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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

PANAMA

PROJECT PAPER

SHELTER AND COMMUNITY UPGRADING

AID/LAC/P-025

Project Number: 525-HG-011

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

PROJECT PAPER

PANAMA - SHELTER AND COMMUNITY UPGRADING

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3. COUNTRY/ENTITY Panama		4. DOCUMENT REVISION NUMBER <div style="border: 1px solid black; width: 20px; height: 15px; margin: 0 auto;"></div>		
5. PROJECT NUMBER (7 digits) <div style="border: 1px solid black; padding: 2px; display: inline-block;">525-HG-011</div>		6. BUREAU/OFFICE A. SYMBOL B. CODE LA <div style="border: 1px solid black; width: 20px; height: 15px; display: inline-block;"></div>		
7. PROJECT TITLE (Maximum 40 characters) <div style="border: 1px solid black; padding: 2px; display: inline-block;">Shelter and Community Upgrading</div>		9. ESTIMATED DATE OF OBLIGATION A. INITIAL FY <div style="border: 1px solid black; padding: 2px;">719</div> B. QUARTER <div style="border: 1px solid black; padding: 2px;">3</div> C. FINAL FY <div style="border: 1px solid black; padding: 2px;">811</div> (Enter 1, 2, 3, or 4)		
8. ESTIMATED FY OF PROJECT COMPLETION FY <div style="border: 1px solid black; padding: 2px;">8</div> <div style="border: 1px solid black; padding: 2px;">4</div>				

10. ESTIMATED COSTS (\$000 OR EQUIVALENT \$1 -)						
A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. TOTAL	E. FX	F. L/C	G. TOTAL
AID APPROPRIATED TOTAL			200			337
(GRANT) TTPUP			176			464
OTHER U.S. 1. HG			10,000			75,000
2.						
HOST COUNTRY			2,000			20,400
OTHER DONOR(S) Beneficiaries			1,000			8,600
TOTALS			13,376			104,801

11. PROPOSED BUDGET APPROPRIATED FUNDS (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE		E. 1ST FY <u>79</u>		H. 2ND FY <u>81</u>		K. 3RD FY <u>83</u>	
		C. GRANT	D. LOAN	F. GRANT	G. LOAN	I. GRANT	J. LOAN	L. GRANT	M. LOAN
(1) N/A	720		866		25,000		25,000		25,000
(2)									
(3)									
(4)									
TOTALS									

A. APPROPRIATION	N. 4TH FY _____		Q. 5TH FY _____		LIFE OF PROJECT		12. IN-DEPTH EVALUATION SCHEDULED
	O. GRANT	P. LOAN	R. GRANT	S. LOAN	T. GRANT	U. LOAN	
(1) N/A					632	75,000	<div style="border: 1px solid black; padding: 5px; display: inline-block;"> MM YY 07 810 </div>
(2)							
(3)							
(4)							
TOTALS							

13. DATA CHANGE INDICATOR. WERE CHANGES MADE IN THE PID FACESHEET DATA, BLOCKS 12, 13, 14, OR 15 OR IN PRP FACESHEET DATA, BLOCK 12? IF YES, ATTACH CHANGED PID FACESHEET.

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TITLE Director, USAID/Panama		MM DD YY 05 11 79		MM DD YY 05 16 79			

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10. ESTIMATED COSTS (\$5000 OR EQUIVALENT \$)							
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		F. FY	G. L/C	D. TOTAL	F. FY	F. L/C	G. TOTAL
AID APPROPRIATED TOTAL							
IGRANT: IIPJP				200			337
HS: PIP				176			464
OTHER U.S.:				10,000			75,000
1. HG							
2.							
HOST COUNTRY				2,000			20,400
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TOTALS				13,376			104,801
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		C. GRANT	D. LOAN	F. GRANT	G. LOAN	I. GRANT	J. LOAN
(1) N/A	720		866		25,000	25,000	25,000
(2)							
(3)							
(4)							
TOTALS							
A. APPROPRIATION		N. 4TH FY		O. 5TH FY		LIFE OF PROJECT	
		D. GRANT	E. LOAN	F. GRANT	G. LOAN	I. GRANT	J. LOAN
(1) N/A						632	75,000
(2)							
(3)							
(4)							
TOTALS							
12. INTERPREVALUATION SCHEDULED <input type="text" value="MM"/> <input type="text" value="YY"/> <input type="text" value="07"/> <input type="text" value="81"/>							
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PROJECT PAPER
SHELTER AND COMMUNITY UPGRADING
FOR LOW INCOME PANAMANIAN
HOUSING GUARANTY PROGRAM

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5. Planned Performance Tracking Network
6. Target Group Population and Income Data
7. Initial Environmental Examination
8. Unit Cost Calculations with Typical Floor Plans
9. Financial Report/Cash Flows
10. Secondary Mortgage Market Brief
11. Cooperative's Role
12. Other Shelter Institutions
13. Borrower's Application for Project Assistance

iii. Definition of Terms

The following defines terms used commonly in this text.

- .. Program - refers to the national housing and related services and facilities for low-income Panamanians.
- .. Sub-program - refers to the three major sub-programs to be implemented: Community Upgrading and Renewal, Peripheral Growth Areas, and Secondary Cities.
- .. Sub-project - refers to the individual physical projects implemented under one of the three sub-programs.
- .. Community Facilities - refers to support facilities, such as schools, markets, health clinics, that are for the benefit of the entire community.
- .. Infrastructure - refers to services such as water, sewer and electricity lines, roads, etc., required as a prerequisite to subdivision development.
- .. Home Improvement Loans - Loans to owner/occupants of existing housing to improve, expand or modify his/her home.
- .. Serviced Lot - An individual building lot that is sold with full complement of services--water, sewer, electricity-- which are made available to a central point on the lot.
- .. Serviced Lot with Loan - The above serviced lot plus an additional sum which will permit the owner of the lot to purchase sufficient materials to build a sanitary core of some 6 m².
- .. Shell House - A serviced lot on which is built a 25 m² structure consisting of a foundation, floor, wall posts and roof. (Also referred to as "Piso-Techo")
- .. Shell House with Loan - The above shell house plus a loan to purchase materials to fill in the exterior wall area.
- .. Core House - A basic, yet complete detached house of 25 m², consisting of a bathroom, kitchen area and one or two rooms.
- .. Standard House - A large (50 m²) version of the core house.
- .. Target Group - All families earning less than the median income level, roughly 180,000 families or 900,000 persons.

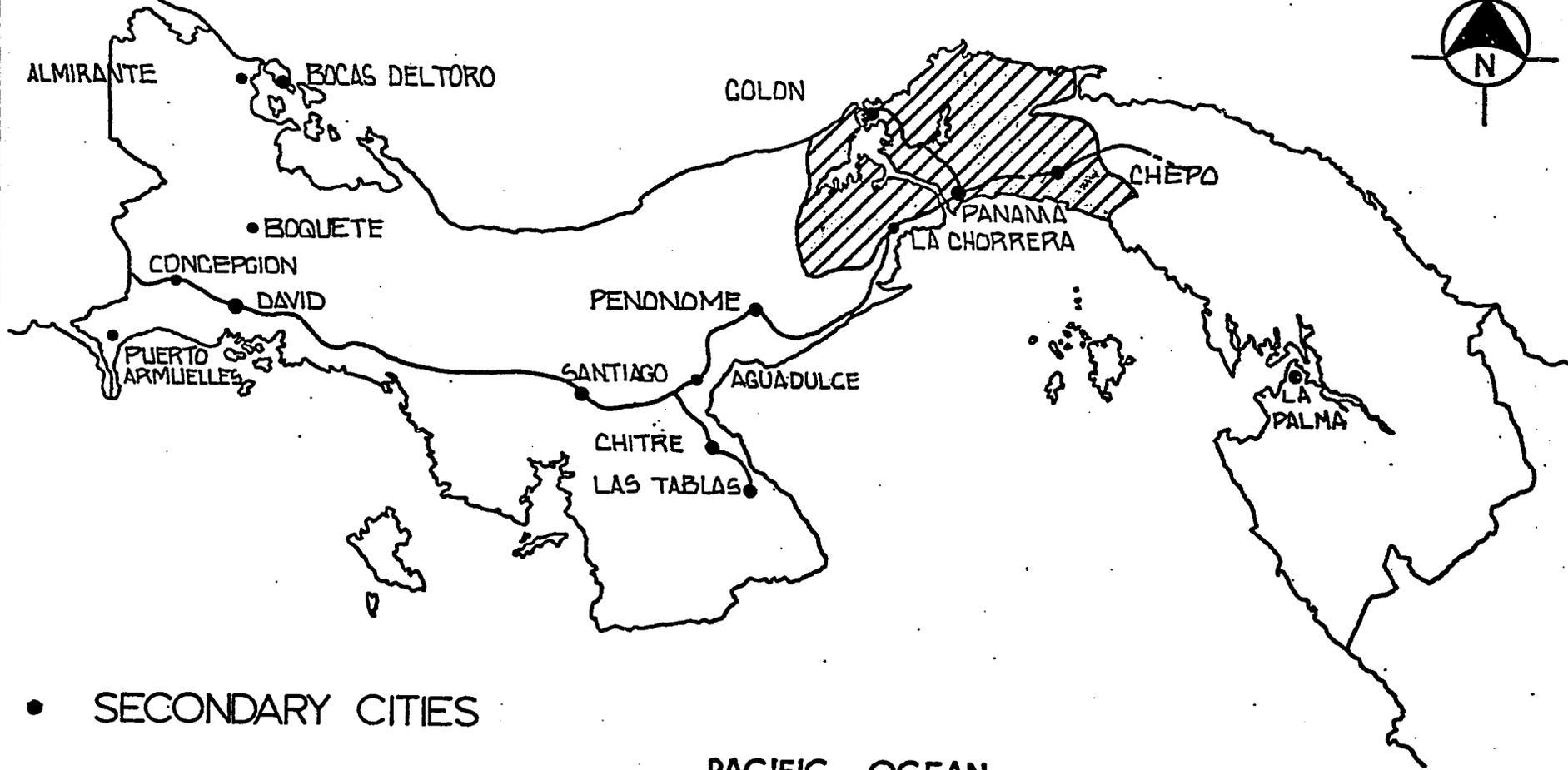
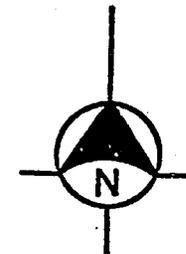
- .. Poor Population - Some 143,000 families or 715,000 persons identified in the Panama CDSS as below the poverty line.
- .. Beneficiaries - The 19,800 families who will participate directly in the program in the form of a new shelter solution or a home improvement loan.
- .. Indirect Beneficiaries - Those families who will receive indirect benefits from the program such as use of a school or health facility or road built with program funds.
- .. Tenement Slums - Wooden barracks built in Panama and Colon during the Canal construction period and now used to house poor families.
- .. Solution - The term used to describe the individual new shelter units and the shelter improvement loans implemented under this program.

iv. MAPS:

- A. Location of Metropolitan Region and Secondary Cities
- B. Location of Sub-programs
- C. Panama City Squatter Areas
- D. Panama City Tenement Area
- E. Colon Squatter and Tenement Areas
- F. Metropolitan Region
- G. Panama City Metropolitan Area (Detailed)
- H. Panama City Growth Areas
- I. San Miguelito Growth Area
- J. Colon Growth Areas

REPUBLIC OF PANAMA

CARIBBEAN SEA



• SECONDARY CITIES

▨ METROPOLITAN REGION

PACIFIC OCEAN

FCR 6-79

A

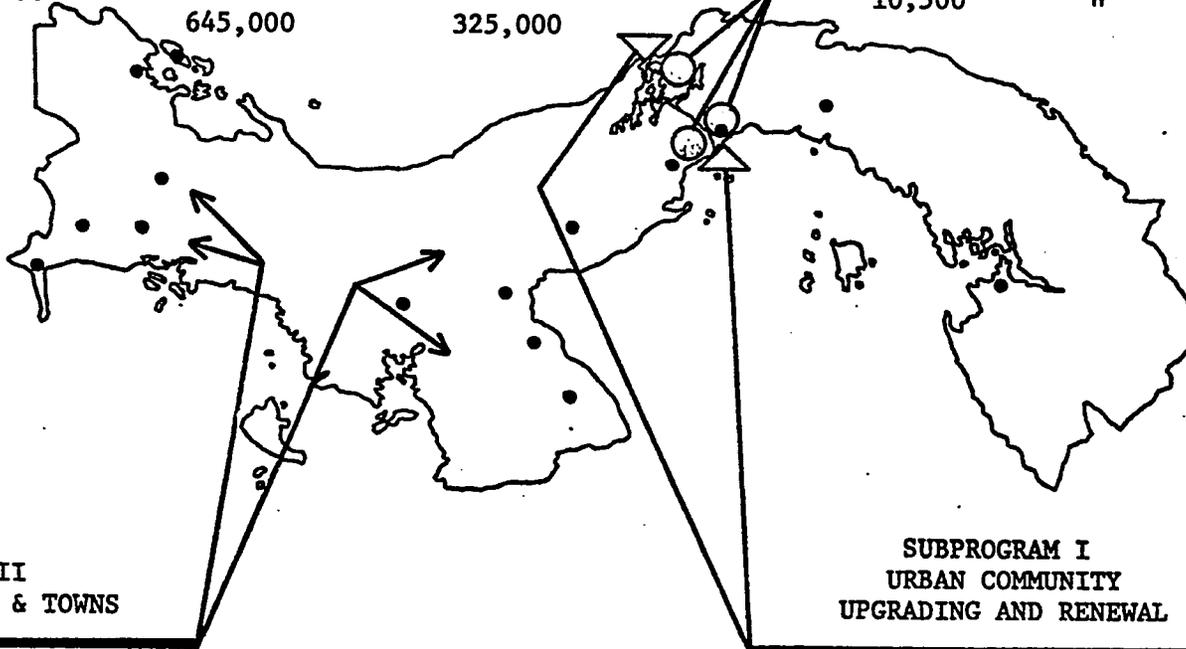
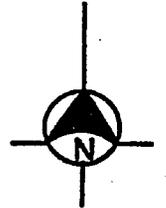
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TOTAL POPULATION POOR POPULATION

Total	1,825,000	600,000
Metro Region Urban & Rural	980,000	225,000
Secondary Cities & Towns	200,000	50,000
Rural-Rest of Country	645,000	325,000

SUBPROGRAM II
URBAN GROWTH AREAS

\$53,000,000	HG Funds
11,700	Shelter Units
2,500	Shelter Loans
61,000	Beneficiaries (Direct)
10,500	" (Indirect)

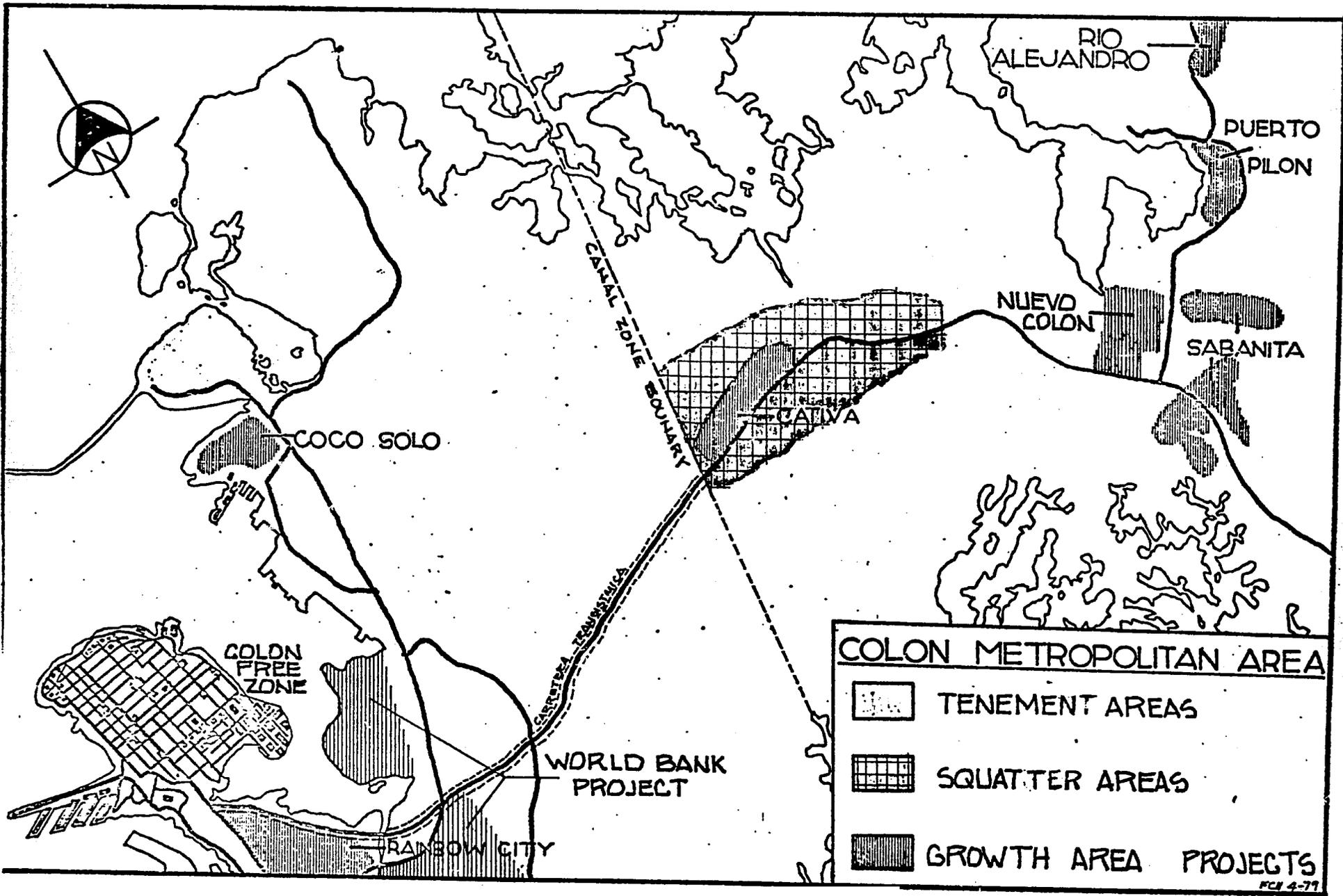


SUBPROGRAM III
SECONDARY CITIES & TOWNS

\$5,000,000	HG Funds
2,100	Shelter Units
700	Shelter Loans
14,000	Beneficiaries (Direct)
1,000	" (Indirect)

SUBPROGRAM I
URBAN COMMUNITY
UPGRADING AND RENEWAL

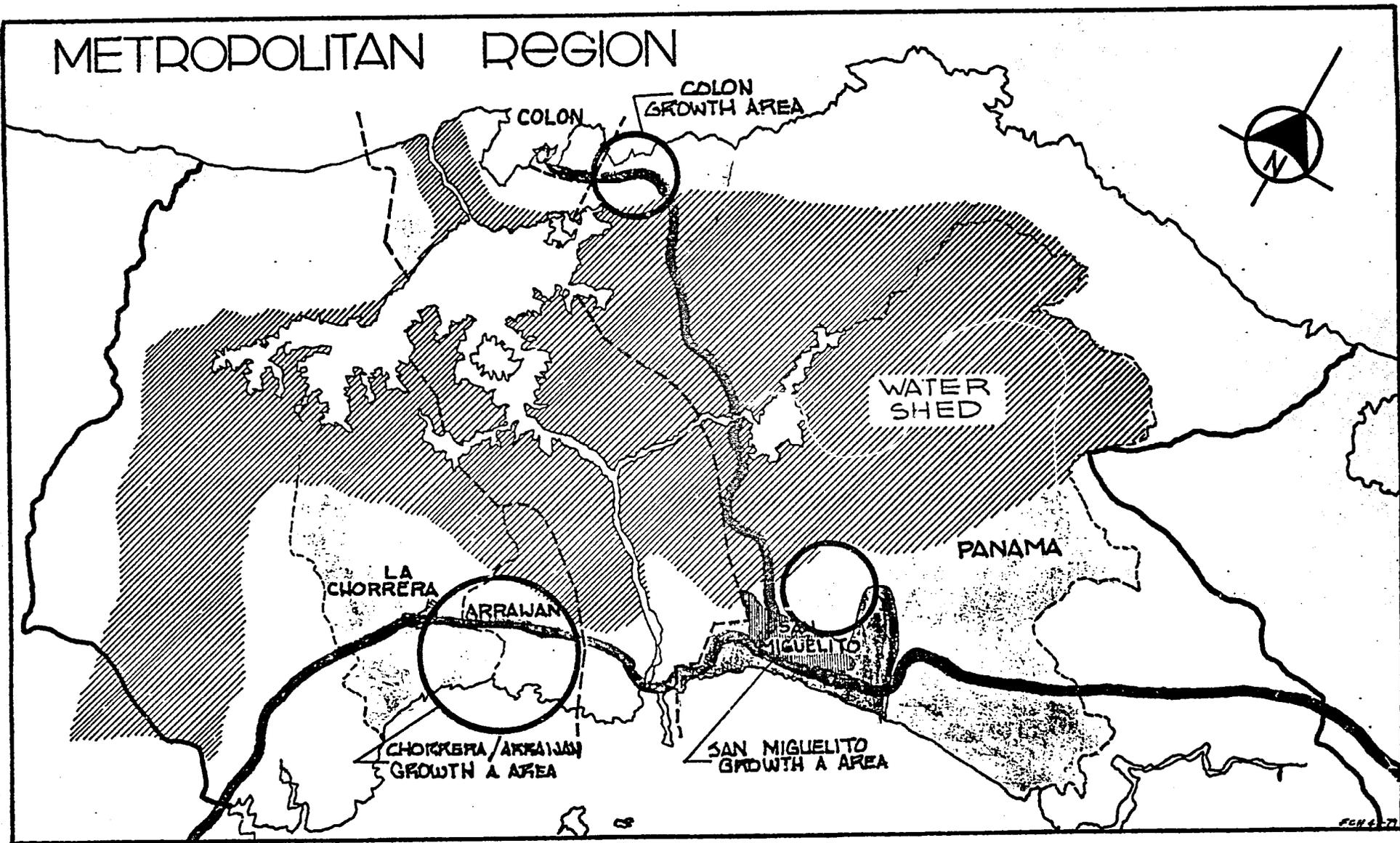
\$17,000,000	HG Funds
2,000	Shelter Units
800	Shelter Loans
14,000	Beneficiaries (Direct)
3,000	" (Indirect)

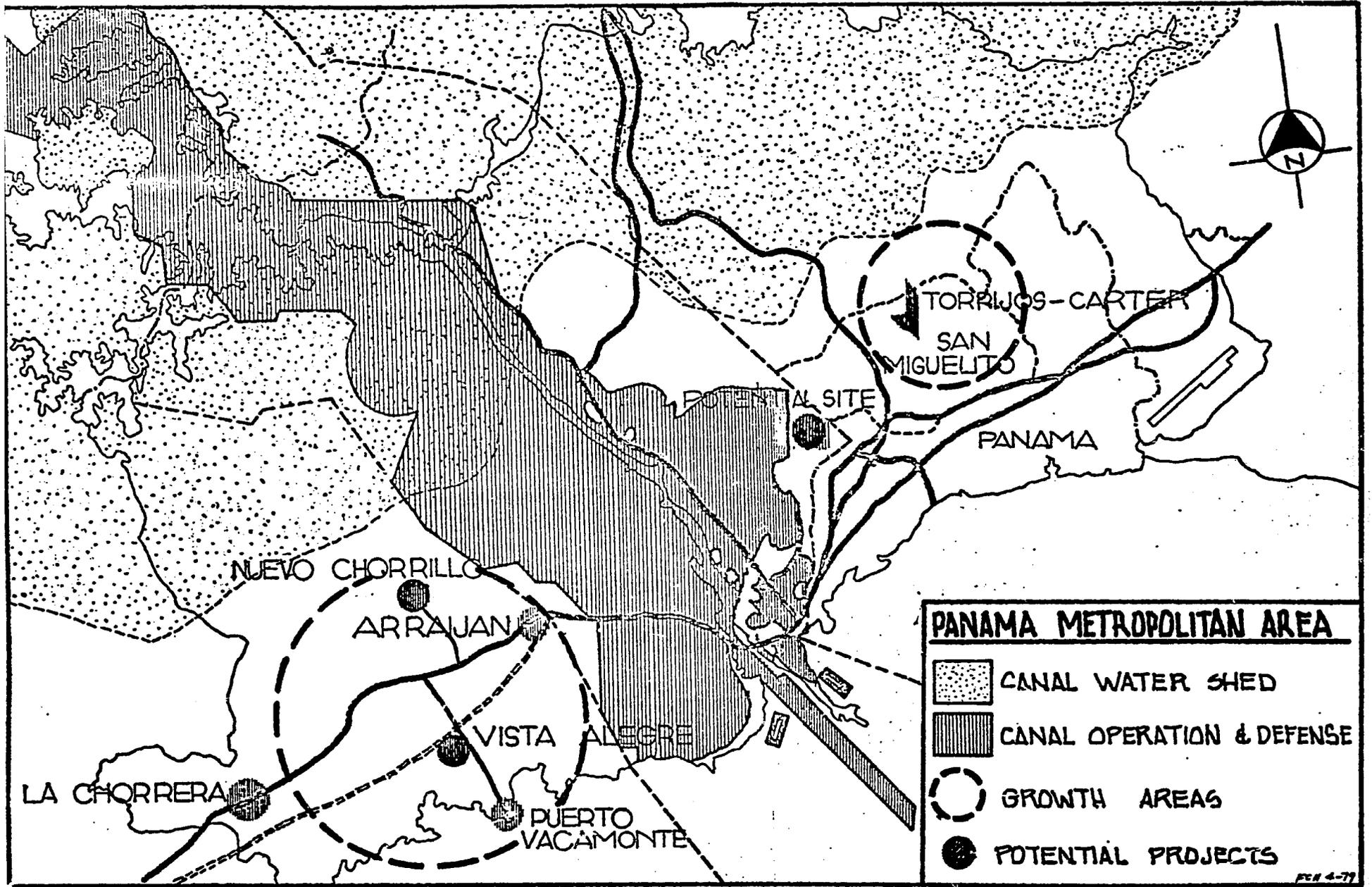


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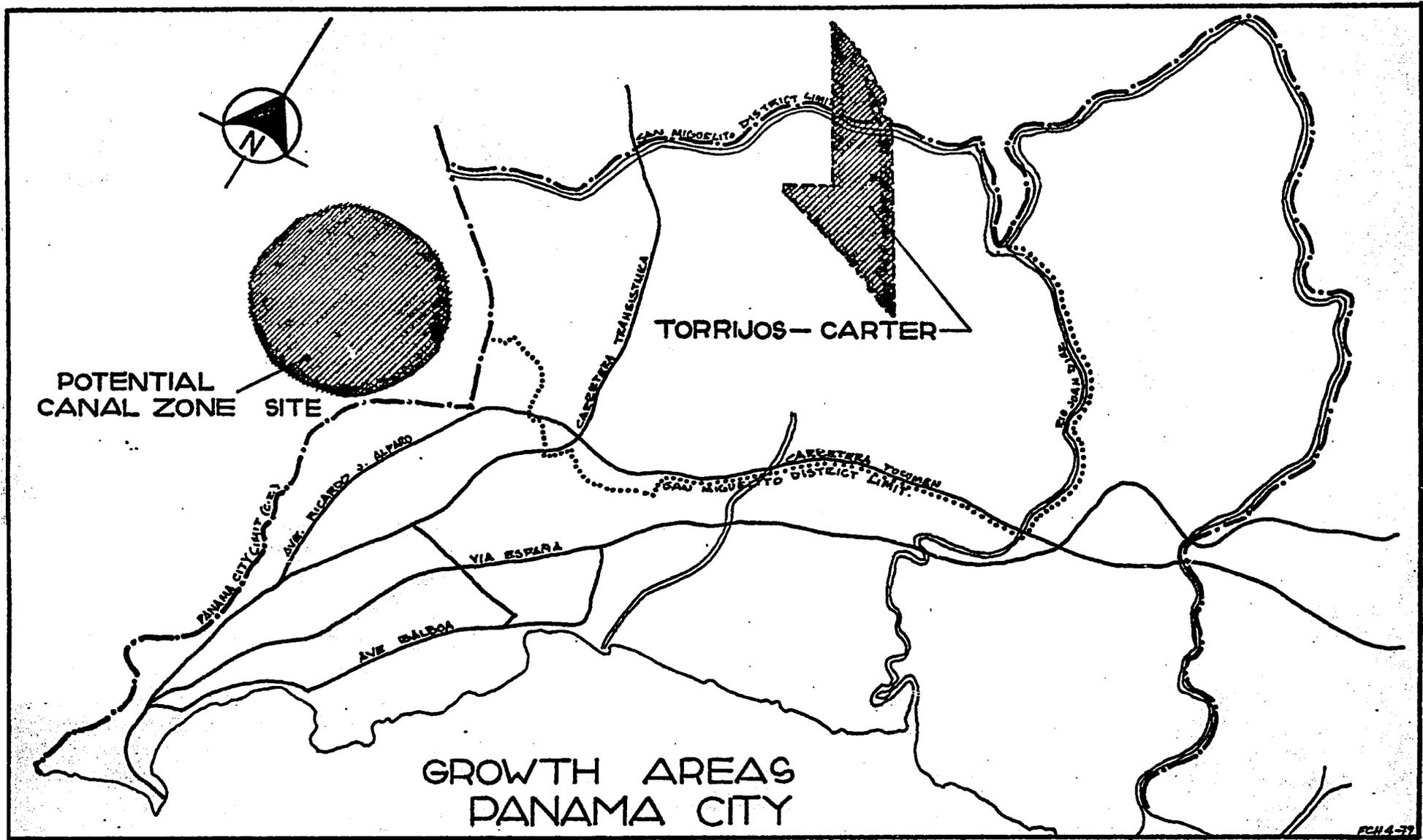
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METROPOLITAN REGION

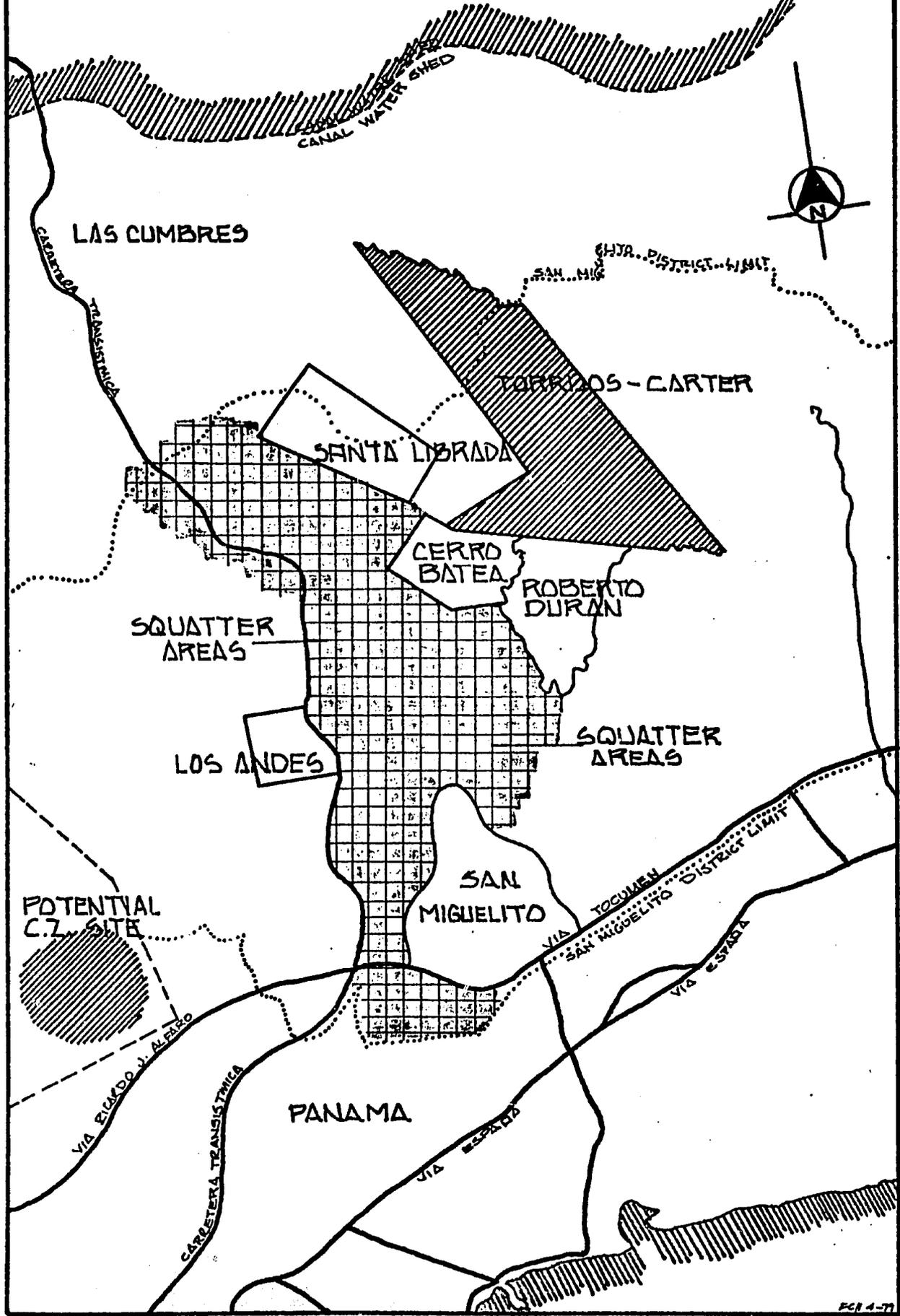




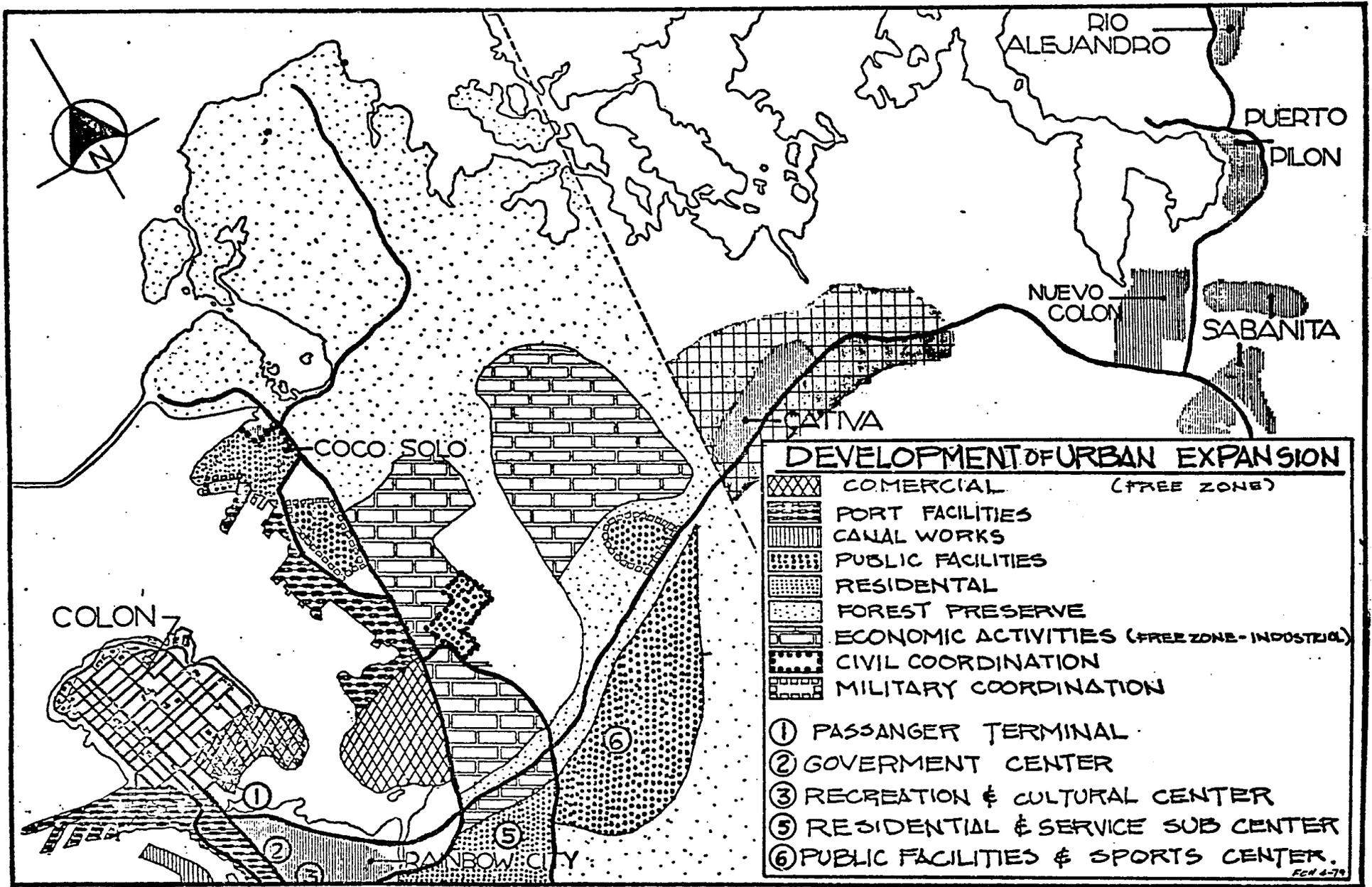
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SAN MIGUELITO GROWTH AREA



20



Recommendations and Summary

A. Recommendations:

Based upon the material presented in this paper and in related back-up reports, an AID housing guaranty loan of \$75 million is recommended to assist the GOP in a national program providing shelter and improved community services for low income Panamanians, and would be authorized in three equal tranches. Authorization of the second and third tranches will be dependent on achievement of institutional improvement objectives discussed in Section III of this paper, completion of in-depth evaluations, and submission of Project Papers to AID/W. The three tranches correspond to three phases in the program's development. Although overall program strategy follows a building block approach in that each phase builds on the previous one, the successful completion of one phase is not dependent on implementation of the succeeding one.

The GOP will provide a \$20.4 million contribution while families who participate will provide \$8.6 million in down payments for a total program of \$104 million. The total technical assistance component will be funded from already approved grant and HG program funds.

Amount of Guaranty: \$75 million.

Interest Rate: The interest rate payable to the U. S. Investor shall not exceed the allowable rate of interest prescribed by the Administrator of A.I.D. pursuant to Section 223 (1) of the FAA.

Borrower and Implementing Agency: The borrower will be the National Mortgage Bank (Banco Hipotecario Nacional - BHN). The implementing agency will be the Ministry of Housing (Ministerio de Vivienda - MIVI).

AID Management: The A.I.D. Regional Housing Office for Panama and South America will be responsible to USAID/Panama for the technical and management aspects for this project.

B. Summary of Findings:

Conceptual Framework - This program is designed to assist the GOP to provide improved shelter and community services for the poor and to alleviate a number of problems associated with rapid urban growth. The importance of secondary cities and rural areas is recognized, and therefore, some resources of the program are directed to the rural sector as a complementary effort.

The program also attempts to address, to the maximum extent possible, an integrated approach to urban development. It takes into consideration urban unemployment and underemployment, institutional coordination, the provision of supporting community services and facilities, environmentally sound development as well as the construction of shelter in conjunction with GOP urban growth plans.

Listed below are brief descriptions of the key urban problems that this program addresses and the ways in which this program responds to those problems.

1. The construction of shelter, infrastructure and services for Low Income Families has not kept pace with rapid urban growth. More than 200,000 people are living in the slums and squatter areas of urban Panama. More shelter opportunities must be provided at costs commensurate with the financial resources of the low income families living in these areas.

Providing approximately 19,800 new and improved shelter solutions, infrastructure and community facilities for low-income families through a phased development program which stresses the consolidation of already developed urban areas and then expanding to new growth areas, as well as the renewal of existing dilapidated communities near the core of Panama City.

2. Insufficient local financing for Housing has been a chronic problem, and while some additional local sources have been tapped over the past few years, over-dependence on foreign sources, particularly short term loans, will continue to plague GOP effort to be self-sufficient in this area. Local financial institutions need to expand their capacity to provide adequate shelter financing from internal sources.

Strengthening the capacity of the BHN as the financial arm of the GOP for low income housing and as the central institution for the support and supervision of the savings and loan system, so the BHN can generate new local resources and provide better support to the savings and loan system's efforts in the housing finance area.

3. Haphazard uncontrolled urban growth has generally led to increased development costs, a patchwork development pattern, and actual and potential adverse impacts on the environment. Sound urban planning and implementation practices would go a long way toward alleviating this problem.

Strengthening the urban planning capacity/coordination of the key Ministries of Housing and of Planning, in order that programs and projects are conceived and implemented within agreed physical/environment/economic national and local parameters.

4. Unbalanced growth between the urban and rural sectors has resulted in the need to provide housing, new investment and employment, and other amenities in secondary cities and small rural communities. The strengthening of the rural sector, and particularly the secondary cities, will improve the quality of rural life and help to mitigate the rural-urban differences.

Developing shelter and community upgrading programs in selected secondary cities and rural growth areas in support of development efforts in such areas by the GOP.

5. Rapid urban growth has led to the establishment of communities which lack social cohesiveness and thereby the capability to cope adequately with the needs and pressures of urban living. Better community organization in these new settlements must be developed so as to make living conditions more tolerable and to incorporate the residents more fully into the development process.

Promoting the use of cooperative housing and cooperative techniques in community development as well as increasing the capability of MIVI to understand better the social and economic composition of low income families and to incorporate such understanding in the program/project process.

This would mean a building of MIVI's capability to work with grassroots organizations to identify community needs and respond to them. It would involve the community in the planning process so that the residents who are directly affected by this program would be important participants in the determination of access to services and community facilities.

6. High levels of unemployment and under-employment tend to undermine the social and economic fabric of a nation. Job opportunities must be created not only for the currently unemployed, but also to cope with anticipated population growth over the next decades.

Promoting the construction of shelter solutions through the use of labor-intensive methods which generate employment, so as to alleviate the present nationwide high level of unemployment, and the development of an approach or approaches to identifying the mechanisms for augmenting employment opportunities in areas where shelter is being provided under this program. This activity will be phased as the overall program is more specifically defined and the USAID mission finalizes its employment generation effort.

C. Project Issues

Issues raised by the DAEC are addressed in detail in various sections of the Project Paper as follows:

1. Description of \$75 million total program package: covered in each of the principal sections of the Project Paper.

2. Location of Sub-project: discussed in Section II.B.3. Overview of Sub-Program and Section IV.G. Technical Description of Sub-Projects.

3. Target Group Identification: covered in Section II.A.2. Program Beneficiaries and Section V.A. Benefits Related to Target Populations.

4. Institutional Capacity: covered in Section VI.A. Financial Analysis, Section VIII.A. Responsibilities of Participating Agencies .

5. Institutional Coordination: see Section II.B.5. Technical Assistance and Section VIII. Implementation Arrangements.

6. Project Management: covered in Section IV.B. MIVI's Housing Delivery Process, Section IV.C.D. Environment and Engineering Concerns and Section VIII. Implementation Arrangements.

7. Implementation Plan: see Section VIII. Implementation Plan.

8. Evaluation: see Section VIII.E., Evaluation Plan.

9. Interest Rates: discussed in Section VI.A.3 Interest Rate.

10. Debt Service: Section VII.C. Effect of HG Loan on Debt Service.

11. Employment: See Sections IIB2e and IV E. Employment Generation.

12. Communities Facilities: Section II.B.4. Overview of Sub-programs, Section VI.B. Financial Plan and VI.C GOP Financial Contribution.

13. Project Funding for Technical Assistance: Section II.5 Technical Assistance.

D. Project Goal and Purpose as related to Country Development Strategy Statement (CDSS)

The goal of this program is to help the GOP improve living standards for large numbers of low income families in both the major urban centers as well as the rural areas and secondary cities. The purpose, which contributes to goal achievement, is to increase the capability of the GOP housing institutions to plan and implement an integrated national program of improved shelter and community services.

It is expected that the program will achieve an integrated approach to urban development taking into consideration improved institutional coordination, the programming of needed community facilities and services to support shelter development, and the identification of community development activities to better deliver services and expand neighborhood employment opportunities.

This program relates well to the AID Country Development Strategy Statement (CDSS) which lists five areas (Pages 3&4 of CDSS) where AID assistance will be concentrated:

1. Rural Development
2. Rural Growth Centers
3. Urban Employment Generation and Improvement of Living Conditions
4. Preserving Natural Resources
5. Increasing Capability to Plan and Manage National Programs to eliminate poverty

While recognizing that this program is essentially for urban areas, a part of its resources will be directed to the construction of shelter and community services in several Secondary Cities, Market Towns, and Rural Growth Regions which contribute to the first two areas of concentration.

Employment generation is one of the elements in the HG program. Low income shelter projects and community upgrading activities require relatively simple construction techniques but sizable labor inputs. This plus the incorporation of construction systems which emphasize the use of labor intensive methods helps insure that this project will promote substantial employment. Most of the new jobs will be for relatively unskilled people who are usually found in the low income strata of the populace.

The large HG program will support the key construction industry which in the past has emerged as a lead sector in promoting economic recovery. This input should assist the GOP in its efforts to achieve a positive economic growth and overall gains in employment. Moreover, the program calls for attempts to expand employment opportunities through the identification of employment generation activities including training, placement, community outreach and other community development as well as cooperative techniques where program activities are concentrated.

The peripheral growth area sub-program will direct development activities to logical development areas, and away from areas that might infringe on key watershed areas. The Urban Community Upgrading and Renewal sub-program will assist in the cleaning up and revitalization of large urban sections of both Panama and Colon. The planning and implementation arrangements for all the sub-programs will help guaranty that the environment will be protected and enhanced, not threatened.

Technical assistance will be made available to assist the GOP in the overall planning and development of this national program and to provide the experience, techniques and procedures that can be used by the GOP in the continuation of this type of program with GOP resources.

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E. Summary Description of Program

1. Institutional Development. A key component of this program is to support the efforts of the GOP to strengthen and improve the BHN, MIVI and Cooperative Housing organizations.

a) BHN. The GOP has designated the National Mortgage Bank (BHN) as the primary housing finance institution for low income housing in Panama. The HG loan for the proposed program will assist the GOP and the BHN in its efforts to consolidate the BHN. This additional source of investment and capital will complement for the next few years the efforts of the BHN in raising additional local resources in the secondary mortgage market, while strengthening its internal organization and recuperating prior financial losses.

b) MIVI. The Ministry of Housing is the shelter policy implementer and housing construction agency of the GOP. Recently MIVI has developed a number of new procedures to be used in the planning, design and implementation of new projects. These procedures will be fully incorporated into the program for the purpose of strengthening the institutional capacity of MIVI.

