share of nearly 30 percent of GDP between 1979-82. The sector's capacity utilization fell from 77 percent to 70 percent between 1982-83, but export related industries have experienced an increase in demand in conjunction with the international recovery and devaluation of the escudo.

Agriculture accounts for 12 percent of GDP, employs 25 percent of the labor force, and generates one quarter of merchandise export earnings. However, it suffers from low productivity, long periods of stagnant output, and labor force outflows. Agricultural production grew at an average annual rate of 7.1 percent during 1978-82. It fell by 9 percent in 1981 because of the drought, rebounded in 1982, but fell off again in 1983. Traditionally, the agricultural sector has been plagued by price controls and subsidies which have caused distortions in the use of farm resources. Adjustments have been made under the 1983 stabilization program because of balance of payment difficulties and reflect the GOP's desire to review price and subsidy systems.

The services sector presently accounts for 52 percent of GDP. It grew at an average annual rate of 3.9 percent between 1978-82. In 1983, the general economic slowdown was also reflected in the services sector. On the whole, the sector declined by 1.3 percent; for the first time since 1978.

6.6.2 Capital Account and Reserves

The widening of Portugal's external current account deficit between 1978-82 was accompanied by an inflow of short-, medium-, and long-term capital resulting in a cumulative surplus in the overall balance of payments (\$2.5 billion). In contrast, the decline in the current account deficit during 1983 was met by a sharply reduced net inflow of capital and by a large net outflow of short-term capital. As a result, the overall balance of payments was in deficit by almost \$900 million.

The short-term capital account was a major factor contributing to the deterioration of Portugal's overall balance of payments. After significant inflows during 1979-82, there was a net outflow of around \$500 million in 1983 primarily before the new stabilization program was entered into. Since then, outflows have been reduced.

In 1983, Portugal's gross official foreign exchange holdings continued to decline, reflecting the deficit in the overall balance of payments. By the end of 1983, these amounted to \$353 million or two weeks of imports. In addition, the value of Portugal's gold holdings declined from \$9.7 billion at the end of 1982 to \$8 billion at the end of 1983. This decline was caused by a reduction in the price of gold and sales to finance the GOP's deficit. At the end of 1983, Portugal's total gross international reserves amounted to \$9.8 billion or about one-year of imports.

6.6.3 External debt

Because of current and capital account developments, Portugal's external debt rose steadily until 1982 and moderated in 1983. The total debt outstanding rose from \$8.9 billion in 1980 to \$14.4 billion at the end of 1983. Total debt outstanding at the end of 1983 was equivalent to 147 percent of gross international reserves. Nevertheless, despite its increase in external debt and asset relationship, terms found by the GOP in the international capital market were favorable. In addition, the GOP has continued to diversify its portfolio of foreign debt by borrowing deutsche marks, Japanese yen and US dollars.

Between 1979 and 1982 short-term external debt increased from \$1.7 to \$3.9 billion rising from 23 to 30 percent of total external debt. The run-off of short-term debt during 1983, however, reduced this debt to \$3.4 billion or 24 percent of the total. Portugal's rising short-term debt over the previous years was largely due to imports of petroleum and other essential commodities financed through six-month foreign loans and loan renewals to finance current account deficits. Since then, mechanisms to control external debt have been established with IMF assistance to monitor debt contraction and ensure that the short-term component is manageable.

Rising external debt, coupled with weak growth in U.S. dollar value export earnings, has resulted in a deterioration of various indicators of debt service obligations. The debt service ratio, including debt services to the IMF and amortization on short-term debt, rose from 14.5 to 27.8 percent between 1980 and 1982. It rose moderately in 1983 to 28.25 percent in 1983 due to a decline in average interest rates on external

debt. In 1984, due to amortization payments from large capital inflows required in 1980-82, the IMF expects debt service payments to exceed 36 percent of foreign exchange earnings.

6.6.4 Impact of the Proposed HG Project

The proposed six-year \$75 million HG Project for which \$US 25 million is to be authorized this fiscal year has been developed concurrently with a similar program by the World Bank and is consistent with loan programs which the GOP and IMF favor at this time. The HG loans will be long-term (30 years) with a 10-15 year grace period. Interest rates will be very favorable in comparison to other GOP options such as the Euromarket. The HG loan will be in U.S. dollars which is consistent with GOP efforts to diversify its loan portfolio. The long HG grace period is particularly attractive since it will allow the GOP to address its short- and medium-term debt issues before repayments of principal are required while the loans provide needed foreign exchange. The grace period will also permit the GOP to complete its stabilization program which should also coincide with the general world-wide economic recovery which is underway.

Direct domestic economic benefits from the HG Project will be much needed stimulation to the construction sector (and related services) which was among the hardest hit by the economic downturn in 1982 and 1983 resulting in a significant rise in unemployment. The construction sector plays an important part in the economy as it represents about 7 percent of GDP and employs about 10 percent of the labor force. Nearly all construction materials are produced in Portugal and a large number of peripheral small industries which produce construction materials and equipment depend on this sector for survival. Estimated employment in these industries has traditionally amounted to 15 percent of the labor force. In addition, the policy goals of the HG project are consistent with those of the GOP's stabilization program which will bring about reduced subsidies and better management of the housing sector.

Additional studies will be conducted for each sub-project during detailed design. In general, however, the duration of construction and mortgage loans for each sub-project will be much shorter than the HG loan maturity. This will permit the project funds to be rolled over several times in the duration of the HG loan(s).

The extent of Portugal's external debt (\$14.4 billion in 1983) will render the impact of HG project and proposed authorization on Portugal's total debt service quite small. Furthermore, the addition of this authorization and project is expected to have an impact on total debt service of less than one percent. While Portugal's external debt and rising debt service ratio is a problem, the GOP has taken measures to control external and better manage short-term debt (current problems were largely caused before the stabilization program was established). Its debt service ratio is about equal to that of the average for developing nations.

Though the duration required for Portugal's economic stabilization and recovery is unknown, the prognosis is very good in comparison to most developing countries. The economy, restrained since 1981, responded favorably to the first stabilization program in 1977 before suffering a downturn as the world-wide recession set in. Sectors such as industry have been responsive to investment and opportunities for export have demonstrated remarkable growth between 1979-82. The construction sector is expected

to behave similarly. Though growth in the agricultural sector is dependent on favorable weather conditions, the GOP is working to gradually improve structural deficiencies in pricing and subsidy policies.

Overall, the GOP has demonstrated its ability to address its current economic difficulties through austerity and reform. Its continued willingness to devalue its currency and maintenance of its reserves demonstrates monetary prudence. Authorization of the proposed HG Project at this time will assist the GOP in these continuing efforts.

7.0 EVALUATION

Given the progressive changes in GOP policy and implementation over the long-term duration of this HG loan project, RHUDO/Tunis will be placing a great deal of importance on evaluation. Evaluation will be undertaken jointly with GOP representatives.

7.1 Evaluation Program

The Program Agreement between the GOP and AID will require the establishment of an Evaluation Program for the HG Project and the development of a Project Evaluation and Tracking System (PETS). The required Project Evaluations will focus on the following:

- An evaluation of progress toward attainment of the objectives of the Project,
- The identification and evaluation of problem areas or constraints which may inhibit such attainment,
- Assessment of how such information may be used to help overcome such problems, and
- An evaluation, to the degree feasible, of the overall development impact of the Project.

As in all HG Projects, the Program Agreement will also require that a Program Implementation Plan (PIP) be prepared and approved prior to contracting the Loan. After an initial direct partial disbursement, it is assumed that the remainder of each \$25 million tranche will be disbursed to the GOP from an escrow account. Prior to RHUDO approval of each disbursement from escrow or otherwise the PIP will be updated as necessary, to more closely reflect the actual implementation progress that has been accomplished.

The RHUDO and the implementing agency will review the updated PIPs and Progress Reports that have been submitted to RHUDO to determine how close the project has come to achieving the planned objectives for that particular time frame. If appropriate, the targeted objectives for the next disbursement can be further revised at this time.

As part of this process, RHUDO additionally develops routine reviews and summaries of all ongoing project activities, so as to give an indication of the status of each of the targeted outputs, the degree of completion that has been achieved, as well as a statement of any problems and/or constraints to achievement of objectives. If possible the revised PIP will also propose a method of resolution of these problems/constraints during the next disbursement period.

In accordance with PRE/H guidelines on evaluation, a full, formal evaluation will be carried out about three months prior to the anticipated date of authorization of the second and third \$25 million HG borrowings. The timing of subsequent tranches will depend upon progress in implementing projects and in achieving the policy objectives of the program. Based on the findings of these evaluations, the RHUDO will prepare a full report on the status of the program discussing physical achievements, policy

actions, institutional progress and other pertinent issues, for the consideration of the Assistant Administrator (Near East Bureau) and as the basis for a decision to authorize or delay the second and third tranche.

Major evaluations will be conducted by AID with the full participation of INH and other GOP institutions. The scopes of work for the required technical assistance services, as well as the Team's schedule, and the necessary meeting schedule will be developed in cooperation with the GOP agencies. RHUDO/NE will budget for this cost subject to the availability of funding from the Housing and Urban Program Support Grant. Should such funding not be available, the bureau financial assistance will be sought.

Program progress of two types will be evaluated over the life of the project: quantifiable changes in housing production and municipality and cooperative participation; and administrative evidence of GOP policy and implementation progress.