In the past few years, MIVI has been targeting its programs to lower income groups. However, the number of housing solutions reaching the lowest 25th percentile of the population is still low compared with the actual demand for housing among these families. This program will direct more than 50% of its financial resources to families below the 25th percentile level. The success of this innovative solution will help MIVI explore the validity of providing housing solutions to the lowest income families, while at the same time institutionalizing a policy of greater assistance to neediest families.

c) Cooperative Housing Institutions. Institutional development in the private sector will also be part of this program by continuing AID support to the development of Housing Cooperatives. A.I.D. support for cooperative housing in Panama began in 1966 with assistance in the establishment of FUNDAVICO and a number of urban and rural cooperatives, one of which was constructed in the old Chorrillo tenement area. More recently, A.I.D. has supported construction of the Nuevo Chorrillo Cooperative and funded an Operational Program Grant to the Foundation for Cooperative Housing (FCH) to work with MIVI, FUNDAVICO, Nuevo Chorrillo and other cooperative groups in an effort to develop a more integrated national approach. Under this program, funds will be provided for a major expansion of the Nuevo Chorrillo Cooperative and other Cooperative groups identified by MIVI. FCH will provide technical assistance on those activities which are consistent with the OPG scope of work.

It is important to note that a new institutional structure is not needed to carry out the program. Rather the existing structure offers the needed checks and balances to formulate policy, program activities, design physical and socio-economic components of the program and implement projects. The GOP is working with USAID in developing a framework to ensure that the proper inputs are presented (i.e., the detailed BHN financial plan is prepared before program initiation, MIPPE participates in the planning process as area plans are developed, capital improvements are programmed in conjunction with area plans and area plans for sub-programs are presented to USAID for approval). Technical assistance will be structured to strengthen the planning, financial, and social component, and the flow of institutional responsibilities.

d) Institutional Coordination

The GOP has recognized the need to improve coordination among those agencies involved in the planning and development of housing, infrastructure and related community facilities. Four separate agencies have key roles in the implementation of this program:

- MIVI, which will act as implementing agency;
- BHN, which will perform as borrower of the HG funds;
- MIPPE, (Ministry of Planning), which will prepare a framework for development planning; and
- Panama Canal Authority, which will provide some lands for new project developments.

The success of coordinating activities will ultimately determine the success of the program and the speed with which the various projects are implemented. To help ensure this success, technical assistance will be provided in several identifiable areas, as described later. This is expanded upon in Section VIII, Implementation Arrangements p. 76.

2. Sub-Programs

This program contemplates the development of three sub-programs, each of which is identifiable by its geographic area of development. Each of the sub-programs will be comprised of individual sub-projects and will be directed exclusively to low-income families. These sub-programs are also predicated on the assumption that their success insures the strengthening and cooperation of the participating institutions. The implementation of the sub-programs will be phased over the life of the program with resources in the first phase concentrated on existing areas such as San Miguelito, Nuevo Colon and Chorrera/Arraijan where the government has already committed its resources. The second phase will address new development areas such as the Canal Zone, urban slums in Panama City and rural growth areas when the necessary studies and plans have been developed. The third phase will continue to reinforce actions and commitments by the GOP in the two previous phases.

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Sub-Program I - Urban Community Upgrading and Renewal
(\$17 million HG funds)

This sub-program is directed toward renewal of the tenement areas of downtown Panama City and Colon and upgrading of selected squatter areas. Deteriorating wooden tenement structures built during the construction of the Panama Canal will be torn down and replaced with new structures designed to retain the positive aspects of the old neighborhoods and including affordable units for those families who wish to remain in the area. This aspect of the sub-program will be designed in phase one of the program when the necessary socio-economic surveys are carried out, relocation procedures are established and detailed plans developed. In addition, selected squatter areas in the City of Panama and Colon will be upgraded beginning in the first phase by the installation of water, sewer, electrical services, home improvement loans and community facilities, such as health clinics and schools. Community development activities will be scheduled in these areas. It is expected that some 2,800 families now living in inadequate housing in the slums and squatter settlements will receive benefits from this sub-program over the three phases of the \$75 million program.

MIVI will apply a process used in Mañanón and Cabo Verde in Panama City, and in Barrio Norte of Colon to ensure that relocation is planned to meet the needs of existing residents and respect the rights of property owners. In fact, a majority of property owners in renewal areas already have petitioned MIVI to buy their holdings since many structures are condemned and produce no revenues. Therefore, MIVI has freedom in initiating action within target areas without resorting to eminent domain.

Sub-Program II - Peripheral Growth Areas (Panama-Colon)
Shelter and Services (\$53 million HG funds)

This sub-program will assist the GOP's plan to support three growth areas in the Panama City - Colon metropolitan region to absorb families who move from the downtown areas, other areas of these cities, secondary cities and rural areas. One of the growth areas is located to the east of Panama City (San Miguelito area), one to the west (La Chorrera-Arraijan) and the third is located southeast of Colon (Nuevo Colon area). All three growth areas have considerable existing development including old established communities, squatter settlements, new MIVI housing projects and industrial/commercial establishments. Implementation of shelter solutions will begin in the first phase and will continue for the life of the program. Complementary community facility service and employment generation activities will be defined during this first phase and begin to be implemented in late stages building on previous models such as the Nuevo Chorrillo experience and developed in the context of the mission's employment generation program.

Each project in these growth areas will be planned, designed and executed within the overall development plan for the specific growth area. In the case of existing large human settlements (San Miguelito), facilities and services will be developed to serve the new and existing communities. Projects built in the Canal Zone lands reverting to Panama, will be designed in the first phase of the program and will evolve in an orderly manner in accordance with the availability of resources.

Under this sub-program the availability of the HG funds will permit the consolidation of regional planning efforts. Projects will include the construction of new shelter, installation of water, sewer and electric systems, streets and community facilities and the provision of home improvement loans. The projects will include the development of new communities such as the Torrijos-Carter project as well as the upgrading of existing nearby squatter areas such as Samaria. More than 14,200 families will directly benefit from this sub-program.

Sub-Program III - Secondary Cities, Market Towns, Rural
Growth Regions (\$5 million HG funds)

This sub-program is expected to provide additional shelter solutions and related community services in secondary cities and rural growth centers. It is based on the principles of the URBE loan and constitutes an expansion of the available resources for the URBE identified locations and growth areas. Some 2,800 families will benefit from this sub-program.

F. Target Group

All activities generated by this program will be directed to families earning less than the median income. Furthermore, in an effort to help the poorest families, as identified in the CDSS, roughly 50% of the program funds will be made available to families whose incomes are below the twenty-fifth percentile. The bulk of the program's funds are slated for the major urban areas of Panama and Colon to assist families currently living in the central city tenement slums and in both the central city and the peripheral squatter settlements. It is estimated that about one in nine families in the total target group will participate in this program.

Median incomes vary considerably, with incomes highest in the capital city of Panama and in Colon, while in the secondary cities incomes are slightly less than 55% of those in the major urban areas. New urban programs will be designed to be affordable by the target group in each area of concentration. As of the first quarter in 1979, the median monthly family income was estimated at \$457 in the city of Panama, \$434 in Colon, \$259 in the other urban areas, and \$123 in the rural areas. Recognizing the need to reach as large a number of the poorest families as possible, the GOP has agreed to direct the program's funds to finance shelter solutions that will reach as low as the 5th percentile in some areas. It is expected that 80% of the funds will

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be allocated for shelter solutions for families earning below the 35th income percentile, with only 20% of the funds reserved for families in the 35th to 50th income percentile.

G. Technical Assistance

AID will finance full time technical assistance to support this program. The technical assistance component in the first phase will be structured to reinforce institutional relationships and coordination at the inception of the program, to produce the necessary technical studies and analyses needed to implement the first phase of project development, to strengthen the financial framework of the program and to lay the groundwork for community development, service delivery, and for anticipated employment generation activities to be carried out in sub-project areas during succeeding phases of the program.

1. Urban Planning Advisor - to assist MIVI and MIPPE in integrating planning as a coherent process, by "building this middle bridge" between the general, long-range objectives articulated by MIPPE, definition of concept development plans showing location of projects and their relationship to infrastructure, and the detailed project planning and design with emphasis on support facilities and services.

2. Social Development Advisor - to assist MIVI strengthen its Social Services Department in its community development work specifically as it relates to the preparation of surveys to develop housing programs for program beneficiaries, design of relocation efforts, design of upgrading and urban renewal programs, establishment of base-line indicators for evaluation, formulation of community participation in service delivery and development of outreach and self-help efforts.

3. Financial Management Advisor - to assist BHN to restructure its financial operations in light of increased capital inflows from the Secondary Mortgage Market operations and increased investment funds from A.I.D.

4. Program Advisor - to assist MIVI, MIPPE and other implementing agencies to develop an overall implementation plan and to prepare and process projects developed as the total proposed program continues to be designed and implemented.

5. Cooperative Housing - to assist MIVI in the utilization of cooperative housing techniques as an integral part of the program as well as develop cooperative techniques as they relate to community development.

6. Short-Term Technical Assistance will be provided in: a) Housing Policy; b) Environment Preservation; c) Information Systems;

d) Site Planning; e) Financial Institutional Development (Secondary Mortgage Market, and Savings and Loans); f) Community Development and Employment Generation; g) Internal Audit.

Additional technical assistance components will be defined as the program moves to its second and third phases.

H. Summary Financial Plans

This Project Paper proposes a strategy and set of related activities to be carried out as part of a \$75 million HG program to be comprised of three separate loan authorizations of \$25 million each. Table I is a summary of the financial inputs by Sub-Program and components, including an estimate of the number of solutions to be provided, and covers the entire HG program for the proposed five-year period. Table I-A is an estimate of the use of funds for the first loan authorization of \$25 million and therefore reflects a smaller program input.

Table 1
Summary Financial Plan

Sub-Program and Components	Number of Solutions	Investment by Source			Total Investments
		in 000's	Beneficiaries		
		HG	GOP		
I. Urban Community Upgrading and Renewal	<u>2,800</u>	<u>\$17,000</u>	<u>\$ 5,000</u>	<u>\$2,000</u>	<u>\$ 24,000</u>
1. Shelter Units	2,000	15,000	3,000	2,000	20,000
2. Shelter Loans	800	1,000	200	--	1,200
3. Facilities and Infrastructure		1,000	1,800	--	2,800
II. Urban Growth Areas Shelter and Services	<u>14,200</u>	<u>53,000</u>	<u>14,000</u>	<u>6,000</u>	<u>73,00</u>
1. Shelter Units	11,700	45,000	9,000	6,000	60,000
2. Shelter Loans	2,500	4,000	800	--	4,800
3. Facilities and Infrastructure		4,000	4,200	--	8,200
III. Secondary Cities and Towns Shelter and Services	<u>2,800</u>	<u>5,000</u>	<u>1,400</u>	<u>600</u>	<u>7,000</u>
1. Shelter Units	2,100	4,450	890	600	5,940
2. Shelter Loans	700	550	110	--	600
3. Facilities and Infrastructure		--	400	--	400
Totals	<u>19,800</u>	<u>\$75,000</u>	<u>\$20,400</u>	<u>\$8,600</u>	<u>\$104,000</u>

T a b l e 1-A

First Loan - Use of Funds - \$000's

	<u># of Solutions</u>	<u>HG</u>	<u>GOP</u>	<u>Bene- ficiaries</u>	<u>Total</u>
Sub-Program I					
<u>Total</u>		\$650	\$125		\$775
A) Squatter Areas					
1) Shelter					
Improvements		500	100		600
2) Infrastructure		150	25		175
Sub-Program II					
<u>Total</u>		24,350	4,875	2,150	31,850
A) San Miguelito					
1) Shelter					
Units	3,880	\$15,080	2,090	1,530	19,700
2) Shelter					
Improve- ments		400	100		500
3) Infra structure		1,700	700		2,400
B) Chorrera-Arraijan					
1) Shelter					
Units	900	3,570	785	360	4,715
2) Shelter					
Improve- ments		200	50		250
3) Infrastructure		400	300		700
C) Colon					
1) Shelter					
Units	700	2,600	550	350	3,500
2) Home					
Improve- Ments		200	50		250
3) Infrastructure		200	50		250
<u>Total Program</u>		\$25,000	\$5,000	\$2,240	\$32,240

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I. Other Donors

IBRD

The World Bank is considering a three-pronged program to aid in the development of the Colon area:

a) Industrial Development under which the present Free Zone is to be expanded to include additional industries, warehouse and stores. Basic infrastructure is to be installed in the new area.

b) Urban infrastructure mainly water and sewage systems for center city Colon to replace and improve deteriorated systems.

c) New Shelter Project to consist of approximately 6,000 units at an average price of around \$5,000. These units will be built in the Margarita area of Colon to accommodate families of workers in the Free Zone expansion.

The World Bank project design team is proceeding in collaboration with A.I.D. so as to preclude duplication which could create housing market problems and other problems.

IDB

A preliminary identification by IDB of their investment program for Panama shows a focus in large investment programs (Cerro Colorado Copper Mine and Hydroelectric projects) with "urban" investments limited to secondary cities. These investments will concentrate in industrial parks in the province of David.

II. Project Background and Description

A. Background

1. Prior Studies

The most relevant A.I.D. financed reports and studies which describe the shelter problem in Panama are: Panama Shelter Sector Assessment, December 1977, the Shelter Sector Strategy, October 1978, and the 1979 Country Development Strategy Statement (CDSS) with its back-up analysis. In addition, the project papers prepared for the URBE loan and the 1977 housing guaranty program provide valuable background data. The GOP has participated in the preparation of these papers and reports and has also prepared a number of its own reports and proposals including the "Marco Físico" (Physical Framework) for the development of Panama City which was prepared by MIPPE in November 1977. MIVI submitted a draft proposal to USAID outlining its priority projects and financial needs. The newly formed Panama Canal Authority has established a physical planning department and is developing plans for use of lands it will control as a result of the new treaty.

The program proposed for this project paper was developed jointly with the GOP, taking into consideration the analysis recommendations of these earlier reports, experience in recent projects, and the anticipated transfer of Canal Zone land.

2. Program Beneficiaries

Some 19,800 families whose incomes are below the median income level are the expected program beneficiaries. Given an average family size of 5 persons, almost 100,000 low-income Panamanians will be the recipients of new or improved housing as a result of this program. And because the total target group population is about 900,000 (one-half of the country population) then one out of nine persons in the target group will be affected by the program. It is expected, however, that the bulk of the housing solutions will be directed to the 715,000 persons identified in the CDSS as below the poverty level. In fact, 50% of the program funds will be designated for families whose incomes fall below the 25th percentile. The GOP has recognized the need to direct increasing amounts of financial resources to the poorest families and has agreed therefore to the following allocation of funds:

<u>Income Percentile</u>	<u>Percent of Total Investment</u>	<u>No. of Families Reached</u>	<u>Percent of Families</u>
5% - 25%	50%	14,020	71%
25% - 35%	30%	4,300	22%
35% - 50%	20%	1,480	7%
	<u>100%</u>	<u>19,800</u>	<u>100%</u>

The above table indicates that the percentage of investment in each of the income sub-categories is inversely proportional to the number of solutions allotted to each group. This demonstrates, for example, that while only 50% of the funds will reach the target families in the 5th to 25th income percentile, fully 71% of the housing solutions will be provided to that same group.

The median income in each of three urban areas differs. On the one hand, the median monthly income in Panama and Colon is quite similar, \$457.00 and \$434.00 respectively, while on the other hand, the median income in the secondary cities is only \$259.00 monthly, roughly 55% of incomes in Panama and Colon. Accordingly, solutions in the secondary cities will be much less expensive.

The various shelter solutions designed under this program take into account the financial capacity of the target group to pay for these solutions. (See Table 2.) Home improvement loans and most of the new shelter solutions are affordable by all the target group families in Panama and Colon, and nearly all the families in the other urban areas. As the costs of the various solutions rise, the number of target group families who can afford these solutions decreases. However, it should be recognized that only the urban renewal solutions, which consist of new multifamily buildings, are inaccessible to a majority of the target group.

In other studies on housing in Panama, as well as in other sections of this paper, mention is made of the deplorable conditions of the Panama and Colon Tenement Slums. And while rehabilitation of those slums would be the most acceptable upgrading solution, the fact is that these 70 year old wooden buildings do not lend themselves to this course of action. The only solution therefore, is their demolition and subsequently, the construction of new, structurally sound buildings. The cost of new multifamily housing such as being proposed here is relatively high - even though the buildings are very basic - when compared to the other proposed minimum solutions. However, there is no other viable alternative, if the purpose of redevelopment in this area is the upgrading of housing conditions and its continued use as a residential area.

TABLE 2

AFFORDABILITY TABLE

	Income Percentile	Monthly Income	Monthly House Payment ³	Maximum Mortgage	Unit Price	Type of Solution ²
Panama	5th	\$ 77	\$ 7	\$ 642	\$ 713	- Home Improvement Loan for materials.
	15th	218	39	3577	3975	- All solutions except standard units and urban renewal.
	25th	289	58	5319	5910	- All solutions except standard units and urban renewal.
	35th	419	98	8988	9986	- All solutions except two largest urban renewal solutions.
	50th	457	110	10088	11209	- All proposed solutions.
Colon	5th	73	6	550	611	- Same as Panama
	15th	207	36	3302	3668	- Same as Panama
	25th	275	54	4952	5503	- Same as Panama
	35th	398	91	8346	9273	- Same as Panama
	50th	434	102	9355	10394	- Same as Panama
Other Urban	5th	43	2	183	203	- None
	15th	124	18	1651	1834	- Home Improvement Loan; serviced lots.
	25th	164	28	2568	2853	- Home Improvement Loan; serviced lots.
	35th	237	49	4494	4993	- Home Improvement Loan, serviced lot, shell house.
	50th	259	52	5136	5707	- Home Improvement Loan, all new solutions except standard unit.

1 Adapted from Annex 6, this report
2 See Annex 8

3. Estimated terms to Beneficiaries - 12.5% annual interest rate for 25 years (see Annex 6 for greater detail).

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It is obvious that some families will be voluntarily relocated and because of this those families will have priority to housing developed in the peripheral growth areas. In cases where families do not wish to relocate, and are unable to afford the new urban renewal units, MIVI will assist those families to relocate in nearby tenements not slated yet for redevelopment. Some patching and repairing will be made to make these tenements more livable, at least until acceptable alternative solutions are found.

The following is a description of the living conditions and people in the major urban areas to be affected by this program:

a) Tenement Slums of Panama City and Colon

The neighborhoods of Mañanon Chorrillo and Santa Ana of Panama City; and Barrio Norte and Barrio Sur of Colon comprise the tenement slums. They are characterized by wooden dilapidated barracks built some 70 years ago for the Canal Construction workers. Most dwelling units consist of one room with an average family size of 4.3 persons. Family incomes are low; at a time when the national median income was \$200.00, the median income in these neighborhoods was \$191.00. While living conditions in these neighborhoods are admittedly deplorable (overcrowding, unsafe structures, over-loaded sanitary facilities), their central location and low or non-existent rents continue to make these substandard buildings attractive places to live for many low-income families.

b) Squatter Settlement in Panama City and Colon

There are some 25 to 30 squatter settlements in the two urban conglomerations. Conditions vary widely, with some being constructed of solidly-built structures and a high degree of urban services, while others are squalid, highly congested groupings of wooden, flimsy shacks with only the barest of amenities. Generally, the squatter settlements are grouped into three categories and rated as good, fair, or poor. A squatter settlement classified as good is typified by San Sebastian in Panama City. In 1975, average incomes here were between \$200 and \$299 monthly, while at that time, the median family income in Panama was \$246. This is a permanent settlement, albeit illegal in the sense that the occupants don't hold title to the land on which their dwelling is situated. 85% of the homes are built of concrete block, with the majority of the houses containing 3 or more rooms. All the houses have water and electricity, while half have access to some sort of sewage system.

In the mid range (fair) is Brooklyncito. Here the median income was \$244, which placed the average family in the 19th percentile income level. Most houses are constructed of wood and a

majority consist of only one room. There is no sewage system (some latrines) and the water supply is communal. Electrical lines are connected to nearly all the units.

La Playita in Colon is an example of the poorest squatter settlement. All these houses are wooden, with three-quarters consisting of only one room. Services are minimal, and in the case of sewage facilities, non-existent. Only one-third of working age residents are employed, while the median income today is estimated at only \$188 monthly.

c) Peripheral Areas of Panama City

These are areas on the outskirts of Panama City where rapid urban growth is currently occurring. Both squatter settlements and new project construction, principally by MIVI, are taking place in these areas. The two main regions that comprise the peripheral areas of Panama City are Chorrera/Arraijan to the west of the Canal Zone and San Miguelito, the district to the Northeast of the Capital. A typical family from this area is young, poor, and many times a recent arrival. One finds all types of living situations and conditions in San Miguelito. Tenancy is either legal or illegal, houses are either substantial or flimsy, migrants are either from the rural areas or the central cities. In common is the fact that residents of San Miguelito aspire to upward mobility.

B. Program Description

1. Goal/Purpose

The Goal of this project is to help the GOP improve living conditions for urban and rural low income families. The purpose is to increase the capability of GOP and private sector housing institutions to plan and implement an integrated national program of improved shelter, and community services, and employment opportunities.

The project purpose will be achieved by assisting the GOP and the private sector housing institutions to: a) develop BHN as the key GOP housing finance institution; b) improve the planning capability of MIVI/MIPPE and enhance inter-agency coordination in the provision of shelter, service and infrastructure, c) direct resources to provide shelter for low-income families; d) improve cooperative housing capability; and e) promote employment opportunities through the use of labor-intensive construction techniques and the identification of neighborhood economic development activities.

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As mentioned in Section I, this three phase program coincides with the three HG loan authorizations and authorization of each succeeding phase is predicated on the successful completion of a prior phase, as measured by the indicators of success in the evaluation report, before the authorization of subsequent phases. The objectives of the overall program are valid for each phase; however it is intended that each phase will accomplish different but interrelated objectives and that successful completion of each phase is not dependent on implementation of the succeeding phases. Phase I will provide the required financing to continue the development of existing MIVI projects, all of which are being developed to the criteria required by AID for this program as well as establish the community development framework to address socio-economic activities of later phases of the program and implement urban renewal activities. These projects are located in the new development areas of San Miguelito, Nuevo Colon and Chorrera/Arraijan and the Central cities' squatter areas.

Phase II will be more comprehensive as well as more complex and its initiation will depend on an analysis of the progress attained in Phase I and on the adoption of the more specific program objectives as outlined in this paper. Innovative projects in the Canal Zone lands and the urban renewal areas will be initiated under this phase based upon urban planning guidelines developed during Phase I. Improvements in institutional capacity and interagency relationships are key objectives in this phase. Community development activities and plans will be carried out to improve service delivery and employment opportunities.

Again, a complete evaluation of the progress attained in Phase II based on an examination of the identified indicators of success, will determine the direction and scope of Phase III. It is intended that this phase will consist of a continuation and refinement of the sub-projects and related services and employment activities initiated in the prior phases.

2. Program Components Contributing to Achievement of Purpose

a) Develop BHN as the Key GOP Housing Finance Institution

Both the GOP and A.I.D. have long recognized the need to revitalize and reorganize the BHN to carry out its designated role as the principal housing finance institution in Panama. This need has recently been highlighted given the awareness by the GOP of continuing increases in the BHN operational deficit. The GOP has therefore translated this recognition into a series of actions, all of which indicate that it is now feasible to assume that the BHN will be able to carry out its intended role and specially be able to function as borrower of the HG Loan. The most important of these actions are as follows:

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- Effective as of the 1st Quarter of 1979, the BHN is no longer required to cover the administrative expenses of MIVI. The elimination of this expense, which amounted to slightly more than \$3 million in 1978 alone, will considerably reduce BHN's operational deficit.

- The BHN is no longer required to fund all MIVI construction contracts. This helps confirm BHN control of its financial operations.

- The BHN has prepared and put into effect a new administrative structure. This should improve its administrative efficiency and institutionalize a system of internal control.

- The GOP has authorized the BHN to establish a Secondary Mortgage Market operation, which will give BHN access to new investment funds.

- The GOP has agreed to provide the BHN with adequate new sources of capital, which along with other planned financial inputs, should result in an operational surplus by 1985. This would ensure the continued operation of BHN and firmly establish its role as the key housing finance institution.

b) Improve Planning Capability and Enhance Inter-Agency Coordination

The successful implementation of a multi-faceted shelter program is predicated on good planning and on coordination among the many agencies having a role in its implementation. The role of each institution involved in producing shelter solutions throughout Panama is clearly and precisely defined. MIPPE has responsibility for preparing national development plans, including plans for shelter, and allocating financial resources. MIVI is charged with preparing shelter programs and developing and constructing projects. All three sub-programs proposed for this program will be designed on the basis of the planned growth of the Panama-Colon Metropolitan areas and the rural areas. The individual projects will be developed in accordance with MIVI's project development guidelines, MIPPE identified growth areas, and the financial resources available for each development.

This delineation of responsibilities will require MIVI and MIPPE to coordinate the planning, designing and implementing of this program. MIVI and MIPPE will prepare joint development plans for each individual project, which are subject to A.I.D. approval. This control ensures that agency coordination will occur.

c) Direct Resources to Provide Shelter for Low-Income Families

The greatest need for decent shelter emanates from low-income families, and particularly the 715,00 Panamanians classified as poor. This program, with its emphasis on providing shelter at the lowest income levels, will actually provide new or improved shelter

for some 100,000 persons. While this will help to satisfy the need at this level, its success will demonstrate to the GOP the validity of developing shelter solutions for families, which to date, have not received GOP priority. In addition, the experience gained by MIVI will stimulate the development of additional programs and projects to reach the lowest income groups, hopefully through generation of local financing.

d) Improve Cooperative Housing Capability

The GOP has recognized the potentiality of the role that cooperative housing can play in supporting good community development. Some funds will therefore be directed to cooperative groups to develop new communities, expand existing ones and assist in the provision of home improvement loans. To promote this, MIVI recently created a cooperative housing department and along with the Federation of Credit Unions (FEDECOOP) and the Panamanian Foundation for Cooperative Housing (FUNDAVICO), signed an AID/OPG for technical assistance from the U.S. Foundation for Cooperative Housing (FCH).

e) Develop Labor-Intensive Construction Techniques and Other Opportunities to Generate Employment

In developing countries, the construction sector generally is labor-intensive. This is particularly true in the construction of low-income projects which employ relatively simple techniques requiring large numbers of semi-skilled and un-skilled labor. The construction of new shelter solutions developed under this program will be carried out using labor intensive methods to generate employment.

Additionally, assistance will be provided to the GOP to intensify its efforts to identify ways in which other employment generation activities can be fostered in sub-program areas in light of USAID/Panama's employment strategy as it is refined and specific opportunities become more clearly defined through initial studies and surveys.

3. Overview of Sub-Program

This program contemplates the development of three identifiable sub-programs, each of which is comprised of a number of sub-projects.

a) Sub-Program I - Urban Community Upgrading and Renewal

Following is a listing of the identified sub-projects for this sub-program:

Table 3

Sub-project Breakdown

I. Urban Community Upgrading and Renewal					
	Areas	Units	Beneficiaries	HG Funds	Total Funds
a)	Tenement Areas				
	Panama City	1,300	6,500	\$10,000	\$14,000
b)	Tenement Areas				
	Colon	700	3,500	5,000	7,000
c)	Squatter Areas				
	Panama City	600	5,000	1,500	2,250
d)	Squatter Areas				
	Colon	<u>200</u>	<u>2,000</u>	<u>500</u>	<u>750</u>
	Total Urban	2,800	17,000	\$17,000	\$24,000
	Upgrading and Renewal				

MIVI has extensive experience with demolishing and clearing of tenements in the Maranon areas of Panama where more than 600 families were voluntarily relocated to new homes, mostly in the San Miguelito area. MIVI expects to build on this experience in Panama and Colon. The renewal process will begin in two tenement slum areas of Panama City: Chorrillo and Santa Ana. The first step will be to reduce densities by offering new minimum shelter units in the peripheral growth area projects. One proposed relocation area will be Nuevo Chorrillo, a new cooperative housing community formed some ten years ago, and which later received financial support from A.I.D. and other organizations. The Cooperative now has over 1,500 members, 800 of which are still living in old Chorrillo and other slum areas waiting to relocate. Funding for a second section of Nuevo (New) Chorrillo is to be provided under this program as part of the peripheral growth areas sub-program.

In seeking the welfare of present residents of inner city slum or squatter areas to be upgraded through this program, and in respecting the rights of private property owners, MIVI will apply a process which it has used in communities like Maranon and Cabo Verde in Panama City, and in the Barrio Norte area of Colon.

Through a socio-economic survey of affected families MIVI determines family preferences as to location and housing type, and obtains information on family income, ability to pay and property tenancy. This information becomes the basis on which the project is designed. Relocation and solution types are then planned according to the needs of beneficiary families.

In past operations MIVI has relocated families wishing to do so to new peripheral area projects. For families wishing to remain, MIVI has provided temporary shelter in the renewal area pending the construction of permanent solutions. The decision of the affected residents as to location is voluntary but families must be matched to solutions within their means.

MIVI owns considerable land in the Chorrillo barrio. The majority of private property owners there have petitioned MIVI to buy their holdings, on most of which are located condemned structures producing no revenues. The situation is similar in Santa Ana and Barric Norte. Therefore, MIVI has freedom of action facilitating reconstruction within target areas without resort to eminent domain.

\$10 million housing guaranty funds will be used to assist MIVI in the construction of approximately 1,300 apartment units in these areas. Unit costs will range from \$7,500 to \$11,000 for 40 to 60m² apartments which would normally place these units above the ability to pay of most of the target group under conventional financing arrangements. In order to reduce the carrying costs, BHN will use rent-purchase options, graduated mortgage payments and housing cooperative systems to make these units available to a larger percentage of the target group, thereby increasing the potential market.

A similar approach will be used in Colon in the Barrio Norte and Barrio Sur areas where \$5 million in HG funds will be allocated to construct 700 walkup apartment units in essentially the same cost range as the 1,300 units cited above.

The second type of sub-program to be developed in the Panama City/Colon region will be upgrading of selected squatter areas. Basically, the squatter areas have been divided into two categories by MIVI: those suitable for upgrading and those which must be eliminated. HG funds will be used only in those areas suitable for upgrading and where BHN plans to make loans for home improvement, improve water, sewer and electrical services; and to finance new community facilities. An estimated \$1.5 million of HG funds will be invested in Panama City and \$500,000 in Colon to benefit an estimated 7,000 people in these areas.

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b) Sub-Program II - Peripheral Growth Areas

Table 4

	<u>Units</u>	<u>Beneficiaries</u> (Est.)	<u>HG Funds</u> (\$00's)	<u>Total Funds</u>
a) San Miguelito Shelter, Upgrading, facilities	7,200	36,600	\$26,000	\$35,700
b) Chorrera/Arraijan Shelter, Upgrading, facilities	3,050	15,500	10,000	12,900
c) Colon Growth Area Shelter Upgrading facilities	950	5,000	3,000	4,000
d) New Areas (C.Z.) Shelter and facilities	<u>3,000</u>	<u>15,000</u>	<u>14,000</u>	<u>19,400</u>
Total Growth Areas Shelter, Upgrading, facilities	14,200	71,500	\$53,000	\$73,000

The overall plan for the Metropolitan Panama City-Colon region contemplates two major growth regions: to the east and west of Panama City and to the south and east of Colon. The objective is to relieve pressure on the central city areas by providing for out-migration and to prepare reception areas for the inevitable immigration from rural areas. At the same time, the plan recognizes the need to protect the watershed area for the Canal area by preventing urban sprawl.

Under this project, HG funds will become available for new shelter, related utilities (water, sewer, electricity) and community facilities in all three areas. Home improvement credit will also be made available.

These growth area sub-projects include the construction of new communities on new sites and the upgrading of existing squatter settlements within the areas.

The first and largest sub-program in the growth areas will be construction of 6,000 shelters in the "Torrijos-Carter" community of San Miguelito. Additional funds will also be made to the Nuevo Chorrillo Cooperative to continue its development.

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c) Sub-Program III - Secondary Cities

Table 5

Sub-Project Breakdown

<u>Area</u>	<u>Units</u>	<u>Beneficiaries</u> (Est.)	<u>HG Funds</u> (\$000's)	<u>Total Funds</u>
a) <u>Secondary Cities</u>				
Shelter, facilities	2,400	13,000	\$4,500	\$6,350
b) <u>Rural Communities</u>				
Shelter	<u>400</u>	<u>2,000</u>	<u>500</u>	<u>650</u>
Total Secondary Cities & Towns	2,800	15,000	\$5,000	\$7,000

This sub-program is intended to support GOP efforts to improve living conditions in the smaller towns and rural growth area as part of an overall strategy to slow or divert migration from the Panama City-Colon metropolitan region.

A.I.D. is already making a major contribution through the Rural Growth and Service Centers program which combines a \$10 million development loan with a \$5.4 million housing guaranty. The program is designed to help the GOP implement its decentralization program. It is based upon an integrated approach to rural-urban development. Regional growth and service centers are identified and investments are channeled into these areas to promote development, increase incomes and improve the quality of life of the poor within these areas.

4. Community Facilities and Services

Common to each of the sub-programs is the need for infrastructure and community facilities that would consolidate existing and future project areas. These facilities are an important element in developing integrated urban development projects. MIVI will conduct inventories in each project area to ascertain which facilities are lacking and whose development would receive community support. In the central city slums, for example, it is important that commercial space be included in the new building so as not to deprive certain merchants of their source of livelihood. In the squatter areas, both commercial space and community facilities will be required to some degree.

For community facilities, MIVI has given priority to health and education facilities. In these cases, MIVI will coordinate with the appropriate government agencies to ensure staffing and servicing of the facilities as well as implementing arrangements that would provide for reimbursement to MIVI for their costs. It is not expected that the project residents will make direct payments to MIVI for the cost of community facilities. All three sub-programs include financial allocations for community facilities and services.

5. Technical Assistance

The magnitude of the proposed HG program when compared to the range of technical resources available locally indicates that technical assistance will be required in certain aspects in order to ensure its successful implementation and the achievement of the project goal and purpose. Technical assistance will therefore be provided to the GOP participating agencies in three general areas: planning, social development, and financial. Within each of these general areas, both short-term and long-term assistance will be provided, with the bulk to go to MIVI, the GOP's principal shelter institution. Technical assistance coordination will be covered by a Program advisor, who will be assigned to MIVI to provide advice in program implementation. Most of the technical assistance will be in the form of long-term in-country technicians in five identifiable areas. Part of this assistance is already in place - for example, the cooperative housing technicians. The other technicians will be placed during 1979/80 to provide assistance in a specific problem area identified in this PP. Short-term assistance will be made available as needed in a variety of areas.

a) Long-Term Technical Assistance

Program Advisor (48 person months starting May 1979)

This advisor will assist MIVI, MIPPE and other implementing agencies in the development of an overall program implementation plan and assist in the preparation and processing of sub-projects for the required A.I.D. approvals. This advisor will also assist implementing agencies develop improved project inspection, monitoring and reporting systems and will be the principal liaison person for program implementation.

Urban Planning (36 person months starting July 1979)

The urban advisor will help MIVI and MIPPE to bridge the gap between the planning determinations of MIPPE and the implementing actions of MIVI. The advisor will assist these agencies to "build the middle-range bridge" between the general, long-range objectives and development guidelines articulated by MIPPE. The advisor will assist the GOP to develop concept plans showing project location and their relationship to infrastructure and detail specific sub-program development plans taking into consideration the location of community services and facilities.

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More specifically, the urban planner will assist MIVI in carrying out planning for the following tasks:

- Integration of services systems, facilities systems, shelter and employment generation;
- Furthering effective urban-rural linkages for the flow of resources and services;
- Fostering more economic and efficient land use patterns in Metropolitan Panama-Colon, including the integration of newly available Canal Zone lands.

This assistance relates directly to the project purpose of improving the planning capability of MIVI/MIPPE and achieving better coordination between the participating agencies.

Social Planning (36 person months starting July 1979)

The social planning advisor will assist the Social Services Department of MIVI in community development work, specifically as it relates to the preparation of surveys to develop low income housing programs with particular emphasis on those affected by demolition and relocation, designing procedures to be used in upgrading and renewal sub-programs, establishing base line data and indicators for program monitoring and evaluation, formulating community participation in service delivery and development of outreach and self-help activities, gathering other data and preparing studies as may be necessary to ensure the socio-economic viability of the program as well as supporting liaison efforts with other government agencies.

Housing Finance/Management (24 person months starting July 1979)

The housing finance specialist will advise the BHN and MIVI in financing planning techniques, assist in devising new finance operations, and provide inputs in restructuring the bank's management to cope with the anticipated increase in innovative programs and new responsibilities. This assistance is necessary in order to improve the capability of the BHN to function as the financial arm of the GOP for low-income shelter programs.

Cooperative Housing Advisors (48 person months. Already started)

MIVI is establishing a Cooperative Housing Division within the Ministry to provide assistance to the more than 70 housing

cooperative groups in Panama and is receiving technical assistance in the field from the Foundation for Cooperative Housing (FCH) under an AID-funded Operational Program Grant (OPG). Under this project, funds will be provided for further expansion of the Nuevo Chorrillo Housing Cooperative and to assist other cooperative organizations. The FCH advisors working under the OPG will assist with these efforts, which are consistent with the OPG Scope of Work. This will carry out the project purpose of promoting greater cooperative housing activity in Panama.

b) Short-term Technical Assistance

Environmental Preservation (6 person months, 7/79-3/80)

A major concern of the GOP deals with the need to mitigate adverse effects on the environment as a result of the implementation of this program. Consequently environmental consultants on short-term basis will be made available to assist MIVI in:

- Erosion and sedimentation controls.
- Design, operation and maintenance of community septic tanks.
- Overall implementation procedures in resources of environmental controls.

Housing Policy (6 person months, 1/80 - 1/81)

MIVI, as the policy making instrument of the GOP, has requested assistance from A.I.D. in the preparation and formulation of a comprehensive housing policy that will embody the different strategies now pursued by the GOP in the shelter sector and will also highlight the future strategies of the GOP in this sector.

Information System (5 person months, 7/79 - 4/80)

Policy formulation and program designs need to be based on adequate data properly evaluated. The purpose of this assistance will be to help in strengthening the information system now in use by MIVI.

Site Planning (4 person months, 7/79 - 7/80)

This relates to the need felt by MIVI to further reduce project costs by maximizing land use and to develop and adopt a coordinating system in MIVI for the planning and design of specific projects. This assistance will be in support of the long-term urban planning effort described above and is directed to special areas of concern in the planning process.

Community Development (6 person months, 10/79 - 9/80)

This assistance will be combined with the long-term Social Planning Advisor and will be directed to fund special studies in the areas of social data gathering, community organization formation and operations, identification of potential community enterprises and community organizations that can assist in the delivery of services for project areas, as well as the identification of employment generation activities and programs to be initiated as the program evolves.

Financial Institution Development (4 person months, 7/79 - 5/80)

The Panamanian Savings and Loan System has been operating at very low levels in relation to the potential for generating savings for investment in housing. This assistance therefore will be directed to the local savings and loan associations to assist them in the development and implementation of more aggressive lending policies which in turn will increase the flow of local sources of financing to housing.

Internal Audit (4 person months, 7/79 - 12/79)

BHN recognizes the need for better and more intensive internal control in its operations. This assistance therefore will be provided to BHN to help that institution develop and implement those controls.

The short-term assistance in both of the financial areas listed immediately above will complement the long-term assistance in housing finance/management described earlier.

Funds for part of both the short-term and long-term technical assistance have already been allocated from other sources; i.e. the OPG program, the IIPUP program, HG fees.

TABLE 6

Technical Assistance Program

<u>Component</u>	<u>Person Months</u>	<u>Source of Funding</u>	<u>Estimated Cost</u>
Planning and Program Development:			
- Project Advisor	48	HG	\$384,000
- Urban Planning	36	URBE	288,000
- Housing Policy	6	HG	48,000
Environment Preservation:			
- Environmental Preservation	6	URBE	48,000
- Site Planning	4	URBE	32,000
Financial Framework:			
- Financial Management	24	URBE	192,000
- Financial Institution Development	4	HG	32,000
- Internal Audit	4	URBE	32,000
- Information Systems	5	URBE	40,000
Socio-Economic Framework:			
- Social Development	36	11PUP	288,000
- Cooperatives	48	OPC	384,000
- Community Development and Employment Specialist	<u>6</u>	11PUP	<u>48,000</u>
TOTAL	227		\$1,816,000

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III. Institutional Considerations

The technical and financial sections deal with the evaluation of the participating institutions in the technical and financial aspects of the HG program. The following relates to the overall institutional considerations of the key participating organizations.

A. National Mortgage Bank (BHN)

The National Mortgage Bank (Banco Hipotecario Nacional (BHN)), was created in January of 1973, as the primary housing finance institution in Panama. Its purpose is to provide financial resources for housing programs developed under the policy guidelines set forth by the GOP through its Ministry of Housing. BHN is not only the financing arm of MIVI, but also makes loans to qualified private sector institutions as well as regulates the savings and loan system.

The BHN is administered by an Executive Committee composed of the Minister of Housing, its chairman, the Minister of Planning and Economic Policy, the Minister of Labor, and the General Manager of the National Bank of Panama. While day-to-day administration and management of BHN's operations are the responsibility of its General Manager, until very recently administrative authority was firmly held by the Executive Committee. Since the end of last year, however, the BHN has made improvements in its management and financial operations. The GOP's goal is to transform BHN into a genuine mortgage bank as well as the regulatory agency for the Panamanian savings and loan system.

A new organizational structure for the Bank along the lines recommended by AID's consultants is now in effect. It consists of the establishment of internal controls which includes creating and permanently staffing an Auditing Department, having BHN's financial statements audited by outside auditors on a regular annual basis, and instituting the variety of financial management procedures and controls recommended in the several management analysis undertaken on behalf of AID.

USAID believes that the GOP will undertake the implementation of a plan guided to improve the financial situation of BHN. Progress in implementing such a plan is a criterion for authorizing the second \$25 million tranche. USAID also feels that the policy decision made by the GOP to support BHN merits the full support in view of the role assigned to BHN as the key lending institution for low income housing in Panama.

B. Ministry of Housing (MIVI)

Created also in 1973, MIVI is authorized to formulate and implement housing and urban development policy, and to guide in the formation of policy for private investments in these areas. MIVI exercises this authority through an organization structured to handle the broad range of activities for which it is responsible.

MIVI's stated mandate is to provide housing to families most in need. Its programs include four main types of shelter solutions: (1) serviced lots with core units; (2) completed single-family units; (3) multi-family units; and (4) community upgrading. Within these broad categories, MIVI has 10 prototype solutions, reflecting the wide range of income groups served by its programs, and the flexible construction and urbanization standards required to do so.

MIVI is a productive organization that has shifted its focus from middle income, multifamily dwellings to the needs of low-income families in urban and rural areas throughout the country. Its programming and flexible construction and urbanization standards are reaching further into the low-income groups with upgrading, improvement and new construction projects. MIVI housing output over the last few years has increased to over 5,000 solutions per year, a quantity determined by financial limitations rather than staff capability. Moreover, during the past two years MIVI carried out projects in secondary cities and rural areas amounting to 1350 new solutions and about 300 improvement loans. Progress on the URBE program is expected to gain momentum when the related BHN issues are resolved.

Despite MIVI's clearly outstanding production record and its incipient capabilities in urban planning, the variety of shelter solutions to be provided under this program and urban planning initiatives constitute an institutionally demanding program. For this reason, long and short-term technical assistance will be essential for MIVI.

MIVI has now an operational budget funded from GOP's resources. The HG program, in view of the financial problems confronted by BHN, is vital for MIVI to maintain the rate of production of the past years. USAID believes that with the already adopted design process, the technical assistance planned, MIVI will be consolidated as the main policy and shelter production organization of the GOP.

C. Ministry of Planning and Economic Policy (MIPPE)

The Ministry of Planning was established in 1972. MIPPE carries out its functions through the following bureaus each of which is in charge of specific administrative activities: Bureau for Economic and Social Planning, Bureau for Regional Planning and Coordination, Bureau for the National Budget, and Bureau for Institutional Planning and Development.

Since 1973, the UNDP has assisted MIPPE's Bureau for Regional Planning and Coordination. The UN has provided a team of planning experts to MIPPE and in-country, on-the-job, and external training for MIPPE staff. Four years of collaborative effort have produced a major paper: A Medium - and Long-Term Strategy for Regional Development; regional development plans which lay the framework for implementing the aforementioned regional development strategy; studies of ways to improve the GOP's institutional system at the regional level and involve local populations to a greater degree in the process of regional development; and data-gathering and analysis for two major development programs -- integrated rural development (AID and IDB financing) and growth and services center development.

MIPPE will have an important role in this project. MIVI's plans for individual sub-projects must fit with the regional and national plans which are MIPPE's responsibility. MIPPE will also play a major role in coordinating the inputs of other GOP agencies such as IDAAN, IRHE, Ministry of Education, MOP, etc.

The HG Program recognizes the role MIPPE should play in terms of setting the framework for housing projects under each sub-program. More important, MIPPE's role in the national budget preparation will be used as a tool to assure the allocation of resources for the shelter supporting services and facilities.

IV. Technical Analysis

A. Rationale for sub-programs

The geographic focus of the proposed \$75 million HG loan is primarily directed to addressing the existing critical shelter needs in the metropolitan region of Panama City-Colon. This decision is based on a number of considerations including:

- Recognition of the magnitude of GOP's urban housing shortage and its predominate geographic concentration within the metropolitan region.

- Major public and private sector investment decisions are being made throughout this region as part of GOP's overall national development policy to stimulate the revitalization of the country's economy through employment generation activities. For example, a major port and fish/shrimp processing facilities are being built west of Panama City at Puerto Vacamonte. These facilities are planned to be opened in January 1980, and will employ 3,000 employees. In conjunction with the industrial operations planned for Puerto Vacamonte, GOP has planned to establish a new major urban growth sub-center at this location. In support of this decision, GOP investments have been made to improve highway access and to provide all essential infrastructure services to the area. The provision of new or improved housing in these areas will complement other GOP investment decisions and enhance the long-term economic and social viability of these projects.

- The transfer of designated Canal Zone lands in the vicinity of Panama City and Colon will begin in October 1979. Some of these areas will be designated for residential uses and represent unique opportunities to reduce the country's severe urban shelter needs in this region.

The geographic focus and the varied types of housing strategies (urban upgrading, urban renewal and new urban construction) to be funded by the proposed \$75 million HG loan are in direct response to the needs of the poor and to GOP investment and shelter policies.

The sub-projects to be financed by HG monies will be judged and selected on the basis of their consistency with adopted urban growth policies, land use plans and designated urban growth priority areas.