7.2 Quantifiable Indicators

There are a number of program elements that permit measurement of program progress:

- The number and types of shelter units completed. While a significant part of the shelter produced under the project will be in the form of "traditional" units, the proportion of this type of shelter is expected to decrease over time. The "new" solution types (unfinished, core, and sites and services) represent innovative departures for the GOP and its ability to promote and produce these kinds of shelter is of particular concern. With regard to future authorizations, of specific interest will be the GOP's progress in meeting objectives as to the proportion of "new" program solutions produced. Baseline information with regard to previous GOP low-income shelter production is already available to RHUDO.
- The income level of the family beneficiaries. This data is collected by the promoting institution (cooperative or municipality) and, in fact, is assembled and analyzed during the INH review procedure. In addition to the basic HG Program requirement that beneficiaries be below-median-income, collection of this data will provide information as to the GOP's ability to reach different low-income percentile groupings with the new program solution types.
- The number of promoters participating. This will be reflected in the number of contractual agreements made by INH to cooperatives, municipalities, or private developers. This data will help to determine the acceptability of new program types, as well as to suggest any additional needs with regard to project promotion. It will further serve as an indicator of the spread effects of the pilot projects and of INH's ability to provide technical assistance to sub-project sponsors.

The above indicators are illustrative only and will be modified as appropriate during the development of detailed scopes of work for any technical assistance which will be required for the completion of the Evaluations.

7.3 Policy and Administrative Progress

Policy and administrative progress will be analyzed based on several key indicators:

- Strengthening of the Housing Secretariat's capability to prepare national programming plans and priorities, to promote the alternative housing types to developers, to prepare procedures which facilitate project processing and to provide technical assistance to those developers. These elements will be reflected in an increased professional staff within the MES, the GEP and the INH and a substantial campaign of promotion to the local levels.
- The functioning of municipal housing departments to prepare viable three-year (housing) plans, to respond to central government policy guidelines, to seek and utilize technical assistance, and to encourage the acceptability of alternative housing types. In addition, the municipalities should show evidence of cooperative and private developer participation in the program.
- Similarly, cooperatives and private developers must show evidence of project development consistent with program purposes.

The comprehensive evaluations (after disbursement of \$25 million) will analyze these issues to judge progress sufficient to enter into a subsequent loan agreement. Small evaluations/reports will provide both AID and the GOP with an interim understanding of progress, in order to be able to make any adjustments to the program as it is being implemented. Selected topics will include:

- **Technical Assistance.** Is AID's technical assistance effective? Is it expediting housing production consistent with the program intent? Is it leaving a system or methodology in place for continued production? Is the technical assistance provided by the GOP to the local level effective? Does it result in more viable proposals to the GOP?
- Are local developers and the population in general accepting the reduced cost housing types? Are the municipalities, cooperatives, and private developers managing project construction well enough to utilize project financing effectively?
- Are private developers becoming increasingly involved? If not, what obstacles are being encountered to their involvement?
- Are the pilot projects having their intended effect? Are they showing that the decentralized implementation system works, and that reduced standard solutions are acceptable?

8.0 CONDITIONS AND COVENANTS

8.1 Conditions Precedent for First Disbursement

- (1) Copies of INH charter, by-laws and certified statement of financial condition.
- (2) Statement of INH organizational structure and staffing plans, including designation of key personnel.
- (3) Terms and conditions of any agreement between INH and the Ministry of Finance and/or Central Bank for use of guaranty loan funds (i.e., exchange risk fee, interest rate and/or other charges).
- (4) Statement of the arrangements entered into to assure the availability of long-term financing of mortgages originated under the Program including terms and conditions of any agreements between INH and other credit institutions.
- (5) Statement of programming procedures, including time frame and instructions to sub-borrowers, for 1985 program submissions to INH, including a description of INH procedures and criteria for review of proposals.
- (6) Description of lower-cost pilot projects proposed for implementation during the first two years of the Program and planning for future alternative lower cost projects.
- (7) Status report on passage and implementation of Development Contract Law.
- (8) Policies and procedures for disbursement to sub-borrowers and for monitoring INH financed projects.
- (9) Plans for providing development and implementation technical assistance to municipalities and other sub-borrowers.

8.2 Covenants

The Program Agreement will include a covenant that the GOP will support the housing policy goals articulated in the 1984 Housing Policy Plan of the Secretary of State for Housing dated November 30, 1983.

ANNEX A

GOVERNMENT OF PORTUGAL REQUEST (GOP)

FM AMEMBASSY LISBON
TO SECSTATE WASHDC PRIORITY 3873
AMEMBASSY TUNIS PRIORITY

UNCLAS LISBON #8614

AIDAC

AID/W FOR HE/HEUR (STERNE), PRE/H (D. OLINGER)
TUNIS FOR RHUDD (LEIBSON)

E.O. 12356:N/A

SUBJECT: HOUSING GUARANTY III

BELOW PLEASE FIND THE TEXT OF THE LETTER RECEIVED FROM
GOP SECRETARY OF STATE FOR HOUSING WHICH CONSTITUTES
THE GOP FORMAL REQUEST FOR ASSISTANCE UNDER THE
HOUSING GUARANTY AS WELL AS THE RESPECTIVE TRANSLATION.
COPIES OF THIS LETTER WERE POUCHED ON AUGUST 29 TO
HE/HEUR (M. STERNE), PRE/H (J. HOWLEY) AND RHUDD
(D. LEIBSON). COPIES HAVE ALSO BEEN PASSED TO
RLA (A. WILLIAMS).

QUOTE

EXMO SENHOR
MICHAEL LUKOMSKI
DIRECTOR DO GABINETE DE COOPERACAO
DA EMBAIXADA DOS ESTADOS UNIDOS DA
AMERICA

NE SEQUENCIA DE CONVERSACOES HAVIDAS ENTRE OS Nossos
DOIS GOVERNOS, NO SENTIDO DE SER CONCEDIDA, A PORTUGAL,
ASSISTENCIA, AO ABRIGO DO "HOUSING GUARANTY PROGRAM",
REITERAMOS A MESMA PRETENSÃO.

CABE SALIENTAR, AINDA, QUE TAL ASSISTENCIA SE INTEGRA-
RA NOS PROGRAMAS DE HABITACAO SOCIAL DO GOVERNO POR-
TUGUES.

COM OS MELHORES CUMPRIMENTOS

O SECRETARIO DE ESTADO DA HABITACAO E URBANISMO

SIGNED FERNANDO MANUEL DOS SANTOS GOMES

UNQUOTE

TRANSLATION:

MR. MICHAEL LUKOMSKI
AID REPRESENTATIVE

FURTHER TO THE CONVERSATIONS ESTABLISHED BETWEEN OUR
TWO GOVERNMENTS WITH A VIEW TO GRANTING ASSISTANCE TO
THE PORTUGUESE GOVERNMENT UNDER THE "HOUSING GUARANTY
PROGRAM", WE HEREBY REITERATE THE SAME INTEREST.

IT SHOULD ALSO BE NOTED THAT THAT ASSISTANCE WILL BE
INCLUDED IN THE PORTUGUESE LOW-INCOME HOUSING PROGRAMS.

September 27, 1984

ACTION MEMORANDUM TO THE ASSISTANT ADMINISTRATOR, NE BUREAU

FROM: NE/PD, R. H. Bell 

SUBJECT: Portugal: Authorization of the Low-Cost Shelter Project
Number 150-HG-003

PROBLEM: Your authorization of a \$14 million FY 84 Housing Guarantee (HG) and a \$11 million FY 85 HG is required for the implementation of the Low-Cost Shelter Project No. 150-HG-003 described in the Project Paper for the subject project.

BACKGROUND: In 1982 the Government of Portugal (GOP) suggested that the U.S. government consider including a new HG Program in Portugal as part of the final settlement to the U.S. - Portuguese negotiation for airbase rights in the Azores. Subsequently AID agreed, in principle, to provide up to \$75 million in HG authority on the condition that a mutually acceptable housing program could be identified.

As a first step in this process, a team of housing specialists visited Portugal in 1983 to update the Portugal Shelter Sector Assessment (SSA). After reviewing the updated SSA, the current GOP activities in the Housing Sector and identifying opportunities for a possible utilization of the Housing Guaranty (HG) Program in Portugal, USAID proposed the outline of HG project to the GOP. The Secretary of State for Housing and Urbanism's response to that proposal formed the basis of a subsequent PID for the HG Project. The design of the PID was completed in the fall of 1983 and the NE Bureau approved it on December 1, 1983.

A Project Design Team arrived in Portugal shortly thereafter. The PP design effort continued through the spring of 1984. During this process USAID/Lisbon and RHUDO/NE continuously consulted with the GOP and with various IBRD housing loan appraisal teams. The IBRD also plans to extend financial assistance to the GOP in the Housing Sector. It is anticipated that the IBRD loan and the HG Project will be similar in that they will finance the same types of housing solutions, will seek to strengthen the same GOP institutions and will support the same policy objectives. On September 18, 1984 the NE Bureau reviewed and approved the PP for a HG project for Portugal.