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The proposed urban renewal sub-program is designed to provide improved shelter for low income people living in the tenement areas of Chorrillo, Santa Ana and in Panama City and Barrio Norte in Colon.

The implementation of these urban renewal activities is being closely coordinated and planned as an integral part of MIVI's other activities in the metropolitan region. The renewal activity is directly linked to the voluntary relocation of low-income families from the designated tenement areas of Panama City to San Miguelito. The construction of new shelters solutions in Torrijos-Carter in the growth area of San Miguelito will provide a reception area for those families who choose relocation. In addition, it will permit the proposed selective clearance of old tenements and new construction to replace them.

The implementation of the proposed peripheral growth sub-program will provide additional locational choices to the identified target population in Panama City and Colon. Potential project sites will be closely linked to emerging new employment centers as well as existing centers of employment generation. This planned and controlled urban growth in the selected areas will help to avoid the recurrence of urban sprawl.

The development and implementation of these alternative housing strategy programs in conjunction with the creation of new employment centers, transfer of Canal lands and public investments in expanding infrastructure services (water, sewage collection and highway access) and community facilities throughout the metropolitan region will provide the locational options required to best meet the needs of AID's target population. Furthermore, the opportunity for potential beneficiaries to choose a housing community and type of solution among a range of alternative locations and shelter solutions will eliminate and/or diminish the severity of potential adverse physical, social and economic impacts associated with a narrowly defined housing strategy of urban clearance and relocation. In addition, the geographic dispersion and integration of low-income families into balanced socio-economically planned communities will afford opportunities of increased mobility in the Panamanian society and reduce the magnitude of existing social problems involving segregation and high concentrations of the poor in selected areas in Panama City and Colon.

B. MIVI's Housing Delivery Process

A review and evaluation of MIVI's housing delivery process indicates that the sequence and type of technical inputs that feed into it represent a basically sound technical approach. To improve certain environmental, social and economic aspects in their programmatic procedures, MIVI has made selective changes in both technical

inputs and outputs of their programming process. The specific areas and types of changes are identified as follows:

1. Project Development Feasibility Study

MIVI's existing evaluation methodology has been revised to better reflect the basic engineering, economic, environmental and policy considerations for reaching a site selection/project investment decision. Critical factors to be evaluated in determining the suitability and development feasibility of potential projects at the pre-investment state will include:

- Locational considerations with respect to established development policies of urban growth, priority development areas, type of land use activities, intensity of development, etc.

- Environmental engineering feasibility and suitability;

- Availability and adequacy of existing infrastructure and community facilities to support added project requirements;

- Preliminary development cost estimates including raw land, on-site and off-site improvement costs (earth movement, infrastructure, community facilities, road access, etc.)

- Potential development yield estimate based on schematic layout;

- Estimated cost of the different types of housing solutions; and

- Comparative analysis of the affordability and marketability of the units with identified potential beneficiaries.

Preparation and submittal of a Preliminary Feasibility Study of each proposed development project to AID will be a prerequisite to the HG funding of all housing projects.

2. Preparation of Project Design Documents

To strengthen the technical soundness and programmatic use of MIVI's Project Identification Report, which sets forth the essential development parameters to be followed throughout the entire physical design process, the preparation of project design documents will be conducted by an interdisciplinary team under the direction of the Planning Department MIVI.

This procedural modification will ensure a more practical focus and project-specific application of the background technical analyses into project design. The output should be a concise descriptive, analytical and graphic report of project-specific development guidelines, to be used by MIVI's site designs and engineers.

Furthermore, at this stage of the design process MIVI will demonstrate its environmental awareness and sensitivity to a broad range of potential environmental concerns by taking appropriate steps to identify and protect the environment. The physical delineation of buildable and non-buildable areas based on environmental engineering investigations will be carried out for each project site. Specific protective measures will be defined by the interdisciplinary team and incorporated into Master Plans and Construction Plans.

3. Master Plan and Construction Plan Reviews

To strengthen MIVI's integrated planning and project design process its internal review procedures will be tightened to ensure that the project development guidelines and standards set forth in the Project Identification Report are carried out in both Master Plan and Construction Plan stages. The interdisciplinary team under the direction of the Budget and Planning Department may conduct this review function, or it may be performed by each separate line agency (Social Services, Urban Planning, and Budget and Planning) and coordinated by the latter.

C. Environment

An Initial Environmental Examination (IEE) was carried out on the proposed US AID/Panama housing program in February 1979. Five critical areas of environmental concern dealing mainly with urban shelter policy, institutional procedures and inter-agency coordination were identified as the basis of recommending further detailed environmental evaluation.

Based upon an environmental review of subsequent major changes in project design which was completed between PID and PP stages, it has been concluded that the proposed shelter program does not represent a major federal action which will significantly affect the human environment. The revised IEE recommends a Negative Determination, thus requiring no further environmental analysis. A copy of the revised IEE findings and conclusions are in Annex 7.

D. Engineering Considerations

1. Soil Erosion and Sedimentation Control

Recognizing the adverse consequences of increased rates of erosion and sedimentation from its past development practices, MIVI has agreed to a number of corrective actions to prevent or minimize the occurrence of these problems. The underlying premise of MIVI's actions will be to emphasize careful site planning and construction design procedures

rather than costly structural measures, excessive grading, reforestation and dredging to correct the problems after they have occurred. This approach embodies the identification of each site's natural resources, physical conditions, land use limitations and development intensity potential within reasonable environmental cost considerations.

To achieve these environmental objectives, MIVI has prepared and adopted a set of erosion and sedimentation control principles, guidelines and specific planning and design measures. The findings and recommendations of this technical working document have been integrated into appropriate stages of MIVI's site evaluation, project design and implementation process.

2. Location, Design, Operation and Maintenance of Community Septic Tanks

Due to GOP economic constraints, Panama's National Water and Sewer Administration has not been able to extend sanitary sewerage service to new population growth areas in the country's urban centers. Therefore, public and private development projects have had to rely upon alternative sewerage collection/disposal systems, namely community septic tanks, Imhoff tanks and pit latrines. The most common type of community level sanitary system used in non-serviced areas is septic tanks. To ensure the proper location, design, operation and maintenance of these sewerage systems, IDAAN is undertaking the following actions:

IDAAN has established within its administrative organization a designated technical group to conduct inspection, monitoring and operational maintenance services on all community sanitary facilities under its jurisdiction. This technical group is responsible for not only the inspection and periodic cleaning of sanitary facilities but also, for monitoring and recording their general performance.

The first step in IDAAN implementing its operational maintenance responsibilities involves conducting an initial inspection of all existing sewage facilities, including MIVI built housing projects throughout Panama's urban centers. The initial phase of inventorying and describing the design and operational characteristics of these sanitary facilities will give first priority to the inspection of facilities located within the Metropolitan region of Panama City-Colon. The region's population concentration and large number of community sanitary facilities warrants priority action to be taken here to ensure public health and safety interests.

The second step involves the analysis of existing conditions and problems derived from the initial inspection reports, defining the required actions for their correction and implementing these actions on an orderly basis.

The third step involves the periodic inspection of all sanitary facilities every 6 months to monitor and to record their performance over an extended period of time. Specifically, the rate and depth of sludge and scum accumulation will be measured to determine the frequency that cleaning operations will be required. In addition, the relative quality of treatment of alternative sewerage systems will be evaluated.

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The fourth step of the operational and maintenance process will involve the reevaluation of existing sanitary design standards and the promulgation of new standards governing the location, design, installation and maintenance of community sewerage systems.

E. Employment Generation

1. Construction Firms and Labor

The Panamanian Chamber of Construction (CAPAC) has estimated that there are 70-80 qualified construction companies operating in Panama metropolitan area and secondary cities. Through MIVI's policy to distribute work parcels to as many of these companies as possible, at least 27 companies have construction experience in projects similar to this project. While some of these companies have merged, sufficient construction capacity exists within MIVI and private contractors to respond to the construction demand.

Both professional design and construction labor is abundant. Panama has a well trained cadre of architects that surpasses the country's needs and requirements. To avoid having to import workers to supply the labor demand, as was the case during the '73 boom, the Human Resources Formation and Training Institute (IFARHU) carried out extensive programs to train skilled construction labor, many of whom are now unemployed in construction activities due to the letdown in economic activity. Therefore a sufficient labor pool of both skilled and unskilled workders can be tapped for this project.

The level and type of technology to be employed in the execution of this program will follow the current labor-intensive and intermediate level construction practices utilized by the majority of the construction companies with which MIVI will deal.

2. Materials Supply

Materials required to supply the construction activities are available in sufficient amounts to realize the scale of construction effort contemplated. CAPAC feels that the current scarcities in materials such as wood and steel will be felt in the near future as construction levels increase. However, MIVI has initiated materials importation procedures, especially for wood, to avoid work stoppages. This is expected to mitigate any potential problem in regard to availability of imported materials.

The national cement industry produces approximately 50,000 bags per month which is deemed sufficient to meet the demand for cement that may exist including requirements for this project. The supply of PVC tubes and concrete blocks can be acquired in sufficient quantity since these plants are currently operating at much less than capacity.

In summary, this program will not create nor experience any problems in the construction sector regarding the supply of materials, skilled and unskilled construction labor, or professional design and contracting services.

3. Employment Generation

The employment generation efforts of this program are structured to address urban unemployment and under-employment in three ways: (1) the construction and related activities produced under this program will result in revitalizing for the duration of the program the construction sector of the economy; and (2) indirect jobs, and (3) during the initial phase of the program technical assistance will be used to search out and develop employment generation opportunities that will complement the Mission's employment strategy as described in the Panama CDSS.

For the construction industry and particularly for housing to play the "leading sector" role in the economy, certain conditions should be met. These are: (a) the existence of high latent demand, (b) conditions of high unskilled or low-skilled unemployment, (c) high urbanization rates, and (d) a great physical need for housing. These conditions are all satisfied in Panama.

While latent demand is difficult to measure without an actual offering, experiences such as those in projects as Nuevo Colon, Nuevo Chorrillo, (funded with HG 008 resources) and other projects indicates the existence of such demand, as do the applicant waiting lists for MIVI housing. (See Section H., Effective Demand, p. 46.)

The existence of high unskilled or low-skilled unemployment is a fact in Panama. Indeed, it is a fact throughout Latin America. The United Nations Economic Survey of Latin America, 1968 found the elasticity of employment in construction in this area to be twice that in manufacturing. This elasticity appears to be no exception in Panama and may be due to the extensive use of relatively unskilled labor by Panamanian contractors. But it is also a barometer of the substantial lack of elasticity in the labor supply in general, given that the unskilled play a large part both in construction and the general labor force.

The presence of high unskilled unemployment in Panama does not need extensive comment. The country Development Strategy Statement put 1977 unemployment at 10% for men and 14% for women, with underemployment at 18% and 44%, respectively. The combination of unemployment and underemployment for the total work force of the Metropolitan Area was estimated at 35%. New entrants to the labor force, and younger workers in particular, have the highest unemployment rates. This group represents 36% of the total unemployed in the Metropolitan Region. Programs to reduce unemployment cannot succeed until they have created a substantial number of jobs for the new entrant group, and since by definition this group does not have job experiences, it must be absorbed into work which is not demanding of such experience.

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It is not possible to predict the full impact of this project on employment generation. However, it is a large project compared to the size of the country and it will certainly have a positive effect on the construction industry as a whole, which has been in a slump since 1974.

Within specific sub-programs it will be possible to maximize the effect of this project on employment generation by requiring maximum use of unskilled labor and minimum use of machines. This was done successfully by AID and IVU (predecessor to MIVI) in 1969 with the 016 housing and community upgrading program. Old wooden tenements in Maranon were torn down by hand (crow-bars), hiring labor from the neighborhood instead of using a crane, wrecking ball and bulldozers. This not only produced income for the residents but also increased community support for the relocation program.

The direct and indirect employment generated by this program can be estimated as follows:

Total Program cost in 1979 Dollars: (construction budget)		\$90,300,000
Total Estimated Labor costs:	Blue Collar	31,500,000
	White Collar	7,700,000
Average Annual Wage 1979:	Blue Collar	3,600
	White Collar	5,600
Total Person Years of Employment	Blue Collar	8,750
	White Collar	1,375
Equivalent Jobs over five year period:	Blue Collar	1,750
	White Collar	275
		<hr/>
		2,025
		<hr/>

The rule of thumb estimate for off-site jobs in construction related services and industries of two off-site jobs for each on site job (Blue Collar) yields a total of 3,500 indirect 5 year jobs resulting from the program. Also additional employment will result from complementary construction, commercial and services activities to be generated with funds other than those provided in this program.

Finally, the program initially will identify potential employment generation opportunities in sub-program areas that will complement USAID/Panama's employment strategy.

F. Design Concept and Costs of Sub-Projects (New Construction)

1. Appropriate Technology and Design

The basic approach in this project is to develop and refine shelter solutions and related facilities which are affordable by the low income families in the target group. This leads to the concept of incremental or progressive design solutions: the physical outputs under this concept will provide, for the most part, a practical beginning shelter solution designed for continued self-help improvement and upgrading by the beneficiaries. In new communities, minimum basic services will be installed which in turn will also be subject to progressive improvement and expansion.

This approach has already been tested in Panama, starting with an early AID loan in 1966. The results show that it is clearly appropriate technology and that the residents will continue to improve and expand their homes and that community facilities will be improved as the community and the GOP can afford the costs of the improvements.

The analysis, programming, planning and design activities for each sub-program and for specific housing projects or activities will be an ongoing endeavor throughout the life of the program. Feedback from evaluation activities will be used to modify and improve designs as the program progresses. The implementation process and conditions for project approval provides AID the opportunity to determine the appropriateness of design and reasonableness of cost and therefore the feasibility for each specific project before construction takes place.

2. Program Cost Appraisal

The overall cost estimates have been made in programmatic terms and the estimates are to be considered as preliminary cost estimates only. However, the estimates are based on actual construction costs for similar type units now under development in Panama and represent the most accurate estimate possible at this time. Inflation in construction costs throughout the life of the project was also considered in determining the estimated physical outputs in terms of number of solutions. Notwithstanding the fact that for the most part the unit costs indicated are conceptual estimates, the choice of the progressive development approach to shelter and services provides the most economical means to provide the target group families with affordable solutions and at the same time reach the maximum number of families with a given amount of funds.

3. General Design and Planning Considerations

There is a consensus among the GOP planning institutions and authorities as to how urban development should be controlled in the Metropolitan area. All recognize that maintenance of the watershed that services the Canal is essential and have planned future growth areas accordingly for Panama City and the Colon area. The GOP has plans to stimulate controlled growth of secondary cities and small rural communities as part of their agriculture development policy. This project has been developed to support these planning objectives. The sub-programs are designed and located in three general areas; Central City areas of Colon and Panama, periphery growth areas, and the secondary cities and towns.

G. Technical Description of Sub-Programs

1. Sub-program I - Urban Community Upgrading and Renewal

a. Tenement Areas: The design concept for new units in these areas is to provide small unfinished condominium or cooperative apartment units developed on land cleared by demolishing the now condemned, dilapidated wood tenement structures. The units will be built in 2 to 4 story walk up buildings and will include units of sufficient size to be finished into one, two or three bedroom apartments by the owner/occupiers. With this type of solution, net densities of 100 to 125 units per acre can be achieved at a level compatible with the present land value. The basic apartment size would be about 40, 50 and 60 m² for the three proposed solutions. A type A unit costing about \$7,500 would be affordable by families at the 32nd income percentile in Panama City and at the 35th percentile in Colon. Space for commercial facilities at the ground floor level will be provided so as not to disrupt commercial activities.

The acceptability of the solutions should be high in that they represent a substantial improvement in space, security, healthfulness, tenancy and appearance to what is now existing. The central location, availability of existing services, reduced transportation costs, closeness to employment in both the canal areas and Panama City, and the price should make these solutions attractive.

b. Squatter Areas: The concept approach for upgrading shelter in squatter slum areas is the provision of home improvement loans and technical assistance to families in selected areas. Loans can be made for additions to or completion of existing units. Improvements such as additional bedrooms, sanitary facilities and connections, second floor additions or such construction as new roofs, floors or walls are contemplated. These loans will be supervised by MIVI who will also rectify lot lines, develop cadastre lot plans and secure tenancy for those units improved. The upgrading will be carried out in those squatter areas that have been previously studied and analyzed by MIVI and which are suitable for upgrading in terms of location, in-

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frastructure, land cost, and existing structures. These squatter slums are located in both the center city areas and the expansion areas such Boca La Caja, San Sebastian, San Cristobal and extensive areas of San Miguelito in Panama City and La Playita, Cativa and Pueblo Nuevo in Colon. MIVI has in the past and continues to develop a home improvement program in the urban areas with good success. This HG financing will provide for the expansion of these efforts to a significant scale. Table 7 presents cost estimates for typical improvements and indicates the affordability of loans at various levels. The range of loans will be from about \$900 to \$3000 depending on the type of improvement requested and on the capacity to pay of each family. An average loan of \$1500 will be affordable by families at the 15th income percentile in Panama City and at the 20th percentile in Colon.

Due to the large number of families in these squatter areas, especially in Panama City, and the scarcity of other credit sources for home improvement loans, this program will provide a much needed and acceptable shelter option at minimum cost levels.

2. Sub-Program II - Peripheral Growth Areas

The design concepts for this sub-program will provide a variety of solutions, whose costs will meet the ability to pay of the different low-income groups.

The most basic solution will be a serviced lot within a planned residential development. Lots will range in size from 120 to 180 m², and will be connected to water, sewer, and electrical lines, storm drainage and paved roads or walkway access. The estimated cost of this basic solution is \$2,200. An optional loan of \$800 may be made in conjunction with this solution so as to permit the purchaser to buy materials to build a minimum shelter and sanitary facilities. It is estimated that the monthly payments required to purchase a serviced lot will be \$22 monthly, and if the material loan is included, the payment will increase to \$30. Families in the 12th and 13th percentile in Panama City and Colon will be able to afford this solution.

A 25 m² shell house is a degree improvement in the shelter solution progression. In this solution, construction will consist of a sanitary core, a concrete slab floor, and a sheet metal roof on wood framing supported by concrete posts. The unit will be built on a serviced lot similar to that described previously. A material loan to complete the unit will be offered also. The total cost of this solution is estimated at \$3600.00, plus \$800 for the material loan, if included. Monthly payments will reach a maximum of \$44.00, which will be affordable by families in the 19th percentile.

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The next basic solution is the core house. This consists of a 25 m² complete unit, with a sanitary core and one multipurpose room, providing the minimum basic requirements for immediate occupancy by a family. The cost of this solution will be \$5000, and is affordable by families in the 22nd percentile.

The last proposed solution is a standard 45 m² unfinished house, with sanitary core, interior and exterior block walls, concrete slab floor, sheet metal roof, windows and doors. The unit contains two bedrooms and a multipurpose area. At \$7500, this is the highest priced solution contemplated under this sub-program. The monthly payment is \$74, affordable by families in the 35th percentile.

3. Sub-Program III - Secondary Cities

The design concepts in secondary cities reflect the needs of these relatively non-urban areas. While these four basic solutions—serviced lots, a shell house, a core house, and an unfinished house—are essentially the same as in the major urban areas, there are some important differences. Lot sizes in this sub-program are larger, averaging 300 m² which reflects the greater availability of land and lower land costs. Services may be reduced, for example unpaved roads and septic tanks or latrines, thereby reducing costs, which is necessary to reach families whose income are much less than those in the major urban areas. The costs of the serviced lot will be \$650, which will be affordable by families in the 8th percentile. The shell and core houses will be somewhat more expensive, but still affordable by low income families. The most expensive solution is a complete 32 m² two bedroom house which is expected to sell for \$2,700.

H. Effective Demand

During the design and execution of the HG program, the housing market in Panama City, Colon and other urban areas will be subject to a variety of forces that are likely to effect the demand for housing that is expected to be produced for low and moderate income families. The first factor will be the proposed elimination over a number of years of roughly 5500 tenement units in the Chorrillo and Santa Ana, areas of Panama City and Barrio Norte and Sur of Colon. A second factor will be population growth and household formation that is likely to occur during the life of the HG program. Pent-up demand for improved and new housing on the part of the current population is a third factor and the most difficult to predict.

As the HG program proceeds the Government of Panama will begin demolishing roughly 5500 tenement units in specific locations of Panama and Colon as part of its program to renew and rebuild those areas. Most of these units are currently occupied by families whose incomes are below the median income level and who will require new housing either in the affected renewal areas or in one of the new development areas. In short, the GOP renewal program will create a demand for at least 5,500 new housing units.

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Population growth in urban areas of Panama was estimated by MIPPE to be over 4% per year in a 1977 study, la Radiografía de la Pobreza en Panamá. If this figure is projected from now until the projected termination of the program, roughly 24,000 units in urban areas will be needed for families below the median income. The estimated demand based upon crude population growth and household formation projections for new housing units by percentile groups below the 50th percentile until 1984 can be estimated as follows:

Income by Percentile Groups	Demand New Units Panama/Colon 78-84*	Demand New Units Other Urban Areas 78-84*	Total Demand New Units 78-84%
Below 25	9747	2287	12034
25 - 35	3878	915	4793
35 - 50	5848	1372	7220
TOTAL	19473	4574	24047

* New Family Formation only.

The number of new units projected to be built under the program is approximately 15,800 for families with incomes below the 50th percentile. This program will satisfy roughly 45 percent of the demand for new units taking into consideration only the urban renewal program and new family formation. The new unit production under this program is as follows:

Income by Percentile Groups	Panama/Colon Projected Program Production	Other Urban Projected Program Production	Total New Units Demanded	Projected Program Production
Below 25%	10600	2100	17534	12700
25 - 25%	2000	--	4793	2000
35 - 50%	1100	--	7220	1100
	13700	2100	29547	15800

In addition to the 15800 new shelter solutions proposed under this program, four other AID shelter programs are in various stages of implementation. It is estimated that three of the four programs will result in the addition of roughly 3700 new solutions. Another 2500 solutions are expected to be produced under the San Miguelito program, but those solutions in effect are upgraded or

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replacement solutions which were eliminated in the course of developing an integrated community infrastructure consisting of roads, community facilities, and a more sound environment. The IBRD has discussed the possibility of developing 6000 solutions in Nuevo Colon but this program probably will not be tested for feasibility by the time the Nuevo Colon sub-program is well underway. Therefore, an IBRD program of something less than the number of solutions originally conceived is a distinct possibility.

The above figures do not represent actual housing deficits prior to 1978; nor do the figures include the pent-up demand of families who currently live in inadequate housing and who would seek new low-income housing provided under the program. While there is no figure available to predict the number of families so classified, a MIVI study conducted in 1976 estimates the need as of that time to be over 100,000 units.

Although pent-up demand is difficult to determine, there is some evidence now that the current market for improved shelter is very strong. Three MIVI projects similar to the dwelling types to be financed under the HG program were being offered in January 1979. While a total of about 1000 units were available, 4000 applications for occupancy were received by MIVI. Experience has shown that in countries such as Panama, despite the problems of underemployment and unemployment, the desire for homeownership and improved shelter is very strong, particularly since home opportunities for low income families have been limited to date.

Another important factor in determining demand is the capacity and desire of families to pay for housing. Since the design of the program by its very nature permits a variety of solutions to be built varying from standard units to "piso-techo" to serviced lot solutions, it provides shelter solutions that are within the paying capacity of families expected to participate in the program. Table 2, the Affordability Table, illustrates the relationship between percentile group, monthly income, monthly house payments maximum mortgage and unit price and the fact that most solutions will generally fall within the parameters of a family's capacity to pay. For example, a family whose income falls within the 15th percentile category currently pays about 20 percent of its income for housing and would be required to pay 18 percent for a shelter solution under the program. The compatibility between paying capacity and required monthly payments is maintained as one goes from families who fall in the 5th percentile to families falling just below the 50th percentile. (see Table 7)

Determining the extent to which families will occupy the units to be provided under the program is at best a guess. Nevertheless, there are several reasons to believe that the new units should be

Table 7

Affordable Solution by Income Category

Panama

Colon

Secondary Cities

Type of Solution	Est. Cost	to \$5910 (10-25 Decile)	\$5711-8050 (25-35 Decile)	\$8051-11209 (35-50 Decile)	to \$5503 (10-25 Decile)	\$5504-7541 (25-35 Decile)	\$7542-10394 (35-50 Decile)	to \$2853 (10-25 Decile)	\$2854-3974 (25-35 Decile)	\$3975-5707 (35-50 Decile)
Home Improvement Loan										
a) Materials Loan	\$ 500	X	X	X	X	X	X	X	X	X
b) Additional Room	1,100	X	X	X	X	X	X	X	X	X
c) Sanitary Facilities	1,400	X	X	X	X	X	X	X	X	X
d) Combination Improvement	2,000	X	X	X	X	X	X	X	X	X
e) Second Floor Addition	3,000	X	X	X	X	X	X	X	X	X
New Solution:										
a) Serviced Lot	2,200	X	X	X	X	X	X	X	X	X
b) Serviced Lot with loan	3,120	X	X	X	X	X	X	X	X	X
c) Piso-techo	3,600	X	X	X	X	X	X	X	X	X
d) Piso-techo with loan	4,520	X	X	X	X	X	X	X	X	X
e) Basic unit (25m ²)	5,000	X	X	X	X	X	X	X	X	X
f) Standard unit (50m ²)	7,500	X	X	X	X	X	X	X	X	X
Urban Renewal										
a) Apartment "A" (40m ²)	7,500		X	X		X	X			
b) Apartment "B" (50m ²)	9,000			X		X	X			
c) Apartment "C" (60m ²)	10,250			X		X	X			

NOTE: Estimated terms to beneficiaries are 12.5% Annual Rate for 25 years..

BEST AVAILABLE DOCUMENT

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filled up quickly. First, the program offers, at a minimum, housing with secure tenure and basic infrastructure; something that many low income families in the past have not enjoyed. As in the case of Nuevo Chorrillo and San Miguelito, the response to new housing opportunities has been very strong. Second, the MIVI continues to develop its capability to provide pre and post-occupancy management and administration which will be key to increasing the awareness and receptivity of the new housing development that results from the HG program. Third, as families are exposed to the program the word will spread and the demand for units should surge forward.

In addition to the 15,800 new solutions, the program will provide for roughly 3,300 home improvement loans in Panama/Colon and 700 such loans in secondary cities and towns. Demand for this type of shelter assistance is expected to be even stronger than for the new units produced under the program. Some of the home improvement loans will be tied to the new units produced and the remainder will be spread out to assist residents living in squatter settlements. As cited on the previous page, a 1976 MIVI study estimated the number of units considered to be sub-standard, overcrowded or in need of major improvements was 100,000 in urban areas.

V. Social Soundness Analysis

A. Benefits and Target Populations

This program will reach four distinct sub-groups of the Panamanian low-income population; each will receive benefits particularly related to its own special needs.

1. Metropolitan Region - Central City areas

The poor in the central areas of Panama City and Colon are primarily located in tenement slums and squatter settlements. These people generally suffer from either absent or inadequate urban services, water and sewage. In the tenements these services are present for groups of families ranging from 10-20 for each water tap or toilet. On the other hand, conditions in the squatter settlements vary widely. A squatter settlement may have water but lack sewerage systems in whole or in part. For example, in one squatter settlement, Boca La Caja, there is no sewerage system (87.9% of the families have latrines) whereas 72% of the City as a whole had access to a public sewerage system by 1977. In that same squatter settlement close to half (47.3%) of the persons interviewed had a sickness in the family over the six months prior to the time of the survey. The effects of poor services on health are well-recognized.

The situation regarding housing conditions in the two different settlements areas is not the same. Almost all of the tenement buildings are condemned structures in a state of deterioration where balconies commonly fall and floors break through. Exacerbating the poor physical condition of the tenements is the high density of occupation of these buildings. In one of the major tenement areas, Santa Cruz, the great majority (79.3%) of the families live in only one room while close to a quarter (22.2%) of these families contain six or more family members. These, then, are conditions of physical danger and crowding which clearly constitute less than decent, human habitation. Still, while the residents of these tenements express discontent with their living conditions and many have left on their own accord (more than 400 families from Chorrillo are now in the new community of Nuevo Chorrillo in Arraijan), over a quarter (26.8%) of those surveyed in all the tenement areas would like to remain in their same neighborhood. A larger percentage (44.3) would move to other areas of the city with only 12.7 percent expressed a desire to live at the periphery of the city. The reasons for these preferences are clear: very low rents (\$28.13 a month average) and proximity to work. Of a sample of 1103 heads of family in Chorrillo who were employed (in 1975), close to half (48.1%) worked in Panama City, over a quarter (27.8%) in Chorrillo itself and another fifth (18.4%) in the nearby Canal Zone. The growth of Panama City both towards the east (San Miguelito) and the west (Chorrera/Arraijan), however, plus improvements in transportation and changing employment patterns, have incorporated and will continue to incorporate the periphery areas into the economic activity of Panama City. And while this survey indicates that a large percentage of the residents of Chorrillo prefer not to move to the periphery area the fact is that these areas will soon be considered within the central confines of Panama City. In addition, the experiences in Nuevo Chorrillo and San Miguelito indicate that when a clear choice is offered between the two contrasting types of living conditions, more than enough families are willing to move to more distant areas.

The housing conditions of most of the squatter settlements, unlike the tenements, vary widely from relatively good to very bad. In two of these, Boca La Caja and San Sebastian, the predominant (74.9 and 84.7% respectively) building type is of cement block construction. Here, the major complaint, aside from the lack of a sewerage system mentioned above, is the insecurity of land tenure. These parts of the city have been settled for many years and their residents want most of all to secure title to the property they occupy and receive those services provided throughout the rest of the city. But in other squatter settlements, such as Curundu or Viejo Veranillo, most of the housing is of wood and almost all infrastructure is lacking.

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This program will make major improvements in the living conditions of the residents of both the tenements slums and the squatter settlements. The former will be offered housing options ranging from rented rooms similar to those presently inhabited but with more space and in other areas of the city, to rented apartments, housing cooperatives, condominiums and single family homes. It is expected that there will be a solution to fit each family's needs and financial ability. The effect of the program on the population presently residing in the tenements will be a safer, sounder and more healthful living environment either in the same area in new buildings or in the growth areas in new shelter solutions.

In the squatter settlements which are designated for upgrading, the impact of the programs should be as beneficial, though the change less dramatic, as in the tenements. In most of these settlements, the residents will receive the services they now lack, primarily access to some sort of sewerage facility, their land tenancy will be formalized and sold to them at fair value, and they will have access to credit for improving their homes, a step they may well wish to take given the new stability of their community provided by the security of land tenure. For several of the less established squatter settlements, MIVI will decide upon a course of relocation. The persons so affected will be provided with a number of alternatives in a peripheral area of the city.

2. Peripheral Growth Areas

While there are intricate long range problems in dealing with the situation in the center city slums, at the edge of the city the situation is more dynamic and, being in the state of formation, more responsive to program inputs as well. In the center city, certain dislocation may be necessary, while in the new areas well designed programs can guide and give form to the ongoing evolutionary process of urban growth. The periphery of Panama City is where the major urban growth is occurring in the country at present and most of this growth is by low-income persons arriving from the interior of Panama. As with the fringe areas of many large Latin American cities, the peripheral areas of Panama City and Colon are growing with little attention given to the most desirable residential densities or the best mix of housing, physical and social infrastructure.

San Miguelito is one of the existing peripheral settlements which will receive program inputs. Its situation though in a more advanced stage of evolution, may be taken as representative of that of other such areas to be affected, such as Arraijan and La Chorrera. San Miguelito was growing at 9.5 percent a year, with two thirds of the growth (62.5%) coming from immigration, the rest from natural growth. Today its population is estimated at 163,580 persons giving it a population density of 2,300 persons per square kilometer. Houses have sprung up all over San Miguelito with little apparent regard for the placement of servicing, transportation or social facilities. In a sample survey taken by MIVI in San Miguelito in March, 1978, the population of this area was found to be both young (two thirds, 66.1% of the heads of family were between 20 and 34) and poor (the median monthly income was \$174, between the first and second deciles of the income distribution of urban Panama). This is a level considered by the Panama CDSS to be below the poverty line, where an income is "barely adequate to provide for a family's basic needs".

This program will provide additional shelter and related facilities to rapidly growing peripheral areas such as San Miguelito and other new development areas. In addition to the fully-serviced housing settlement of Torrijos-Carter, for which there are currently 1139 applications, physical and social infrastructure will be financed according to the needs and priorities of the residents, as registered by surveys taken by MIVI. The combined effect of the installation of water and sewerage system, the construction of new schools and health centers, and the provision of hitherto unavailable access to credit for home improvement and expansion will go a long way to making these growing peripheral areas a viable, fully-incorporated and soundly functioning part of the Metropolitan Region of Panama.

Settlements to be built in the newly opened up areas of the Canal Zone will have the benefit of being completely planned communities with a full complement of shelter and services, both physical and social. Development at the periphery of the Metropolitan area will help to alleviate pressure on the central city areas and thereby improve living conditions throughout the entire Metropolitan Region of Panama.

3. Secondary Cities, Market Towns, Small Rural Communities

As in most countries of Latin America, the most abject conditions of poverty in Panama are to be found in rural areas. It is in certain areas of the countryside of Panama that the key indicators of infant mortality, access to water, sanitation and health services, and illiteracy depicts a situation closer to subsistence and more lacking in opportunities for self-advancement than elsewhere in the country. Throughout the countryside, small market towns act as service centers for the surrounding agricultural lands which in turn serve as links between those rural areas and larger secondary cities, some of which are potential generators of regional growth.

While much of the funding from this program is targeted for the Metropolitan Region, conceptually the small portion intended for the other areas of the country is just as important. The philosophy underlying this approach is that the urban and rural areas of Panama are to a considerable degree interrelated in complementary fashion. Just as the Metropolitan Region of Panama is interdependent with the non-metropolitan part of the country so in those latter areas the cities and towns interact with their surrounding rural lands. The poverty of the rural areas like those of the cities demands attention from the national shelter program presented in this document.

Elsewhere in this Paper the precise housing options to be financed under this program in the non-metropolitan regions of Panama, city, town and country are described. From these different options, three kinds of social benefits will be derived as a result of improvement in shelter in the rural areas: first, the quality of life itself will be enhanced by the better housing and services, water and sewerage which, in turn will be reflected particularly in improved health and positive attitudes towards one's living environment. Second, housing and related facilities will serve to help retain and attract the human resources required to manage the various functions of the growth and service centers (commercial, financial, transportation, etc.) so necessary for rural development. Finally, it is believed that improvements in living conditions outside the metropolitan area will benefit the entire country as they join with other inputs (to be financed under the URBE program and by the GOP) to direct the flow of immigration to the secondary cities and make for a more balanced population distribution throughout the geographic areas of Panama.

B. Beneficiary Participation

In all of the target areas of this program there is a high level of community organization, both formal and informal. One of the objectives of this program is to utilize this organization where it exists and promote its incorporation in the new housing settlements so as to enlist the active participation of project beneficiaries in all phases of projects execution.

1. Forms of Participation

Program participation will take several forms in the program, directly as labor in self-help construction of housing and indirectly as savings generated by and for the low-cost housing solutions provided. Most important, however, will be the participation of the beneficiaries in the decision making process regarding the design and building of communities in which they are to live. This key involvement of the people for whom the project is intended is to be achieved in three principal ways, through listening to them (via surveys), relating to their formal participatory political groupings and involving their informal community organizations.

The Social Services Department of MIVI undertakes surveys of the beneficiaries of housing and upgrading projects. This department will receive technical assistance under this program, one of the objectives of which will be to help prepare and conduct these surveys. These serve a useful and important function in that they are a means by which the people first make their concerns and interests known. Questions on priorities for housing design or community facilities are directed as one way of designing a program responsive to the wishes of the beneficiaries. Other questions in the surveys of a socio-economic nature elicit information on income, family size and household budgets. This data serves also to plan houses which are compatible with the needs and financial capabilities of the target population. Follow-up surveys after project occupancy are conducted to gain a better understanding of how the program is actually affecting the beneficiaries; results of these surveys are fed back to the programming office of MIVI to help project design and execution.

A more active form of participation is through the many community organizations which will become involved in the various phases of this program. The formal political system is organized at the community level along democratic, representative lines. There are 505 corregimientos, political divisions, in Panama, each one having a representative who is a member of the National Assembly. Each corregimiento is divided into Community Councils, which are, in turn, further subdivided into local councils. The Community and local Councils are organized into committees along sectoral lines, one for production, health, social assistance, roads, sports, etc. Illustrative of the

degree of popular participation built into this system are San Miguelito and Chorrillo. In the former there are 5 corregimientos and 101 local councils, each of which represents approximately 1,600 persons or 320 families. In the downtown tenement area of Chorrillo, each condemned tenement building has a representative council (for an average number of 80 residents or 20 families). These are then grouped by blocks into Local and Communities Councils. The local councils are managed by a Board of Directors consisting of 7 directors and 5 deputies whose members are elected by popular democratic vote once a year. This formal representative system will be an important channel through which project beneficiaries may become involved in the design of the components of this project and in the feedback process during project evaluation.

As important as this formal system is the informal one of community organizations which can also serve as vehicles for the involvement of beneficiaries in the project. Each of the neighborhoods stated to receive benefits from this program has a number of entities which have been formed to serve various social needs, ranging from religious to health to recreational. In the squatter settlement of Boca La Caja, for instance, there are eight such informal organizations devoted to the improvement of some aspect of community life. Of the 628 families living there in 1975, over half (53.3%) knew of some community development organization in the area and more than one in ten residents (15.9%) belonged to one of the eight organizations. Clearly, both to disseminate information about the program to the beneficiaries and motivate the people to take part in various aspects of the program, such as self-help home construction or the maintenance of community facilities, the utilization of this voluntary community organizations is essential to the successful realization of this program.

2. Participation of Women

Within the community organizations there is a high degree of female participation and in some organizations it exceeds that of men. This is due to the fact that in many households, the head of the household is the mother. This, in turn, has been reflected in projects previously executed which reveal a high proportion of women who have received shelter loans and assistance. For example, in the Cerro Batea Project, in San Miguelito, 28.2% of the 927 heads of families who received housing were women. Generally speaking, experience shows that in Panama approximately 30% of the heads of households who will benefit from the program will be women. Considering the active participation of women in community organizations and the high proportion of women who are heads of households, their aspirations and needs will be incorporated into the general outline of the program.

3. Cooperatives

Another form of organization which can serve as a catalyst for popular participation in the program is the housing cooperative. The housing cooperative plays at least three roles which would help the program achieve its goals: a) it acts as an intermediary credit organization channeling loan funds for housing from BHN to the low income family and assisting with the collection of mortgage payments; b) the cooperative performs a management function which can help with the upkeep and maintenance of housing and community facilities; c) the cooperative can serve to mobilize local resources, manpower, savings and land for shelter and community improvements. Housing Cooperatives are not new to Panama. A Technical Assistance Organization (TSO), FUNDAVICO, was created in the mid-sixties with assistance from A.I.D. for the purpose of providing technical assistance to housing cooperatives. The Nuevo Chorrillo Cooperative combines housing with a production center for building materials, an educational program, transportation and other functions. It is located in Arraijan and was formed by residents of the Chorrillo tenement slum area who wanted to create a better living environment for themselves. FUNDAVICO will be able to provide assistance in the incorporation of Cooperatives into the various components of this program. The Nuevo Chorrillo Cooperative could collaborate in this process with its own unique experience which is so relevant to this program.

C. Spread Effect

There are three primary ways in which the concept embodied in this program which is a basic integrated planning approach to the shelter problems of the urban poor, will be diffused so as to ultimately benefit a far greater number of persons than are in the target population: institution building, demonstration effect and the preparation of new areas for future growth.

The purpose of this program is to increase the capability of the GOP housing institutions to plan and execute shelter improvement programs on a national scale, with a particular orientation to the needs of the urban and rural poor. The total number of Panama's people who live in poverty is estimated to be 715,000. There will be about 100,000 direct beneficiaries of this program, approximately 50% of whom, or about five percent of the Country's total, are in this group.* According to the estimated number of people in the target population, this program will directly benefit one in three of the urban poor of Panama, a most wide-spread impact. If the GOP through MIVI finds that it can successfully aid this major proportion of the

* The other half of the beneficiaries are still below the median, though above the twenty-fifth percentile.

Country's urban poor on a sound cost-recoverable basis and that the program is well-received by the target population, there is every reason to believe that it will be able to attract sufficient capital, from internal and/or external sources to finance additional shelter programs for those unable to find solutions in the private market system.

Potentially as important as this institutional "top-down" means of program diffusion is the demonstration effect of a program as far-reaching as the one described in this paper. Panama is a small country; the great bulk of this program is destined for the Metropolitan Region of Panama City and Colon, which, while comprising close to half of the country's population, is only 14% of the land area. As people receive benefits from this program and as residents begin to occupy the new low-cost expandable housing or obtain credit for home improvements, both previously unavailable to them, they will tell and show others of their new, improved living conditions; similarly, non beneficiaries will take note of what their neighbors have and they lack. By this word of mouth system, carried from person to person in the horizontal communication channels of the poor of cities everywhere, word should filter up through the representative decentralized political system described above and politicians should seek increased programs of the kind here described in response to the expressed will of their Constituents.

Finally, the program will create the pre-conditions for its own replication as it carries out the planning and builds the infrastructure which should serve as the foundation and the generator for increased improvement of shelter after funds for this program are all disbursed. This "launching-pad" effect is particularly significant in peripheral areas, which have the greatest potential for growth. The fact that many areas of San Miguelito or Chorrera/Arraijan or the new lands in what is now the Canal Zone will have water and sewerage and new housing will in itself serve to encourage future investment in shelter.

D. The Program and the Country Development Strategy Statement (CDSS)

Of the five major sectors targeted for A.I.D assistance in the period 1981-1985, this \$75 million HG loan relates to four: rural growth centers, employment creation, environmental enhancement and human resource development. The CDSS attributes the major benefits accruing from this program to the second of these, or employment creation:

"Considering the expected urban growth and the beneficial effects of housing construction on primary and secondary employment creation, we believe that this A.I.D. sponsored mechanism for attracting private investment to social overhead projects will continue to play a major role in Panama's development. We see the HIG program as not

merely complementary to our strategy or to our strategy of employment creation and economic growth, but absolutely essential." (PP. 56-7)

While the number of jobs created by the construction activity generated by the considerable investments of this program will be high, its major development impact should be more pervasive and far reaching than is reflected in employment generation alone recognizing, however, that problems of inadequate shelter and resources are usually a product of inadequate income. The CDSS is explicit in its recognition of both the size and the gravity of the problems related to urban poverty in Panama as illustrated by the following excerpt:

"While the urban poor have access to some of the basic services that their isolated rural neighbors lack, their housing conditions, too, are highly inadequate. They live in conditions of extreme crowding, with access only to communal water sources and unsanitary waste disposal facilities. Of even more concern is the absolute lack of employment opportunities, compounded by an absence of basic skills needed to compete in the job market. Unlike their rural counterparts, who at least have their limited land to fall back upon in order to feed their families, the urban poor are entirely dependent on a monetary economy with a cost of living index among the highest in the Western Hemisphere. Seen in the context of growing migration and natural growth that are rapidly making the Metropolitan region the major locus of Panama's population, urban poverty, currently a source of concern, becomes a cause for serious alarm in the coming years and decades. This switch from predominantly rural to predominantly urban poverty appears increasingly to be characteristic of countries in the intermediate stages of development. And it is increasingly alarming that in Panama, as elsewhere, what do do about urban poverty and unemployment is proving to be a tougher problem than was what to do about rural poverty"(PP. 5-6).

This integrated shelter program recognizes the comprehensive and difficult character of urban poverty. The ultimate goal of development in urban areas as elsewhere is to create conditions wherein men and women may fashion a life according to their own needs and values. The city has traditionally been a place of opportunity. For this to remain true in developing countries where this facilitating role becomes so crucial, a comprehensive approach to urban poverty is necessary: housing, water, sewerage, health centers, educational facilities and community organization, each is a part of this program and each interacts with the other to create living conditions in which hope and initiative may translate into opportunity, employment and development.

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VI. Financial Analysis and Plan

A. Financial Analysis

This section focuses on the loan borrower, the BHN, and presents discussions on a) the BHN's financial condition, b) the potential for a secondary mortgage market operation, c) the interest rate structure for the program and d) the delinquency situation.

1. Financial Overview of BHN

As has been mentioned elsewhere, the financial condition of the BHN is not good. Since its establishment in 1973, the BHN has been required to finance any and all projects developed by MIVI, cover MIVI's operational costs, and service external loans whose costs were greater than the income received to repay those loans. These requirements, over which BHN had no control, resulted in annual operating deficits, which as MIVI's operations increased, also increased accordingly. Over the years, the operating deficit accumulated to a point where in December of 1978, it totaled approximately \$18 million, of which some \$6 million was accountable in 1978 alone. The fact is that annual income from operations has been far less than expenses required to mount these operations and the only way the BHN has been able to remain in business has been to secure new and larger loans to cover this operating deficit. For this very reason there has been no discernible cash flow problem at a time when the BHN has been losing money.

Although some steps have been taken to reduce the annual operating loss, such as discontinuing the practice of BHN paying MIVI's administrative expenses, the loss will continue unless either expenses are reduced or income increased. To determine what could be done to remedy the situation, various alternatives were tested in a ten year cash flow projection.

The first alternative assumed an injection of fresh, interest free capital of \$25 million provided by the GOP, plus the \$75 million HG program funds outlined here and the \$5.4 million URBE loan, all of which would be invested in housing projects as soon as feasible. Even with these large new sources of capital, the accumulated operating deficit would reach approximately \$45 million by the end of 1985, before beginning to level off. This alternative clearly indicated that the essential problem was the high interest payments due on the approximately \$100 million in market rate commercial loans from external lenders.

The second alternative was predicated on the GOP absorbing the interest payments on those commercial external loans. This alternative showed that the annual operating deficit would be negligible until 1986, when net operating profits would begin to reduce the accumulated deficit.

The third alternative would have the GOP agree to cover the annual operating deficit until that time when the BHN begins to turn a profit.

Either of the two latter alternatives are most likely to be selected by the GOP as whole or partial solutions to be taken along with other, to be identified actions. Both are similar in that the GOP, by adopting either, is taking upon itself, rather than the BHN, responsibility for resolving a problem that was not created by BHN. The fact is that the problem is being transferred from the BHN to the GOP so as to ensure the financial survival of the key housing finance institution.

These actions alone will be effective only if the BHN is able to prevent the recurrence of similar problems in the future. This means that the BHN will have to restructure its operations as planned, implement a system of internal control, and prepare good financial studies prior to making decisions on future loans and investments. The GOP has stated categorically that it will take any and all steps necessary to correct the BHN's financial condition.