DISCUSSION: The Project Paper for the Low Cost Housing Project (150-HG-003) outlines a six year Housing Guarantee (HG) Program in Portugal for a total life-of-project funding of \$75 million. The Near East Advisory Committee (NEAC) declined, at this time, to approve or disapprove the \$75 million overall program which was proposed in the PP. However, the NEAC approved the authorization of

a \$25 million tranche to finance the implementation of the first phase of the proposed program.

The NEAC agreed that additional funding (i.e. two \$25 million tranches) will be authorized, at a later time during the life of the Project, if the GOP demonstrates actual progress, during the initial phase of project implementation, in the achievement of specific policy and organizational objectives. The Project Implementation Agreement for the HG Project will incorporate Covenants and/or Conditions Precedent which stipulate that indications of achieving these objectives will be the measure of the progress that has been made in the following; (a) lending funds to the beneficiaries at a mortgage rate which will not increase the presently established rate of subsidy, (b) the elimination of all housing sector subsidies, and (c) the reduction of rent controls.

The NEAC also approved, if the GOP agrees, the authorization of approximately \$600,000 from ESF funding available for the FY 1985 Portugal program to finance the initial technical assistance which is essential to the successful implementation of the Program described in the HG PP.

The Project will finance eligible components of the GOP's overall Housing Program over the next six years. The Program consists of a mixture of existing traditional "Social housing" programs and new non-traditional programs. The level of HG financing for the traditional programs will decline during the life of the Project so as to provide a gradual increase in the level of funding provided for the new non-traditional programs. The following table provides an illustration of the proposed use of HG funds during the life of the Project:

USE OF HG FUNDS BY PROGRAM TYPE

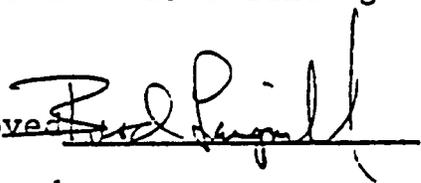
<u>1 AUTHORIZATION</u>	<u>% FOR TRADITIONAL PROGRAMS</u>	<u>% FOR NEW PROGRAMS</u>
First \$25 million	maximum 75%	minimum 25%
Second \$25 million	maximum 50%	minimum 50%
Third \$25 million	maximum 25%	minimum 75%

The HG Project will assist the newly formed Instituto Nacional de Habitacao (INH) to develop, establish and implement a decentralized, locally-driven program of providing housing at a lower per unit cost which is affordable to the low income target beneficiary population. The Project will focus on increasing the participation of municipalities, private housing developers and cooperatives throughout the nation in the planning and implementation of the GOP's Housing Program. The Project will finance: (1) the construction of traditional housing units for sale to low income beneficiaries, (2) loans to low income families for improvement of residential properties, (3) the acquisition and development of housing sites by municipalities for subsequent sale to low income families, cooperatives, and private developers, and (4) "Social Housing" consisting of the development of one and two bedroom units which will be sold to low income beneficiaries.

The Technical Advisory component of the Project will provide assistance to the INH: (a) to formulate new policy initiatives and develop appropriate implementation procedures, (b) to recruit and train staff, and (c) to develop pilot projects which incorporate reduced and affordable housing standards to be used as models for replication throughout the nation under the overall GOP Housing Program.

CONCLUSION: The NEAC has approved the proposed Project 150-HG-003 and concluded that the program outlined in the PP is implementable under the terms and conditions of the Housing Guarantee Program.

RECOMMENDATION: That you sign below indicating your approval of the program described above and detailed in the PP for the Portugal Low-Cost Shelter Project No. 150-HG-003 and that you sign the attached Guaranty Authorizations obligating \$14 million FY 1984 funding and \$11 million from FY 1985 funding for the subject Project.

Approved 

Disapproved _____

Date 28 SEP 1984

Attachments: a/s

Guaranty Authorization

Project 150-HG-003

(\$14,000,000 - SEPT 28, 1984)

Provided From: Housing Guaranty Authority

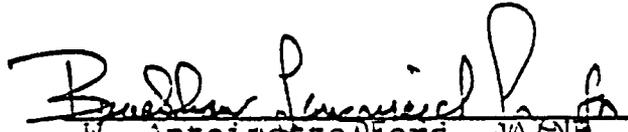
For: The Government of Portugal

Pursuant to the authority vested in the Assistant Administrator, Bureau for the Near East, Agency for International Development, by the Foreign Assistance Act of 1961, as amended (FAA), and the delegations of authority issued thereunder, I hereby authorize the issuance of guaranties pursuant to Section 222 of the FAA of not to exceed fourteen million dollar (\$14,000,000) in face amount, assuring against losses (of not to exceed one hundred percent (100%) of loan investment and interest) with respect to loans including any refinancing thereof by eligible U.S. investors (Investor) acceptable to A.I.D. made to finance housing projects in Portugal. The Guaranty will assist in financing the housing program of the Government to Portugal for low income households throughout the nation. Shelter activities to be financed hereunder specifically include a mixture of existing traditional "Social Housing" programs and new non-traditional programs. It is anticipated that the level of HG financing for the traditional programs will decline during the life of the Project so as to provide a gradual increase in the level of funding provided for the new non-traditional programs.

This guaranty shall be subject to the following terms and conditions:

1. Term of Guaranty: The loans may extend for a period of up to thirty years (30) from the date of disbursement and may include such terms and conditions as shall be acceptable to A.I.D. The guaranty 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 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. Government of Portugal Guaranty: The Government of Portugal shall provide for a full faith and credit guaranty to indemnify A.I.D. against all losses arising by virtue of A.I.D.'s guaranty to the Investor or from non-payment of the guaranty fee.
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 Guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary.


W. Antoinette Ford, AA/NB

30 SEP 1984

• • Date

Guaranty Authorization

Project 150-HG-003

(\$11,000,000 - OCT 2, 1984)

Provided From: Housing Guaranty Authority

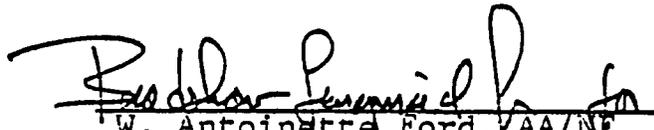
For: The Government of Portugal

Pursuant to the authority vested in the Assistant Administrator, Bureau for the Near East, Agency for International Development, by the Foreign Assistance Act of 1961, as amended (FAA), and the delegations of authority issued thereunder, I hereby authorize the issuance of guaranties pursuant to Section 222 of the FAA of not to exceed eleven million dollar (\$11,000,000) in face amount, assuring against losses (of not to exceed one hundred percent (100%) of loan investment and interest) with respect to loans including any refinancing thereof by eligible U.S. investors (Investor) acceptable to A.I.D. made to finance housing projects in Tunisia. The Authorization, when combined with the authorizations dated September 29, 1984, brings the total amount of guaranties to be issued for this Project to twenty five million dollars (\$25,000,000), (the "Guaranty"). The Guaranty will assist in financing the housing program of the Government to Portugal for low income households throughout the nation. Shelter activities to be financed hereunder specifically include a mixture of existing traditional "Social Housing" programs and new non-traditional programs. It is anticipated that the level of HG financing for the traditional programs will decline during the life of the Project so as to provide a gradual increase in the level of funding provided for the new non-traditional programs.

This guaranty shall be subject to the following terms and conditions:

1. Term of Guaranty: The loans may extend for a period of up to thirty years (30) from the date of disbursement and may include such terms and conditions as shall be acceptable to A.I.D. The guaranty 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 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. Government of Portugal Guaranty: The Government of Portugal shall provide for a full faith and credit guaranty to indemnify A.I.D. against all losses arising by virtue of A.I.D.'s guaranty to the Investor or from non-payment of the guaranty fee.
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 Guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary.


W. Antoinette Ford, VAA/NE

OCT 2 1984

Date

THE HOUSING GUARANTY PROGRAM

ANNEX C

STATUTORY CHECKLIST

NAME OF COUNTRY Portugal

PROJECT NO. 150 -HG- 003

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

Yes

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

80x

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Section 222(b)

Will the proposed guaranty result in activities which emphasize:

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

- (2) projects comprised of expandable core shelter units on serviced sites; or Yes - Unfinished and core housing

- (3) slum upgrading projects designed to conserve and improve existing shelter; or Not yet determined

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

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

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 - IBRD

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

Yes - Major purpose

(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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- d -

(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 - Current USAID country statutory checklist

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ACTION: AIC 3 INFO: AMB DCH ECON AGR CHRON/O

VTCZC110224EBV257
CC RUEFLI
DE RUEHC #6402 2412700
LBR 00000 22H
C 0701127 DEC 82
FM SECSTATE WASEIC
TO AEMBASSY LISBON IMMEDIATE 65E2
BT
UNCLAS STATE 346403

1001 IN 25 411
07 DEC 82 0824
CN: 15240
CPRG: AID
DST: AID

ALLAC

E.O. 12958: N/A

TAGS:

SUBJECT:

HEAR EAST ADVISORY COMMITTEE - LCV COST
HOUSING FID - PROJECT 152-RC-023

1. THE HEAC MET ON DEC 03 AND APPROVED SUBJECT PID.
GUIDANCE AND RECOMMENDATIONS FOR PP DEVELOPMENT ARE
SUMMARIZED BELOW.