2. Secondary Mortgage Market Operations

BHN has been authorized by the GOP to design and implement a secondary mortgage operation whereby the BHN would sell securities backed by its mortgage portfolio. Since 1978, A.I.D. has funded technical assistance to BHN to help set up that operation. When initiated this year, the program will operate with the Savings and Loan Associations selling its mortgage insured participation certificates and the BHN selling participation certificates from mortgages on MIVI projects. The funds generated from sale of the certificates of participation will be used to finance new projects developed by both MIVI and the S&L's. One estimate is that this program will generate a minimum of \$10 million annually.

There is a captive market in Panama for this type of program, in that the commercial banks are required by law to invest 50% of deposits in housing, which, to date, has not been done by most banks. Moreover these mortgage participation certificates will be tax-free, and will require minimal servicing, thereby enhancing their attractiveness to the commercial banks and other institutional and individual investors.

There are two distinct financial advantages to BHN in implementing this program. One is that these participation certificates, because of their tax-free status, will carry a lower interest rate than the yield on BHN/MIVI mortgages, thus providing a new source of income. Secondly, the BHN will be able to loan the proceeds from the participation certificates at market rate terms, and earn a more respectable return on its investments.

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The speedy initiations of this operation is important to this HG program. It is expected that the GOP's contribution for new shelter solutions will be provided by funds generated by the secondary mortgage market. About \$3 million will be required annually, which, given the estimated \$10 million to be raised annually, should be attainable.

3. Interest Rates

In Panama, commercial banks are making mortgage loans at rates ranging as high as 13% per annum, which is assumed to be close to the true market rate, and is based on the cost of money to them. The BHN sets its interest rates by administrative actions, not as a result of determinations made by the Ministry of Finance, the Banking Superintendent, or any other regulatory agency. Therefore, the sole factor in setting the interest rate for loans to mortgagors is the cost of these funds to the lending institution and the cost of administering the loan.

It is expected that the HG Loan will carry an annual interest rate of 10.5% to the BHN, which given the variability of international money market may vary somewhat between now and the time of negotiation and the signing of the HG Loan. The loan will be provided for a term of thirty (30) years with a ten (10) year grace period. The BHN recognizes the problem of decapitalization, which has occurred in previous projects due to insufficient or non-existent spread between the cost of loan funds and the return or proceeds from relending activities. Therefore the BHN intends to relend the HG loan funds at terms to provide adequate income to pay for loan administration costs of the program, while at the same time prevent decapitalization. The BHN believes that a 2% spread, which implies relending the HG loan proceeds at an estimated 12.5% p.a., will be adequate to cover loan costs. The terms of the loans to beneficiaries will also be less than 30 years and will not include a grace period, both of which should help increase the margin. As BHN becomes better organized and more cognizant of the true costs of administering mortgage loans and an internal audit system is put in place, adjustments will be made in the spread, if required. In no way will the HG loan exacerbate the poor financial health of the BHN.

4. Loan Payment Delinquencies

MIVI is responsible for management of the BHN loan portfolio. To date, it is estimated that the number of loans in arrears amounts to about 1% of its loan portfolio. Annual collections totaled approximately \$6 million in both 1977 and 1978.

MIVI maintains that the percentage of loans in arrears is decreasing due principally to the implementation of a payroll deduction system.

B. Financial Plan

The total HG investment in this program is expected to reach \$75 million, including the first of \$25 million and two projected HGs of \$25 million each. The GOP contribution will add another \$20.4 million, and \$8.6 million in beneficiary down payments completes the package. This will finance new shelter solutions and home improvement loans for an estimated 19,800 low-income families.

The HG loan program will be carried out through three loan authorizations with an initial authorization in FY79 for \$25 million. This 1st Phase will be used to finance projects in on-going MIVI project areas. Two additional HIG loans of \$25 million each are proposed for FY81 and FY83. Their project design will take into account the findings of in-depth evaluations carried out prior to each subsequent authorization. Project Papers (PPs) will be submitted to AID/W to request the additional HIG loans. The PPs will present evaluation findings as well as detailed technical and financial plans which specifically describe where, how, and when succeeding authorizations will be allocated. They will also describe how the additional HGs will interrelate with other urban development and employment generation activities being developed by the GOP and the Mission.

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Table 8

SUMMARY INVESTMENT PLAN
(\\$000's)

	<u>NUMBER OF SOLUTIONS</u>	<u>AVERAGE UNIT COST</u>	<u>H.G.</u>	<u>G.O.P.</u>	<u>BENEFICIARY CONTRIBUTION DOWN PAYMENT</u>	<u>TOTAL INVESTMENT</u>
I. Urban Community Upgrading and Renewal	<u>2,800</u>		\$ <u>17,000</u>	\$ <u>5,000</u>	\$ <u>2,000</u>	\$ <u>24,000</u>
1. Shelter	2,800	(\$7,210)	16,000	3,200	2,000	21,000
2. Facilities and Infrastructure			1,000	1,800	--	2,800
A. Tenement Areas			15,000	4,000	2,000	21,000
1. Shelter (Apts.)	2,000	(10,000)	15,000	3,000	2,000	20,000
2. Infrastructure			--	1,000	--	1,000
B. Squatter Areas			2,000	1,000	--	3,000
1. Shelter Improvements	800	(1,500)	1,000	200	--	1,200
2. Facilities & Infrastructure			1,000	800	--	1,800
II. Urban Growth Areas/Shelter & Services	<u>14,200</u>		<u>53,000</u>	<u>14,000</u>	<u>6,000</u>	<u>73,000</u>
1. Shelter Units	11,700	(5,130)	45,000	9,000	6,000	60,000
2. Shelter Improvement Loans	2,500	(1,920)	4,000	800	--	4,800
3. Facilities & Infrastructure			4,000	4,200	--	8,200
A. San Miguelito North			26,000	6,700	3,000	35,700
1. Shelter Units	5,900	(5,080)	22,400	4,600	3,000	30,000
2. Shelter Loans	1,200	(1,770)	1,900	400	--	2,300
3. Facilities & Infrastructure			1,700	1,700	--	3,400

	<u>NUMBER OF SOLUTIONS</u>	<u>AVERAGE UNIT COST</u>	<u>H.G.</u>	<u>G.O.P.</u>	<u>BENEFICIARY CONTRIBUTION DOWN PAYMENT</u>	<u>TOTAL INVESTMENT</u>
B. Chorrera/ Arraijan			\$10,000	\$2,800	\$1,100	\$13,900
1. Shelter Units	2,100	(\$5,240)	8,300	1,600	1,100	11,000
2. Shelter Loans	1,050	(910)	800	150	--	960
3. Facilities & Infrastructure			900	1,050	--	1,950
C. Colon-Sabanita			3,000	650	350	4,000
1. Shelter Units	700	(5,000)	2,600	550	350	3,500
2. Shelter Loans	250		200	50	--	250
3. Facilities & Infrastructure			200	50	--	250
D. Canal Zone or Other			14,000	3,850	1,550	19,400
1. Shelter Units	3,000	(5,167)	11,700	2,250	1,550	15,500
2. Shelter Loans			1,100	200	--	1,300
3. Facilities & Infrastructure			1,200	1,400	--	2,600
III. Secondary Cities and Town Shelter	<u>2,800</u>		<u>5,000</u>	<u>1,400</u>	<u>600</u>	<u>7,000</u>
1. Shelter Units	2,100	(2,860)	4,500	900	600	6,000
2. Shelter Loans	700	(860)	500	100	--	600
3. Facilities & Infrastructure				400	--	400
A. Secondary Cities	2,400	(2,650)	4,500	1,310	540	6,350
1. Shelter Units	1,800	(3,000)	4,050	810	540	5,400
2. Shelter Loans	600	(920)	450	100	--	550
3. Facilities & Infrastructure				400	--	400

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	<u>NUMBER OF SOLUTIONS</u>	<u>AVERAGE UNIT COST</u>	<u>H.G.</u>	<u>G.O.P.</u>	<u>BENEFICIARY CONTRIBUTION DOWN PAYMENT</u>	<u>TOTAL INVESTMENT</u>
B. Rural Communi- ties	400		\$ 500	\$ 90	\$60	\$650
1. Shelter Units	300	(\$2,000)	450	90	60	600
2. Shelter Loans	100	(500)	50	--	--	50
TOTAL PROGRAM	<u>19,000</u>	<u>(5,250)</u>	<u>75,000</u>	<u>20,400</u>	<u>8,600</u>	<u>104,000</u>
1. Shelter Units	15,800	(5,440)	64,500	12,900	8,600	86,000
2. Shelter Loans	4,000	(1,650)	5,500	1,100	--	6,600
3. Facilities & Infrastruc- ture			5,000	6,400	--	11,400

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Table 9

AID HOUSING GUARANTY
SHELTER & COMMUNITY UPGRADING-PANAMA
PROGRAM COST BREAKDOWN
BY COMPONENT & SOLUTION TYPE

Sub-Program Component/Type	No. of Solutions	Unit Price 1979 \$ (Ave.)	Total Cost 1979 Prices (\$000's)	Unit Price Ave. L.O.P. (Ave.)	Total Cost L.O.P. (\$000's)	Inflation Cost L.O.P. (\$000's)
I. <u>Urban Community</u>						
<u>Upgrading and Renewal</u>	<u>2,800</u>	<u>(6,464)</u>	<u>20,570</u>	<u>(7,571)</u>	<u>24,000</u>	<u>3,430</u>
1. <u>Improvement Loans Total</u>	<u>800</u>	<u>(1,500)</u>	<u>1,200</u>	<u>(1,500)</u>	<u>1,200</u>	-
a) Extra Room	A 320	1,125	360	1,125	360	-
b) Sanitary Instal.	A 400	1,500	600	1,500	600	-
c) Combination	C 80	3,000	240	3,000	240	-
2. <u>Renewal Units Total</u>	<u>2,000</u>	<u>(8,450)</u>	<u>16,900</u>	<u>(10,000)</u>	<u>20,000</u>	<u>3,100</u>
a) 40 m ² Apt.	B 900	7,500	6,750	8,875	7,988	1,238
b) 50 m ² Apt.	C 900	9,000	8,100	10,651	9,586	1,486
c) 60 m ² Apt.	C 200	10,250	2,050	12,130	2,426	376
3. <u>Facilities & In- rastructure Total</u>	-	-	<u>2,470</u>	-	<u>2,800</u>	<u>330</u>

AID HOUSING GUARANTY - SHELTER & COMMUNITY UPGRADING-PANAMA

Sub-Program Component/Type	No. of Solutions	Unit Price 1979 \$ (Ave.)	Total Cost 1979 Prices (\$000's)	Unit Price Ave. L.O.P. (Ave.)	Total Cost L.O.P. (\$000's)	Inflation Cost L.O.P. (\$000's)
II. <u>Urban Growth Areas</u>						
<u>Shelter & Services</u>	<u>14,200</u>	<u>(3,981)</u>	<u>63,330</u>	<u>(4,563)</u>	<u>73,000</u>	<u>9,670</u>
1. <u>Improvement Loans</u>						
<u>Total</u>	<u>2,500</u>	<u>(1,000)</u>	<u>2,500</u>	<u>(1,000)</u>	<u>2,500</u>	-
a) Low	A 1,000	500	500	500	500	-
b) Medium	A 1,000	1,000	1,000	1,000	1,000	-
c) High	B 500	2,000	1,000	2,000	1,000	-
2. <u>Shelter Units & Loans Total</u>	<u>11,700</u>	<u>(4,618)</u>	<u>54,030</u>	<u>(5,325)</u>	<u>62,300</u>	<u>8,270</u>
a) Serviced Lot	A 200	2,200	440	2,550	510	70
b) Serviced Lot & Loan	A 800	3,120	2,496	3,470	2,776	280
c) Piso-Techo Unit	A 3,100	3,600	11,160	4,175	12,942	1,782
d) Piso-Techo & Loan	A 1,700	4,520	7,684	5,095	8,662	978
e) Basic Unit	A 4,800	5,000	24,000	5,800	27,840	3,840
f) Standard Unit	B 1,100	7,500	8,250	8,700	9,570	1,320
3. <u>Facilities and Infrastructure Total</u>	<u>-</u>	<u>-</u>	<u>6,800</u>	<u>-</u>	<u>8,200</u>	<u>1,400</u>

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ID HOUSING GUARANTY - SHELTER & COMMUNITY UPGRADING-PANAMA

Sub-Program Component/Type	No. of Solutions	Unit Price 1979 \$ (Ave.)	Total Cost 1979 Prices (\$000's)	Unit Price Ave. L.O.P. (Ave.)	Total Cost L.O.P. (\$000's)	Inflation Cost L.O.P. (\$000's)
<u>III. Secondary Cities and Towns</u>						
<u>Shelter & Services</u>	<u>2,800</u>	<u>(2,168)</u>	<u>6,430</u>	<u>(2,357)</u>	<u>7,000</u>	<u>570</u>
1. <u>Shelter Loans</u>						
<u>Total</u>	<u>700</u>	<u>(857)</u>	<u>600</u>	<u>857</u>	<u>600</u>	<u>-</u>
a) Rural Towns A	100	500	50	500	50	-
b) Secondary Cities A	600	917	550	917	550	-
2. <u>Shelter Units</u>						
<u>Total</u>	<u>2,100</u>	<u>(2,605)</u>	<u>(5,470)</u>	<u>(2,857)</u>	<u>6,000</u>	<u>530</u>
a) Rural Towns Ave.C	300	1,823	547	2,000	600	53
b) Second. Cities Ave. B	1,800	2,735	4,923	3,000	5,400	477
3. <u>Facilities & Infrastructure Total</u>	<u>-</u>	<u>-</u>	<u>360</u>	<u>-</u>	<u>400</u>	<u>40</u>
		<u>% Solutions</u>		<u>% Funds</u>		
<u>Component Summary Total</u>	<u>19,800</u>	<u>100%</u>	<u>90,330</u>	<u>100%</u>	<u>104,000</u>	<u>13,670</u>
1. Shelter & Impr.Loans	4,000	20%	4,300	5%	4,300	-
2. Shelter Units	15,800	80%	76,400	85%	88,300	11,900
3. Facilities & Infrs.	-	-	9,630	10% ⁶	11,400	1,770

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ED HOUSING GUARANTY - SHELTER & COMMUNITY UPGRADING-PANAMA

Sub-Program Component/Type	No. of Solutions	Unit Price 1979 \$	Total Cost 1979 Prices	Unit Price Ave. L.O.P.	Total Cost L.O.P.	Inflation Cost L.O.P.
Income Percentile	<u>No. of Solutions</u>	<u>% of Solutions</u>	<u>Total Cost 1979 prices</u>	<u>% of Cost 1979</u>	<u>Total Cost L.O.P.</u>	<u>% Cost L.O.P.</u>
A. Below 25%	14,020	71%	48,840	61%	55,790	60%
B. 25 to 35%	4,300	22%	20,923	26%	23,958	26%
C. 35 to 50%	<u>1,480</u>	<u>7%</u>	<u>10,937</u>	<u>13%</u>	<u>12,852</u>	<u>14%</u>
Total	<u>19,800</u>	<u>100%</u>	<u>80,700</u>	<u>100%</u>	<u>92,600</u>	<u>100%</u>

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C. GOP Financial Contribution

The GOP contribution of \$20.4 million will be invested in two distinct programs. The bulk, or \$14.2 million, will be loaned to beneficiaries for new shelter solutions. The sale of BHN mortgage backed securities will provide most, if not all of these funds. It is possible, however, that the GOP may choose to sell some land or furnish administration costs as a complementary source of funds. The remaining \$6.2 million will be used to finance community facilities and services in each of the sub-programs and will complement \$5 million in HG loan funds for this same purpose. (Table 1-A on page 13 of the Project Paper shows total GOP contribution during the first tranche of project implementation for community facilities and services (infrastructure) to complement \$25 million of HG loan funds. Total GOP contribution is to be \$1.03 million. Also, it is shown in table 1-A where GOP infrastructure funds are to be invested in subprograms I and II and the amounts of this investment. On page 27 of the Project Paper, it is stated that MIVI has the overall responsibility for coordinating and channeling the infrastructure funding of sub-programs.)

As in the case of HG 009 (San Miguelito) BHN will onlend the HG resources to the service organizations (IDAAN, IRHE) for infrastructure. Beneficiaries will pay IDAAN, IRHE for the installation of the services following the regular procedures established by these organizations which already have been used in 009.

With respect to streets, sidewalks, schools, BHN will enter into loan agreements with the ministries of Public Work and Education. Repayment to BHN from these government entities will be made to BHN from general revenues allocated by MIPPE for such purpose.

The integrated approach in dealing with the shelter problem which is an integral part of the program has been fully agreed by MIPPE and MIVI. Consequently, in preparing budget priorities MIPPE will work in close collaboration with MIVI so adequate funding is available for each specific project in each of the sub-programs. Until recently, the gap between shelter and supporting services have evolved from the lack of coordination between MIPPE and MIVI. Based on their commitments to work together, the financial arrangement of the program and in the planned technical assistance to both institutions in the overall planning/budgeting process, we feel confident that the local resources for related services and facilities will be available.

VII. Economic Analysis

A. The Panamanian Economy

Panama's strategic location and the presence of the Canal are its principal resources and the basis for most of its past growth. There are also fisheries and tropical forest resources to be further exploited, but with considerable investment, and the development of recently discovered copper deposits may not be economically feasible for many years. However, good agricultural lands are extremely scarce outside the limited commercial banana, sugar, and rice areas.

Thus, a dual economy has emerged in Panama. An open, dynamic, modernizing sector development near the Canal, dominated by a services oriented private sector linked to international trade and finance, is the most evident sector, while the rest of the country, except for limited commercial agriculture, has remained mostly tradition bound and based on subsistence agriculture. Of Panama's 1977 Gross Domestic Product (GDP) of \$2254 million (\$1273 per capita) services accounted 53 percent, manufacturing (including utilities) 20 percent, agriculture 16 percent, construction 5 percent, and the Canal Zone 6 percent. However, the Canal Zone's 6 percent covers only wages of Panamanian employees; other direct and indirect effects of the Canal Zone bring its overall impact to three or four times this level.

At the same time, the high wage and benefit structure in the Canal Zone has lifted general wage costs in Panama substantially above the level of nearby countries, severely limiting Panama's export potential and therefore its overall economic growth. It also makes the general price level in Panama much higher than its neighbors, so that the price of even basic, domestically produced necessities is inordinately high. Nonetheless, higher productivity in the urban compared to rural areas, and correspondingly greater employment and income opportunities, have continually drawn Panama's rural population toward the higher cost metropolitan sector, especially greater Panama City, so that by 1977 Panama's population (1.8 million) had become 50 percent urban.

Panama's economic expansion was quite rapid during the 1960's and early 1970's (7.8 percent annually, 1960-73) based primarily on development of commercial and other services industries, some light manufacturing, a construction boom, and expansion of export-oriented banana and sugar output. But there has been little further growth since 1973 as the best import substitution possibilities played out and Panama's exports stopped expanding. The situation was aggravated by an international trade recession and uncertainties over the new Canal treaties. Annual private investment declined steadily to a 1977 level that in real terms was only one third of the peak reached in 1973. This

resulted in a stagnating economy and steadily shrinking job market, since the expansion of public sector investment was not sufficient to prevent a drop in overall investment.

Panama's new government, which took office in October 1978, has made resumption of economic growth a priority concern, clearly recognizing the predominant role of the private sector in generating that growth. In an attempt to stimulate private investment, the government, for example, is considering revision of current GOP economic and labor policies, and the autonomous agencies are being looked at with a view to possibly reducing their role in the economy. The GOP's fledgling industrial development financing institution is steadily expanding its activities in providing financial support to a widening range of profitable new investment opportunities in Panama. The government expects that these and other developments will help stimulate private investment -- thus the general economy -- especially in exploiting the substantial new industrial development potential that the GOP feels is being opened up by the release to Panama, under the new Treaties, of lands and other resources of the former Canal Zone.

However, resumption of sustainable economic growth will also require that the government continue to bolster the economy through a properly balanced investment program which addresses both its short-term and longer term requirements. The government feels a particular need and responsibility to move quickly on investment activities with a substantial direct impact on employment, in view of the cumulative hardships that have resulted from Panama's recent lengthy period of high unemployment. The GOP's longer gestating projects tend to focus on improvements in the economic structure and often do not provide the quick gains in employment and income that are essential to sustain an economy during difficult times, or to launch an economic recovery.

Public investment is being carried out in the context of the government's 1976-1980 Development Plan, which has resulted in capital outlays of about \$400 million annually starting in 1976, and continuing at this level in 1979. Work on a new five year plan has already been initiated, with a development strategy which appears to differ little from that of the past ten years. For example, the government has defined its medium term objective as: resumption of economic growth with better social and regional distribution; expansion of employment and increased housing construction; more political democratization; a more efficient public sector; better quality of education; greater respect for human rights; improved foreign relations, especially with the U.S., and better utilization and protection of natural resources. A basic policy of fiscal austerity is to be followed, in recognition of the government's continuing financial problems.

The GOP's current policy is to finance the bulk of its investment program with borrowed funds, with central government revenues

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normally covering only its current operating costs. This low tax/low savings policy presumably will continue so long as credit -- mostly foreign -- remains available on reasonable terms and the government is able to manage its increasingly burdensome public debt. The debt reached \$2.4 billion at year end 1978 and debt servicing costs amounted to about half the 1978 consolidated government budget -- extremely high levels by international standards. Thus, positive features of Panama's economic outlook such as the development potential in Panama's new resources from the former Canal Zone plus its new income from the Canal operation, are somewhat clouded by difficulties the GOP faces in handling its huge and growing public debt.

B. The Panama Public Debt Situation

The further deterioration of Panama's public debt structure during 1978 -- the \$570 million increase to \$2.4 billion outstanding at year end (equal to Panama's Gross Domestic Product) and the big jump in 1978 interest and principal payment to \$400 million (almost half the GOP budget) have been a source of widespread concern.

A principal difficulty is that the GOP, in meeting its burgeoning credit requirements of recent years, has increasingly resorted to non-project credit from abroad on commercial terms, expecting it to serve primarily a stop-gap role pending early increases in concessional lending from the international financial institutions (IFI's). However, this has yet to take place -- for example IFI project lending to Panama came to only \$57 million last year compared to \$555 million from private foreign commercial sources. As of the end of 1978, 57 percent of the GOP's total debt consisted of relatively short term, high cost commercial credit from abroad, compared to 15 percent in IFI concessional long term loans.

Moreover, this pattern is likely to continue for some time yet, and tend to worsen the GOP's debt servicing burden in the absence of substantially increased government revenues and/or reduced investment outlays.

The government will continue to require, however, an uninterrupted flow of foreign credit, at quite substantial levels, in order to maintain the proper working of its financial structure. For this reason, the GOP can be expected to maintain at all costs its outstanding repayment record and good international credit rating of the past. To this end, it will continue to strive toward a less burdensome debt profile through re-financing and maximizing the use of longer term financing. If future revenue growth still proves inadequate it will simply be forced to also cut back public sector investment, intensify austerity efforts in its ordinary budget, raise taxes, or undertake some combination of these actions.

C. Effect of HG Loan on Debt Service

The \$75 million HG loan will be disbursed over a 5 year period, averaging \$15 million annually. In relation to the annual increase in foreign debt (\$570 million in 1978), \$15 million will not significantly add to the debt service payments. The terms of the HG Loan are highly favorable (30 year term with a ten year grace period and an estimated 10.5% interest rate) when compared to the usual terms on commercial loans obtained by the GOP. In this sense, the HG Loan supports the GOP policy to reduce dependence on high cost commercial loans and to seek more favorable loans on terms generally associated with IFI loans.

VIII. Implementation Arrangements

A. Responsibilities of Participating Agencies

1. National Mortgage Bank (BHN)

The BHN will be the borrower and will be responsible for selecting a U.S. investor and negotiating the HG loan. The BHN will also be responsible for making loan disbursements to MIVI, for overall fiscal control during project implementation and for repayment of the loan to the U.S. investor.

2. Ministry of Housing (MIVI)

The primary implementing agency will be MIVI whose responsibilities include project coordination, overall project planning, programming, scheduling, budgeting, design, construction, supervision, allocation of shelter units and post-occupancy management and administration. With MIPPE, MIVI will coordinate other project inputs from cooperating agencies such as IDAAN, IRHE, MOP and other ministries.

3. Ministry of Planning (MIPPE)

The major responsibility of MIPPE is to coordinate the development of this program with the overall national plan and budget and to insure that all the participating agencies, including the support agencies such as other ministries, IDAAN, etc., receive adequate budgetary support.

4. Panama Canal Authority

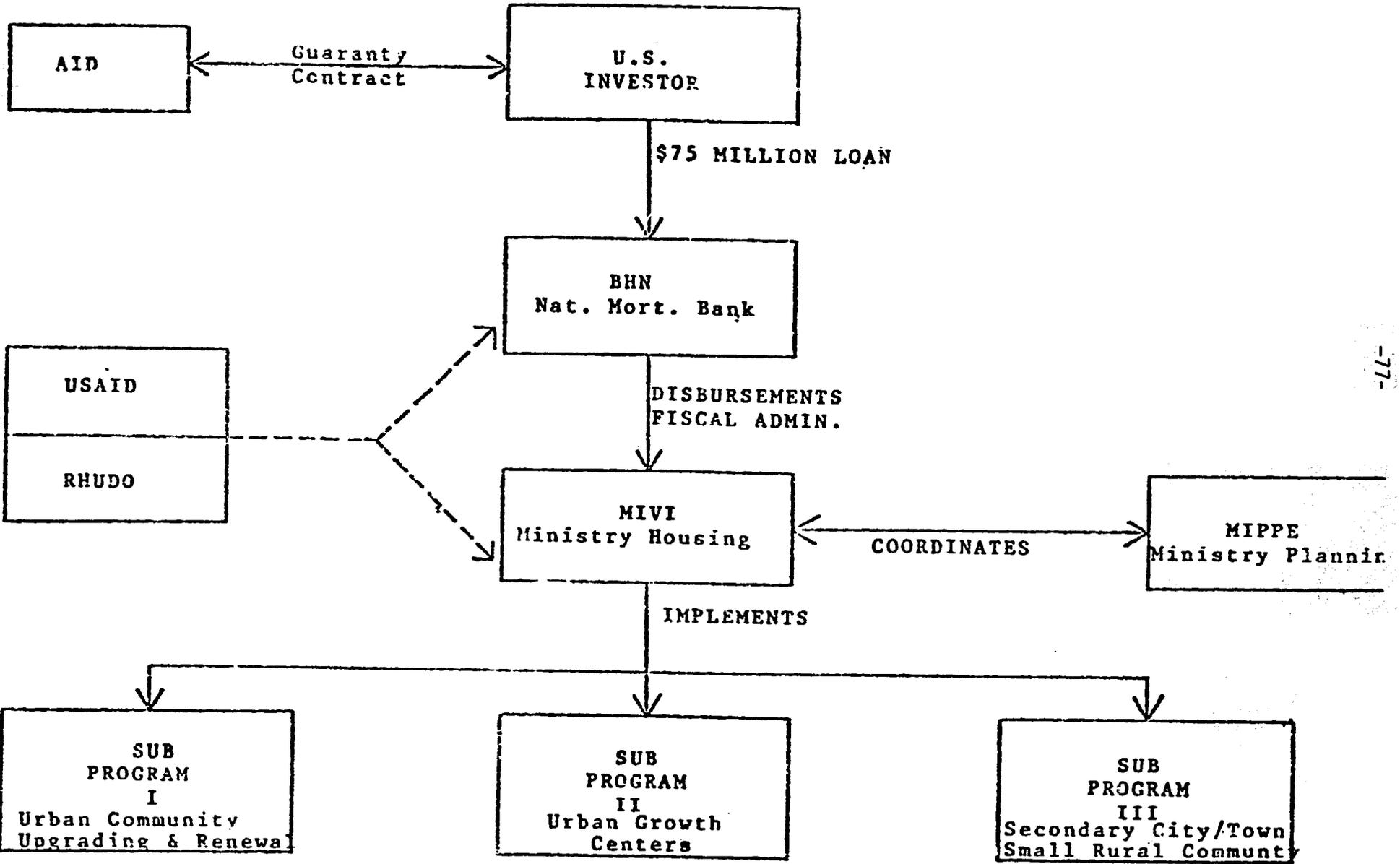
The Authority will make Canal Zone Sites available for development of sub-projects.

5. Other Agencies

The Institute for Hydraulic Resources and Electrification (IRHE) and the Institute for National Water and Sewer System (IDAAN), in conjunction with MIVI, will plan, design and develop water, sewer and electrical systems for the areas designated for development or upgrading under this program.

6. Other Ministries

Several government ministries, principally Health and Education, will be responsible for the development and construction of support facilities--schools, health clinics--in those areas where MIVI will develop new projects.



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B. Implementation Procedure

The responsibilities of the three major implementation agencies can be summarized as follows:

- Financial Agent: BHN
- Developer: MIVI
- Coordinator: MIPPE

However, within these broad categories each institution has specific responsibilities for various aspects of the overall program and each sub-project. Each of these activities has been assigned in accordance with the designated role of each institution in the national housing development scheme. See Implementing Agreement Chart, p.22A.

1. Role of BHN

- Based on the implementation schedule, prepare an investment plan for review and acceptance by MIVI
- Develop a Secondary Mortgage Market Operation so as to provide BHN with a source of local financing
- Assist the saving and loan associations to increase their lending operations and resolve their loan arrears problem
- Repay the U.S. Investor
- Coordinate with MIVI in the preparation of programs to improve collection procedures and to reduce loan arrears
- Prepare financial reports required by AID to implement this program

2. Role of MIVI

- Prepare Investment Plans for each sub-project
- Coordinate and secure cooperation from those agencies responsible for providing and maintaining the community services and facilities component of this program
- Through its Cooperative department, assist the cooperative groups organized to participate in this program
- Collect and analyze social-economic data from program beneficiaries
- Maintain good construction cost controls and accounting

and make same available to BHN for disbursement purposes

- Prepare project designs and construction documents, let bids, supervise construction, and all other activities required to carry out the physical aspects

- Collect loan repayments from beneficiaries and remit same to BHN

3. Role of MIPPE

- In conjunction with MIVI and BHN, allocate financial resources for shelter solutions and related facilities and services

- Insure that funds for community services and facilities related to the program are made available

- Make provision for repayment to AID of the loan funds from the URBE program for long and short term technical assistance.

C. Institutional Coordination

The coordination for this program requires a system that includes inputs from various institutions at the different levels of decision and action within each institution. The roles and responsibilities of the principal institutions--of BHN as borrower, MIVI as implementing agency and MIPPE as coordinator with other agencies--is outlined above in Sections VIIIA and B.

Coordination will be required at four distinct levels:

1. GOP policy level
2. Interinstitutional planning level
3. Project definition level
4. Project execution level

1. GOP Policy Level

Coordination at the GOP policy level will involve the Presidency, MIVI, MIPPE, BHN and to a lesser degree Ministry of Finance and the Panama Canal Authority. Policy will be formulated and coordinated at the ministerial or institutional head level. Principal program inputs will be GOP financial resources from BHN, MIVI and other agencies, provision of land from recuperated canal zone areas, and GOP guarantys.

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2. Institutional Planning Level

Institutions such as MOP, IDAAN, IRHE, Ministry of Education, Ministry of Health, and Municipal governments under the general coordination of MIPPE will bring together the overall requirements for infrastructure and services, both on-site and off-site. These agencies will jointly prepare the capital program which will include i.e. location, project characteristics, financing, timing, etc. When program requirements are sufficiently clear, they will pass to the GOP policy level for approval.

3. Project Definition Level

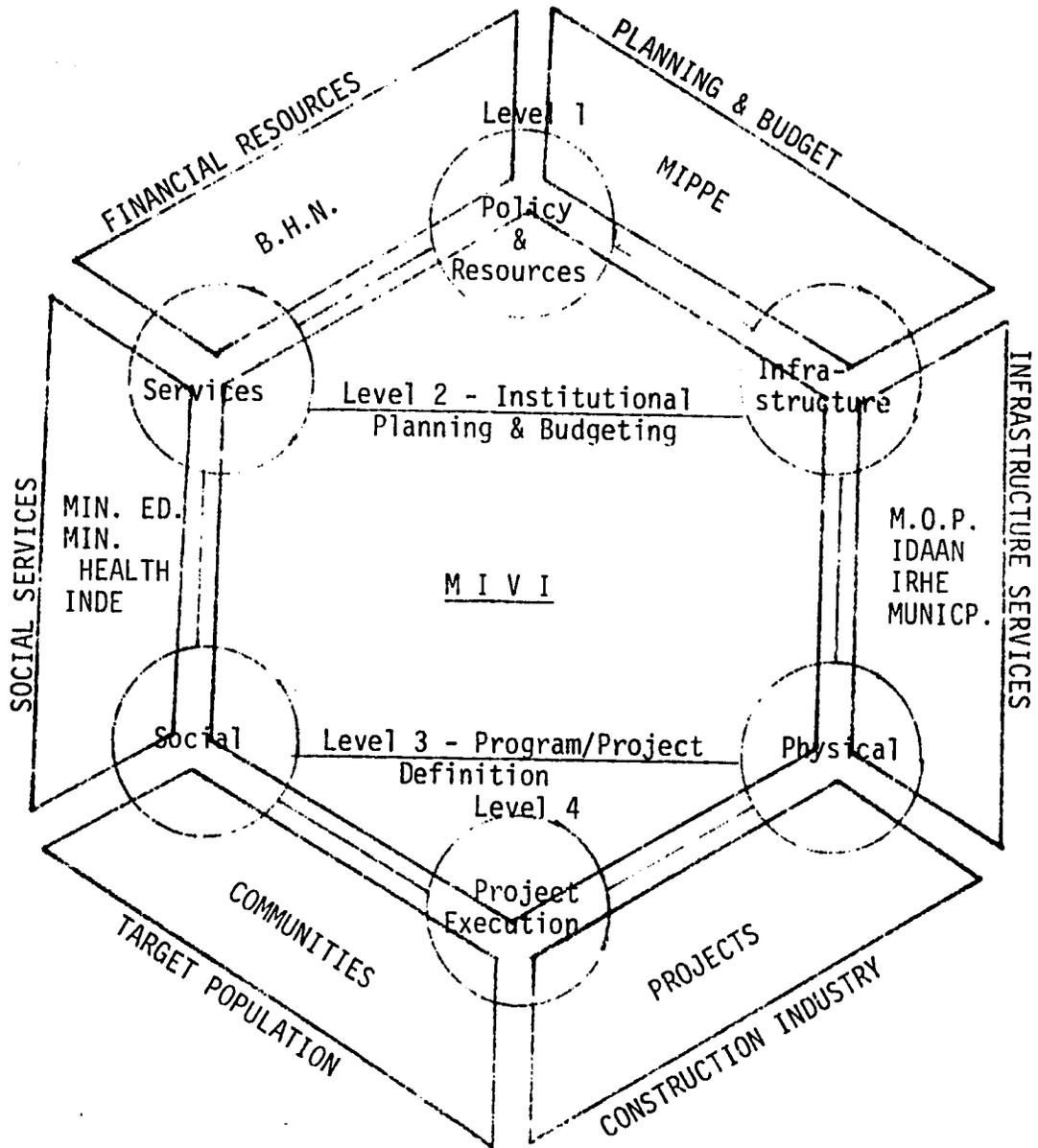
At the project definition level the specific requirements for each subproject will be developed. The magnitude and timing of required inputs from the various agencies and institutions with respect to services, facilities and infrastructure and estimated costs will be defined. This is the principal level in which MIVI will have the lead role and will work with MIPPE, and the BHN. The product of this collaborative effort will pass to the institutional planning level for action at the project execution level.

4. Project Execution Level

At the project execution level coordination will be required among the different directorates of MIVI at both the central office level and the field. This will be the responsibility of the programming and budget directorate on the physical development side and of the social division of MIVI for community development and related efforts. Also, coordination of the provision of facilities or services that are the responsibility of other agencies (i.e., off-site infrastructure) will be handled at the departmental level with recourse to each higher level for attention if required.

The following diagram illustrates how the process is intended to function.

PROJECT COORDINATION



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D. Authorization and Disbursement Procedures

1. Authorizations

This project paper presents an overall program for the utilization of the \$75 million HG program and requests that \$25 million be authorized. USAID/Panama plans to request additional authorizations of \$25 million each in subsequent FYs based upon evaluations and the submission to AID/W of financial and technical assistance plans in addition to specific physical and socio-economic plans and programs which describe where, when, and how succeeding authorizations will be allocated. Project Papers will be submitted to justify these subsequent loans.

2. Disbursement Procedures and Conditions Precedent to Disbursements

First Disbursement: An advance not to exceed \$10 million will be established with the first disbursement of the HG loan and will be conditioned on the following:

a. Presentation by BHN of a plan satisfactory to AID for the implementation of the commitment by the GOP to correct the BHN financial problems.

b. Completion by BHN/MIVI/MIPPE of the arrangements for contracting and placing long term technical advisors to the extent allowed by funds available at the time of disbursement.

c. Presentation by BHN/MIVI/MIPPE to AID's satisfaction of the plans/programs for which the proceeds of the first disbursement will be used. Plans for each project should include what services and facilities will be included and how they will be funded.

For each project under each sub-program for which part of the \$10 million will be used, the following information will be submitted:

Sub-Program I (Urban-Upgrading)

a. Urban Upgrading

Descriptive

- Overall description of the areas intended for improvement with an economic justification for each's inclusion.

- Description of the type of improvements being proposed.

- Description of target group to be served.

Financial

- Investment plans including specification of source for project improvements.
- Estimated costs and collection procedures.

Administrative

- Implementation Procedures.
- Specification of GOP agency, administering programs.
- Specification of technical assistance requirements and funding source for same.

b. Urban Renewal

Descriptive

- Description of buildings to be demolished.
- Identification of families who will be relocated in the area and where such relocation will take place.
- Identification of the families who have agreed to be relocated outside the area where such relocation will take place.
- Comprehensive Community development plan for affected areas.

Financial

- Preliminary design and costs involved in relocation program. Schedule and funding for community services and facilities.
- Estimation of monthly payment for target group being served.

Administrative

- Implementation procedures.
- Specification of GOP agency administering program.

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- Specification of technical assistance requirements and funding service for same.
- Administrative arrangements related to occupants/tenants.

If such program is developed in first phase, additional disbursements will be made on the basis of evidence submitted by BHN and satisfactory to AID that (a) shelter units have been completed and sold and the corresponding documents have been executed, (b) home improvement loans have been completed and the services for the improved areas are in operation. Reimbursement of the revolving fund by additional disbursements will be subject also to representations required for each of the sub-programs for which the additional resources will be used and for which the required documentation was not previously submitted. In addition, final reimbursement for each specific project will not be made until the identified services and facilities for such specific project have been completed and delivered to the agency responsible for their operation.

Sub-Program II

Peripheral Growth Areas

Descriptive

- Overall project description and the manner in which the project relates to the overall planned physical and economic development of the area where the target group is going to be located.
- Overall site plan and type of solutions.
- Identification and justification of services and facilities.
- Identification of environmental concerns and their treatment.
- Portions of the target groups expected to be served.

Financial

- Estimated costs of units,
- Funding source of services and facilities.
- Financial plan including mortgage estimates and monthly payments.

Administrative

- Implementation procedures
- Specification of GOP agency administering program.
- Specification of technical assistance requirements and funding source for same.

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Sub-Program III

Secondary Cities

- Identical requirements as urban upgrading projects depending upon whether sub-programs can be developed in Phase I.

Additional Disbursements. After the first disbursement, additional disbursements will be made on the basis of evidence submitted by BHN and satisfactory to AID that (a) shelter units have been completed and sold and the corresponding documents have been executed, (b) home improvement loans have been completed and the services for the improved areas are in operation. Reimbursement of the revolving fund by additional disbursements will be subject also to representations required for each of the sub-programs for which the additional resources will be used and for which the required documentation was not previously submitted. In addition, final reimbursement for each specific project will not be made until the identified services and facilities for such specific projects have been completed and delivered to the agency responsible for their operation.

E. Evaluation

Given the magnitude of the proposed program, it will be necessary to assess the effectiveness of each of the program outputs in contributing to the achievement of the program's goal and purpose. The Logical Framework is the most important document against which effectiveness and progress can be measured. Periodic and regular checks, based on the Logical Framework and the Planned Performance Tracking Network will be carried out in an effort to evaluate the program. The total evaluation system will essentially follow the guidelines established for all HG programs. Where baseline data on the target population does not exist, MIVI will carry out necessary surveys to obtain and compile it. Measurement of the baseline data results with the pre-established benchmarks and indicators of success as indicated on the Logical Framework will provide the basic element for evaluation. Three specific "in-depth" evaluations will be made in addition to the periodic and regular checks. Prior to the second and the third loan authorizations, in-depth evaluations will be made to ensure that the program's goals and purposes were met before continuing the program through additional loan authorizations. This early feedback, particularly on the program's impact on the proposed beneficiaries, will be especially important. This is all the more relevant when it is realized that this program will reach an estimated one family out of each nine in the designated target group population. The unique and potentially difficult urban renewal and upgrading program includes a family relocation component, and in order to prevent possible beneficiary dissatisfaction which will cause problems, it requires careful monitoring and evaluation. A final in-depth evaluation will be carried out at the conclusion of the third tranche.

As presented in this paper, it is expected that the funds authorized for the first phase will be used principally in project areas where MIVI is currently developing subprojects, such as San Miguelito (Torrijos-Carter project, Nuevo Colon, and Chorrera/Arraijan) all of which meet the development criteria established for this program. The objectives for this Phase are essentially the physical development of low-income shelter solutions; however, activities will be undertaken during this first stage to prepare for the implementation of the more complex Phase II subprojects and the attainment of those program objectives that are more diverse and all-encompassing than the development of physical projects. To measure whether these objectives were attained during Phase I, the following indicators of success will be used to evaluate Phase I as a condition prior to authorization of Phase II.

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1. Funds authorized for Phase I have been allocated, based on plans submitted to and approved by AID and the approved projects are in the design stage, under construction or completed and occupied.
2. BHN and MIVI have developed a financial/project construction implementation system so that project funding and construction activities are carried out in an orderly manner.
3. MIVI has prepared and adopted an environmental preservation plan to be applied to all MIVI projects.
4. In the financial sphere; a) the BHN secondary mortgage market program is operational; b) BHN has developed and put into operation an internal audit system; c) an analysis of BHN loan administration costs has been prepared and applied to new mortgage loan operations; d) GOP is implementing plans called for in this paper to correct the financial problem being confronted by the BHN.
5. MIVI and MIPPE efforts to effect a cohesive urban planning coordination are being achieved.
6. Plans and surveys with respect to the physical, social, and economic aspects of the Project have been completed for the sub-projects (urban renewal, Canal Zone projects, rural shelter projects) contemplated for Phase II.
7. A plan to incorporate some of the employment generation activities under the USAID employment strategy to this program has been completed.
8. The capacity of MIVI to deal with cooperative housing groups and prepare cooperative housing projects has been developed and the first loan for cooperative housing has been made.

Phase II encompasses a wider range of objectives than Phase I. Whereas the subprojects developed under Phase I assist in part in carrying out the entire gamut of the program's objectives, it is essentially in Phase II that the program begins to focus more closely on these objectives. These objectives have to do with strengthening the institutions involved in housing, improving the coordination between these institutions, promoting better urban planning, particularly as it relates to environmental protection, identifying employment generation opportunities, and fostering better community development. The indicators of success for Phase II to be applied prior to initiating Phase III are therefore somewhat different than Phase I, and are enumerated as follows:

- 1- Projects in the urban renewal areas, the Canal Zone area, and the rural areas, all of which were designed during Phase I, are successfully initiated.

2- The Environmental Policy is successfully applied to all projects developed by MIVI and/or financed by BHN.

3- Financial and management technical assistance to BHN has been completed and the BHN is operating efficiently and profitably.

4- The urban planning component of MIVI is functioning efficiently and coordination between the executing agencies is effective.

5- The planning for Phase III subprojects has been completed.

6- The Employment Generation plan has been adopted and integrated into the program.

7- The Cooperative Housing Department of MIVI is operating on a sustaining basis.

8- Technical Assistance to MIVI's Social Service Department has been completed and the expected outputs generated.

Phase III will consist of a continuation and refinement of the sub-programs and sub-projects initiated during the first two phases.

F. AID Program Administration

The RHUDO Office in Panama will be responsible for implementing this program. This will include review and approval of proposals and plans for each sub-project to ensure that each proposal meets the criteria set by this Project Paper and the several agreements on which the program is based. RHUDO must be assured that prior to each disbursement, MIVI and BHN have met the conditions precedent to disbursement. It will also coordinate the technical assistance component of the program.

The RHUDO will be back-stopped by the AID Office of Housing in Washington, which will offer advice, guidance, and consulting services as required.

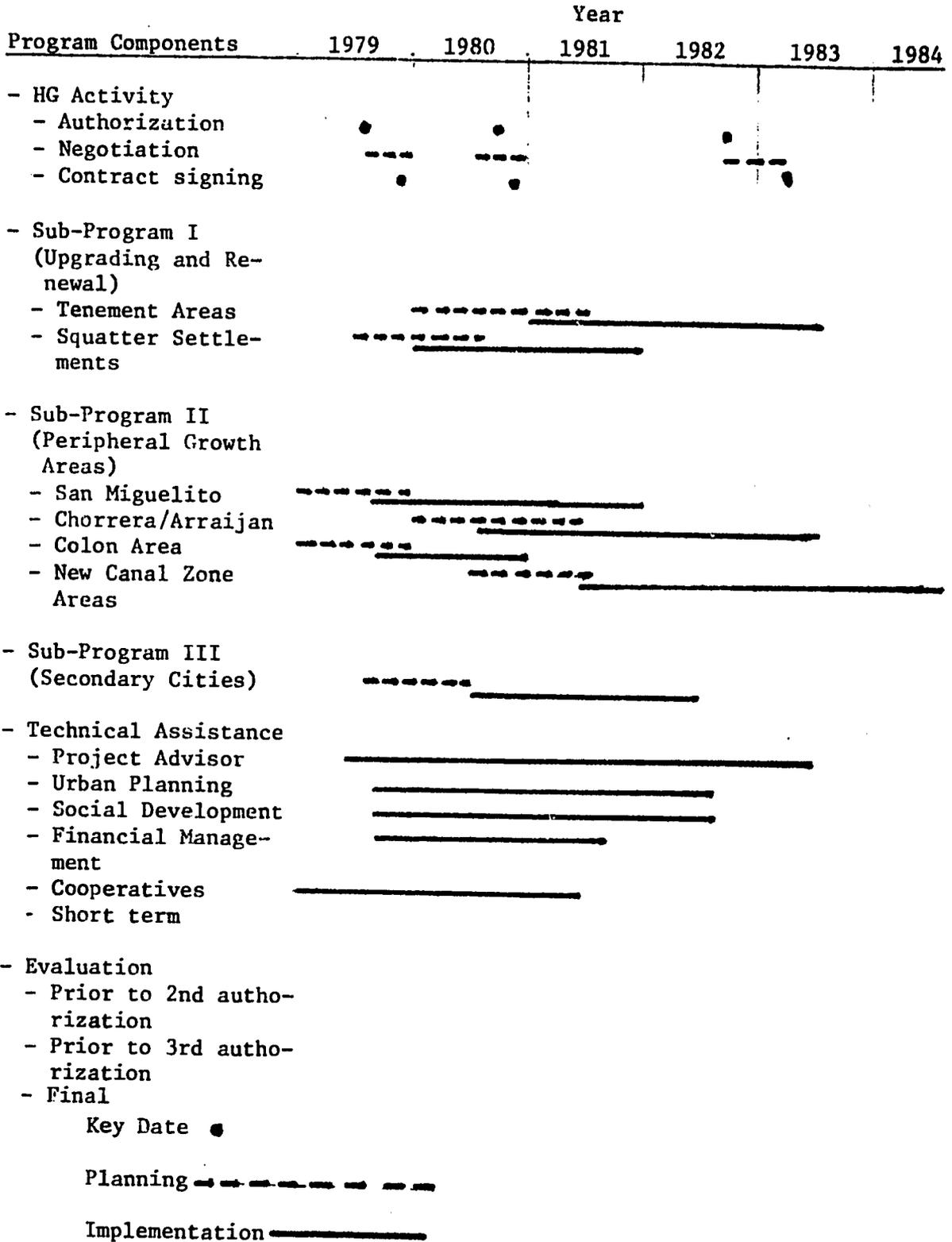
A substantial technical assistance effort funded by AID will be mounted to ensure the speedy implementation of the program.