2. LESSONS LEARNED: THE HEAC RECOMMENDS THAT THE PP
CONTAIN A STATEMENT OF LESSONS LEARNED FROM PREVIOUS HCS
AND AID HOUSING LOANS IN PORTUGAL. FOR EXAMPLE,
ASSURANCE SHOULD BE GIVEN THAT ALL CONSTRUCTION HAS BEEN
COMPLETED, REQUISITE SUPPORTING INFRASTRUCTURE IS IN
PLACE, AND UNITS ARE READY FOR OCCUPANCY PRIOR TO FINAL
DISBURSEMENT OF FID FUNDS IN PORTUGAL.

3. PRIVATE SECTOR INVOLVEMENT: IN ACCORD WITH AIC
POLICY, THE HEAC ANTICIPATES ITS SUPPORT OF MAXIMUM PRIVATE
SECTOR PARTICIPATION. THE HEAC REQUESTS MISSION AND
TEAM EXPICIT WITH GOV WAYS TO EXPAND PRIVATE SECTOR ROLE
IN PROJECT IN TERMS OF CONSTRUCTION, FINANCING AND
IMPLEMENTATION OF PROGRAM. PP SHOULD ALSO INCLUDE

REVIEW ALL DISCUSSION OF GOV POLICIES WHICH INHIBIT OR
IMPACT PRIVATE SECTOR PARTICIPATION.

4. DISBURSEMENT SCHEDULE: PP SHOULD ADDRESS THE GOV'S
ABILITY TO DISBURSE THE PROPOSED BOLS 75 MILLION AT A
RATE OF 25 MILLION EVERY 10 MONTHS. IT SHOULD ALSO SPELL
OUT CRITERIA FOR PROCEEDING WITH DISBURSEMENT OF THE
SEVERAL AID TRanches; PROMISSON OF POLICY CHANGES,
PROMPT DISBURSEMENT OF FIRST \$25 MILLION TRANCHE, ETC.
THE HEAC AGREES THAT HG DISBURSEMENTS WOULD NOT PROVIDE
IMMEDIATE BALANCE OF PAYMENTS BENEFITS, BUT ONLY AS
SUB-PROJECTS WERE COMPLETED.

5. MANAGERIAL CAPACITY AND IMPLEMENTATION: THE PP
SHOULD INCLUDE ANALYSIS OF GOV AGENCIES CAPACITIES (IATB,
MUNICIPALITIES, ETC.) TO MANAGE FUNDS, E.G. AWARD
CONTRACTS, RECEIVE PAYMENTS, ETC. PP SHOULD PROVIDE
DETAILED DESCRIPTION OF HOW FUNDS WILL COME FROM
INTERNATIONAL FINANCIAL INSTITUTION TO SUB-FORRE

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IDENTIFIARIIS, BOW REPAYMENTS WILL BE MADE, AND HOW
ADDITIONAL GOVERNMENT SUBVENTIONS, IF NECESSARY, WILL BE
PROVIDED.

6. DESCRIPTIVE CAPACITY: PP SHOULD INCLUDE ANALYSIS OF
THE GOV'S ABILITY TO FINANCE ITS SHARE OF HG AND IORE
PROGRAM, AS WELL AS FID PROJECT NOW IN PIPELINE.

7. LOAN MIX AND AFFORDABILITY: THE HEAC SUGGESTS THAT
SOLUTIONS ARE NEEDED THAT WILL REQUIRE FEWER SUBSIDIES
AND SIMULTANEOUSLY MAKE MORE LOANS AVAILABLE TO HOME
FAMILIES BELOW MEDIAN INCOME. TREATMENT OF SUBSIDIES
SHOULD BE IN ACCORD WITH THE IMF STABILIZATION PROGRAM
RECOMMENDATIONS. ON SUBSIDIES AS WELL AS OTHER POLICY
ISSUES, THE PP TEAM AND THE MISSION SHOULD COORDINATE, A
APPROPRIATE, WITH THE IERD AND IMF REPRESENTATIVES IN
PORTUGAL.

8. TECHNICAL ASSISTANCE: THE HEAC RECOGNIZED THE NEED
FOR TA. FRE/R CAN SUPPLY VISITING TA, BUT NOT A RESIDING
CONSULTANT. FUNDING IS NOT AVAILABLE OUTSIDE OF ESI
PROGRAM LEVEL FOR PORTUGAL. ACCORDINGLY, FUNDING FOR TA
REPRESENTS CLAIMS AGAINST-ESI LEVEL GENERALLY AND
POSSIBLY AS PART OF ICSC-AMERICAN OPERATIONS IN
PARTICULAR. THIS MATTER SHOULD BE DISCUSSED WITH COP
ASAP IN CONTEXT OF COST OF DOING BUSINESS.