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G. Program Scheduling

A Planned Performance Tracking Network has been prepared to assist in program scheduling. The Network demonstrates the sequence of events to take place to ensure an orderly and well planned program development. The events are scheduled to lead logically to a key event; for example, prior to the first disbursement at the end of 1979, a number of stages beginning with the approval of this Project Paper must be completed. The Network shows that events take place sequentially in order to ensure that the planning and design of the sub-projects coincide with their scheduled implementation. Technical Assistance, which is basic to the implementation of this program is fed into the tracking plan at intervals timed for most effective use. This network is also invaluable as a program evaluation tool.

Program Development Schedule



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H. Covenants and Negotiating Status

1. Covenants

The GOP agrees to the following special covenants:

- a. 50% of the program funds will be invested in shelter solutions for families whose incomes fall below the 25th percentile of income distribution scale in the urban or rural area where the projects are developed.
- b. BHN/MIVI/MIPPE intend to fully use the technical assistance described in this program.
- c. MIVI will give priority to new construction projects designated for families affected by the urban renewal sub-program.
- d. MIVI will use cooperative techniques to the greatest extent possible in implementing this program.
- e. The GOP will provide counterpart financing equal to 20% of each mortgage loan as well as funds for community services and facilities as outlined in this document.
- f. BHN will not borrow additional resources without approval from A.I.D.
- g. BHN will periodically analyze the real costs of administering the loans originated by this program and make adjustments in the interest rate to the beneficiaries, as required, to ensure institutional viability of the BHN.
- h. MIVI will prepare for A.I.D. a study for each project demonstrating land use suitability and environmental engineering feasibility.
- i. MIVI will establish an interdisciplinary team to ensure project compatibility with urban growth policies in the initial Project Identification Report.
- j. MIVI will adopt erosion and sedimentation control guidelines for project design and implementation.
- k. MIVI will secure commitments from the appropriate GOP institutions to undertake: (a) inspections and maintenance of community sanitary waste collection, treatment and disposal facilities; and (b) the provision of basic infrastructure services and community facilities.

2. Negotiating Status

Once the loan is authorized, a Letter of Advice will be sent to the Banco Hipotecario Nacional, which in this case is the Borrower, and a notice will be placed in The Federal Register to invite interested Lenders to submit proposals in regard to the Loan.

The Banco Hipotecario Nacional, in consultation with the Executive Committee, will enter into negotiations with the objective of obtaining financing for the Program under the best terms and conditions possible.

The terms and conditions of the four basic documents of the project guaranty will be negotiated simultaneously.

The legal documents are:

- The Loan Agreement between the Investor and the Banco Hipotecario Nacional (BHN).
- The Guaranty Contract: AID and the Investor.
- The Implementation Agreement: AID, the Banco Hipotecario Nacional and the Ministry of Housing (MIVI).
- The Guaranty Agreement of the Republic of Panama: AID and GOP.
- Before these documents are executed, a Supreme Decree of the Cabinet Council approving the loan and the guaranty of the GOP must be presented.

DEPARTMENT OF STATE
 AGENCY FOR INTERNATIONAL DEVELOPMENT
 WASHINGTON, D.C. 20523

GUARANTY AUTHORIZATION

Provided from: Housing Investment Guaranty Authority
 Panama: National Mortgage Bank
 Project: Shelter and Community Upgrading #525-HG-011

Pursuant to the authority vested in the Assistant Administrator, Bureau for Latin America and the Caribbean, by the Foreign Assistant Act of 1961, as amended (FAA), and the delegation of authority issued thereunder, I hereby authorize the issuance of guaranties pursuant to Section 222 of the FAA of not to exceed twenty five million (\$25,000,000) in face amount, assuring against losses of not to exceed one hundred percentum (100%) of loan investment and interest with respect to loan(s) by eligible U.S. investors acceptable to A.I.D. made to finance shelter and community upgrading for low income families in Panama.

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

1. Term of Guaranty: The loan(s) shall extend for a period of up to thirty years (30) from the date of disbursement of the first installment of the loan, including a grace period on the repayment of principal not to exceed ten (10) years. The guaranty on the loan(s) shall extend for a period beginning with the first disbursement of the loan(s) and shall continue until such time as the Investor has been paid in full pursuant to the term of the loan(s).

2. Interest Rate: The rate of interest payable to the Investor pursuant to the loan(s) 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 loan(s) made in the long-term United States capital markets.

3. Government of Panama Guaranty: The Government of Panama shall provide for a full faith and credit guaranty indemnifying A.I.D. in United States dollars 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 by Borrower in dollars and shall be one-half of one percentum ($\frac{1}{2}\%$) per annum of the outstanding guarantied amount of the loan(s) plus the fixed amount of \$250,000 to be paid as A.I.D. may determine upon disbursement of the loan(s).

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

Abelardo L. Valdez
Assistant Administrator
Bureau for Latin America and the
Caribbean

Date

Clearance:

DS/H:David McVoy DM 8/5/79
GC/H:Michael Kitay JK 8-9-79
DS/H:Margery Sorock MS 8/8/79
SER/FM/LD:Arthur Smith _____
LAC/DR:Carol Peasley _____
LAC/DR:Carl Leonard _____
LAC/DR:Marshall Brown _____
LAC/CEN:William Luken _____
GC/LAC:Judd Kessler _____

DEPARTMENT OF STATE
 AGENCY FOR INTERNATIONAL DEVELOPMENT
 WASHINGTON, D.C. 20523

THE HOUSING GUARANTY PROGRAM

STATUTORY CHECKLIST

PANAMA

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;
- (2) is intended to assist in marshalling resources for low-cost housing;
- (3) supports a pilot project for low-cost shelter, or
- (4) is intended to have a maximum demonstration impact on local institutions and national policy;
- (5) 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 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 \$1,180,000,000? -- No

Will the guaranty be issued prior to September 30, 1980? -- Yes

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;
- (2) projects comprised of expandable core shelter units on serviced sites;
- (3) slum upgrading projects designed to conserve and improve existing shelter;

- 2 -

- (4) shelter projects for low-income people designed for demonstration or institution building; and
- (5) community facilities and services in support of projects authorized under this section to improve the shelter occupied by the poor? -- Yes

Section 222(c)

In implementing the project will consideration be given to the use of solar energy technologies, where economically or technically feasible? -- Yes

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(i)

Will the Guaranty Agreement provide that no payment may be made under any guaranty issued for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible? -- Yes

Section 223(j)

- (1) Is the host country a country that is presently receiving development assistance under chapter I of part I of the Act or one that has received such assistance in the preceding two years? -- Yes
- (2) Will the proposed Housing Guaranty be coordinated with and complementary to other development assistance in the host country? -- Yes
- (3) Will the proposed Housing Guaranty demonstrate the feasibility of particular kinds of housing and other institutional arrangements? -- Yes

Is the project designed and planned so that of the aggregate face value of housing guaranties to be issued, not less than 90 percent shall be issued for housing for families below the median income, or below the median urban income for housing in urban areas, in the host country? -- Yes

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

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

Section 238(c)

Will the guaranty agreement provide that it 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 620/620-A

1. 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

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

UNCLASSIFIED: ANNEX 3
Department of State

OUTGOING
TELEGRAM

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ORIGIN AID-31

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STATE 003810

INFO OCT-81 HA-85 APA-15 L-03 EB-78 /053 R

DRAFTED BY LAC/DR:OMACKENZIE:KML
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CC/H:MKITAY
LAC/GR:GPEASLEY/RMATHIA (DRAFT)
LAC/CP:ABENJAMIN (DRAFT)
LAC/CEH:HMARVITZ (DRAFT)
DS/H:MSOROCK
LAC/DP:JSCHLOTTHAUER (DRAFT)

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A.I.D.
OFFICE OF HOUSING

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TAGS:

SUBJECT: PID - SHELTER IMPROVEMENTS FOR THE POOR
(G/GRANT)

1. THE DAEC REVIEWED AND APPROVED THE SUBJECT PID ON
DECEMBER 12, 1978. THE FOLLOWING GUIDANCE IS PROVIDED
TO ASSIST THE MISSION IN PREPARING THE PROJECT PAPER.

2. PROGRAM FRAMEWORK.

--A. PROGRAM SCOPE. THE PID DISCUSSES ONLY THOSE
HOUSING ACTIVITIES PROPOSED UNDER THE DOLS. 25 MILLION
FY 79 HG. HOWEVER, SINCE THREE HG'S TOTALLING DOLS. 75
MILLION ARE PLANNED OVER THE NEXT FIVE YEARS, THE PP
SHOULD PRESENT AN INTEGRATED PROGRAM COVERING ALL THREE
HG TRANCHES AND RELATED TECHNICAL ASSISTANCE. DETAILED
DESCRIPTION AND ANALYSIS OF PROPOSED PROJECT ACTIVITIES
WILL BE REQUIRED, HOWEVER, ONLY FOR THE INITIAL DOLS. 25
MILLION. ADDITIONAL ANALYSIS AND PROJECT DOCUMENTATION
REQUIREMENTS FOR THE SUBSEQUENT TRANCHES WILL BE
IDENTIFIED FOLLOWING EVALUATION OF THE FIRST TRANCHE.

--B. PROGRAM STRATEGY. THE PP SHOULD OUTLINE AN OVER-
ALL STRATEGY FOR THE ENTIRE DOLS. 75 MILLION HG PACKAGE,

INCLUDING A DISCUSSION OF THE RELATIVE BALANCE BETWEEN
OBJECTIVES TO (I) INCREASE AND IMPROVE PHYSICAL HOUSING,
(II) IMPROVE THE GOP'S INSTITUTIONAL CAPACITY TO PROVIDE
LOW COST HOUSING, AND (III) GENERATE DOMESTIC RESOURCES
FOR LOW COST HOUSING FINANCE. THE PP SHOULD ARTICULATE
THE SPECIFIC OBJECTIVES OF THE FY 79 HG PROGRAM AND
THEIR RELATIONSHIP TO THE OVERALL HOUSING STRATEGY
AND MISSION GOALS.

1. SUBPROJECT SELECTION.

--A. LOCATION. BECAUSE OF THE NEED TO INTEGRATE
COMMUNITY SERVICES AND FACILITIES, BASIC INFRASTRUCTURE,
AND EMPLOYMENT OPPORTUNITIES WITH HOUSING PROGRAMS,
THE PP SHOULD SPECIFY CRITERIA FOR THE LOCATION AND
TIMING OF SUBPROJECTS AND THEIR RELATED COMPONENTS.
THE PP SHOULD ALSO DISCUSS HOW THESE CRITERIA FOR SUB-
PROJECT LOCATION RELATE TO LAND USE PLANS AND GUIDE-
LINES PRODUCED BY THE WATERSHED MANAGEMENT PROJECT AND

THE NEWLY-FORMED PANAMA CANAL AUTHORITY.

--B. TARGET GROUPS. THE PID DESCRIBES THE NEED TO
REACH THE LOWEST INCOME GROUPS ON A SUBSTANTIALLY
INCREASED SCALE. ALTHOUGH THE SOLUTIONS PROPOSED IN
THE ILLUSTRATIVE LIST OF PROJECTS ARE AFFORDABLE TO
FAMILIES WELL BELOW THE MEDIUM, FURTHER ANALYSIS
SHOULD BE DONE TO DETERMINE WHETHER IT WOULD BE FEASIBLE
AND DESIRABLE TO EXPAND THE NUMBER OF MORE MODEST
SOLUTIONS (AND THEREFORE THE NUMBER OF BENEFICIARIES)
THAT ARE WITHIN REACH OF FAMILIES IN THE LOWEST QUINTILE.
THE PP SHOULD INCLUDE AN ANALYTICAL PROFILE OF SUBPRO-
JECT BENEFICIARIES AND SHOULD MAKE THE CASE THAT THE
PROPOSED DISTRIBUTION OF SOLUTIONS IS REASONABLE IN
LIGHT OF THE MISSION GOALS, OVERALL HG PROGRAM STRATEGY,
MARKET DEMAND, ABILITY TO PAY, TARGET GROUP EQUITY AND
FINANCIAL, TECHNICAL AND ADMINISTRATIVE FEASIBILITY.

4. INSTITUTIONAL ANALYSIS.

--A. INSTITUTIONAL CAPACITY. IN RECOGNITION OF THE
ORGANIZATIONAL SHORTCOMINGS OF NIVI, MPPE AND THE BNP
NOTED IN THE PID AND BY THE DAEC, THE PP SHOULD DISCUSS
THE IMPLICATIONS OF GOP INSTITUTIONAL WEAKNESSES FOR THE
PHASING OF THE FIRST TRANCHE AND THE ABSORPTION OF
SUBSEQUENT HG FUNDS, AND PRESENT A DETAILED TECHNICAL
ASSISTANCE PACKAGE TO ALLEVIATE THESE INSTITUTIONAL
BOTTLENECKS. THIS MIGHT INCLUDE CONSIDERATION OF THE

BNP OR OTHER FINANCIAL INSTITUTION AS IMPLEMENTING AGENT
IF THE USE OF THE BNP IS DEEMED UNACCEPTABLE BY THE
MISSION. SINCE ACTUAL DESIGN AND CONSTRUCTION
ACTIVITIES WILL INVOLVE IDAAN, INRE AND OTHER GOP
INSTITUTIONS, THEIR CAPABILITIES VIS-A-VIS PROJECT
REQUIREMENTS SHOULD ALSO BE ADDRESSED.

--B. INSTITUTIONAL COORDINATION. BECAUSE OF THE
COMPLEX NATURE OF THIS PROJECT, THE PP SHOULD
DEMONSTRATE HOW THE COORDINATION AND REVIEW PROCESS
AMONG THE THREE KEY GOP ACTORS (NIVI, MPPE AND THE
PANAMA CANAL AUTHORITY) WILL BE EFFECTED. THE PP SHOULD
ALSO DISCUSS COORDINATION WITH OTHER DONORS (E.G., THE
WORLD BANK AND ITS COLON DEVELOPMENT PROJECT) AND
OTHER COMPLEMENTARY AID AND GOP PROGRAMS IN HEALTH AND
NUTRITION, EDUCATION, EMPLOYMENT GENERATION AND
INDUSTRIAL/COMMERCIAL DEVELOPMENT, ETC.

5. PROJECT MANAGEMENT --SUB-PROJECT APPROVAL MECHANISM

--A. IMPLEMENTATION PROCESS. BECAUSE ONE OF THE
OBJECTIVES OF THE AID SHELTER PROGRAM IN PANAMA (AS
STATED IN THE PID) IS TO STRENGTHEN THE INSTITUTIONAL
FRAMEWORK TO IMPLEMENT GOP SHELTER POLICIES, AND IN
ORDER TO MINIMIZE DIRECT AID SUPERVISORY ACTIVITIES,
WE SUGGEST THAT A HIGH DEGREE OF IMPLEMENTATION
RESPONSIBILITY BE ASSIGNED TO THE GOP. IN THIS REGARD,
THE PP WILL FIRST NEED TO (I) OUTLINE THE GENERAL
PROCESS THROUGH WHICH SPECIFIC SUBPROJECTS ARE IDENTIFIED,
ANALYZED AND DESIGNED; (II) DISAGGREGATE THE ROLES AND
RESPONSIBILITIES OF THE GOP IMPLEMENTING AGENCIES; AND
(III) INDICATE WHERE AND HOW ENVIRONMENTAL, SOCIAL,
PHYSICAL AND ECONOMIC CONCERNS WILL BE CONSIDERED IN
THE IMPLEMENTATION PROCESS. ONCE SUBPROJECT CRITERIA
HAVE BEEN ESTABLISHED AND AN IMPLEMENTATION PLAN (SEE
PARA. 5. B) HAS BEEN APPROVED BY THE MISSION IN
COLLABORATION WITH NIVI, MPPE, THE PANAMA CANAL AUTHORITY
AND OTHER RELEVANT GOP AGENCIES, FORMAL AID REVIEW
WOULD END AND THE ACTUAL SUBPROJECT DEVELOPMENT AND
APPROVAL PROCESS WOULD BEGIN. THIS WOULD BE AN

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INTERNAL GOP PROCESS WHEREBY PLANS, SPECIFICATIONS, COSTS AND CONSTRUCTION SCHEDULES WOULD BE DEVELOPED BY NIVI FOR REVIEW AND CERTIFICATION BY MPPE AND THE PANAMA CANAL AUTHORITY AS TO CONSISTENCY WITH (I) THE IMPLEMENTATION PLAN AND (II) LAND USE GUIDELINES AND LOCATION CRITERIA DEVELOPED BY THESE INSTITUTIONS.

--B. IMPLEMENTATION PLAN. IN ORDER TO ENSURE PROPER FUNCTIONING OF THE IMPLEMENTATION PROCESS, WE SUGGEST THAT A TIME-PHASED IMPLEMENTATION SCHEDULE BE INCLUDED AS A CONDITION PRECEDENT TO INITIAL DISBURSEMENT OF NG FUNDS. THE PP SHOULD OUTLINE WHAT WILL BE REQUIRED OF THE GOP IN THIS IMPLEMENTATION PLAN. AS A MINIMUM, WE SUGGEST THAT THE PLAN INDICATE WHEN AND HOW SUB-PROJECTS, ON-SITE AND RELATED OFF-SITE INFRASTRUCTURE AND COMMUNITY FACILITIES ARE TO BE PHASED; DETAIL THE ROLES AND RESPONSIBILITIES OF GOP IMPLEMENTING AGENCIES; AND OUTLINE GENERALIZED CONSTRUCTION AND OPERATION SCHEDULES. THE IMPLEMENTATION PLAN SHOULD ALSO INCLUDE (I) PRELIMINARY DESIGNS, SPECIFICATIONS, SITE AND SUBDIVISION/URBANIZATION PLANS; (II) PRELIMINARY COST ESTIMATES FOR HOME CONSTRUCTION, ON-SITE INFRASTRUCTURE AND COMMUNITY FACILITIES; AND (III) AN EVALUATION PLAN (SEE PARA. 5. C). THE GOP SHOULD ALSO AGREE THAT FINAL PLANS, SPECIFICATIONS AND BID DOCUMENTS WILL BE PREPARED IN TIME FOR CERTIFICATION AND THAT RELATED OFF-SITE INFRASTRUCTURE NOT FINANCED BY THE LOAN WILL BE MADE AVAILABLE ON A TIMELY BASIS IN ACCORDANCE WITH THE PREPARED IMPLEMENTATION PLAN.

--C. EVALUATION. THE PP SHOULD INCLUDE AN EVALUATION PLAN WHICH INDICATES HOW PRELIMINARY EVALUATION RESULTS OF THE FIRST TRANCHE CAN BE INCORPORATED INTO THE DESIGN AND IMPLEMENTATION OF THE SECOND AND THIRD TRANCHES. THE PP SHOULD ALSO PROVIDE SUFFICIENT BASELINE DATA TO MAKE RELEVANT EVALUATION POSSIBLE. EVALUATION OF THE 1973 LOW INCOME HOUSING LOAN (L-039) MIGHT PROVIDE USEFUL GUIDANCE IN DESIGNING A PLAN FOR THIS PROJECT.

6. INTEREST RATES. BECAUSE OF THE BHM LEGAL MORTGAGE MAXIMUM OF 9 PERCENT AND THE CURRENT FHA BENCHMARK AT 9 AND 1/2 PERCENT, QUESTIONS WERE RAISED CONCERNING THE LONG TERM VIABILITY OF THE NG FUNDING MECHANISM. THE PP, THEREFORE, SHOULD DISCUSS ALTERNATIVE WAYS IN WHICH CONTINUED USE OF NG FUNDS CAN BE ENSURED, INCLUDING RAISING THE GOP INTEREST CEILING, MIXING NG AND BHM FUNDS, VARIABLE PAYMENT SCHEDULES AND LONGER PAYBACK PERIODS, AND/OR LESS EXPENSIVE SOLUTIONS. THE SELECTION OF ALTERNATIVES SHOULD BE BASED ON A DETAILED ANALYSIS OF PROPOSED MORTGAGE INTEREST RATES, COMPARING ABILITY TO PAY AND EQUITY CONSIDERATIONS OF THE TARGET GROUPS TO THE DECAPITALIZATION OF HOUSING INVESTMENT FUNDS AT LESS THAN MARKET RATES OF INTEREST AND THE PRACTICAL NECESSITY FOR BORROWERS TO PAY THE FULL COST OF SHELTER

--
WHENEVER POSSIBLE.

7. DEBT SERVICE. IN VIEW OF THE DIFFICULT DEBT SERVICE SITUATION FACED BY PANAMA, THE PP SHOULD ADDRESS POTENTIAL EXACERBATION OF THIS SITUATION DUE TO THE INFLOW OF NG FUNDS AND THE EFFECTS OF THE PROGRAM ON A COMPREHENSIVE STRATEGY TO OVERCOME THE DEBT SERVICE OVERBURDEN.

8. COMMUNITY FACILITIES. BECAUSE OF THE IMPORTANCE OF COMMUNITY FACILITIES FOR ACHIEVING PROJECT PURPOSES, THE PP SHOULD DESCRIBE IN DETAIL HOW NG FUNDS WILL

FINANCE SUCH FACILITIES AND HOW THE FINANCIAL MECHANISMS SELECTED RELATE TO TARGET GROUP EQUITY. THE MISSION SHOULD ALSO EXPLORE THE POSSIBILITY OF USING COMPLEMENTARY LOANS (E.G., IN EDUCATION, HEALTH, MANPOWER TRAINING, ETC.) AND/OR HAVING THE GOP DIRECTLY FINANCE THESE FACILITIES.

9. PROJECT FUNDING. THE GRANT FUNDING LEVELS AND SOURCES FOR TECHNICAL ASSISTANCE PROPOSED IN THE PID APPEAR UNREALISTIC AT THIS TIME. WHILE A DOLS. 400,000 FUNDING PACKAGE IS ENVISIONED FROM DSM, THE IUPUP FUNDS ARE NOT LIKELY TO BE FORTHCOMING IN THE AMOUNTS SUGGESTED IN THE PID. MOREOVER, THE BUREAU HAS NO GRANT FUNDS CURRENTLY AVAILABLE AND FUTURE FUNDING PROSPECTS ARE NOT ENCOURAGING. IT IS SUGGESTED, THEREFORE, THAT THE PP INCLUDE A DETAILED ANALYSIS OF TECHNICAL ASSISTANCE REQUIRED TO ACHIEVE PROJECT PURPOSES. IF THE COST OF THIS T.A. IS HIGHER THAN THE GRANT FUNDS LIKELY TO BE AVAILABLE, THE MISSION MAY WISH TO CONSIDER THE POSSIBILITY OF A TECHNICAL ASSISTANCE LOAN IN CONJUNCTION WITH THE NG LOANS. VANCE

AID 1020-28 (7-71)
SUPPLEMENT IPROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK(INSTRUCTION: THIS IS AN OPTIONAL
FORM WHICH CAN BE USED AS AN AID
TO ORGANIZING DATA FOR THE PAR
REPORT. IT NEED NOT BE RETAINED
OR SUBMITTED.)Life of Project:
From FY 79 to FY 84
Total U.S. Funding \$75 million
Date Prepared: 5-9-79Project Title & Number. Shelter and Community Upgrading #525-HG-011

PAGE 1

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes:</p> <p>Improve living condition of urban and rural low-income Panamanian families.</p>	<p>Measures of Goal Achievement:</p> <p>By 1985, production rate of low-income shelter solutions by GOP will have increased by 100%.</p>	<p>Records - Ministry of Housing and Ministry of Planning. Final Evaluation Report. Panamanian Department of Statistics and Census.</p>	<p>Assumptions for achieving goal targets:</p> <p>GOP and agencies policies and actions contribute necessary resources and priorities to low income shelter and services activities.</p>

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

HD 1020-20 (7-71)
SUPPLEMENT I

Life of Project:
From FY 79 to FY 84
Total U.S. Funding \$75 million
Date Prepared: 5-9-79

Project Title & Number: Shelter and Community Upgrading #525-HG-011

PAGE 2

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Project Purpose: Increase capability of public and private housing sector to implement programs of improved shelter and community services by:</p> <ol style="list-style-type: none"> 1. Developing BHN as the key GOP housing finance institution. 2. Improving planning capability of MIVI/MIPPE and enhancing coordination of GOP implementing institutions. 3. Directing resources to provide shelter solution for low-income families. 4. Improving cooperative housing development capacity. 5. Developing labor intensive techniques within MIVI to build low-income housing and to generate employment. 	<p>Conditions that will indicate purpose has been achieved: End of project status.</p> <ol style="list-style-type: none"> 1. BHN operating deficit eliminated by 1985. Secondary Mortgage Market in operation. 2. Planning capability operational and institutionalized. Operational budgets of implementing agencies coordinated. BHN/MIVI effectively producing solutions for low income families at a rate equal to 25% of the total annual increase in number of those families in the metro region. A cooperative housing development system established by 1980. Number of cooperative housing units tripled over 1980 level (2,500 units) by 1984. Employment in construction sector exceeds 1973 peak on sustained basis by 1982. 	<ol style="list-style-type: none"> 1. BHN Financial Statement. 2. Examination of planning documents. Periodic evaluation reports. Examination of agencies budgets 1981-81-83-84. Publication of plan documents. MIVI studies, records, reports. FCH/AID report and MIVI records. Ministry of Labor statistics. 	<p>Assumptions for achieving purpose:</p> <ol style="list-style-type: none"> 1. GOP continues financial support of BHN. BHN securities are attractive investments in local market. 2. GOP supports planning efforts and gives clear directions. Budgeting process requires institutions to coordinate annual development activities. GOP pursues coordinated planning approach. GOP policy commitment to continue to direct resources to families below the median income level. MIVI commitment to use cooperative housing system continues. MIVI makes commitment to employ labor intensive construction techniques.

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

AID 1020-20 (7-71)
SUPPLEMENT 1

Life of Project:
From FY 79 to FY 84
Total U.S. Funding \$75 million
Date Prepared: 5-9-79

Project Title & Number: Shelter and Community Upgrading #525-HC-011

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Outputs:</p> <ol style="list-style-type: none"> New low-income shelter solutions. <ol style="list-style-type: none"> in tenement areas. in urban growth areas. in secondary cities and towns. Improved existing shelters: <ol style="list-style-type: none"> in center city squatter areas. in urban growth areas. in secondary cities and towns. New community facilities and services installed and operating: <ol style="list-style-type: none"> in center city tenement and squatter areas. in urban growth areas. in secondary cities and towns. Improved infrastructure services: <ol style="list-style-type: none"> in center city tenement and squatter areas. in urban growth squatter areas. Increased employment in construction sector. Financial Plan, Financial management system, secondary mortgage market system, internal audit system are all developed for BHN. Program and long range plans prepared for metro region urban development programs, environmental policies and practices adopted by MIPPE/MIVI housing policy studies prepared and housing policy prepared. 	<p>Magnitude of Outputs:</p> <ol style="list-style-type: none"> Units completed and occupied: <ol style="list-style-type: none"> 2,000 by 1983 11,700 by 1984 2,100 by 1982 Loans made and home improvements completed by: <ol style="list-style-type: none"> 800 by 1983 2,500 by 1984 700 by 1982 Value of community facilities, schools, health posts, commercial areas, transportation recreation, by: <ol style="list-style-type: none"> \$1.0 million by 1983 5.50 million by 1982 0.40 million by 1982 Value improved access, water supply, storm & sanitary sewers, etc., by: <ol style="list-style-type: none"> \$1.8 million by 1983 \$2.7 million by 1984 <ol style="list-style-type: none"> 2000 direct on site jobs for 5 years. 3500 indirect jobs for 5 years. Financial plan adopted, policies, procedures and operations manuals prepared and staff increased and trained in use of systems; mid management positions established for systems. 	<ol style="list-style-type: none"> MIVI/BHN records and progress reports. MIVI/BHN records and progress reports. MIVI/BHN/other GOP institution records and progress reports. MIVI/IDAAN/MOP/Other GOP Records, AID Progress Reports. CAPAC Records. Ministry of Labor records. AID reports BHN records. MIVI/MIPPE/GOP published documents AID Consultant and T.A. reports. AID, MIVI, and other GOP agency records and manuals. MIVI, FUNDAVICO, NUEVO CHORRILLO documents. FCH OPG Reports. 	<p>Assumptions for achieving outputs:</p> <ol style="list-style-type: none"> <ol style="list-style-type: none"> suitable sites available for development at reasonable cost inflation is not excessive (over 8%) effective demand materialize. <ol style="list-style-type: none"> self-help groups and informal sector contractors are effective adequate materials supply and control system is established sufficient home improvement loan demand can be promoted. GOP agencies have identified or budget counterpart funds sufficient for investments. GOP financing available. <ol style="list-style-type: none"> labor use for construction remains high. relation of direct to indirect jobs is valid for Panama construction industry. GOP Commitment to salvage BHN continues. Agreement and coordination among various GOP Planning authorities can be achieved. <ol style="list-style-type: none"> MIVI/BHN commits resources for development of cooperative projects. working relationships can be established between MIVI-FUNDAVICO-NUEVO CHORRILLO.

FIG 1020-20 (7-71)
SUPPLEMENT I

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project: _____
From FY 79 to FY 84
Total U.S. Funding \$75 million
Date Prepared: 5/9/79

Project Title & Number: Shelter and Community Upgrading #525-HG-011

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Outputs:</p> <p>8. Project development process established including environmental, site planning, social planning community development and participation studies practices and procedures, interagency implementation/coordination procedures established for BHN/MIVI/ IDAAN/MOP & others</p> <p>9. MIVI cooperative development office established. Total cooperative housing system rationalized.</p>	<p>Magnitude of Outputs:</p> <p>system; mid management positions established for systems.</p> <p>7. Specific development policies and recommendations put in effect by GOP action. Housing policy published.</p> <p>8. Specific project plans developed and approved incorporating indicated practices. A total of 19,800 solutions provided in projects prepared under new process/procedures.</p> <p>9. Procedures, policies and operations manuals for MIVI office adopted. MIVI office staffed and trained. MIVI-FUNDAVICO-NUEVO CHORRILLO inter-relationship established. Approx 2,500 housing solutions developed through cooperatives.</p>		<p>Assumptions for achieving outputs:</p>

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

AID 1977-28 (S-71)
SUPPLEMENT 1

Life of Project:
From FY 75 to FY 80
Total U.S. Funding \$24 million
Date Prepared

Project Title & Number. Shelter and Community Upgrading - #525-HG-011

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Inputs:</p> <ol style="list-style-type: none"> 1. HG Program Loans 2. Local Investment <ol style="list-style-type: none"> A. GOP counterpart B. Down Payments 3. Technical Assistance <ol style="list-style-type: none"> A. Short Term B. Long Term 	<p>Implementation Target (Type and Quantity)</p> <ol style="list-style-type: none"> 1. Three HG program loans to BHN of \$25 million each. 2. GOP, BHN and other funds totaling <ol style="list-style-type: none"> A. \$14 million for housing \$6.4 million for facilities and services B. \$8.6 million down payments for shelter solutions 3. A. Long Term Assistance <ul style="list-style-type: none"> - 48 person months project advisor - 36 person months urban planning. - 36 person months-social development - 48 person months-cooperatives - 24 person months-financial management B. Short term assistance <ul style="list-style-type: none"> - 6 person months-environmental preservation - 6 person months-housing policy - 5 person months-information systems - 4 person months-site planning - 12 person months-community development - 4 person months-financial institution development - 4 person months-internal audit 	<ol style="list-style-type: none"> 1.-3. AID, GOP, Investor, MIVI, BHN reports and records 	<p>Assumptions for providing inputs:</p> <ol style="list-style-type: none"> 1. U.S. investors can be located 2. BHN financial condition and GOP and GOP commitment of resources is timely and adequate 3. Technical expertise can be contracted, GOP retains interest in receiving assistance. Funds for technical assistance can be authorized from AID sources.

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EVENTS

Cooperative housing advisors begin O.P.G.
PID approved, planning and design begin, PP work begins,
PP approved- FY 79 \$25 million authorized
Program Implementation/Coordination tech. assistance starts
BHN/MIVI/MIPPE begin work on C.P.'s, housing finance/management T.A. begins
Begin urban planning tech. assistance
Begin social planning tech. assistance
Negotiations and agreements complete-Fy 79 \$25 million under contract
Planning and design initial projects SP III complete
Planning and design initial projects SP II complete
BHN plan complete, C.P's first drawdown met.
First drawdown, \$15 million HG funds
Construction procurement/arrangement SP III complete, construction starts
Project promotion, community organization SP II begins
Environmental protection T.A. complete, policies in effect
MIVI cooperative housing section in operation
Planning and design initial projects SP I complete
Construction procurement/arrangements complete, construction starts SPI
Construction 2nd. stage projects SP II complete, delivery starts
Planning and design all projects SP III complete
Community development T.A. complete, MIVI staff trained
Innovative site planning T.A. complete, MIVI staff trained
Secondary mortgage market T.A. complete, market in operation
Project and MIVI information system installed, T.A. complete
Construction of initial projects SP III complete
Delivery of units initial projects SP II complete, mortgages recorded
Cooperative housing T.A. complete, (OPG), MIVI section takes over
First progress evaluation report FY 81 \$25 million authorized
Negotiation and agreements complete -FY 81 \$25 million under contract
Delivery of initial units SP III complete, mortgages/loans registered
Planning and design all projects SP II complete
Planning and design all projects SP I complete
Internal audit T.A. complete, audit system in operation
Construction of all projects SP III complete
Construction of final projects SP II begins
Construction of final projects SP I begins
Second progress evaluation report-FY 83 \$25 million authorized
Negotiations and agreements complete-FY 83 \$25 million under contract
Delivery of initial SP I units complete, mortgages recorded
Delivery of all SP III units complete
Project managements/coordination T.A. complete (tentative extension)
Social Planning T.A. complete, social system installed
Urban planning T.A. complete, capacity improved
Evaluation of T.A. complete
Construction of all SP I units complete
Delivery of all SP I units complete, mortgages recorded
Construction of all SP II units complete
Delivery of all SP II units complete, mortgages/loans recorded
Tentative project management/coordination terminates
Final drawdown HG funds
Final evaluation complete

TARGET GROUP POPULATION AND INCOME DATA1. Population Data

The source of the population data is the "Dirección de Estadísticas y Censos" of the Comptroller General's Office of the Republic of Panama. Based on the results of the 1970 census, DEC computed mid-year population estimates for each year from 1970 to 1980 at the national, provincial and district levels. For purposes of this exercise, the 1978 estimates at the national and provincial levels were used. These estimates did not, however, breakdown the data further into urban and rural population. The Mission estimated urban and rural population based on additional information obtained from the 1970 Census, Vol. III, "Compendio General de Población," page 8 - Table 4 - "Población de los lugares urbanos de la República por Provincia: Censos de 1960 y 1970" and from "Panama en Cifras" Octubre de 1975, page 38, Table 211-04, "Población de las Ciudades más importantes de la República: Censos de 1950 a 1970 y estimación a 1980."

The Panamanian census defines "urban" as more than 1500 people residing in a place wholly or partly served by piped water and sewerage, paved streets and sidewalks, electricity, a secondary school and commercial, social and recreational services. The 1970 census lists 33 urban places in the Republic. The DEC published in the 1975 "Panama en Cifras" 1980 population estimates for the 7 largest urban places which in the aggregate accounts for approximately 85% of the total urban population. In estimating the urban population for 1978, the average annual increase was computed for the 7 centers using the 1970 census data and the 1980 estimates by DEC. This factor was applied against the 1970 data for an eight-year period. The remaining 26 centers with about 15% of the population was estimated by projecting growth at their 1960-1970 intercensal rate. The rural population was obtained by a simple subtraction of this estimated urban population in each province from the estimated population at the province level estimated by DEC.

It should be noted that the regional delineation, i.e. Western, Central, Metropolitan and Eastern used in this exercise does not conform strictly to the official GOP definitions. Portions of the provinces of Panama and Colon are included in the Eastern and Central regions in the official definitions, while in this exercise these regions are delineated strictly along provincial lines. While it is possible to conform the official definitions with the available population data, this was not done because of constraints in conforming the available income data along these lines. The result is a slight overstatement of the number of poor people in the Metropolitan area which is offset by a corresponding understatement of the poor population of the Central and Eastern regions.

2. Income Data

Generally, income data, particularly in developing nations, are notoriously unreliable, and Panama is no exception. The major reasons for the unreliability of the data have already been indicated above. Nevertheless, attempts must be made and, indeed, are made at estimating income and to some extent its distribution. Two basic approaches are generally used: the income approach which relies heavily on data generated from household employment or budget surveys; and the expenditure approach which is primarily used for the estimation of national accounts, i.e. Gross National Product, Gross Domestic Product, National Income, Personal Income, Disposable Personal Income, Consumption, Investments, etc. The former approach attempts to quantify income available to the family and almost invariably is equated to cash income. Generally, limited attempts are made to estimate or value non-cash income. In the latter approach, non-cash estimates are made in order to balance the national accounts. Both approaches are subject to error. But in general, the data obtained from an expenditure approach is of better quality and more verifiable than income estimates. The preference for the expenditure approach to GNP estimation, as opposed to the income approach, is mirrored in the survey research literature as well.

In developing the income distribution aspects of this exercise, elements of both approaches were integrated in an attempt to take advantage of strengths of each approach while minimizing their weaknesses. In 1975, DEC conducted a nationwide household survey yielding provincial level estimates broken out by rural and urban areas according to DEC definitions. This survey, conducted by the DEC at the request of the "Instituto de Mercadeo Agropecuario", sought to determine family income and family expenditures for food. While the sample was large enough and representative enough, there is some doubt whether the questions were designed with sufficient care to make it possible to evaluate responses in an unequivocal manner. Results refer to a single month, which raises questions concerning the representativeness of that month (June) for the year. The raw income data for the provinces of Herrera, Los Santos and Veraguas, for example, raise questions of reliability. The raw findings for Herrera seem unduly low while those for Los Santos and Veraguas are suspiciously high. Furthermore, there is internal evidence that the rural-urban income differences may have been overstated by the survey results. Despite these inherent problems relating to the relative quality of the data, it was felt that the most important features of this survey are unusually good level of spatial detail and the resulting income distribution, in relative terms, of this spatial coverage. For example, the survey revealed that 80% of total family income was perceived in urban areas and 20% in rural areas; that 86% of urban income was perceived in urban centers located in the provinces of Panama and Colon; 53% of rural incomes were perceived in the provinces of Chiriqui, Los Santos

and Cocle; Darien and Bocas del Toro are the two provinces with the lowest income. These results seem to be consistent with other non-income observable and verifiable indicators (see Table 7-1).

On the other hand, the income data, in absolute terms, are clearly expanded results, the product of estimating formulas which have been applied to the survey data in order to achieve estimates for the total population. The formulas have resulted in some repeating entries and even multiples. There are some inconsistencies and, because of the methodology, cannot be related to income data reflected in the national accounts.

Because the national accounts data are generally preferred to data resulting from surveys, it was decided to use this as the source for our income data and apply to this the distribution characteristics resulting from the survey. Personal income was chosen rather than GNP or GDP for obvious reasons. The latest data available was for 1976, so a 1978 estimate was computed based on the average rate of growth for the two year prior to 1976. The relative spatial distribution obtained from the 1975 survey was applied to this estimate on the assumption that the income distribution pattern had not substantially changed during the relatively short period of three years.

In addition to estimating the spatial distribution of 1978 income, a distribution by decile groups was computed by applying relative distribution patterns developed jointly by the World Bank and the United Nations. This study incorporates results of a special income distribution survey conducted by DEC in 1970 as well as two AID sponsored studies on public expenditures and income distribution. (See Table 7-2).

The results of these estimates of population, income, per capita income and the distribution of income by decile groups are shown in Table 7-3.

TABLE 7-1
RELATIVE INCOME DISTRIBUTION BY PROVINCE
AND RURAL AND URBAN AREAS
(In Percentages)

AREA	<u>Total</u>	<u>Rural</u>	<u>Urban</u>
	<u>100.0</u>	<u>20.0</u>	<u>80.0</u>
Province Total	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Panama	65.0	24.3	77.5
Darien	0.7	1.7	0.1
Colon	9.4	6.7	8.9
Bocas del Toro	2.2	1.8	1.1
Cocle	3.9	13.0	2.5
Chiriqui	10.2	27.0	5.3
Herrera	2.3	4.7	2.0
Los Santos	2.9	13.4	0.8
Veraguas	3.4	7.4	1.8

Source: Ingreso Familiar y Gastos en Alimentos en la República, por Ingreso Mensual de la familia en Junio, según Provincia y Area: Encuesta de Julio de 1975 (unpublished) DEC.

TABLE 7-2
INCOME DISTRIBUTION BY DECILE GROUPS
(In Percentages)

<u>Groups</u>	<u>Rural</u>	<u>Urban</u>
1-10	1.4	1.3
11-20	4.0	3.7
21-30	5.5	4.9
31-40	6.7	6.1
41-50	8.1	7.1
51-60	9.6	8.4
61-70	11.2	9.7
71-80	13.4	11.7
81-90	16.4	14.7
91-100	23.4	32.4

Source: Based on data included in the Joint IBRD-ECLA Project on Measurement and Analysis of Income Distribution in Latin American Countries.

TABLE 7-3

INCOME DISTRIBUTION AND MAXIMUM UNIT PRICES
PANAMA, JANUARY 1979

AREA	INCOME DECILE I - TILE	ANNUAL PERCAPITA INCOME \$	MONTHLY PERCAPITA INCOME \$	MONTHLY FAMILY INCOME \$	MONTHLY HOUSE PAYMENT CAPACITY %	MONTHLY HOUSE PAYMENT AMOUNT \$	MAXIMUM MORTGAGE AMOUNT \$	MAXIMUM UNIT PRICE \$	MONTHLY LOAN PAYMENT CAPACITY %	MONTHLY LOAN PAYMENT AMOUNT \$	MAXIMUM LOAN AMOUNT \$
URBAN PANAMA	1-10 5th	183.93	15.33	77.--	9.3	7.--	642.--	713.--	9.3	7.20	492.--
	11-20 15th	523.50	43.63	218.--	17.9	39.--	3577.--	3974.--	10.0	21.80	1489.--
	21-30 25th	693.29	57.77	289.--	20.2	58.--	5319.--	5910.--	10.0	28.90	1974.--
	31-40 35th	863.06	71.92	360.--	22.0	79.--	7245.--	8050.--	10.0	35.00	2459.--
	41-50 45th	1004.56	83.71	419.--	23.3	98.--	8988.--	9986.--	10.0	41.90	2862.--
	median income	1096.52	91.38	457.--	24.0	110.--	10088.--	11209.--	10.0	45.70	3122.--
URBAN COLON	1-10 5th	174.78	14.57	73.--	8.8	6.--	550.--	611.--	8.8	6.40	437.--
	11-20 15th	497.39	41.45	207.--	17.5	36.--	3302.--	3668.--	10.0	20.70	1414.--
	21-30 25th	658.80	54.90	275.--	19.7	54.--	4952.--	5503.--	10.0	27.50	1879.--
	31-40 35th	820.03	68.34	342.--	21.6	74.--	6939.--	7541.--	10.0	34.20	2336.--
	41-50 45th	954.58	79.55	398.--	22.8	91.--	8346.--	9273.--	10.0	39.80	2719.--
	median income	1041.90	86.83	434.--	23.5	102.--	9355.--	10394.--	10.0	43.40	2945.--
ALL OTHER URBAN AREAS	1-10 5th	104.27	8.69	43.--	5.1	2.--	183.--	204.--	5.1	2.20	150.--
	11-20 15th	296.78	24.73	124.--	14.7	13.--	1631.--	1834.--	10.0	12.60	847.--
	21-30 25th	393.03	32.75	164.--	17.3	28.--	2568.--	2853.--	10.0	16.40	1120.--
	31-40 35th	489.27	40.77	204.--	19.4	39.--	3577.--	3974.--	10.0	20.40	1394.--
	41-50 45th	569.49	47.46	237.--	20.8	49.--	4494.--	4993.--	10.0	23.70	1619.--
	median income	621.63	51.80	259.--	21.6	56.--	5136.--	5707.--	10.0	25.90	1769.--
RURAL AREAS	1-10 5th	46.84	3.90	20.--	0.--	0.--	-----	-----	0	-----	-----
	11-20 15th	133.83	11.15	56.--	8.7	5.--	440.--	489.--	8.7	4.90	334.--
	21-30 25th	184.01	15.33	77.--	12.2	9.--	792.--	880.--	10.0	7.70	525.--
	31-40 35th	224.16	18.68	93.--	14.3	13.--	1144.--	1271.--	10.0	9.30	635.--
	41-50 45th	271.00	22.58	113.--	16.4	18.--	1584.--	1760.--	10.0	11.30	772.--
	median income	296.10	24.68	123.--	17.4	21.--	1848.--	2054.--	10.0	12.30	840.--

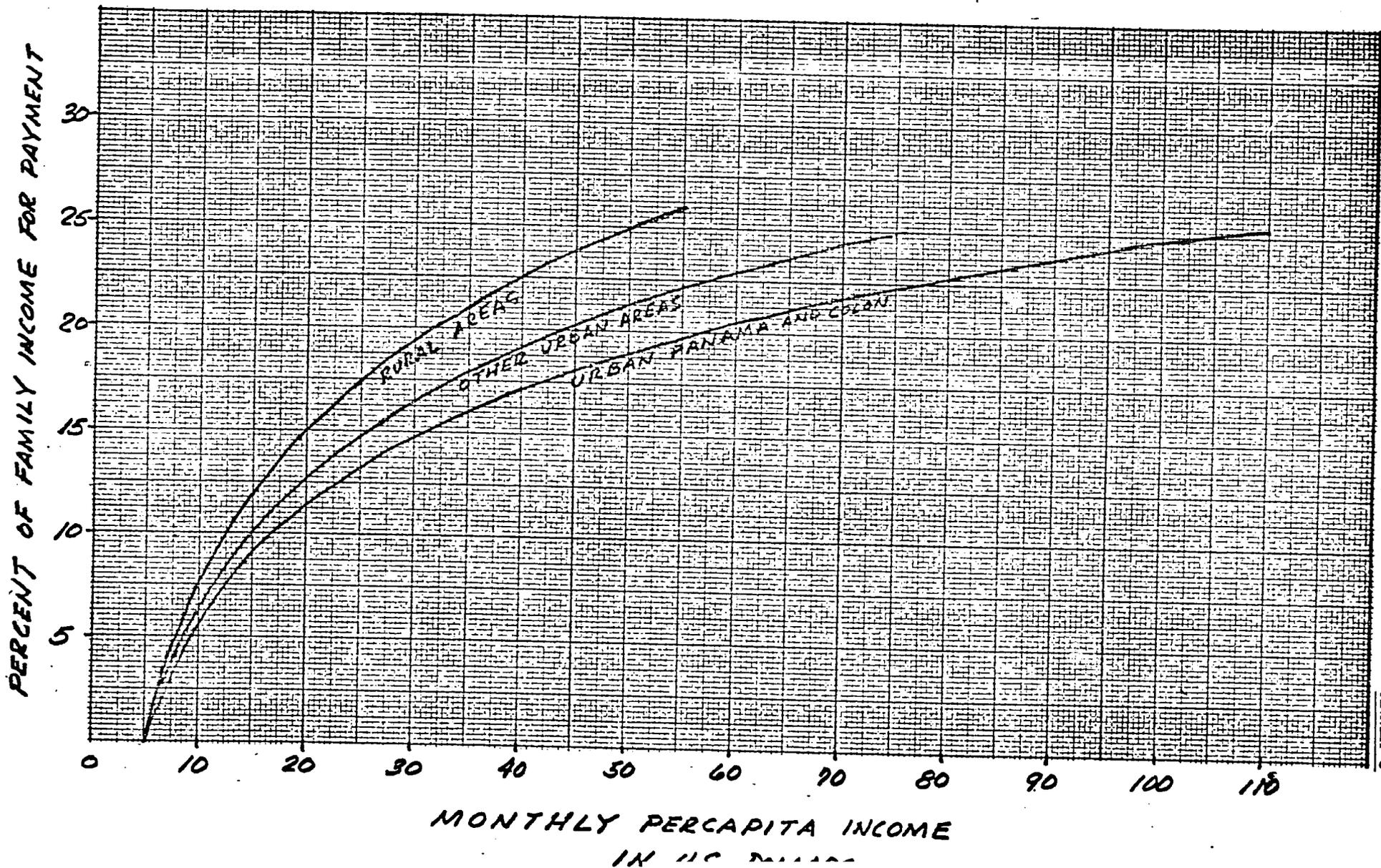
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NOTES FOR TABLE-INCOME DISTRIBUTION AND MAXIMUM UNIT PRICES

1. The annual per capita income data were taken from Table III, Annex II to the draft CDSS prepared by USAID Panama in January, 1979.
2. The monthly per capita income is calculated by dividing the annual per capita income by twelve.
3. The monthly family income is calculated by multiplying the monthly per capita income by five.
4. The monthly payment capacity percentage is taken from Chart 7-1 of this Annex.
5. The monthly payment amount is the monthly income times the payment capacity percentage.
6. The maximum financing amount is the present value of a mortgage with the indicated monthly payment amount calculated for 12.5% interest and 25 year terms for urban areas and 12.5% interest and 20 year terms for rural areas.
7. The maximum unit price is calculated by adding a 10% down-payment to the maximum financing.
8. The monthly payment capacity for a loan is also taken from Table 2 but with a maximum of 10%.
9. The monthly payment amount for a loan is the monthly family income times the monthly payment capacity.
10. The maximum loan amount is the present value of a loan with the indicated monthly payment calculated for 12.5% interest and 10 year terms.

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MONTHLY PAYMENT CAPACITY



1966

REVISED
INITIAL ENVIRONMENTAL EXAMINATION

USAID/PANAMA SHELTER AND COMMUNITY UPGRADING PROGRAM

(525-HG-011)

PREPARED FOR:

OFFICE OF HOUSING
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

PREPARED BY:

JEFFORY G. BOYER, Senior Environmental Consultant
Technical Services Division
National Savings and Loan League

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ANNEXES

1. Identification of Sub-Projects in Each Shelter Program
2. List of Housing Projects and Potential Housing Sites Visited
3. MIVI Site Selection and Project Development Process

ENVIRONMENTAL THRESHOLD RECOMMENDATION

Project Location: Panama

Project Title: Shelter and Community Upgrading

Funding: FY 1979-1983

U.S. HG	\$75.00 million
DC	\$.63 million
Panama GOP	\$20.4 million
Beneficiary Contributions	\$ 8.6 million
Total:	<u>\$104.63 million</u>

IEE Prepared by: Jeffory G. Boyer
Environmental Consultant
National Savings and Loan League

Date: June 1979

ENVIRONMENTAL ACTION RECOMMENDED:

Based upon a reexamination of the Panama Shelter Program at the project design stage, it is recommended that the findings of an earlier Initial Environmental Examination, dated February 1979, be revised to reflect the substantive changes which have been made to the proposed shelter program since the Project Identification Document was prepared. In recognition of these project design changes, the following environmental actions are recommended:

1. Since the technical assistance component of the Panama Shelter Program will be funded by already approved development grant and HG monies, the need for environmental review of this program component is not required because prior approvals have been granted;
2. The findings of the earlier Initial Environmental Examination for the secondary cities/rural communities component of the HG Loan are reconfirmed to have no significant impacts on the environment. No substantive changes are being proposed in either the nature or scope of shelter activities for this sector; and
3. Because the urban component of the HG loan has been substantively revised in the areas of shelter strategy, integration with other GOP development programs, technical design, and interagency implementation arrangements, the recommendation of the earlier IEE to request that an Environmental Assessment be carried out should be rescinded. A reexamination of the critical issues and environmental

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concerns, previously raised at the time of PID preparation, indicates the Project Paper has addressed these environmental problem areas and taken appropriate steps to eliminate the potential occurrence of significant environmental effects. Based upon the environmental soundness of the revised shelter program, it is recommended that a Negative Determination be granted.

(Approval/Disapproval of Environmental Action Recommended in the IEE)

Office of Housing:.....Date:.....
Peter M. Kimm

Assistant
Administrator:.....Date:.....

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BACKGROUND INFORMATICS

A. Overview of the Shelter Program

The Panama Shelter Program is designed to assist the GOP in improving shelter and community services for families earning below the median income. The primary geographic focus of the program is to address the urban problems associated with rapid population growth in the metropolitan region of Panama City and Colon. Specifically, the urban component of the shelter program will direct its development improvements to three areas--Colon, San Miguelito and Chorrera/Arraijan (See Figure 1). To a lesser extent, the shelter needs of selected secondary cities and rural areas are recognized and financial resources of the program are likewise directed to the rural sector.

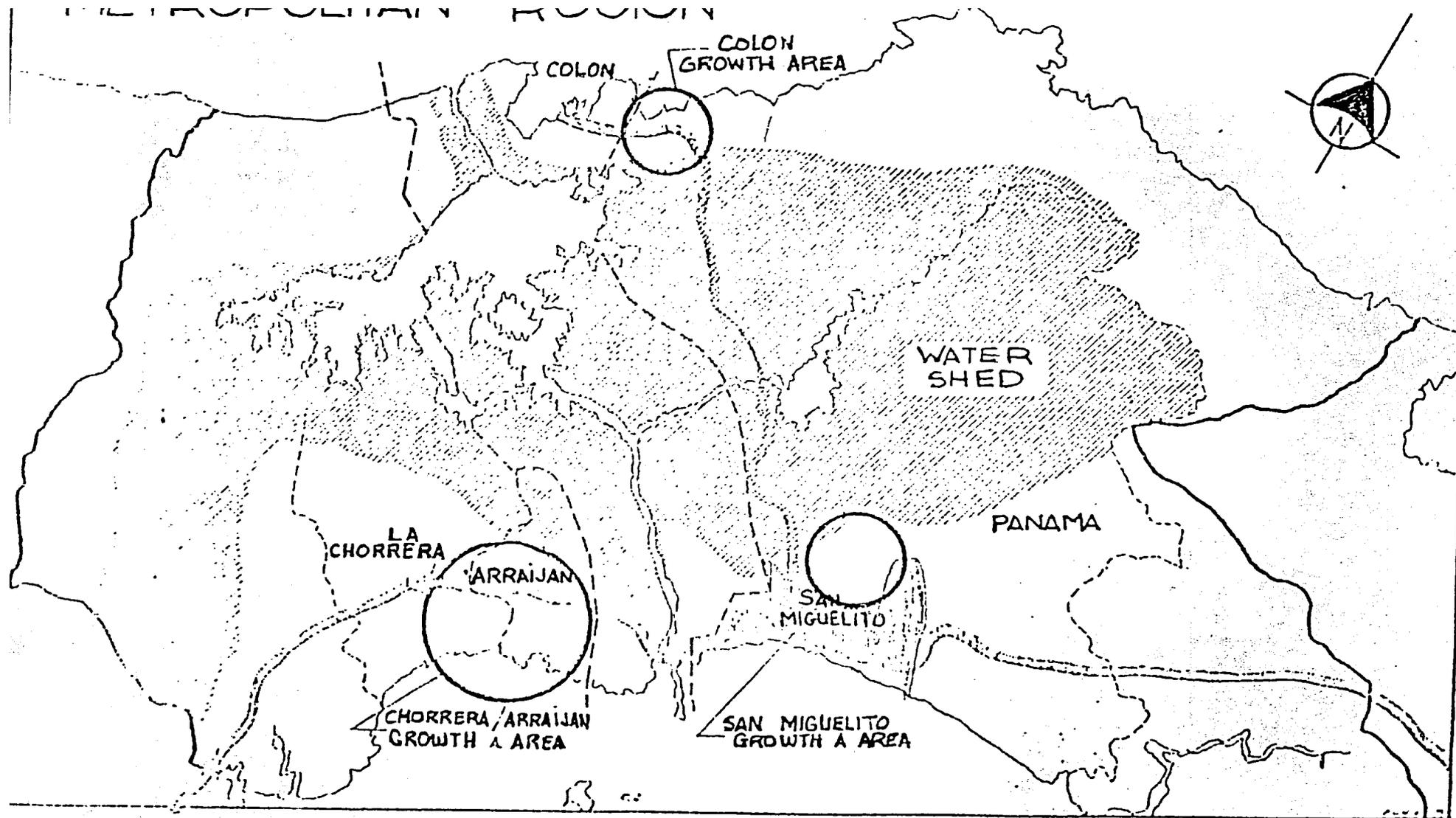
A \$75 million AID Housing Guarantee (HG) loan will be disbursed over a 5-year implementation period (FY 1979-1984). The GOP will make a \$20.4 million contribution and participating beneficiary families will provide \$8.6 million in down payments for a total program of \$104 million. The technical assistance requirement will be funded from approved development grant and HG monies.

B. Urban Problems and Proposed Shelter Strategy

In summary, the principal problems confronting Panama's urban sector are listed below:

1. Limited housing construction, infrastructure and community services to meet the increasing urban population demands;
2. Limited access and insufficient housing capital for low-income households;
3. Uncontrolled urban growth and limited planning capacity/coordination among key ministerial agencies;
4. Imbalanced population growth and economic development between urban and rural sectors;
5. Lack of social and economic integration in established urban neighborhoods;
6. High level of unemployment and under-employment.

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ANNEX 7

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In recognition of these diverse but interrelated urban problems, the strategy of the proposed Panama/U.S. AID Shelter Program is to increase the capability of GOP housing institutions to formulate and implementation of an integrated national program of shelter and community service improvements. Principal housing institutions to be strengthened include the National Mortgage Bank (BHN), Ministry of Housing (MIVI), and FUNDAVICO. These institutional structures will be largely responsible for development of housing policies, program development activities, and design and implement physical/socio-economic components of housing projects. To ensure the proper integration and coordination of the Shelter Program with other GOP institutions and national development priorities, improved interagency coordination and planning will be developed through specialized technical assistance. The first phase of the technical assistance component will focus on reinforcing institutional relationships and coordination at the inception of the program.

C. Shelter Subprograms

The Panama Shelter Program is divided into three separate subprograms, each distinct in terms of type of shelter activities and geographic focus. The subprograms will be directed exclusively to low-income families. The implementation of the subprograms will be phased sequentially over the expected 5-year life of the program.

1. Subprogram: Peripheral Growth Areas (\$53 Million)

This subprogram is designed to reinforce GOP's plan to strengthen selected growth areas in the Panama City-Colon metropolitan region. Areas where shelter projects are planned in designated growth areas include: (a) San Miguelito, located northeast of Panama City; (b) La Chorrera-Arraijan, located west of Panama City; and (c) Nuevo Colon, located southeast of Colon. An estimated 14,200 families are expected to benefit directly from this subprogram.

Under this subprogram, HG funds will be used to finance the construction of new shelter, installation of water, sewer, electricity, streets, neighborhood/community facilities and the upgrading of existing housing structures in squatter areas.

2. Subprogram: Urban Community Upgrading and Renewal (\$17 million)

This subprogram will focus on the renovation of the deteriorated wooden tenement structures located in downtown Panama City and Colon. Similarly, selected squatter areas scattered throughout both urban centers will be upgraded. It is anticipated that approximately 2,800 families will benefit from this subprogram.

Shelter improvements in the urban tenements will involve the demolition of physically deteriorated and structurally unsound buildings. They will be replaced with new residential structures including affordable units to existing residents of these target areas. Special socio-economic surveys will be carried out prior to any physical demolition. In addition, careful attention will be directed to the preparation and implementation of relocation procedures. In selected community upgrading areas initial improvements will concentrate on improved infrastructure (water, sewerage and electrical services), followed by home improvement loans and better community facilities (health clinics and schools).

3. Subprogram: Secondary Cities, Market Towns (\$5 million) and Rural Growth Areas

This subcomponent is designed to provide additional shelter and basic community service improvements in secondary cities and identified rural growth centers. It represents an expansion of financial resources for the integrated rural development program known as URBE. Approximately 2,800 families will benefit from this subprogram.

D. Summary Financial and Institutional Implementation Plans

The \$75 million HG program is to consist of three separate loan authorizations of \$25 million each. Disbursement of these monies is expected over a 5-year period FY 1979-1984. A breakdown of the type and number of shelter solutions and total cost for each subprogram is shown in Table 1. Detailed identification of subprojects within each subprogram is presented in Annex 1.

*Annex to an annex
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TABLE 1

SUMMARY OF FINANCIAL
INPUTS AND PHYSICAL OUTPUTS

SUBPROGRAM + COMPONENTS	NUMBER OF SOLUTIONS	Investment by Source in 000's			TOTAL INVESTMENT
		HG	COP	BENEFICIARIES	
I. Urban Community					
Upgrading + Renewal	<u>2,800</u>	<u>17,000</u>	<u>5,000</u>	<u>2,000</u>	<u>24,000</u>
1. Shelter Units	2,000	15,000	3,000	2,000	20,000
2. Shelter Loans	800	1,000	200	--	1,200
3. Facilities + Infrastructure		1,000	1,800	--	2,800
II. Peripheral Growth Areas	<u>14,200</u>	<u>53,000</u>	<u>14,000</u>	<u>6,000</u>	<u>73,000</u>
1. Shelter Units	11,700	45,000	9,000	6,000	60,000
2. Shelter Loans	2,500	4,000	800	--	4,800
3. Facilities + Infrastructure		4,000	4,200	--	8,200
III. Secondary Cities, Market Towns + Rural Growth Areas	<u>2,800</u>	<u>5,000</u>	<u>1,400</u>	<u>600</u>	<u>7,000</u>
1. Shelter Units	2,100	4,450	890	600	5,940
2. Shelter Loans	700	550	110	--	600
3. Facilities + Infrastructure		--	400	--	400
TOTALS:	<u>19,800</u>	<u>75,000</u>	<u>29,400</u>	<u>8,600</u>	<u>104,000</u>

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Implementation of the Panama Shelter Program will involve the coordinated actions of several GOP institutions dealing with planning, housing development, infrastructure, community facilities and services. The GOP institutions and their specific roles within the shelter program are shown below:

- BHN National Mortgage Bank will perform as the borrower of the HG funds;
- MIVI Ministry of Housing will act as the principal implementing agency;
- Housing Cooperatives Cooperative groups such as FUNDAVICO, Nuevo Chorrillo and others will implement housing projects and broaden the national housing delivery system;
- MIPPE Ministry of Economic Policy and Planning will prepare an economic and physical development framework for the selection of housing sites and act as intergovernmental coordinating agency to ensure budgetary support and integrated planning among GOP institutions.

II

ENVIRONMENTAL SETTING CONDITIONS

The proposed USAID/Panama Shelter Program focuses primarily on the shelter needs of the metropolitan region of Panama City-Colon and to a lesser degree on selected market towns and rural villages in the interior of Panama. The environmental baseline conditions set forth in this section are based upon field investigations of fourteen urban sites and/or existing housing projects in the Panama City-Colon region and seven rural housing projects in market towns and villages. These sites and housing projects have been identified as potential locations where the shelter program may be implemented or as representative of the development approaches which will be followed by MIVI and housing cooperatives in this shelter program. A list of these development sites and projects are presented in Annex 2.

A. Natural Environment

The tropical environment in the Panama City-Colon corridor is influenced by three major elements--climate, land forms/terrain, and hydrologic conditions. The interaction of these physical elements has a significant impact on the quality of human life and poses potential problems to the development of housing projects. The characteristics and importance of each of these elements are summarized below:

1 Climate

Climatic conditions in this region of Panama are typified by high temperatures, humidity and rainfall. Rainfall rather than temperature determines the seasons. The rainy season normally begins in May and extends through November. It has a profound effect on the scheduling and rate of land development activities. The annual amount of precipitation ranges from 72 to 126 inches of rainfall (Panama City-Colon). Its uneven distribution and intensity of fall over short periods cause major problems of soil erosion, sedimentation, flooding, etc. However, these climatic conditions are ideal for rapid and continuous plant growth throughout the year.

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2. Land Forms/Terrain

The dominant topographic features of the Panama City-Colon region are its low-lying coastal plains with adjacent estuaries. The coastal plain extends inland for a distance of 50 kilometers. Elevations of the coastal plain both east and west of Panama City and Colon range from less than five feet above sea level to approximately 250 feet. The rise in elevation of the hills northeast of Panama City in the vicinity of San Miguelito is quite sharp, and slopes in excess of 30 percent are common. In contrast, Colon is surrounded on three sides by the Bay of Limon. Undeveloped areas south and east of the city are mainly at sea level or less than 50 feet in elevation.

The soil and geology of these coastal hills consist of a thin and fragile layer of topsoil two to four inches deep of organic material. This cover overlays 6 to 24 inches of weathered rock. When surface soils are exposed, they are highly erodible and easily transported by torrential rainfall. Weathered soils and underlying soil zone bedrock have low water permeability. The coastal plains contain unconsolidated sediments derived from adjacent uplands. Vegetative patterns include mainly native grasses and scrub growth in the uplands and mangrove trees and marsh grasses on the coast.

3 Hydrology

The metropolitan region of Panama City-Colon is situated in a major drainage basin consisting of numerous rivers and lakes. Precipitation is rapidly discharged from the coastal uplands into rivers and streams that drain into the Atlantic and Pacific Oceans. The rate of discharge of these coastal streams is impeded at times by the rising tide of the oceans. Water quality is seriously impaired in some coastal rivers where high density urban development has occurred. Principal factors contributing to water pollution are: (a) direct raw sewage and wastewater discharges; (b) storm water runoff; and (c) sedimentation. These water quality problems are severe enough to pose potential human health hazards and in some areas loss of marine resources. Most low-lying areas in the region have high water tables. In addition, low soil and

rock permeability cause soils to drain poorly. Absorption of sanitary effluent from septic tanks into the surface soil layer is highly restricted.

Climatic conditions are substantially moderated as one progresses westward toward the Costa Rican border. Physical development constraints are generally less severe with the exception of impermeable soils. Problems of water quality and poor drainage are common in rural areas.

B. Socio-Economic Aspects of the Target Population and Their Built Environments

1. Rural-Urban Migration

The increasing out-migration of rural migrants to the metropolitan region is causing severe economic imbalances to the orderly growth and development of the country. Of Panama's 1.8 million inhabitants in 1978, approximately 48 percent reside in urban areas. However, the distribution of the urban population is heavily concentrated (68%) in Panama City and Colon. In contrast, the interior is sparsely populated with the majority of the rural population living in settlements of less than 50 persons. Under these demographic conditions, the creation of employment opportunities and the delivery of basic infrastructure services and community facilities have not kept pace with growth demands.

2. Target Population and Their Living Conditions

The identified beneficiaries of this shelter program are families earning below the median income level. Median incomes vary greatly between urban and rural sectors as well as between settlements within both sectors. As of the first quarter of 1979, the median monthly income was estimated to be \$457 in Panama City, \$434 in Colon, \$259 in other urban places and \$123 in rural areas. It is expected that 80 percent of the \$75 million HG funds will benefit families below the 35th income percentile. The remaining 20 percent of the funds will finance shelter solutions for families in the 35th to the 50th income percentile.

Poverty in the metropolitan area of Panama City-Colon differs contrastingly in scale and

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character from other areas in the country. The urban poverty of the metropolitan region of Panama City-Colon is visually evident in the old tenement areas downtown as well as in the outlying spontaneous settlements of Panama City. Housing conditions are severely overcrowded, physically deteriorated, often structurally unsound, and unsanitary. Public facilities and services, if they exist, are usually insufficient to serve the needs of the population. Raw sewage discharges into open streams and uncollected solid waste pose serious health hazards. Residents usually do not have highly marketable labor skills; they may live many miles from major employment centers, and there are few training programs available to them. Consequently, opportunities for upward mobility are very limited to the urban poor.

In contrast, the rural poor are described as the "poorest of the poor". The vast majority are involved in subsistence agriculture and are geographically dispersed. The limitation of GOP resources, appropriate delivery systems and geographic isolation have been contributory factors to their economic, social and physical deprivation. Rural poverty is much more pervasive than urban poverty. It is best measured in terms of basic nutrition, rate of morbidity and mortality, literacy and per capita income. All these indicators of environmental quality show that the rural poor are substantially more disadvantaged than their urban counterparts. Interviews with rural migrants settled in Panama City's spontaneous settlements confirm that the majority believe the move to the city improved the quality of their lives.

III

IDENTIFICATION AND ANALYSIS
OF
POTENTIAL ENVIRONMENTAL IMPACTS

This section of the IEE sets forth the reasonable foreseeable effects that the proposed USAID/Panama Shelter Program will have on the physical and human environment. In determining the significance of potential environmental impacts, a comparative analysis was made of the anticipated changes to existing baseline conditions that would be caused by each sub-component of the shelter program. In those areas where environmental impacts are anticipated, the significance of these alterations was judged on the basis of the following criteria: (1) magnitude and severity of impacts; (2) timing and duration of impacts; (3) project-limited and cumulative program impacts; (4) host country planning, design and implementation procedures and standards; and (5) irreversibility of the probable impacts.

A. Listing of Critical Environmental Concerns

Based upon a systematic evaluation of the interrelationship between the proposed USAID/Panama shelter activities and existing environmental baseline conditions, five broad areas of critical environmental concern were identified. They are outlined below:

1. Site selection process, design standards and general and development practices of MIVI;
2. Operation, maintenance and cleaning of wastewater collection, treatment and disposal systems;
3. Housing strategy of relocating the urban poor to peripheral sub-centers;
4. Provision of supporting infrastructure and community facilities, and
5. Selection and preparation of beneficiaries.

Based upon an analysis of each of the subprogram components and their likely effects on the existing baseline conditions, the above critical concerns were identified as particularly important and deserving of further evaluation. All of these environmental concerns are associated with the urban shelter program and deal mainly with institutional practices, shelter policy, and related interagency coordination. The specific aspects and environmental ramifications of these critical concerns are discussed in the following section.

B. EXAMINATION OF CRITICAL ENVIRONMENTAL CONCERNS AND POTENTIAL IMPACTS OF THE USAID/PANAMA SHELTER PROGRAM

1. Site Selection Process, Design Standards and Land Development Practices of MIVI

Problem Description and Analysis:

Based upon on-site inspections of existing MIVI housing projects in various stages of completion and a review of its project development system, a number of serious environmental problems were observed consistently from one project to another. Major problems identified include:

- soil loss, erosion and sedimentation;
- increase of urban runoff and its uncontrolled discharge off-site;
- creation of flood hazards in low-lying areas due to hydrologic changes in stream flow from deposition of sediment on stream bottoms;
- water pollution due to septic tank malfunctions and/or improper design, installation and maintenance of sewage treatment facilities; and
- creation of potential health hazards, nuisances and damages to marine resources due to degradation of water quality.

Environmental degradation problems resulting from MIVI's housing development procedures begin frequently in the initial phase of its building process-site selec-

tion. It is not unusual that lands that are particularly difficult to develop have been selected for housing projects. In Panama City, numerous housing projects are being built in two of the most environmentally sensitive areas--land immediately abutting tidal estuaries and mangrove marshes in the Bay of Panama and the adjacent steep slope areas of the coastal uplands. These marginal lands are usually cheaper in raw land cost than other available lands in the metropolitan region. However, they pose difficult construction obstacles to their economic utilization.

MIVI's planning practices and design standards have not given sufficient attention to the development difficulties associated with the marginal areas. Intrusion into these sensitive ecological zones without appropriate design and development safeguards is setting in motion a chain of events beginning with the loss of scarce topsoil and resulting in flooding of low-lying areas and loss or damage to marine resources (shrimps) which are of significant economic importance to Panama's fisheries industry. The frequency and severity of these problems are directly attributed to MIVI's existing site selection criteria, design standards and land development practices. A general review and evaluation of MIVI's housing delivery process indicate that while appropriate technical procedures exist, they are not consistently followed. Land clearance and related site preparation activities are being conducted in some cases without engineering feasibility studies, preliminary plans and final site plans, and construction cost estimates. To improve MIVI's project planning and design functions, the criteria and data inputs used in reaching critical decisions of site selection, project design and implementation require some modifications to better ensure the physical, social, economic, and environmental soundness of its development activities.

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Project Design Actions:

In support of the Panama Shelter Program, AID's Office of Housing in collaboration with GOP's Ministry of Housing undertook a review and analysis of MIVI's institutional organization and its housing delivery system from site selection through occupancy of completed units. The findings of this technical evaluation (see Annex 3) concluded that MIVI's existing housing delivery process represents a basically sound approach but is not consistently applied administratively or operationally in the field. Similarly, some critical informational inputs dealing with economic feasibility, environmental engineering suitability, and social soundness were found to be either missing or not adequately considered. Recognizing these administrative and technical shortcomings, GOP has agreed to implement a number of reforms in the following areas of its housing delivery process:

a. Project Development Feasibility Study

MIVI's existing evaluation methodology has been revised to better reflect basic engineering, economic, environmental and policy considerations in reaching site selection/ project investment decisions. Critical factors to be evaluated in determining the suitability and development feasibility of potential projects at the preinvestment state will include:

- Locational considerations with respect to established development policies of urban growth, priority development areas, type of land use activities, intensity of development, etc.
- Environmental engineering feasibility and suitability;
- Availability and adequacy of existing infrastructure and community facilities to support additional requirements generated by new housing projects;

- Preliminary development cost estimates including raw land, on-site and off-site improvement costs (earth movement, infrastructure, community facilities, road access, etc.)
- Potential development yield estimates based on schematic layout;
- Estimated cost and sales price of each type of housing solutions; and
- Comparative analysis of the affordability and marketability of the units with identified target groups

Preparation and submittal of a Preliminary Feasibility Study of each proposed development project to AID will be a prerequisite to the HG funding of all housing projects.

b. Preparation of Project Design Documents

To strengthen the technical soundness and programmatic use of MIVI's Project Identification Report, which sets forth the essential development parameters to be followed throughout the entire physical design process, the preparation of project design documents will be conducted by an interdisciplinary team under the direction of MIVI's Planning Department.

This procedural modification will ensure a more practical focus and project-specific application of the background technical analyses into project design. The output should be a concise descriptive, analytical, and graphic report of project-specific development guidelines to be used by MIVI's site designers and engineers.

Furthermore, at this stage of the design process MIVI will demonstrate its environmental concerns by taking appropriate steps to identify and protect the environment. The physical delineation of buildable and non-buildable areas based on environmental engineering investigations will be carried out for each project site.

Specific protective measures will be defined by the interdisciplinary team and incorporated into Master Plans and Construction Plans.

c. Master Plan and Construction Plan Review

To strengthen MIVI's integrated planning and project design process its internal review procedures will be tightened to ensure that the project development guidelines and standards set forth in the Project Identification Report are carried out in both Master Plan and Construction Plan stages. The interdisciplinary team under the direction of the Budget and Planning Department may conduct this review function, or it may be performed by each separate line agency (Social Services, Urban Planning, and Budget and Planning.) and coordinated by the latter.

d. Special Soil Erosion and Sedimentation Controls

Recognizing the adverse effects of increased rates of erosion and sedimentation from its past development practices, MIVI has agreed to a number of corrective actions to prevent or minimize the occurrence of these problems. The underlying premise of MIVI's actions will be to emphasize careful site planning and construction design procedures rather than costly structural measures, excessive grading, reforestation and dredging to correct the problems after they have occurred. This approach embodies the identification of each site's natural resources, physical amenities, land use limitations and development intensity potential within reasonable environmental cost constraints.

To achieve these environmental objectives, MIVI will prepare and adopt a set of erosion and sedimentation control principles, guidelines and specific planning and design measures. The findings and recommendations of this technical working document will be integrated into appropriate stages of MIVI's site selection, project

design and implementation process.

To ensure the successful implementation of these improvements in MIVI's housing operations, a number of long-term and short-term technical advisors will assist the Ministry of Housing. Those dealing with the specific problems previously described include:

- Program Advisor (48 person months starting 5/1979)

The advisor will assist MIVI, MIPPE and other implementing agencies in the development of an overall program implementation plan and assist in the preparation and processing of subprojects for the required AID approvals. The advisor will also assist implementing agencies develop improved project inspection, monitoring and reporting systems and will be the principal liaison person for program implementation.

- Site Planning (4 person months, 7/79-7/80)

Improved site planning techniques are felt by MIVI to be needed to reduce project costs and to develop and adopt a coordinating system within MIVI for the planning and design of specific projects. This assistance will be in support of the long-term urban planning effort and is directed to special areas of concern in the planning process.

- Information System (5 person months, 7/79-4/80)

Policy formulation and program designs need to be based on adequate data properly evaluated. The purpose of this assistance will be to help in strengthening the information system now in use by MIVI.

- Environmental Preservation (6 person-months, 7/79-4/80)

A major concern of the GOP deals with the need to mitigate adverse effects on the environment as a result of the implementation of this program. Consequently environmental

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consultants on a short-term basis will be made available to assist MIVI in:

- Erosion and sedimentation controls.
- Design, operation and maintenance of community septic tanks.
- Overall implementation procedures for development of environmental controls.

2. Operation, Maintenance and Cleaning of Wastewater Collection, Treatment and Disposal Facilities

Problem Description and Analysis:

Following completion of MIVI built housing, responsibility for the operation and maintenance of basic community infrastructure is carried out by the Ministry of Public Works (streets and storm drainage) and the Instituto de Acueductos y Alcantarillados Nacionales (water supply and sewage collection/disposal). Despite budgetary and equipment constraints confronting all GOP institutions, these services are reasonably carried out with the exception of sanitary waste collection, treatment and disposal.

In a majority of MIVI's urban housing projects waterborne sanitary waste collection systems have been built. Usually, large-sized community septic tank-soil absorption fields have been constructed on-site to handle waste treatment and effluent disposal. To date, the periodic inspection, maintenance and cleaning of these sewerage facilities have not been carried out in existing housing projects. As a result, the accumulation of solids and scum in the septic tanks has reached the point where the majority of these facilities have become inoperative and the quality of treatment is negligible. Any raw sewage discharged into the septic tanks passes directly through the tanks without benefit of any detention and settling. The large volume of sewage flows into these poorly maintained facilities and the subsequent discharge of untreated sewage onto the ground or into intermittent streams nearby pose potentially serious health hazards to project residents and

populated areas downstream. Even with proper maintenance and cleaning of these existing sewerage facilities, the risks of communicable disease is high due to their frequent improper location and construction in close proximity to occupied dwellings or areas of high water tables and impervious soils.

Project Design Actions:

IDAAN has established within its administrative organization a designated technical group to conduct inspection, monitoring and operation maintenance services on all community sanitary facilities, and also to monitor and record their general performance.

IDAAN's first step in implementing its operational maintenance responsibilities involves conducting an initial inspection of all existing sewage facilities, including MIVI built housing projects throughout Panama's urban centers. First priority will be given to the inspection of facilities located within the metropolitan region of Panama City-Colon. The region's population concentration and large number of community sanitary facilities warrant priority action to be taken here to ensure public health and safety interests.

The second step will involve the analysis of existing conditions and problems derived from initial inspection reports, defining the required actions for their correction and implementing these actions on an orderly basis.

The third step will involve the periodic inspection of all sanitary facilities every 6 months to monitor and to record their performance over an extended period of time. Specifically, the rate and depth of sludge and scum accumulation will be measured to determine the frequency that cleaning operations will be required. In addition, the relative quality of treatment of alternative sewerage systems will be evaluated.

The fourth step of the operational and maintenance process will involve the reevaluation of existing sanitary design standards and the promulgation of new standards to govern the

location, design, installation and maintenance of community sewerage systems.

3. Housing Strategy of Relocating the Urban Poor to Peripheral Growth Areas

Problem Description and Analysis:

The urban component of the proposed USAID/Panama Shelter Program is predicated upon a housing strategy of relocating the urban poor from overcrowded and physically deteriorated sections of downtown Panama City and Colon in order to permit renovation of these areas. New housing opportunities are to be provided for the displaced families to be relocated in established peripheral growth centers such as San Miguelito and Chorrera-Arraijan in Panama City and Nuevo Colon and Cativa in Colon. The underlying premise of the urban relocation strategy is to provide an immediate improvement in housing conditions for all displaced families, while a combination of demolition, rehabilitation and new housing construction in the blighted downtown sections will expand future housing opportunities in both central cities.

The urban strategy involves potentially high environmental costs as well as benefits for the displaced families. The critical environmental concern does not center on the question "Should urban renewal take place?" but rather "How does it relate to other national and regional development policies?" If this strategy is implemented without supporting employment opportunities, public transportation services and community facilities/services, the displaced families are likely to experience severe short-term and possible long-term adverse social and economic impacts. Recent experiences have shown that residents living in MIVI-built projects in the same peripheral growth areas as planned in this shelter program are confronted with problems of long commuting trips (daily home-to-work-to-home travel times of 2-3 hours), inadequate public transportation, overcrowded schools and limited access to markets and medical services. Also, the transition from urban to suburban settings may involve problems of changing life styles,

group/interpersonal relationships and social identity. The period of readjustment may vary greatly depending on the type and extent of social preparation before and after occupancy of the new units, selection and integration of families based on socio-economic and cultural backgrounds, and the physical cohesiveness of the community based on individual unit and community design criteria. These potential adverse impacts must be weighed against the positive benefits to be gained from improved shelter and personal hygiene conditions as well as increased financial security accrued through home ownership.

To a significant extent most, if not all, of the potential adverse impacts described above can be reduced or eliminated to the degree the shelter program is able to overcome GOP's current problems of:

- Lack of institutional coordination between key ministries and agencies (MIVI, MIPPE, IDAAN, MOP, Education, etc.);
- Lack of integration of MIVI projects with a national economic development plan and urban growth plans for Panama City and Colon; and
- Managerial and technical weaknesses of MIVI's housing delivery system in planning, designing and implementing shelter programs in recognition of basic physical, social, and economic constraints.

Until these problems are corrected, implementation of the proposed housing strategy to relocate urban families to peripheral growth areas is expected to result in significant adverse impacts. If this relocation policy could be integrated into a broader urban shelter strategy involving urban rehabilitation and selective new construction, it would afford displaced families the opportunity of choosing improved shelter either downtown or in satellite sub-centers. The opportunity of self-selection among several alternative urban shelter locations will help to diminish the potential adverse environmental impacts of relocation.

Project Design Actions:

The proposed urban renovation subprogram of the USAID/Panama Shelter Program has been substantially modified from its initial concepts to reflect better its integration within other national and regional development programs. Clearly, there is a consensus among GOP planning institutions and authorities that urban growth must be controlled within the metropolitan area of Panama City-Colon. All recognize that maintenance of the watershed that services the Canal is essential and have planned future growth areas accordingly for Panama City and the Colon area. The GOP has plans to stimulate controlled growth of secondary cities and small rural communities as part of its agriculture development policy. This project has been developed to support these planning objectives. The subprograms are designed and located in three general areas; central city areas of Colon and Panama, periphery growth areas, and the secondary cities and towns.

The implementation of these urban renewal activities will be closely coordinated and planned as an integral part of MIVI's other activities in the metropolitan region. The renewal activity is directly linked to the voluntary relocation of low-income families from the designated tenement areas of Panama City to San Miguelito. The construction of new shelter solutions in Torrijos-Carter within the growth area of San Miguelito will provide a reception area for those families who choose relocation. In addition, it will permit the proposed selective clearance of old tenements and new housing construction to occur.

The implementation of the proposed peripheral growth subprogram will provide additional locational choices to the identified target population in Panama City and Colon. Potential project sites will be closely linked to emerging new employment centers as well as existing centers of employment generation. Planned and controlled urban growth in these selected areas will help to avoid the recurrence of urban sprawl.

The development and implementation of these alternative housing strategy programs in conjunction with the creation of new employment

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centers, transfer of Canal lands and public investments in expanding infrastructure services (water, sewage collection and highway access) and community facilities throughout the metropolitan region will provide the locational options required to best meet the needs of AID's target population. Furthermore, the opportunity for potential beneficiaries to choose a housing community and type of solution from a range of alternative locations and shelter solutions will eliminate and/or diminish the occurrence of any potential adverse physical, social and economic impacts. In addition, the geographic dispersion and integration of low-income families into balanced socio-economically planned communities will afford opportunities of increased mobility in the Panamanian society and reduce the magnitude of existing social problems involving segregation and high concentrations of the poor in a few areas of Panama City and Colon.

To further improve the planning capabilities of MIVI and NIPPE and to strengthen coordination among participating agencies in the shelter program, specialized technical assistance in the housing policy-urban planning areas will be provided. The purpose and length of time of this assistance is described below:

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Housing Policy (6 person-months,
1/80-1/81)

MIVI, as the policy making instrument of the GOP, has requested assistance from AID in the preparation and formulation of a comprehensive housing policy that will embody the different strategies now pursued by the GOP in the shelter sector and will also highlight the future strategies of the GOP in this sector.

Urban Planning (36 person months
starting 7/1979)

An urban advisor will help MIVI and MIPPE to bridge the gap between the planning determinations of MIPPE and the implementing actions of MIVI. The advisor will assist these agencies to "build the middle-range bridge" between general long-range objectives articulated by MIPPE and the specific locations, projects and housing construction activities of MIVI.

More specifically, the urban planner will assist MIVI in carrying out planning for the following tasks:

- Integration of services systems, facilities systems, shelter and employment generation;
- Furthering effective urban-rural linkages for the flow of resources and services;
- Fostering more economic and efficient land use patterns in metropolitan Panama-Colon, including the integration of newly acquired Canal Zone lands;

This assistance relates directly to the project purpose of improving the planning capability of MIVI/MIPPE and achieving better coordination between participating GOP agencies.

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4. Provision of Supporting Infrastructure and Community Facilities

Problem Description and Analysis:

The availability of vacant land and its relative low cost in peripheral areas of Panama City and Colon have been significant economic factors in MIVI's site selection policies to date. However, these economic advantages are offset by the high cost of extending existing infrastructure services or constructing independent support systems to serve the residents of new housing projects. Site investigations of numerous existing MIVI housing projects revealed that serious deficiencies exist with regards to the integrated planning and delivery of basic infrastructure and community facilities. In general, the housing projects were found to have been planned without supporting financial commitments from other GOP institutions responsible for the construction and staffing of schools, health clinics, community centers, access roads and solid waste collection.

The environmental consequences of these problems are significant. Limited access to basic public services has substantially lowered the standard of living for residents in MIVI's existing projects. The policy of building new housing without adequate supporting community facilities and services will indirectly cause future project beneficiaries to experience unnecessary adverse effects until these services are adequately provided. Varying degrees of impact may be experienced including having to travel greater distances to satisfy basic public service requirements and to pay disproportionately higher economic costs. Unless improved coordination and cooperation takes place among GOP institutions, the advantages of obtaining improved shelter in peripheral areas are drastically reduced. Institutional reforms are required to remedy these problems.

Project Design Actions:

To mitigate the potential occurrences of the community facility and service problems described above, a number of administrative measures have

been adopted for implementation in the Panama Shelter Program. As part of its initial feasibility studies, MIVI will conduct inventories in each project area to determine existing community facility and service deficiencies and to evaluate future requirements in support of new housing projects.

Preparation and submittal of a Preliminary Feasibility Study to AID will be a prerequisite to HG funding of all housing projects. The provision of basic infrastructure services such as water, sewerage, electricity and public access (roads) will be required. These services will be charged against each project as part of basic developing costs. Financing and construction of essential community facilities such as schools and health clinics will be given high priority. In these cases, MIVI will coordinate with the appropriate government agencies to ensure staffing and servicing of the facilities as well as implementing arrangements that would provide for reimbursement to MIVI for their costs. It is not expected that the project residents will make direct payments to MIVI for the cost of community facilities. All three housing subprograms include financial allocations for community facilities and services.

5. Selection and Preparation of Beneficiaries

Problem Description and Analysis

A review of MIVI's selection procedures for beneficiaries of its housing projects suggests that the process is largely carried out on an ad hoc or random basis. Only on a limited basis is there a coordinated effort between new housing construction and vacation and demolition of urban slums or upgrading of structurally sound buildings. The general practice has been to select prospective beneficiaries from a waiting list without due consideration of remedying or closing down delapidated housing units which are being vacated. Frequently, these vacated units are reoccupied by new families, and the original shelter problems continue to persist.

Without appropriate reforms in the selection process of beneficiaries, the potential secondary positive benefits to be derived from the proposed USAID/Panama Shelter Program may not be attained. With proper coordination between selection of beneficiaries in designated redevelopment and upgrading areas of Colon and Panama City and new housing construction in-town and in peripheral areas the benefits of the shelter program can be multiplied several times.

Project Design Actions:

Changes have been made in the Panama Shelter Program since its inception to reflect the needs of closely integrating the urban renewal and peripheral growth area subprograms. Specific target sites have been identified for projects in each subprogram, and it is recognized that successful implementation requires an integrated approach. For example, the peripheral growth areas subprogram will afford relocation opportunities for families residing in the designated urban renewal areas of Chorrillo, Santa Ana and Barrio Norte.

The selection and preparation of potential beneficiaries will be the responsibility of MIVI's Social Services Department. This department will receive technical assistance under this program. The scope of work in the area of social planning is outlined below. In addition, the program advisor will act as the principal liaison person to ensure proper integration and implementation of all subprograms and projects.

Social Planning (36 person-months starting 7/1979)

The social planning advisor will work with the Social Division of MIVI in two areas: community development and evaluation. The advisor will assist the Social Services Department of MIVI's community development work, especially as it relates to squatter-upgrading areas and new shelter projects. The advisor will assist MIVI to produce a number of operational studies including surveys of target groups in order to improve the tie between such studies and actual project design. In addition, the advisor will help MIVI

in preparing an evaluation system for the overall program. This assistance is required specifically to assist the GOP in its efforts to direct increasing amounts of its resources to shelter solutions for low-income families and to evaluate the effects of such efforts on the target group.

IV

THRESHOLD RECOMMENDATION

Based upon the preceding analysis and evaluation of the proposed USAID/Panama Shelter Program's environmental impacts, major changes in project design have been made in recognition of the five critical areas of concern previously identified at the time the PID was written.

Given these substantive changes in the areas of urban shelter strategy, technical procedures of site selection, design and implementation, interagency coordination in planning and delivery of essential community facilities and services, and improvements in selection and preparation of beneficiaries, it is concluded that the proposed actions do not represent a major federal action which will significantly effect the human environment. In addition, appropriate safeguards have been built into the project approval process to ensure periodic review and evaluation of each subproject both before and after construction. Therefore, the recommendation of the revised Initial Environmental Examination is that the proposed IIG loan be given a Negative Determination, thus requiring no further environmental analysis.