9. ECONOMIC AND FINANCIAL ANALYSES: THE PP SHOULD
CONTAIN ANALYSIS OF PORTUGAL'S ABILITY TO SERVICE HG DEB

10. POLICY PACKAGE: THE HEAC SUGGESTS THAT THE POLICY
PACKAGE SHOULD BE PRIORITIZED TO SORT OUT WHAT'S CRUCIAL
AND WHAT IS NOT. GOV ENTITY RESPONSIBLE FOR ASSURING
IMPLEMENTATION OF INDIVIDUAL POLICY REFORMS SHOULD BE
SPECIFIED.

11. EVALUATION: PP SHOULD INCLUDE GENERAL EVALUATION
PLAN AND SCHEDULE IN ADDITION TO SPECIFIC EVALUATION OF
PROGRESS ON FIRST TRANCHE REFERRED TO IN PARA 4 ABOVE.

12. THE HEAC UNDERSTANDS THAT THE PP WILL BE FORWARDED
TO AIC/V IN EARLY CY 84. DAN

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ANNEX E

LOGICAL FRAMEWORK

Portugal 150-HG-003

Goals

Increase the supply of housing affordable to low income families without increasing subsidies.

Verifiable Indicators

Increase in public and private sector housing supply over 5 years to 1990 by 10% per year with at least 50% costing less than 2,100 contos per family (\$15,000 - 1984 prices) and aggregate GOP budgetary allocations averaging not more than 2,500,000 contos per year (\$17.9 million - 1984 prices).

Means of Verification

Records of the Ministerio do Equipamento Social (MES) including analyses by the Gabinete de Estudos e Planeamento (GEP).

Assumptions

Political support of goals by the people and their government; increases in construction costs and land prices no greater than increases in wages of low income families; continued capacity in the GOP budget to carry current level of allocations to housing.

Purposes

1. Support policies toward more affordable costs and subsidies;
2. Build institutional capacity to develop and manage programs;
3. Introduce alternative programs to lower costs;
4. Support decentralized production and encourage private sector production of low income housing.

1. Implementation of the Secretary of State's 1984 statement of policy objectives;
2. Establishment and operational effectiveness with sound financial management of an intermediate financial institution, the Instituto Nacional de Habitacao (INII);
3. New programs of home improvement loans, sites and infrastructure, neighborhood upgrading, core or unfinished housing, and apartments with reduced norms and standards;
4. Publicly assisted programs implemented by municipalities, cooperatives, and private developers.

Records of the Instituto Nacional de Habitacao (INII) including annual reviews and project reporting.

Approval by the National Assembly and the Council of Ministers of enabling legislation and regulations; adequate budget and credit authority; ability of the INII to recruit and train managers and staff; adequate market for alternative programs; and interest of municipalities, cooperatives, and private developers in producing them.

ANNEX E (Continued)

LOGICAL FRAMEWORK

Portugal 150-IG-003

<u>Output</u>	<u>Targets</u>	<u>Means of Verification</u>	<u>Assumptions</u>
1. Line of credit thru INH for traditional one and two bedroom apartments (I-1, I-2)	1. Loans up to 75% of first \$25 million IG Authorization; up to 50% of second \$25 million IG Authorization; up to 30% of third \$25 million IG Authorization; total up to 3,000 families.	1-2. Records of the Instituto Nacional de Habitacao (INH) including project reports.	INH is able to promote alternatives to traditional apartments with municipalities, cooperatives, and private developers; pilot home improvement and infrastructure loans begin in 1984-85; alternative projects prepared on larger scale 1985-86 for implementation beginning 1986-87.
2. Line of credit thru INH for home improvement loans, sites and infrastructure, neighborhood upgrading, core or unfinished housing, and standards	2. Loans of at least 25% of first \$25 million IG Authorization; at least 50% of second \$25 million IG Authorization; at least 70% of third \$25 million IG Authorization; total up to 14,000 families.		
3. Technical Assistance	3. Resident advisor - 3 years; short term advisors - 20 months; short term training - 40 weeks and special studies.	3. Records of A.I.D.	
<u>Inputs</u>			
1. Housing Guaranty loans.	1. \$25 million 1984-86 \$25 million 1986-87 \$25 million 1987-89	Records of A.I.D., the IBRD and the Instituto Nacional de Habitacao (INH)	Housing Guaranty loans Authorized in FY 84; FY 85 or 86, and FY 87; IBRD loan approved by Bank Board early CY 85; ESF assistance to Portugal approved in FY 85 and GOP agrees to allocate \$600,000 for TA.
2. IBRD loans.	2. \$25 million 1985-88		
3. Beneficiary Downpayments.	3. \$5 million 1986-89		
4. Municipalities, coops, developers (land and indirect costs).	4. \$10 million 1984-89		
5. ESF funded grants.	5. \$600,000 1985-87.		