ANNEX 1IDENTIFICATION OF SUBPROJECTS
IN EACH SHELTER PROGRAMSUB-PROGRAM I: URBAN COMMUNITY UPGRADING + RENEWAL

<u>Areas</u>	<u>Units</u>	<u>Beneficiaries</u>	<u>HG Funds</u> (<u>\$</u>)	<u>Total Funds</u> (<u>\$</u>)
a) Tenement Areas Panama City	1,300	6,500	10,000	14,000
b) Tenement Areas Colon	700	3,500	5,000	7,000
c) Squatter Areas Panama City	600	5,000	1,500	2,250
d) Squatter Areas Colon	<u>200</u>	<u>2,000</u>	<u>500</u>	<u>750</u>
Total Urban Upgrading and Renewal	2,800	17,000	17,000	24,000

SUB-PROGRAM II: Peripheral Growth Areas

		(Est.)		(\$000's)
a) San Miguelito Shelter, Upgrading, Facilities	7,200	36,000	26,000	35,700
b) Chorrera/Arraijan Shelter, Upgrading, Facilities	3,050	15,500	10,000	12,900
c) Colon Growth Area Shelter Upgrading, Facilities	950	5,000	3,000	4,000
d) New Areas (C.Z.) Shelter and Facilities	<u>3,000</u>	<u>15,000</u>	<u>14,000</u>	<u>19,400</u>
Total Growth Areas-Shelter, Upgrading, Facilities	14,200	71,500	53,000	73,000

SUB-PROGRAM III: Secondary Cities

		(Est.)		(\$000's)
a) Secondary Cities: Shelter, Facilities	2,400	13,000	4,500	6,350
b) Rural Communities: Shelter	<u>400</u>	<u>2,000</u>	<u>500</u>	<u>650</u>
Total Secondary Cities and Towns	2,800	15,000	5,000	7,000

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ANNEX 2

LIST OF HOUSING PROJECTS AND POTENTIAL SITES VISITED

Metropolitan Region of Panamá-Colón (urban projects)

*Nuevo Chorrillo)	Existing Coop Projects/Sites
*El Crisol)	
*Virgen de Guadalupe (site))	
*Vista Alegre)	New Housing Sites
Altos de las Cumbres)	
*Torrijos-Carter)	
Rio Tapia)	Existing Housing Projects
*Nuevo Colón)	
Cerro Batea)	
Robert Durán)	
Santa Librada)	
San Joaquín)	
Don Bosco)	

Interior Panamá (rural projects)

El Brigadier)	Agricultural Settlement Projects
Villa Rosario)	
Quebrada de Grand)	
Puerto Caimito)	
Mandina en Marcha)	
La Delicia (Penonomé))	Existing Housing Projects in Market Towns
La Vencedera (Aguadulce))	

* Preliminary sites/projects identified by MIVI for implementation of \$25 million shelter program. Location of rural housing projects was not specifically known at the time of the field investigations.

ANNEX 3MIVI SITE SELECTION AND PROJECT DEVELOPMENT PROCESSI. Relationship of MIVI's Institutional Structure to its Housing Delivery Process

Within the administrative structure of the Ministry of Housing (MIVI) the three principal groups most directly involved in the planning, design and implementation of housing projects are:

1. Dirección General de Desarrollo Urbano;
2. Asesoría de Asuntos Sociales; and
3. Dirección General de Programación y Presupuesto

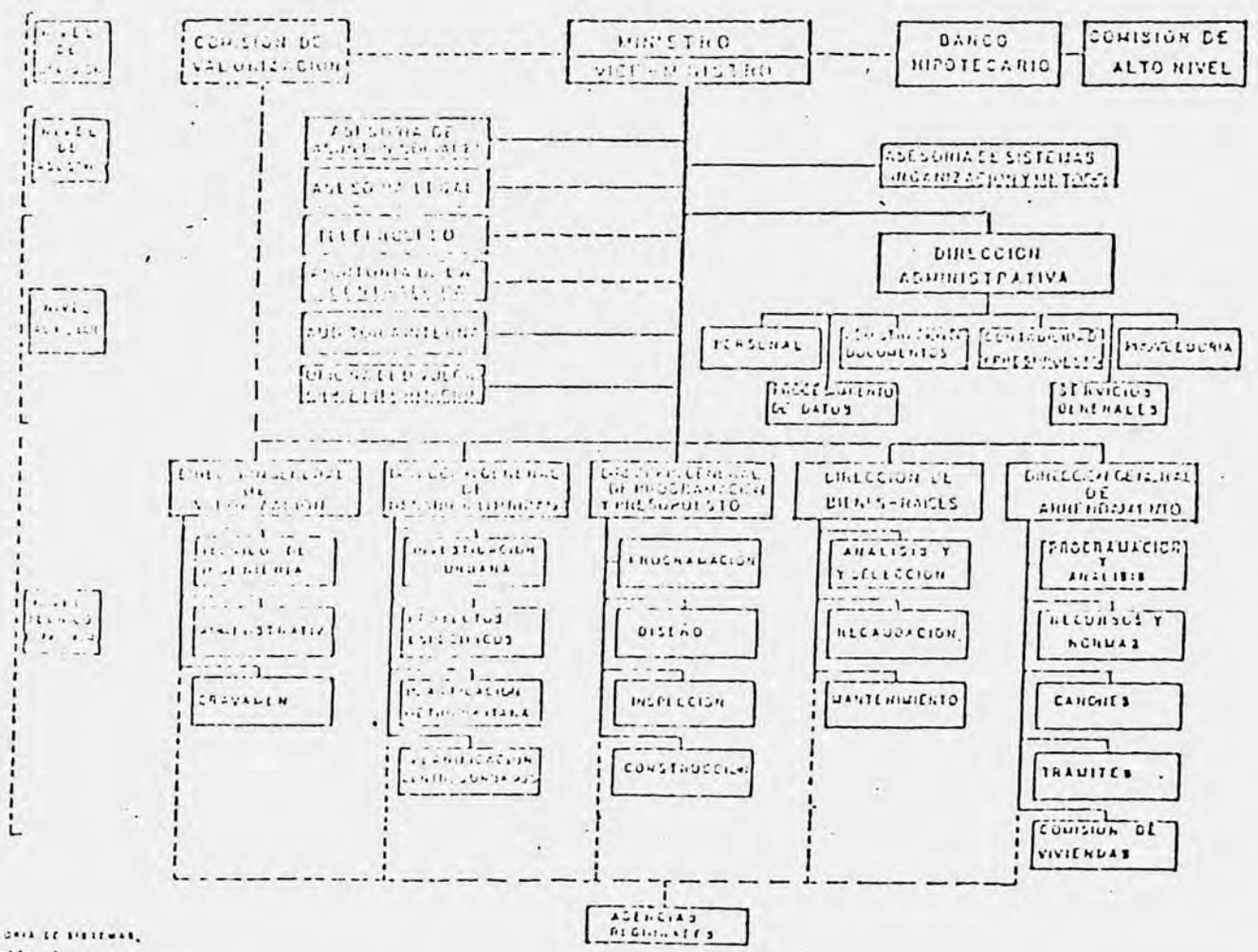
These three entities are identified in the attached MIVI organizational chart. With the exception of the Asesoría de Asuntos Sociales, these line agencies are further sub-divided into operational departments each of whom has specialized functions to be performed within the overall mandate of its line agency.

Briefly, the Dirección General de Desarrollo Urbano functions as the physical planning arm of MIVI within the context of Panama's national development goals, objectives and policies. This line agency undertakes the necessary studies to prepare regional development plans and urban master plans, to identify priority development areas and to formulate and implement appropriate and use control mechanisms. The Asesoría de Asuntos Sociales prepares socio-economic analyses of potential target areas and social groups requiring improved housing conditions and accessory services. Upon the basis of this background data prospective beneficiaries are selected and matched with current housing projects planned or under construction by MIVI. These activities are carried out in support of the site selection, project design and implementation activities performed by Dirección General de Programación y Presupuesto. Each of these line agencies reports directly to the Vice-Minister. The directors of these agencies are Arq. Manuel Vargas (Desarrollo Urbano), Lic. Benigna Magallón de Hernández (Asesoría Social) and Arq. Orlando Mendieta (Programación y Presupuesto).

II. Description of the sequential process and Technical Inputs into MIVI's Site Selection and Project Development ProcessA. Site Identification and Selection Procedures

Prior to the decision to purchase and develop a tract of land, MIVI's site selection process involves four basic activities:

MINISTERIO DE VIVIENDA



PREPARADO POR LA AGENCIA DE SISTEMAS, ARQUITECTURA S.A.

hcl

1. Regional Analysis
2. Identification of priority development areas
3. Selection of potential development sites in designated priority areas
4. Site evaluation

The specific line agency and respective sub-group within each responsible for carrying these activities are identified. The technical investigation of the suitability of a particular tract of land is done on the basis of a simple matrix evaluation of eight principal factors. These include:

1. distance from urban center;
2. accessibility;
3. topography;
4. transportation;
5. infrastructure;
6. community facilities;
7. land values; and
8. extent urban services have been provided on-site.

Each of these factors are weighed on a point basis. Economic costs of the land is weighed more heavily than other considerations. Theoretically, the decision of whether or not to purchase a specific site is made on the basis of this technical evaluation.

B. Program Development

Depending upon the circumstances surrounding a particular project, two primary actions are undertaken in support of program development:

1. Socio-economic analyses of a particular client group or individuals interested in purchasing a MIVI built dwelling; and
2. Establishment of the basic physical social and economic parameters to serve as design guidelines in the next phase of the development process. The instrument used to define the expected output of a project is referred to as the "Informe de Identificación del Proyecto". This report contains the following types of information:

- Expected development yield - number of units
- Types and size of housing solutions
- Estimated unit cost
- Type of infrastructure required
- Number and types of community facilities required
- Socio-economic profile of potential beneficiaries

C. Project Design

Based upon the development guidelines established in the preceding step, MIVI's project design operations involve the preparation of three types of physical development plans. The first plan is referred to as the Concept or Schematic Plan.

It designates areas of proposed land use, vehicular circulation pattern, location of supporting community facilities, and sequential stages of the site's development. The Concept Plan is developed upon the basis of MIVI's regional planning inputs plus, the informal comments at other governmental agencies solicited by MIVI's planning staff.

Following the development of the Concept Plan, it is forwarded to MIVI's Department of Design where it is used as a guide of the preparation of a Master Plan or Preliminary Site Plan. Upon completion it is reviewed internally and by outside governmental agencies. After resolution of any potential problems MIVI then proceeds to the preparation of Construction Plans. Separate engineering drawings are made for the following:

1. lotification;
2. vehicular and pedestrian circulation;
3. grading;
4. storm drainage system;
5. water and sewerage system; and
6. electricity

D. Implementation

The final stage of MIVI's project development process involves: (1) preparation of construction documents and solicitation of bids if a project is to be built by a private contractor; (2) carrying out the actual construction of the project; (3) performing routine construction management activities; and (4) conducting final inspections of the project's construction works.

III. Evaluation of MIVI's Site Selection and Project Development Process

A. Sequence of Programmatic Activities and Quality of Technical Inputs

The Ministry's project development process represents a comprehensive and relatively sophisticated set of procedures to be systematically followed in programming the required actions to deliver suitable housing solutions to meet Panama's housing needs. In general, the type and timing of technical inputs and outputs follow a logical

work sequence. In summary, MIVI's overall housing delivery process represents a basically sound technical approach. If the project development process were allowed to operate, the quality of the housing output should exceed above average performance standards.

However, a clear distinction exists between MIVI's theoretical and the actual housing delivery process being used to program its current housing projects. Three basic problems contribute to the discrepancy between what should be and what is being done:

1. The utilization of a programming process requires sufficient timing between site identification and acquisition and initiation of construction operations. The requirement of approximately one year between these two steps represent a significant political problem in a production-oriented environment;
2. The lack of specifically defined physical, social and economic development guidelines to measure actual performance in current housing projects substantially negates the potential benefits of a systematic planning and programming approach to housing production; and
3. MIVI's theoretical housing delivery process is not clearly defined nor thoroughly understood by its technical staff. Therefore, their technical inputs and outputs do not fully answer the operational needs and problems.

UNIT COST CALCULATIONS AND TYPICAL FLOOR PLANS

1. Home Improvement Loans

a) Materials Loan	\$ 500
b) Additional Rooms	1,100
c) Sanitary Facilities	1,400
d) Combination Improvement	2,000
e) Second Floor Addition	3,000

2. Serviced Lot:

Land	\$ 250
Infrastructure*	1,800
Administration Design	250
	<u>\$2,300</u>

3. Piso - Techo:

Land	\$ 250
Infrastructure*	1,800
Piso/Techo	1,200
Administration Design	350
	<u>\$3,600</u>

4. Basic Unit (25m²):

Land	\$ 250
Infrastructure*	1,800
Basic Unit	2,400
Administration Design	550
	<u>\$5,000</u>

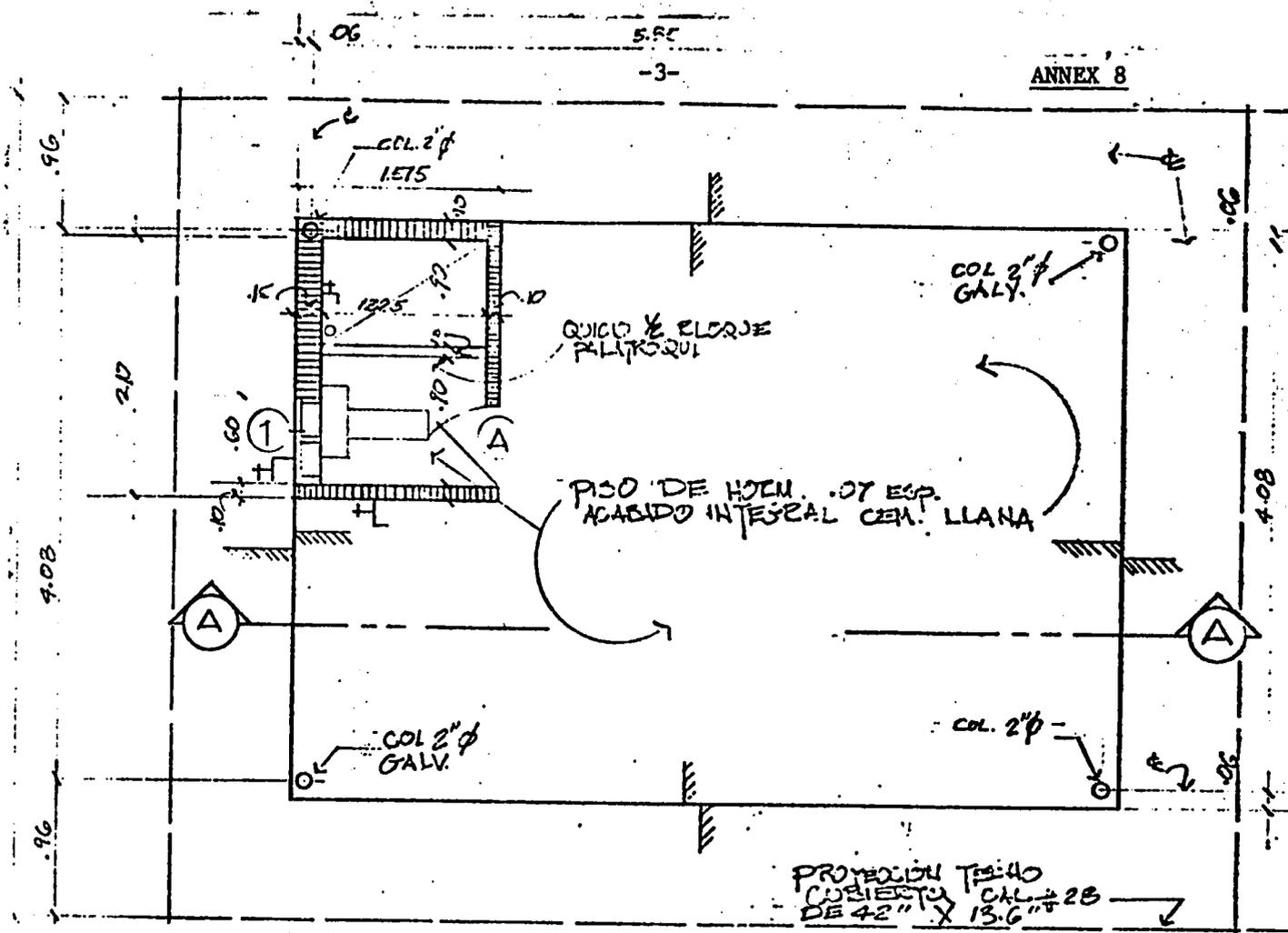
*Includes utility lines, roads, drainage, grading, etc.

5. Standard Unit (50m²):

Land	\$ 250
Infrastructure	1,900
Structure at \$100/m ²	4,600
Administrative and Design Costs	750
	<u>\$7,500</u>

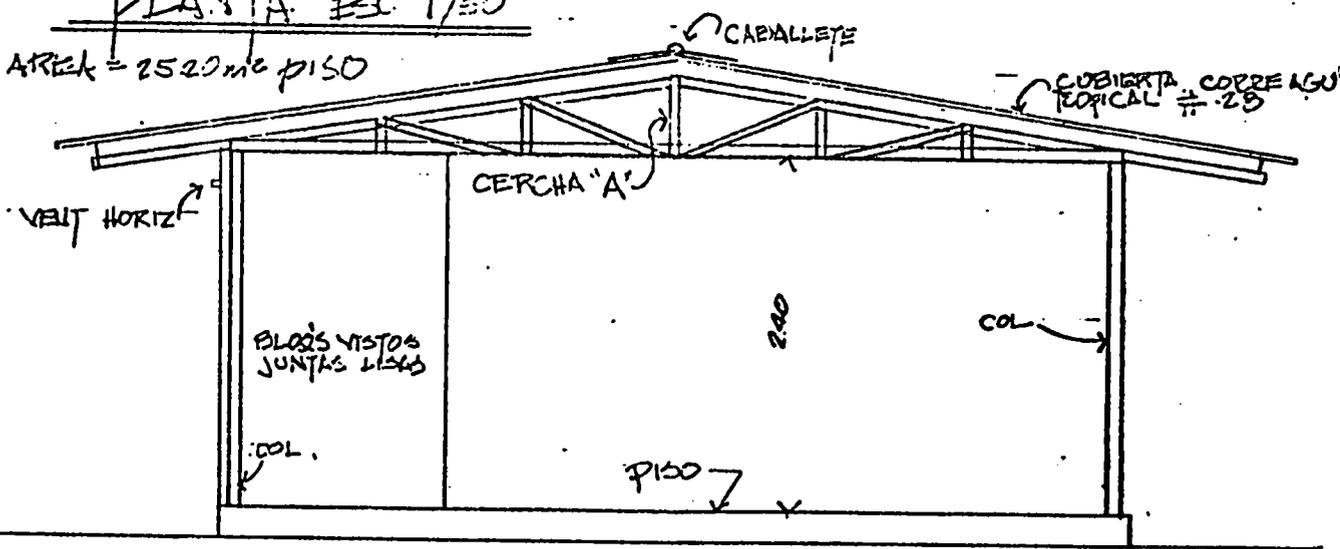
6. Midrises (Urban Renewal)

a) Type "A" (40m ²) land and infrastructure	\$ 650
Structure at \$152/m ²	6,100
Administrative and Design Costs	<u>750</u>
	\$7,500
b) Type "B" (50m ²) land and infrastructure	\$ 650
Structure at \$150/m ²	7,500
Administrative and Design Costs	<u>850</u>
	\$9,000
c) Type "C" (60m ²) land and infrastructure	\$ 650
Structure at \$145/m ²	8,650
Administrative and Design Cost	<u>950</u>
	\$10,250



PLANTA ESC: 1/50

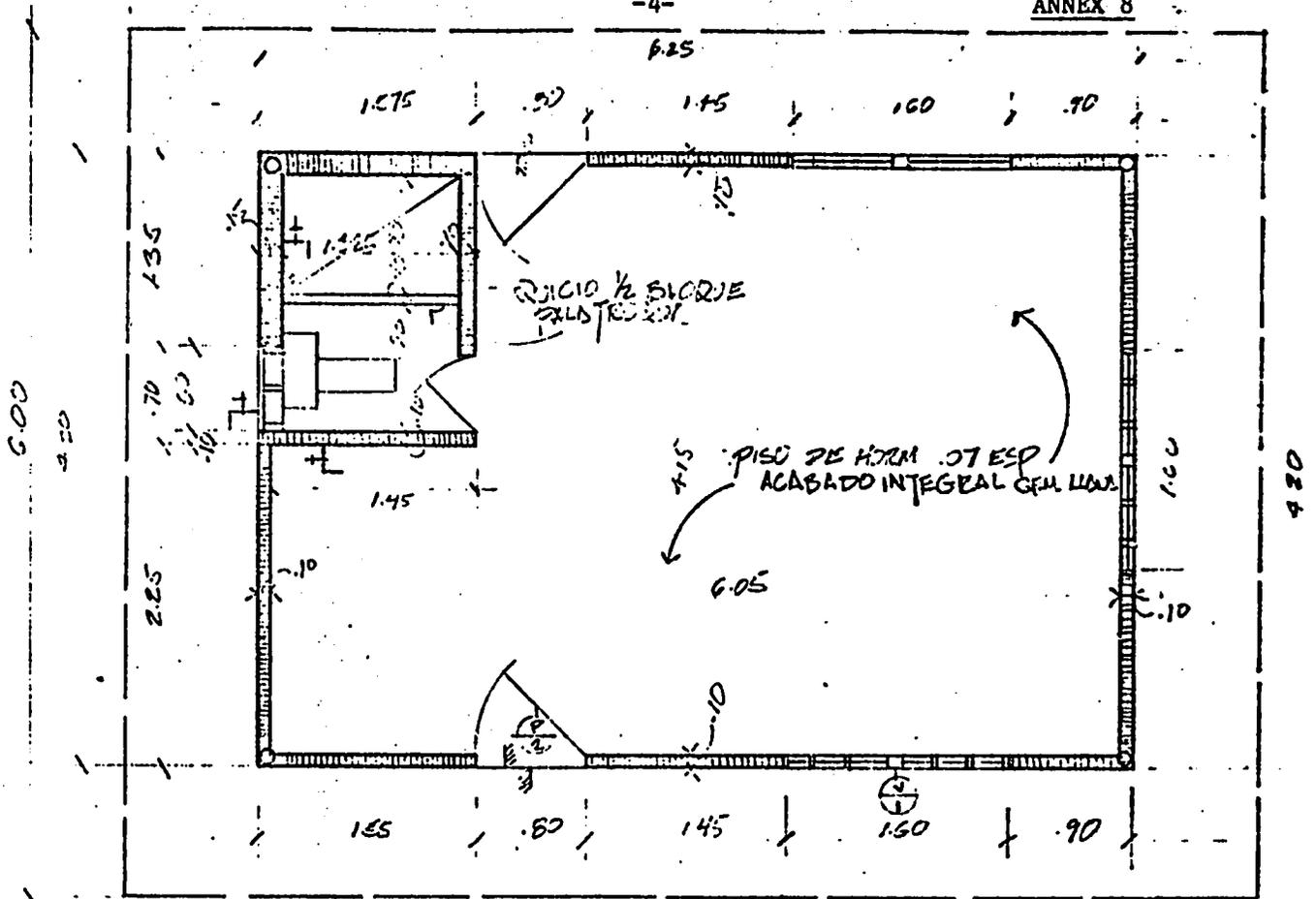
ARREK = 2520 me piso



FACHADA PRINCIPAL ESC: 1/50

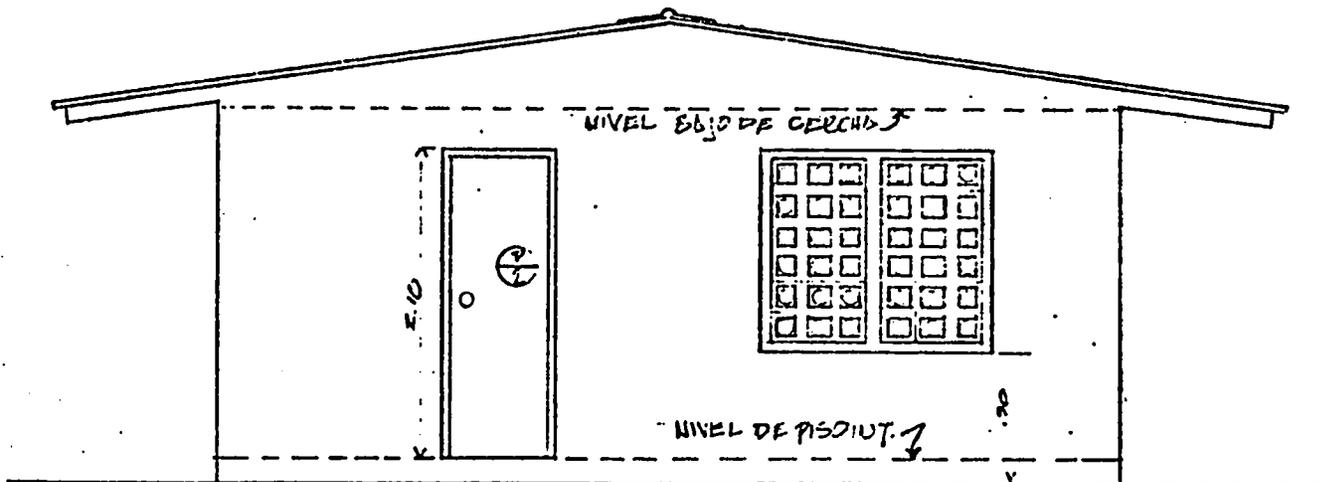
TYPICAL PISO-TECHO UNIT

180x



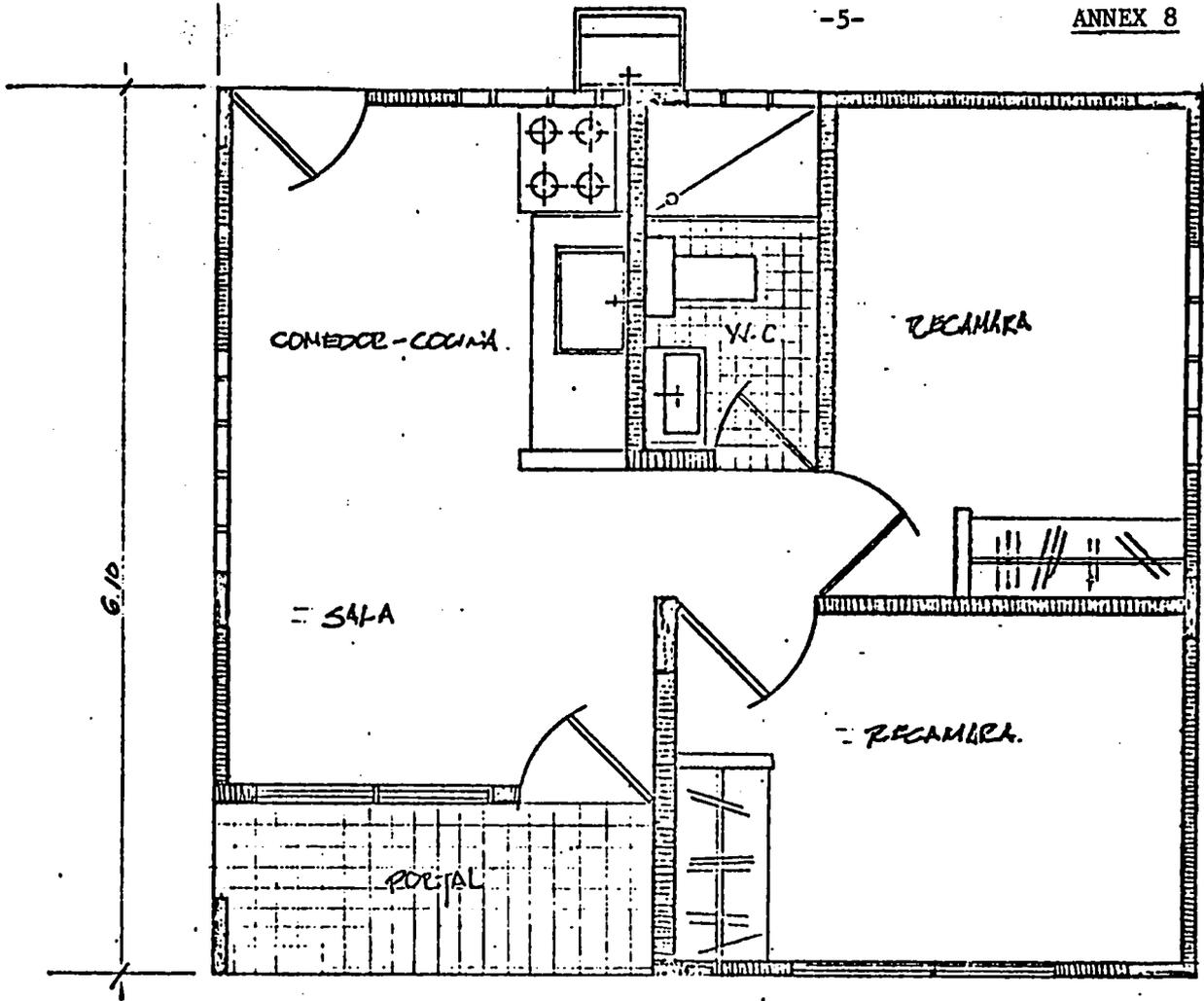
PLANTA ESC 1/50
AREA 25.20 m² PICO

PROYECCION TECHO
CUBIERTA GOL. ± 28
DE 42' X 13.6'

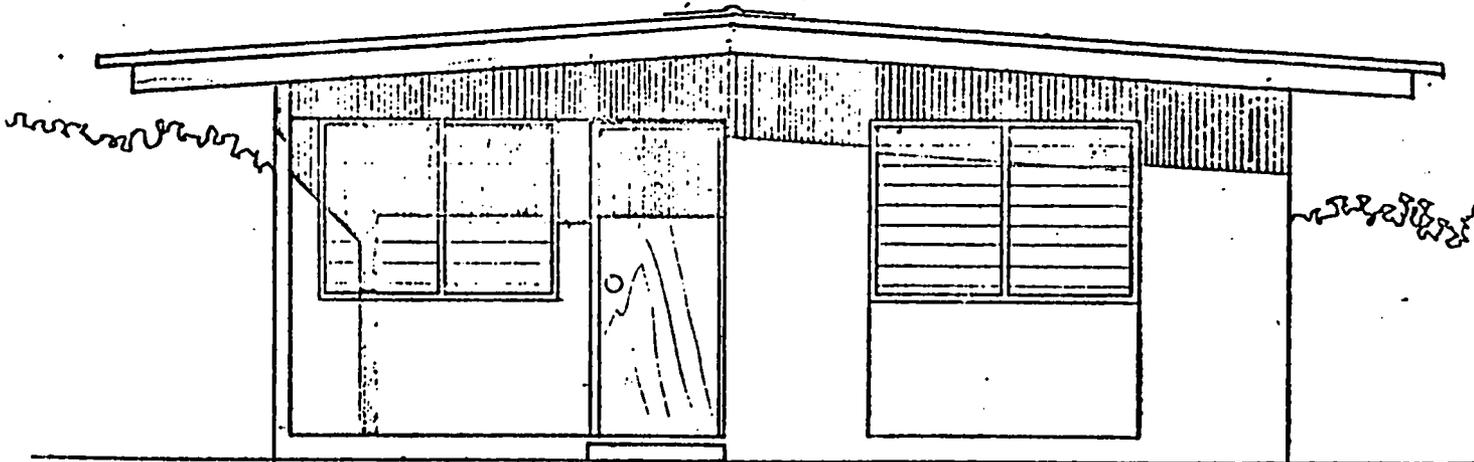


FACHADA PRINCIPAL ESC 1/50

TYPICAL BASIC UNIT



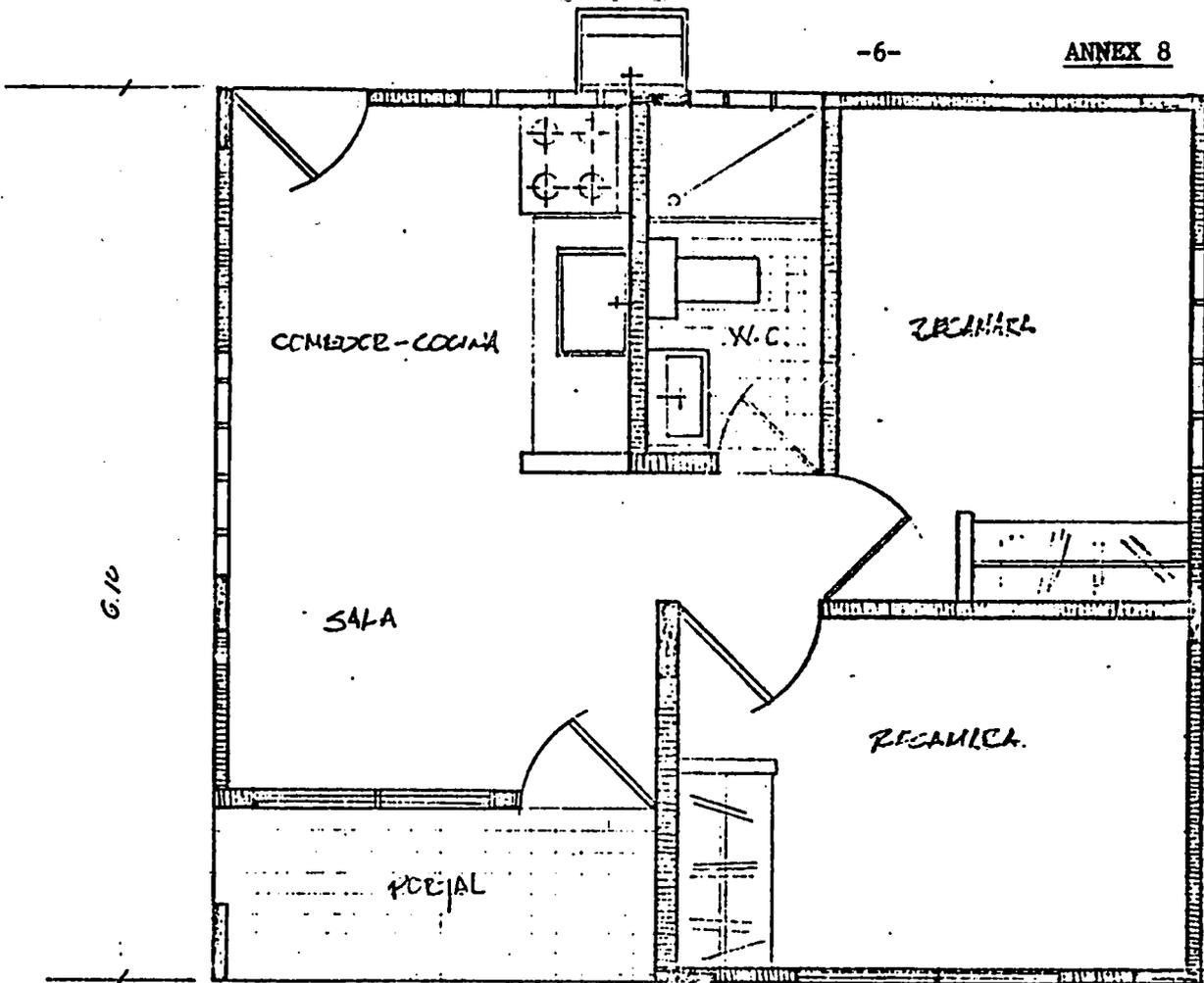
PLANTA ESC: 1/50



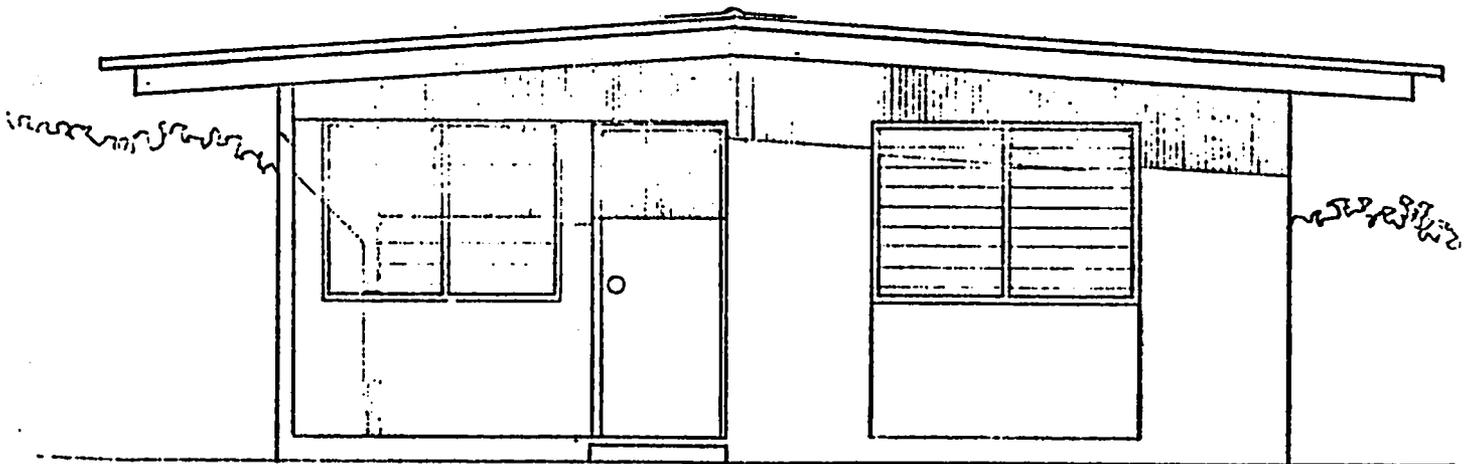
ELEVACION PRINCIPAL ESC: 1/50

TYPICAL STANDARD UNIT

150



PLANTA ESC 1/50



ELEVACION PRINCIPAL ESC 1/50

TYPICAL STANDARD UNIT

Financial Report/Cash Flows

April 2, 1979

Mr. James W. Christian, Ph.D.
 Senior Vice President
 National Savings & Loan League
 1101 Fifteenth Street, N.W.
 Washington, D.C. 20005

Dear Mr. Christian:

In connection with your request for services as consultant through National Savings and Loan League and the Scope of Work described in the cable received from Mr. Edward Robbins dated February 28, 1979 and per the March 2, 1979 memo from Mr. Mario Pita, Chief, RHUDO/PSA, I am submitting the following:

A. Financial Analysis of BHN

Data Available:

1. Financial Report of external auditors, Chandeck & Borquez, as of December 31, 1977.
2. Preliminary Trial Balance as of December 31, 1978 prepared by BHN Accounting Department.

Comments:

At the present time, the external auditors are working with the Accounting Department incorporating into the financial statements for the year ended December 31, 1978 the proposed adjustments for the balance audited by them (December 31, 1977). Therefore, I do not have at this time a reliable instrument to adequately compare BHN's financial position as of December 31, 1978 to the preceding year in order to analyze both statements from a financial point of view.

We are, nevertheless, able to present some significant points in connection with part A of the Scope of Work.

A comparative analysis of Loans Payable to BHN (1976 and 1977) broken down in External and Internal Debt is shown in Exhibit 1 (Increase of \$51,045,800 (30.9%). The total amount of Loans Payable as of December 31, 1978, amounting \$216,251,400 shows that most of them, approximately \$100,000,000, around 46% of its total debt, and close to 80% compared to its portfolio, have been borrowed in a short and medium term basis (5, 7, and 10 years) at a high interest. On the other hand, most of the generated mortgages have a life between 20 and 25 years with an interest rate averaging 7.8% per annum which is lower than the interest BHN has to pay to its lenders. Consequently, this situation has a considerable effect on the financial situation for the period 1978-1987 with a stronger impact on the next five-year period,

although BHN has been utilizing the "aportaciones" de la Caja de Seguro Social which totals approximately \$70,000,000.00 as of December 31, 1978 at only a 3% interest, ten-year grace period. By 1982, BHN has to start the amortization of the 1972 "aportacion" in the amount of nearly \$7,100,000. The "aportaciones" they are receiving are higher than the "amortizaciones" at least for the years 1982, 1983 and 1984, but we must point out that these capital funds have been used to cover the operational deficit rather than for investment purposes.

The income generated by interest earned on mortgages is lower than the interest that BHN has to pay for Loans Payable. This results in an irreversible operational deficit which will continue to increase year by year with no possibility of ever rendering any profit.

Pending adjustment by the auditors, the deficit of \$6,333,000 shown in the financial statement prepared as of December 31, 1977 will be increased by approximately \$2,000,000 for 1978. Also, if the loss between advanced funds to Ministerio de la Vivienda and the sale price of general projects in the amount of \$4,796,157, as shown by the auditors Chandeeck and Bosquez, is finally adjusted, it is possible that the final figure of the cumulative deficit up to December 31, 1978 will be approximately \$18,000,000.

For the years ended 12/31/79, 12/31/80 and 12/31/81, we have assumed that the operational deficit will be increased to \$20,000,000 in round figures. This would bring the cumulative deficit to approximately \$38,000,000 as of December 31, 1981, converting the net worth of BHN at such a date to a negative net worth of \$15,000,000.

The following ratios show some basic aspects of its financial position on December 31, 1978:

$$1) \frac{\text{Portfolio}}{\text{Loans Payable}} = \frac{125,000,000}{216,000,000} = 0.579$$

This leverage ratio shows the capacity of the bank to generate mortgages with the resources obtained.

$$2) \frac{\text{Loans Payable}}{\text{Net Worth}} = \frac{216,000,000}{23,417,922} = 43.2$$

$$- \frac{18,000,000}{5,000,000}$$

This leverage ratio shows a lack of utilization of financing. The trend shows a constant increase.

$$3) \frac{\text{Interest Earned}}{\text{Interest Paid}} = \frac{6,219,400}{11,142,400} = 0.558$$

This profitability ratio shows that BHN cannot service its debt (interest cost) with no possibility to cover administrative expenses. On the contrary, BHN has to use its capital funds to cover the operational deficit.

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$$4) \frac{\text{Administrative Expenses}}{\text{Total Income}} = \frac{980,000.0}{7,323.1} = 13.38$$

This profitability ratio shows that the incidence of administrative expenses over the total income is high.

$$5) \frac{\text{Administrative Expenses}}{\text{Averaged Portfolio}} = \frac{980,000}{103,000,000} = .00946$$

This profitability ratio is to show the incidence of administrative expenses over the averaged portfolio,

$$6) \frac{\text{Loans Payable Amortization}}{\text{Inflow - Portfolio}} = \frac{9,210,400}{6,219,400} = 1.4809$$

This activity ratio shows how much BHN has to pay for each Balboa received from its portfolio. This ratio is mainly reflected in number 3.

$$7) \frac{\text{Inflow - Funds - Portfolio}}{\text{Outflow - Loans Payable (amortization)}} = \frac{6,219,400}{9,210,400} = .67428$$

This activity ratio shows that generated interest from its portfolio is not enough to amortize its debt. This ratio is mainly reflected in ratios No. 3 and No. 6. Taking into consideration the above, it becomes apparent that the financial position of the BHN will worsen in the years ahead without a strong injection of capital funds.

Parts B, C, and D of the Scope of Work are as follows:

- B. Cash flow for BHN for the next five years that will identify the source and application of funds.
- C. A general cash flow reflecting the effects of the 75 million RG in the next 15 years.
- D. A detailed description of how and when the GOP should make the financial contribution required by BHN to start the process of reaching a sound financial position.

Parts B, C, and D are summarized in one General Cash Flow Projection covering a ten-year period (1979-1988). This permits us to have an idea of what could be the financial situation of BHN through such period, taking into consideration the following assumptions:

Sources of Income (Assumptions):

1. See Exhibit 2 which shows the actual source of income of BHN (Portfolio Interest). This item is identified on number 1 and 2 in the General Cash Flow Projection.

2. The item No. 3 (MIVI new portfolio) represents interest income generated from capital funds as follows:

II-a AID HG	\$ 75,000,000
II-b GOP (25% participation)	18,750,000
II-c AID (URBE)	5,400,000
II-d GOP (Additional)	25,000,000
	<u>\$124,150,000</u>

II-a 30 years term - 10-year grace period 10.5% interest

II-b (No cost)

II-c 30 years term - 10-year grace period 10.5% interest

II-d (No cost)

3. The tentative number of houses to be constructed would be approximately 24,830 with the same number of generated mortgages for a 25-year period at 12.5% interest.

4. These capital funds would be allocated as follows:

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
H.G. (7511)	5,000,000	15,000,000	15,000,000	15,000,000	15,000,000	10,000,000
GOP	1,250,000	3,750,000	3,750,000	3,750,000	3,750,000	2,500,000
H.G. (URBE)	5,400,000	--	--	--	--	--
Additional)	25,000,000	--	--	--	--	--
Proration) (25,000,000)	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
	<u>11,650,000</u>	<u>23,750,000</u>	<u>23,750,000</u>	<u>23,750,000</u>	<u>23,750,000</u>	<u>17,500,000</u>

The \$25,000,000 additional contribution should be made in cash (no cost) - to be placed initially in a C.D. gaining interest at 12.5% in the first year, 10% second year, and 9% the last three years, and then to be invested yearly (\$5,000,000 each year) with the results shown in Exhibit 3 (Interest and Amortization Schedule).

5. At the present time, there is no Reserve Policy established by BHM. In the cash flow projection we assume two kinds of Reserves:
- Reserve for possible losses on mortgage loans - 2% over the generated interest on portfolio
 - Reserve for contingencies - 1% over the generated interest on portfolio

6. Income of Properties Rented, identified as Item No. 5 in the GCFP (General Cash Flow Projection), has been increased at a 2% rate starting 1981.
 7. Insurance Recuperation - This item identified as no. 6 in the GCFP has been increased at a rate of 10% yearly. It represents the amount collected from insurance (MIVI Construction) (Fire and Life Insurance)
 8. Insurance Premium and Technical Services - This item identified as no. 7 represents income from insurance premium, and technical services to Asociaciones de Prestamos y Ahorros and is based on assumptions from Mortgage Department. It has been increased at 10% yearly. FHA 1/2% appraisal and inspection of houses.
 9. Miscellaneous Income - This item identified as no. 8 represents mainly interest on loans granted to Guardia Nacional, Nuevo Chorrillo y Cia. Lefevre. It also includes interest on bonds. There is no consideration of interest neither on loans made to Distrito Especial San Miguelito nor Gobierno Central because BIN is not receiving any payments from them. It has been increased at 3% yearly.
 10. Recuperations - Portfolio Savings and Loan Associations - This item, identified as no. 9 in the GCFP, has been determined from the total of the amortization schedules prepared by BIN.
 11. MIVI Old Portfolio - This item, identified as ~~no. 10~~ ^{no. 10} has been determined per data given by BIN in accordance with tabulation of amortization schedule variation (Exhibit 4).
 12. MIVI - New Portfolio - This item, identified as no. 11, represents interest generated by new portfolio in accordance with figures taken from Exhibit No. 3.
 13. Down Payments on Mortgages - New Portfolio - This item, identified as no. 12, is included in Exhibit No. 3.
 14. Caja del Seguro Social - XIII Month - The 1979 figure for this item, identified as no. 13, is the estimate given by Caja del Seguro Social to BIN, which is increased at a rate of 2.5% per year, again in accordance with the expected increases estimated by Caja del Seguro Social.
 15. Other Capital Income - This item identified as no. 14, represents recuperations from Loans made to Cooperative Nuevo Chorrillo y Guardia Nacional per amortization schedules. It has been increased at a 2% per annum since 1981.
- | | |
|---------------------------------------|--------|
| 16. H.G. Loan (\$5.4M URBE) | No. 15 |
| H.G. Loan (\$75M) | No. 16 |
| GOP Participation in \$75M H.G. Loans | No. 17 |
| GOP Deficit BHN absorption \$25M | No. 18 |
| Interest on C.D. | No. 19 |

The items identified above are illustrated in the table showing capital funds allocated, which is no. 4 of this section, Sources of Income.

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17. Interest And Commissions Paid on Loans - This item, identified as no. 20, represents the interest to be paid for the Loans Payable (old loans) shown in Exhibit 5 plus interest shown in amortization tables prepared and calculated on loans of \$75M and \$5.4M (URBE) on a 30-year term, 10-year grace period at 10 1/2% interest.
18. Administrative Expenses - Bank - This item, identified as no. 21, has been figured in accordance with BHN Budget for 1979 and, then, increased 7% per annum.
19. Operational and Administrative Expenses - MIVI - This item identified as no. 22, was written-off in our GCFP because BHN had eliminated the same from its Budget and there are no payments ("aportaciones al estado") to MIVI after December 31, 1978.
20. Global Insurance - This item, identified as no. 23, represents the amount BHN assumes to be paid (Fire and Life Insurance). An increase of 7% yearly is reflected.
21. Reserva for Losses on Mortgage Loans for Contingencies - The above ^{-and-} items, identified as nos. 24 and 25, have been illustrated in the table showing capital funds allocated, which is no. 5 of this section, Sources of Income.
22. Invested in Portfolio Housing through MIVI and Proportion Taken Annually From GCFs To Be Invested - MIVI - These items identified as nos. 26 and 27 have been illustrated in the table showing capital funds allocated, which is no. 4 of this section, Sources of Income.
23. Domestic Debt and Foreign Debt - The figure generated from the above items, identified as nos. 28 and 29, has been taken from the analysis of both shown in Exhibit 5.

Comments:

- a) Despite the injection of capital resources from now until 1983, in the amount shown in the General Cash Flow Projection (1979-1988) for the first five years, the operational deficit of BHN will total approximately \$31,288,539 for this five-year period. This will increase the cumulative deficit up to a figure rounding \$49,000,000 by December 31, 1983 (negative worth of almost \$23,000,000).
- b) It is important that in the period 1979-1983, the item "Aportaciones al Estado" be taken out. This item represents the amount that BHN has been paying to Ministerio de la Vivienda throughout the past years (until 12/31/78) for an average of approximately \$3,000,000 per year.
- c) Operational deficit continues for the second five years despite the fact that the interest inflow generated by the new portfolio will reach its best years (1986, 1987, and 1988). The deficit for this period will total approximately \$6,617,535 and the cumulative could be estimated around \$55,000,000.

The above will serve as explanation as to why recuperations from old and new portfolios, and downpayments received from generated mortgages and "Aportaciones de la Caja del Seguro Social" (capital funds) cannot be fully reinvested or invested because they have to be used to cover the operational deficit. It would be advisable to see what amount of available funds could be used to generate new mortgages.

- d) What has had a considerable effect on the financial situation of this period is the fact that PHN has borrowed around \$100,000,000 in short and medium-term basis (5.7 and 10 years) at an interest higher than the generated mortgages placed with a life between 20 and 25 years as has been previously explained.
- e) Beginning in 1989 BIN would have to make amortization payments of the \$75M and \$5.4M H.G. as follows:

	<u>75M</u>	<u>5.4M</u>	<u>Total</u>
1989	625,000	270,000	895,000
1990	1,250,000	270,000	1,520,000
1991	1,944,444	270,000	2,214,444
1992	2,638,888	270,000	2,908,888
1993	3,420,138	270,000	3,690,138

- f) A comparative analysis of Loans Payable for the year ended 12/31/78 and 12/31/77, broken down in External Debt, Internal Debt and Central Government, and expressed in amounts and percentages, is shown in Exhibit 6.
- g) A delinquency analysis of Asociaciones de Ahorro y Prestamo as of 12/31/78 has been prepared, showing the high delinquency of its portfolio. A 21.9% rate is shown and the higher percentage, is concentrated on Primera Asociacion amounting a 15.5% of such total. See Exhibit No. 7.

Delinquency for MIVI Portfolio shows a 1.4% ratio as of 12/31/77 which is acceptable. However, if we consider the delinquency in proportion to generated mortgages (MIVI Portfolio), an analysis as of 11/30/78 shows the following:

<u>Current</u>	<u>30 Days</u>	<u>60 Days</u>	<u>120 Days</u>	<u>180 Days</u>	<u>Over 180 Days</u>	<u>Total</u>
<u>11831</u>	<u>7675</u>	<u>2092</u>	<u>939</u>	<u>935</u>	<u>2180</u>	<u>25652</u>
(46.1%)	(29.9%)	(8.2%)	(3.7%)	(3.6%)	(8.5%)	

The delinquency rate totals 53.9% on the total generated mortgages (small mortgages), which is high, taking into consideration the great numbers of small mortgages involved.

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We have assumed a 2% over the generated total interest income as reserve to cover portfolio losses because BHN is using capital funds to cover operational deficit and BHN needs to invest most of such capital funds to generate new mortgages up to the maximum of its resources. We used the same basis to establish a 1% reserve over the generated total interest income for contingencies.

1) It would be advisable to consider and implement as soon as possible other alternatives to generate additional sources of funds which help BHN to achieve a sound financial position:

1. Sale of some pieces of land (if market exists and prices are fair enough to get reasonable capital gains) up to \$25,000,000 (no cost for BHN).
2. Speed termination of feasibility study to commence a secondary mortgage market, determining its profitability.

Good mortgages from Asociaciones de Prestamo y Ahorros	\$ 4,000,000
Ministerio de la Vivienda	<u>21,000,000</u>
	<u>\$ 25,000,000</u>

3. If GOP pays the interest due to BHN for the loans of Chase Manhattan Bank, 15M (1976-1981), 35M (1976-1983), and Banco Nacional 40M (Japanese Loan 1978-1987), it really would represent an indirect additional contribution of \$37,104,467 distributed as follows: \$30,704,467 for 1979-1983 and \$6,400,000 for 1984-1987. The above will significantly decrease the deficit for 1977-1983 from \$31,286,539 to \$584,072 and increase the capital funds around \$30,000,000, creating the opportunity to invest the same in new mortgages.

Also during period 1984-1989 the operational deficit estimated in \$6,617,535 will be reduced.

At the bottom of the General Cash Flow Projection, the way in which this possibility or alternative works is shown and yearly results are compared.

D. A Detailed Technical Assistance Plan For BHN In The Areas You Feel Such Assistance Is Needed

To comply with this part of the scope of work, and after carefully reading Mr. Elicer Fernandez's report ^{AND ALSO the report-} done by Chandeeck & Bosques (Coopers & Lybrand) on December 19, 1978 covering the financial statement of BHN for year ended December 31, 1977, we checked with BHN management to see if the following aspects had been implemented:

1. Audit of recommendations in connection with evaluation made on November, 1977. (Elicer Fernandez' Report - Exhibit 1 - Gerencia de Operaciones)
2. Conditions precedent to approval of loans. (Elicer Fernandez's Report - Exhibit 2)
 - a. Group "A" - Staff Structure (Pages 1 and 2)
 - b. Group "B" - Actions to be taken by BHN (Pages 3, 4, and 5)
 - c. Other actions to be taken by BHN with respect to its financial and managerial performance.
3. Contract the services of a CPA licensed in Panama to audit BHN's annual financial statements.
4. Preparation of Procedure Manuals for the following areas.
 - a. Department of Supervision of S & L Association
 - b. Technical Department (Page 8)

At present, BHN has submitted to Ministerio de Planificacion y Politica Economica an "anteproyecto" (project plan) in connection with its restructure evidencing good disposition to commence a departmental reorganization which leads to a better management of the Institution. BHN intends to put in action by April 1, 1979 such restructure which is mainly contemplated in its "organigrama" #1 (organizational chart), dated February 1, 1979.

However, in accordance with Panamanian regulations, BHN has to obtain, legally speaking, the approval of MIPPE prior to putting into practice the proposed restructure.

Exhibit 8 shows the "organigrama" #1 which reflects the new structure of BHN and Exhibit 9 reflects actual structure.

Comments:

Assuming that sooner or later the new structure will be implemented, we are trying to establish how it compares to recommendations, conditions, and actions made by Elicer Fernandez, and also how it compares to actual structure. We cannot evaluate if the recommendations of Elicer Fernandez contained in his Exhibit 1, pages 1 to 6, are really being followed by BHN, as well as the actions proposed by him, until the new structure is in effect. However, they are evolving into a more adequate mortgage banking organization. "Gerencia de Contraloria" has been created to substitute "Gerencia de Operaciones." Gerencia de Operaciones includes the departments of Auditoria General, Supervision y Fiscalizacion, and Auditoria Externa. This means that BHN is becoming a more efficient institution.

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Dan Coleman and I paid a visit to the Loan Management Department of MIVI, headed by Licenciada Brunilda, in order to review how it works in connection with BHN. We met with her and other officers of this department. During this visit we were able to confirm the context of Note 1 a), b), c), d), e), f), g), h), i), and j) of the Chandeeck and Bosquez report dated December 19, 1978 because there are no changes in the way the operations between Ministerio de la Vivienda and BHN have been working. The exception is k) because since December 31, 1978, BHN had not reimbursed the salaries of MIVI personnel involved directly and indirectly in projects/programs, etc. financed by MIVI, and other expenses which in the past amounted to approximately \$3,000,000 yearly. This is an important saving that BHN has realized. See exhibits nos. 10 and 11.

If in the future any action is taken by MIVI or Contraloria General de la Republica to be reimbursed by BHN at least for Departamento de Bienes Raices' expenses (organization of mortgages through application from mortgagor, collections, foreclosures, etc.) BHN should include that disbursement as a new expense item in its budget and consider it in any cash flow projection. From an institutional point of view, at the present, the general manager of BHN is signing the checks which were formerly signed by the Chairman of the Board, exercising more financial control. In answer to our questions we have been informed that personnel from Departamento de Bienes Raices are working hard to incorporate as "escrituras publicas" (Deed of Title) the documents which could be named "Contratos de Ocupacion" (Sale Contracts) until finally they were converted to "escrituras publicas." As of November 30, 1978, there were 25,652 contracts composing the Portfolio of BHN from MIVI, but it is not known how many of them have been "escrituras", and if so, how many have been duly registered.

Another cash flow projection has been prepared (1979-1988) eliminating the additional, unique GOP contribution in the amount of \$25,000,000 during 1979. Instead, a new assumption has been elaborated: a GOP absorption of BHN operational loss, year by year, helping the institution to run the period 1979-1988, but at least for the next five years 1979-1983 covering now the cumulative deficit as of 12/31/78, amounting nearly \$18,000,000 and after that the operational loss which is reflected in the second cash flow projection.

The favorable changes that could be incorporated in the year ahead leading to a better financial position depends on how fast the resources of cash shown in the projection be utilized and other steps like the secondary market, if feasible, concur as positive and determinative action to reach the goal.

CONCLUSIONS

After reviewing the financial analyses performed at BHN, it was concluded that:

- A. Some additional conditions should be established before Loan is granted:
 - 1) GOP should cover deficit accumulated up to December 31, 1978.
 - 2) GOP should absorb operational losses from 1979-1988 (ten-year period)

B. The following should be implemented before the first disbursement:

- 1) New structure proposed by BHN should be in operation.
- 2) Upmost use of generated cash flow to invest in new mortgages.
- 3) Accelerate creation of secondary mortgage market.
- 4) Utilization of other resources of capital:
 - a. Sales of pieces of land, if feasible.
 - b. Other possibilities.
- 5) Regulation of some kind of supervision of BHN over the Bienes Raices Department of MIVI since BHN has the responsibility ultimately for managing.
- 6) Continuing the practice of using the services of a CPA licensed in Panama, through a contract, to audit BHN's annual financial statements as they did for the period ended 12/31/77.
- 7) Financial and administrative technical assistance to BHN for at least the first two years, if the loan finally is granted, to help management in coordinating these implementations to reach its objective.

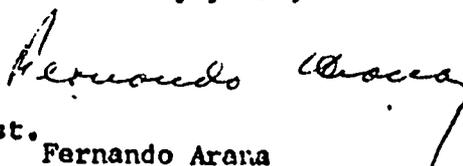
-Mr. Pita-

In accordance with instructions, I have been working in coordination with Mr. Dan Coleman, who is also acting as Consultant, assisting him in the preparation of the Project Plan. I have been receiving the guidance of Mr. Mario Pita in this assignment and the assistance of Mr. Richard Solloway and Douglas Arnold from the Controller's Office, who are familiar with the financial problems confronted by BHN.

Also, I have been in touch with Mr. Jaime Rodriguez and Mr. William Mann regarding this matter, and I was present in different meetings with Mr. Pita and other persons involved in the program.

I hope that I have covered the aspects of the Scope of Work per your request for services. In the case of needed clarifications, please do not hesitate to contact me.

Cordially yours,


Fernando Arana

Note: Original working papers were given to Mr. Mario Pita as his request.

cc: Mario Pita, Chief, RIIUDO/PSA
Panama, Rep. of Panama

1981

BANCO MATECARIO NACIONAL
GENERAL CASH FLOW PROJECTIONS
TEN YEAR PERIOD

ITEM	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
BALANCE (US PER TRAIL BALANCE 12/31/77)	\$5,341	\$7,196,625	\$1,769,081	\$2,758,930	\$7,326,730	\$1,145,718	\$4,389,058	\$5,246,015	\$6,270,922	\$7,746,617
INFLOW (OPERATIONAL)										
1) SAVINGS & LOAN ASSOCIATIONS	701,423	900,000	900,000	1,100,000	1,077,857	610,000	610,000	509,000	500,000	500,000
2) NEW (OLD) PORTFOLIO	669,770	7,240,123	2,025,700	2,725,000	7,210,157	7,000,000	6,679,000	6,679,000	6,679,000	6,679,000
3) NEW (NEW) PORTFOLIO	—	—	1,300,000	2,500,000	6,000,000	9,000,000	11,000,000	10,000,000	10,000,000	10,000,000
4) INCOME FROM US PLACED CASH RESERVES (10% PA)	—	12,326	30,993	79,000	100,000	15,123	100,000	100,000	100,000	100,000
5) INCOME OF PROPERTIES RENTED	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
6) INSURANCE RECOVERATIONS	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
7) INT. INCOME FROM FINANCIAL SERVICES	137,120	119,030	119,030	119,030	119,030	119,030	119,030	119,030	119,030	119,030
8) UNDEQUICKS INCOME	501,555	501,555	501,555	501,555	501,555	501,555	501,555	501,555	501,555	501,555
SUB-TOTAL	7,012,757	12,133,007	13,066,601	15,907,100	18,026,692	20,776,500	23,190,007	23,986,015	24,270,922	24,270,922
CAPITAL										
9) RECAPITALIZATIONS - (Portfolio Savings & Loan Associations)	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
10) NEW (OLD PORTFOLIO)	2,700,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
11) NEW (NEW PORTFOLIO)	—	—	65,000	65,000	65,000	65,000	65,000	65,000	65,000	65,000
12) RECAPITALIZATIONS ON MORTGAGES - (NEW PORTFOLIO)	—	—	1,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
13) RECAPITALIZATIONS ON MORTGAGES - (OLD PORTFOLIO)	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
14) OTHER CAPITAL INCOME	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
15) NEW (OLD PORTFOLIO) 1980	200,000	—	—	—	—	—	—	—	—	—
16) NEW (OLD PORTFOLIO) 1981	200,000	—	—	—	—	—	—	—	—	—
17) NEW (OLD PORTFOLIO) 1982	200,000	—	—	—	—	—	—	—	—	—
18) NEW (OLD PORTFOLIO) 1983	200,000	—	—	—	—	—	—	—	—	—
19) NEW (OLD PORTFOLIO) 1984	200,000	—	—	—	—	—	—	—	—	—
SUB-TOTAL	3,800,000	2,200,000	2,865,000	4,065,000	4,265,000	4,265,000	4,265,000	4,265,000	4,265,000	4,265,000
OUTFLOW										
OPERATIONAL										
20) INTEREST AND COMMISSIONS PAID ON LOAN	15,000,000	16,000,000	15,000,000	16,000,000	15,000,000	16,000,000	15,000,000	16,000,000	15,000,000	16,000,000
21) ADMINISTRATIVE EXPENSES BANK (CAPITAL INCOME)	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
22) OPERATIONAL AND ADMINISTRATIVE EXPENSES BANK	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
23) GENERAL INSURANCE	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000	200,000
24) RESERVE FOR LOSSES ON MORTGAGE LOANS - NEW & OLD	170,000	170,000	170,000	170,000	170,000	170,000	170,000	170,000	170,000	170,000
25) RESERVE FOR CONTINGENCIES (1% on Savings & Loans)	26,228	26,228	26,228	26,228	26,228	26,228	26,228	26,228	26,228	26,228
SUB-TOTAL	18,296,228	20,666,228	19,636,228	20,636,228	19,636,228	20,636,228	19,636,228	20,636,228	19,636,228	20,636,228
CAPITAL										
26) INTEREST ON PORTFOLIO HOUSING THROUGH-BANK	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
27) PROPORTION TAKEN ANNUALLY FROM ADMINISTRATIVE COSTS	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
28) AMORTIZATION OF LOAN PRINCIPLE	—	—	—	—	—	—	—	—	—	—
29) DOMESTIC DEBT	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
30) FOREIGN DEBT	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000
SUB-TOTAL	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000

1985

BANCO HIPOTECARIO NACIONAL
GENERAL CASH FLOW PROJECTION
TEN YEAR PERIOD.

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
CASH SECURE SOCIAL REIMBURSEMENTS CASH SECURE SOCIAL PAYMENTS												
NET CASH FLOW	23,856,214	(6,950,520)	(1,000,187)	(3,348,200)	(10,462,002)	(2,079,608)	260,905	4,928,000	2,864,698	9,231,399		
AVAILABILITY	28,710,645	21,769,081	20,745,930	17,490,730	6,958,728	4,079,070	5,320,000	10,300,071	15,168,765	22,000,160		
RECAPITULATION												
NET OR (LOSS) OPERATIONAL CASH FLOW	(6,009,276)	(8,830,700)	(6,259,850)	(5,332,185)	(4,510,988)	(3,162,602)	(1,989,915)	(70,000)	(1,112,282)	(997,971)		
NET OR (LOSS) CAPITAL CASH FLOW	18,765,500	1,630,176	5,553,205	1,916,911	(5,961,000)	616,310	4,330,760	5,250,110	3,277,977	10,229,360		
NET CASH FLOW	23,856,214	(6,950,520)	(1,000,187)	(3,348,200)	(10,462,002)	(2,079,608)	260,905	4,928,000	2,864,698	9,231,399		
DO YOU PAY INTEREST OF THE FOLLOWING LOANS:												
CHASE MANHATTAN - 35M - 1976-83												
" " " " 15M - 1976-1981												
BANCO NAC DE PUNTA GUA - 1978-1987												
THE RESULTS WILL BE AS FOLLOWS:												
NET OR (LOSS) OPERATIONAL CASH FLOW	2,170,000	(1,315,500)	(600,900)	(330,900)	(610,000)	(799,000)	(20,000)	1,170,000	100,000	(117,000)		
NET OR (LOSS) CAPITAL CASH FLOW	29,765,000	1,630,176	5,553,205	1,916,911	(5,961,000)	616,310	4,330,760	5,250,110	3,277,977	10,229,360		
ADJUSTED NET CASH FLOW	31,935,000	310,000	4,952,305	1,586,011	(6,471,000)	(182,690)	4,310,760	6,420,110	3,167,977	10,112,360		

GENERAL CASH FLOW PROJECTION (SECOND)
TEN YEAR PERIOD

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
NET CASH FLOW	(2,525,766)	(3,950,560)	2,609,823	(319,933)	(7,755,419)	2,983,221	(1,976,433)	1,588,329	(411,200)	6,331,602
AVAILABILITY	2,672,645	(1,272,919)	1,376,934	1,057,001	(6,701,411)	(6,002,997)	(2,279,510)	(6,271,127)	(6,132,100)	(5,501,999)
RECAPITULATION										
NET OR (LOSS) OPERATIONAL	(6,309,276)	(8,680,760)	(6,559,352)	(5,977,766)	(5,597,285)	(6,772,193)	(4,169,983)	(2,782,127)	(3,134,569)	(3,711,150)
NET OR (LOSS) CAPITAL	3,783,508	4,630,176	9,209,205	5,557,811	(2,161,130)	5,070,510	2,193,510	4,370,466	3,093,309	10,002,252
NET CASH FLOW	(2,525,766)	(3,950,560)	2,609,823	(319,933)	(7,755,419)	2,983,221	(1,976,433)	1,588,329	(411,200)	6,331,602
IF COP ABSORBE OPERATIONAL (LOSS)	6,309,276	8,680,760	6,559,352	5,977,766	5,597,285	6,772,193	4,169,983	2,782,127	3,134,569	3,711,150
NET CASH FLOW	3,783,508	4,630,176	9,209,205	5,557,811	(2,161,130)	5,070,510	2,193,510	4,370,466	3,093,309	10,002,252
AVAILABILITY	8,986,919	13,617,085	22,829,200	28,378,111	26,216,977	31,387,811	33,081,001	37,851,467	40,984,776	50,987,528
INITIAL COP ABSORPTION OF CUMULATIVE DEFICIT TO BE ADDED AS SOURCE AND AVAILABILITY OF FUNDS) → 11,000,000										
ADDITIONAL ABSORPTION OF DEFICIT, YEAR BY YEAR UP TO 1983 → (3,711,150)										
REMAINING ABSORPTION OF DEFICIT, YEAR BY YEAR UP TO 1988 → (5,000,323)										

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ANNEX 9

BANCO HIPOTECARIO NACIONAL
GENERAL CASH FLOW PROJECTION (SECOND)
TEN YEAR PERIOD

EM		1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
	Balance (kw) and total balance 12/31/78	5,263,411	2,677,645	(1,292,499)	1,076,934	1,067,061	(6,701,012)	(6,403,077)	(8,977,530)	(6,911,201)	(6,832,001)
	INFLOW OPERATIONAL										
1)	SAVINGS & LOAN ASSOCIATIONS	931,323	900,000	905,000	880,667	857,899	874,030	616,500	579,808	508,360	510,978
2)	MIMI (OLD PORTFOLIO)	8,628,990	8,369,123	8,095,710	7,755,488	7,436,159	7,064,957	6,667,983	6,213,654	5,728,023	5,190,901
3)	MIMI (NEW PORTFOLIO)	—	—	1,307,060	3,401,811	5,481,498	7,503,910	9,559,129	10,868,211	10,701,703	10,617,589
4)	INCOME FROM COLL PLACED FROM RESERV.	—	25,886	50,913	79,202	112,794	151,487	195,300	209,795	295,201	300,600
5)	INCOME OF PROPERTIES RENTED (MIMI)	1,022,220	1,022,220	1,042,640	1,063,518	1,084,785	1,106,488	1,128,618	1,151,190	1,170,210	1,191,698
6)	INSURANCE RECOVERATIONS	1,097,824	1,207,603	1,320,363	1,441,199	1,569,320	1,718,060	1,900,897	2,139,987	2,353,316	2,588,659
7)	INSURANCE PREMIUMS+TECHNICAL SERV.	139,920	149,030	163,923	180,326	198,358	218,190	240,013	260,010	290,005	319,007
8)	MISCELLANEOUS INCOME	50,585	50,585	50,585	50,619	50,689	57,562	59,708	60,470	62,720	64,526
	SUB-TOTAL	12,322,959	12,123,487	13,410,601	15,316,910	17,335,521	19,100,738	20,903,402	22,648,819	21,700,050	21,423,358
	CAPITAL										
1)	RECOVERATIONS (PORTFOLIO SAUNCLAWNESS)	500,369	601,196	881,105	901,403	928,222	563,337	577,507	585,381	400,900	401,876
2)	MIMI (OLD PORTFOLIO)	2,765,959	3,022,620	3,305,599	3,619,211	3,788,590	4,330,070	4,736,826	5,181,095	5,661,720	6,199,808
3)	MIMI (NEW PORTFOLIO)	—	—	65,636	180,080	309,750	446,500	622,789	776,133	900,601	1,000,692
4)	DOWNPAYMENTS IN MORTGAGES (NEW PART)	—	—	1,165,000	1,975,000	1,875,000	1,375,000	1,875,000	1,250,000	—	—
5)	CASH SECURED SOCIAL 2 1/2% MONTH	10,992,000	10,992,000	15,000,000	15,200,000	15,800,000	16,195,000	16,599,875	17,014,872	17,440,000	17,876,250
6)	OTHER CAPITAL INCOME	100,210	100,210	100,210	100,210	110,513	112,805	115,051	117,302	119,549	121,803
7)	HO LOAN (S.M.) URGE	5,000,000	—	—	—	—	—	—	—	—	—
8)	HO LOAN (S.M.)	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	—	—	—	—
9)	CAP PARTICIPATION IN 175M PROGRAM	1,250,000	3,750,000	3,750,000	3,750,000	3,750,000	2,500,000	—	—	—	—
	SUB-TOTAL	29,992,602	27,322,636	39,277,078	40,630,210	41,592,485	36,022,722	34,627,098	34,890,809	34,599,180	35,000,767
	OUTFLOW OPERATIONAL										
0)	INTEREST & COMMISSIONS PAID ON LOANS	15,061,122	16,961,705	15,881,900	16,813,370	18,910,785	18,779,502	19,045,355	19,001,903	18,732,200	18,601,023
1)	ADMINISTRATIVE EXPENSES BANK	2,765,037	2,765,037	3,105,610	3,227,288	3,620,319	3,378,107	4,109,574	4,600,000	4,710,507	5,000,000
2)	OPERATIONAL & ADM EXPENSES MIMI	—	—	—	—	—	—	—	—	—	—
3)	GLOBAL INSURANCE	530,000	570,700	630,270	678,074	726,181	777,010	831,005	889,603	951,825	1,018,506
4)	RESERVE FOR LOSSES ON MORTGAGE LOANS	172,576	167,202	188,055	229,509	288,333	290,179	320,500	301,037	329,385	316,209
5)	RESERVE FOR CONTINGENCIES	8,228	33,091	90,028	111,774	129,177	146,089	162,270	170,819	180,190	188,124
	SUB-TOTAL	18,639,033	20,707,187	19,145,953	21,260,656	22,932,819	23,372,931	25,113,105	24,881,006	24,881,559	25,130,206
	CAPITAL										
6)	INVESTED IN PORTFOLIO HOUSING - MIMI	11,650,000	18,200,000	18,250,000	18,750,000	18,750,000	12,500,000	—	—	—	—
7)	AMORTIZATION ON LOANS PAYABLE	—	—	—	—	—	—	—	—	—	—
8)	DOMESTIC DEBT	2,430,700	2,432,208	1,958,928	879,710	17,223,600	17,170,579	20,520,000	18,630,600	19,597,720	19,635,000
9)	FOREIGN DEBT	11,091,720	11,215,590	9,316,985	7,589,239	7,429,425	1,217,679	1,813,568	1,897,739	1,626,109	1,960,980

Secondary Mortgage Market Brief

Latin American Development Corporation

P.O. BOX 1438

NORTH MIAMI, FLORIDA 33161

TEL. 946-9796

(305) 944-7702

L.A.DCO Investment Division

March 22, 1979

M E M O R A N D U M

TO: Mario Pita, RHUDO/PSA

FROM: Marlo J. Schram, Consultant
Latin American Development Corporation

This "draft memorandum", required by Article V of the contract under which I am now working, is a summation of the detailed information I shall send to you in my interim report covering the work done and recommendations made during the second trip to Panama in accordance with Work Order No. 1, Contract No. AID/otr-C-1655.

- 1) As a result of the changes which occurred during the past six weeks, giving the BHN the opportunity to establish a substantial degree of managerial control over its own operations, it is now possible to work toward the development of the Bank as a self sustaining financial institution. Therefore, I have worked with the management of the BHN in planning the contact work for the sale of mortgage-based securities in a secondary mortgage market.
- 2) Inasmuch as the Ministry of Housing and the BHN are both in need of funds, I have recommended that the initial effort be directed toward the commercial banks as investors, particularly with regard to their legal obligation to invest at least 50% of their deposits in housing finance. Estimates obtained from the Banking Commission indicate that this obligation will be approximately \$22,000,000 in 1979. Tax-free government-guaranteed mortgage participation certificates should be attractive to many commercial banks at a net yield of 7%. Since the BHN has mortgages available which pay 9% interest, the transaction would give the BHN a yield of 2% plus the opportunity to relend the money at 9% (or perhaps at rates of up to 12.5%) and an additional 1/2% for its FHA Mortgage Risk Insurance.
- 3) I have also recommended that the BHN take advantage of the COP's new awareness of the need to provide financing for the housing and construction industries by requesting that the commercial banks be permitted to buy the government-guaranteed FHA-insured mortgage participation certificates with the right to deposit them in the Banco Nacional as part of the legal reserve required of all commercial banks in Panama . . . at least up to 10% of that required reserve. Inasmuch as those deposits do not now earn any interest for the banks, they would undoubtedly be happy to receive 5% or 6% in tax-free interest for an investment of this nature. I am informed that 10% of the reserve requirement would be approximately \$5,000,000. . . a figure I have not been able to verify.

- 4) Although a substantial increase in the BHN's cash flow is undoubtedly of great importance, I believe that the Bank's greatest need at this time is for an increase in its capacity to earn profits. Over the long pull, it cannot become a viable financial institution merely by substituting one group of creditors for another. It must reduce its outstanding obligations or, better still, increase its outstanding obligations while developing an even greater increase in its mortgage portfolio and its gross and net profits. As one of the measures which can contribute to achieving this result, I am recommending that the BHN expand its role as an insurer of the mortgages covered by its FHA insurance. This will involve the extension of the FHA insurance to include the mortgages generated by the MI-VI, by the commercial banks, mortgage banks, insurance companies and other institutions which can qualify as approved entities of the FHA system. It will also include the development of a system of mortgage life insurance in which the BHN would be the insurer. This would add to the income of the BHN every year 1% of the face value of all new mortgages generated by the S&Ls and those insured by the BHN's other approved entities . . . and virtually all of this income would be net profit.
- 5) As a result of the training program previously developed for BHN personnel in trips to the Dominican Republic and Costa Rica and the trip to Costa Rica earlier this month by the BHN's assistant manager, Carlos Tovar, the Bank is convinced that a secondary mortgage market can be developed in Panama. The Bank is preparing a section of its operations manual to include the administrative and accounting procedures which the market will require, it already has the forms it needs and the trained personnel to handle the paper work. Recently the BHN has been reestablishing contacts with some of the prospective investors who had expressed interest in the market during May and June of 1978 when it had been thought that the BHN was about to be given the authority to make sales of mortgage securities in a secondary mortgage market.
- 6) However, at this time, only the MI-VI has the capacity of generating any volume of new mortgages. The S&Ls produce only a trickle of loans, in no way sufficient to utilize any amount of new capital in an efficient way. And even the MI-VI's involvement in housing construction seems to be so committed to large projects requiring massive expenditures for urbanization and infrastructure as to make it doubtful that the BHN could count on a continuous and even flow of completed housing to absorb the new financing and produce the new income that could pay for the cost of the required financing.

Therefore, the 5 S&Ls and the BHN should be given technical assistance in the development of a continuous flow of mortgage financing of individual houses for low and middle income families. This will require, as it did in Costa Rica, the development of an adequate supply of suitable lots, house plans and capable builders for the custom production of the needed housing units. And the lending process in the S&Ls will have to be reorganized so as to provide the interim financing as well as the long term loans for the individual house.

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This program of technical assistance, which will include the development of the capacity of each S&L to sell mortgage participations in the secondary mortgage market, will require approximately 12 work weeks of technical assistance during the 12 month period from July, 1979, through June, 1980. By that time, the S&L system which is now financing about 100 housing units per year will be financing not less than 100 homes per month. And the BHN will have a system of audits and controls by which it will be able to increase and decrease the flow of financing in its S&L system as demand and the availability of funds requires.

7) With regard to the revised scope of work set forth in your memorandum of March 19, the following is a summation of the information which will answer your questions in greater detail in my interim report:

(a) A secondary mortgage market in countries like the Dominican Republic, Costa Rica, Bolivia and Panama cannot afford to offer investors the high rates of interest which would compete successfully with those which other investments provide for institutions and individuals who can invest substantial sums of money. Therefore, the market must look to smaller investors as buyers of mortgage-based securities . . . and they cannot afford to tie up their funds for a long period of time, as a general rule. Therefore, the market offers them an investment redeemable at sight or at any term which the investor considers adequate for his needs. The interest rate increases with the length of the term and, to create an incentive to leave the funds invested for a longer time, the sight transaction provides an automatic increase in the rate earned at the end of each investment year until the maximum rate is reached.

However, our experience has shown that the tax exoneration that FIA-guaranteed participation certificates offer and the free trust fund services which allow the investor to establish the conditions which best serve the needs of his family and himself provide an incentive which outweighs considerations of interest rates in the mind of the investor. As to demand for this type of investment, the market is a constant one, unlike the issuance of a specific series of bonds which, when sold, are no longer available. Buyers who wish to invest provide the liquidity needed to meet the demand for repurchase of the participation certificates and the S&Ls in countries which use this type of market have never needed a specific reserve fund for redemption purposes. Redemption requests have been so few that the liquidity of the institutions has never been a factor in the management of the markets.

(b) The market will operate in both the BHN and the S&Ls. The funds which the BHN obtains by the sale of mortgages from MI-VI housing will be used to finance MI-VI projects. Funds obtained by the sale of S&L mortgages will be used to purchase mortgage participations from the S&Ls which have a demand for mortgage loans which exceeds their own capacity to provide

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financing. The S&Ls will receive a commission for administration of the mortgages sold and the BHN will endeavor to obtain a profitable spread between the rate it receives and that which it offers to investors. In any case, each new mortgage loan made will provide an FHA insurance premium for the BHN and, if the Bank follows my recommendation, a premium for the mortgage life insurance which the BHN will require as a condition of FHA-guaranteed mortgages.

- (c) Assuming that the BHN receives the support it needs from the MI-VI and the GOP that will permit the commercial banks to buy the BHN securities, secondary mortgage market sales to banks should produce not less than \$12,000,000 per year in new working capital (cash flow) for the BHN. Sales to the general public can be developed at the rate that the MI-VI and the S&Ls can relend the funds to owners of newly built housing. Inasmuch as the secondary mortgage market is a flexible instrument which is designed to produce what the demand for housing requires, the amount of money generated by the market is, up to a certain point, dependent on the effort devoted to the sales activity. In other countries which use the type of system which has been developed for Panama, the ability of the housing market to absorb the additional funds has been the limiting factor and the increase has been gradual and constant. In Panama we have the additional matter of a large projected financial input which will come from the AID and HIG programs and this funding will undoubtedly reduce the BHN's dependence on secondary mortgage market sales. Therefore, it is my opinion that the market will be used for the next 12 months primarily to provide funds for the MI-VI's housing projects. From mid-1980 through 1986 it will finance principally the increased lending capacity of the S&L system and this will, in turn, depend on the success of the technical assistance program I have recommended earlier in this memorandum.

*How
what
period
of time?*

However, based on my experience in the establishment of similar markets in other developing countries, I believe the market in Panama will produce a minimum of \$10,000,000 in mortgage sales per year and, where the demand for housing requires a maximum mortgage sales effort, the annual sales can be as high as \$20,000,000.

- (d) The personnel of the BHN now knows how to obtain investors for the securities to be offered by the secondary mortgage market, they know the techniques to be employed and can answer most of the questions that will be raised by prospective investors. However, up to now, they have never had the opportunity of putting their knowledge to work. They need a small amount of guidance in their initial efforts and I hope to be able to provide that guidance during the final week of work under this current contract.

I have great confidence in the capacity of the present management of the BHN. If this management is permitted to apply

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itself to the operation of the secondary mortgage market, I am sure that it will be successful. Like the rest of the BHN's personnel which has seen such markets in operation, the manager and his assistant are aware of what they must do, even though they have never before had the opportunity of doing it. But their role covers the whole gamut of activities involved in the market and they will need a small amount of periodic assistance during the next 3 or 4 months. Subsequently they will need additional help in the development, as I have already mentioned, of the ability of the various S&Ls to produce the results which must come from the institutions which have constant direct contacts with the public.

- 8) There are 4 more recommendations which I shall make in detail in the interim report which will be sent to you next week. They are:
- (a) Interest rates on mortgages are too low in Panama to permit the use of funds which cost what the HIG Program and commercial banks are now charging. I recommend that Panama be more realistic in its approach to the problem and raise mortgage rates on a sliding scale in which housing costing less than \$8,000 (house and lot) will pay 10%, those from \$8,000 to \$12,000 will pay 11% and those over \$12,000 will pay 12.5% interest.
 - (b) The BHN's need for profits indicates that it must charge more for the services it offers. I recommend that the FHA premium on all new FHA-insured loans be increased to 1% per year. The premium now is 1/2%.
 - (c) Inasmuch as the Ministry of Housing needs money now to keep its programs under construction, I recommend that it reconsider the recommendation I made to the MI-VI approximately one year ago. The MI-VI has land and the ability to urbanize it. That land appears on the books of the BHN at its cost price and that is substantially below its present market value. Some of that land has already been urbanized and the MI-VI should permit the S&Ls to offer the lots to their clients who can qualify for mortgage loans but lack a housing site. The S&Ls, selling mortgages to the public, will use part of the proceeds to finance the purchase of MI-VI lots from the BHN for cash and at today's prices. The BHN would make the funds obtained by the sale of the lots available to the MI-VI for use in completing the projects which are now held up for lack of funds.
 - (d) Support by the MI-VI and the GOP could result in a requirement that insurance companies invest a part of their premium income in FHA-guaranteed securities and that the 50% of bank deposit investment in housing be raised to 60% with the additional 10% being made preferentially in BHN's secondary mortgage market paper. This could produce \$25,000,000 per year in investment in secondary mortgage market securities by these two sources.

ROLE FOR COOPERATIVES

The Ministry of Housing (MIVI) foresees the advantages of cooperatives and cooperative approaches to housing development for all income levels, but especially for families below the median income. This recognition of cooperative groups and methods has been manifested by MIVI's establishment of an office of cooperative housing and by their participation in and support of the AID sponsored OPG for cooperative housing development. Likewise, MIVI intends to utilize the emerging cooperative housing system in the implementation of the housing investment guaranty program. The role for cooperatives in the program will, however, have to be based on the capacity of both MIVI and other institutions to respond to and develop new cooperative housing project groups; a capacity which is at present limited but to be expanded through the OPG project now in operation.

Relation to Sub-Program Areas

MIVI intends to develop cooperatively organized projects in all three principal sub-program areas. Each sub-program focuses on different areas of problems/opportunities and the role for cooperatives will vary in both degree and approach in each sub-program area. Without describing special sub-projects, the general role for cooperatives can be outlined in further detail for each sub-program with a brief description of the probable approaches.

Sub-Program I - Community Upgrading and Renewal

Cooperatively developed and owned housing projects are especially suited to urban renewal projects and will be used to the extent feasible under this sub-program for such development. The use of cooperative sector institutions, as part of the private sector involvement in redevelopment, provides MIVI with a means to expand and multiply its own efforts. Here also a direct relation exists to the ongoing OPG with respect to the revitalization of FUNDAVICO and the new relationships evolving between FUNDAVICO and MIVI. Joint cooperative programs can be undertaken by the two institutions for the reconstruction of residential units in the areas to be cleared. FUNDAVICO can become the principal organizer, developer and administrator of these projects under the overall program directives of MIVI. The opportunity also exists for expanding the resources available by encouraging FUNDAVICO or other private sector institutions to invest in these projects. This idea would be a unique approach to multi-family/renewal housing solutions and provide a means of reducing costs by encouraging the input of the cooperatively organized group resources. The experience of FUNDAVICO in the promotion of new housing cooperatives has been

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successful in the past. This use of cooperatives can accelerate re-development activities without expanding MIVI staff and at the same time provide for the continued administration and maintenance of the projects by the cooperatives.

Sub-Program II - Peripheral Growth Areas

Both the construction of new shelter solutions and the improvement of both new and existing housing will be the focus of this sub-program funding. Basic services provided in coordination with and funding from other sectors will also be required. Cooperative groups, both existing or to-be-formed, can serve as a way to organize user participation as well as a way to channel information and feedback on project development. In the construction of new shelter solutions by MIVI, particularly progressively developed sites and services units, the use of cooperatives to organize both mutual help and self help construction activities will be considered. Also, there are existing cooperatives in the sub-program area which have land and some limited resources. MIVI can support the initiatives of eligible groups with both technical and financial resources. For the improvement of existing shelter through home improvement loan sub-projects, existing credit union groups will be involved. This has a direct relation to the OPG Program which is now designing and testing this approach. The credit union now operating in Samaria, for example, can be utilized as a channel for Home Improvement loans in a principal area of development. Also, in order to increase the scale of this activity, specific cooperatives may be organized to assist MIVI in the delivery of home improvement services.

Sub-Program III - Rural Development Growth Centers

The contemplated role for cooperatives under this sub-program will be similar to the role cooperatives now have within the selected areas and centers of the "URBE" program. The approach will principally be one of MIVI responding to already existing cooperatives and not to create new groups.

Cooperative Sector and Sub-Project Development

The role that cooperatives can undertake in the housing guaranty program depends on MIVI's commitment to cooperative housing and to the development and incorporation of cooperative support institutions into the implementation process. The FCH OPG program has been designed to assist MIVI along with FUNDAVICO, FEDPA and other cooperative sector institutions to define the relations and the role of MIVI in cooperative housing support. Therefore, during the implementation of the investment guaranty program, the focus will have to be on both the development of projects and institutions. This provides a great opportunity to both MIVI and the cooperative sector institutions to jointly work to develop specific solutions.

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OTHER SHELTER RELATED INSTITUTIONS

1. Panama Canal Authority

The Panama Canal Authority (Authority) was established by Law No. 66, September 19, 1978, as an autonomous agency of the GOP subject only to the policies, orientation and inspection of the Executive Branch and under the supervision of the Comptroller General of the Republic.

The Authority has among others, the following functions:

(1) Coordinate with competent authorities and agencies the adoption and performance of measures necessary to exercise the rights and fulfill the responsibilities of the Nation pursuant to the Panama Canal Treaties of 1977 and the agreements thereof; (2) Receive from United States authorities property, the ownership of which shall pass to the Nation according to the Treaties, and transfer such property to the national patrimony for it to better serve the national development; (3) Safeguard, participate in the administration of or directly operate under policy guidelines established by the Executive Branch, all land and water areas, activities, installations and all movable or real estate property included in the Panama Canal Zone and in the Panama Canal watershed, all of which will revert to the Nation pursuant to the Treaty, until such time when they are transferred to other physical or legal persons, public or private, be it by resolution of the Authority's Executive Committee or by laws that are issued in the future.

In accordance with the above, Law 66 gives the Authority the ownership of all property be it movable or immovable, and rights which shall revert to Panama pursuant to the Treaties until such time when they are transferred to other public or private persons under the law.

Law 66 also provides that all Panamanian institutions must coordinate their activities in the Canal Zone Area and in the Panama Canal watershed with the Authority to which they shall provide full collaboration as required by it for the fulfillment of its responsibilities.

The Authority is governed by an Executive Committee, and by a Director-General and a Deputy Director-General. The Executive Committee is composed by six members, as follows:

a) The Minister of Foreign Relations or his designee, who will be its chairman.

b) The Minister of Planning and Economic Policy or his designee.

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- c) The Minister of Finance and Treasury or his designee.
- d) The Director-General of the Authority, and
- e) Two citizens designated by the Executive Branch.

Under this Law and in regard to the Project, the Authority will have to be consulted and the Executive Committee will have the final word on all matters related to the transfer of activities, installations, lands and waters to the corresponding institutions or entities, as well as on matters connected with the regulation of the use of lands, waters and installation in the areas included within the current Panama Canal Zone and the Panama Canal watershed.

2. National Hydro-Electric Institute (IRHE)

IRHE was established in 1961 as an autonomous agency of the GOP. It is responsible for the installation, operation and maintenance of electrical systems to urban and rural areas. The first and second units of the new hydroelectric plants at Bayano have been placed into operation in spite of a drought that affected water levels. The generation of hydroelectric power has permitted substantial savings in the use of petroleum to run the power plants at Colon. The Bayano plant is but the first of three hydroelectric projects being carried out. In early 1979, the La Estrella y Los Valles Plants will begin to function in the Boquete region and the La Fortuna hydroelectric plant, which will provide 2.2 times the output of the Bayano plant, is to be initiated.

To channel the supply to users, IRHE maintains 34 branches employing 3,465 persons that run the 46 electric plants now in operation. Installation charges are included in service charges and recovered through monthly tariffs. For rural electrification systems, community power plants are used only if their location is too far removed from the main power lines. There are 24 individual systems now in operation. Where applicable, self-help (digging holes for the posts, gathering construction materials) is used to keep costs down in rural areas.

IRHE standards are used by MIVI in the development of electrical systems in MIVI projects. However, coordination between the two entities needs to be improved. The Institute's scheduling problems have held up the adjudication of houses which MIVI had completed because electrical connections were still lacking.

3. National Water and Sewer Agency (IDAAN)

IDAAN was established under Law No. 98 in 1961, as an autonomous government agency with authority to control all activities related to public or private water supply and sewage collection, treatment and

and disposal; and to fix rates, taxes, rents and valuations and other fees for installation and use of its facilities, and for its water and sewer services.

IDAAN has a technical staff of 15 people in its engineering office in Panama City responsible for the planning and design of all new projects. In addition, it has small technical staffs in each of seven regional offices among which are the Project's two growth centers of David and Chitre and the three service centers of Santiago, Las Tablas and Aguadulce. Regional offices are normally headed by an engineer and organized into five sections: production office with responsibility for operation and maintenance of wells and aqueducts in small communities and water treatment plants in larger communities; water distribution office; sanitary sewer office; and commercial and administrative offices. Under the 1969 AID-financed Panama City Water Supply System loan, IDAAN received technical assistance in financial administration and accounting controls and procedures.

IDAAN operates and maintains 144 water systems which supply water to over 940,000 inhabitants of Panama. (The Ministry of Health has the responsibility in towns of less than 1,000 inhabitants).

During the past three years, IDAAN has designed and executed aqueduct and sewerage system projects costing over \$30 million, and it is currently a major participant in the \$15 million Slum Upgrading and Home Improvement Project initiated by AID and the GOP in the San Miguelito District of Panama City under the Housing Investment Guaranty Program. In addition to AID, the World Bank is financing a new water treatment and distribution system, and storage tanks for Colon; increased capacity for La Chorrera water supply system; and water distribution lines for Arraijan and Vacamonte.

The IDB is financing a sewerage system for Las Tablas and a sewerage treatment facility for David, aqueducts for Chilibre (on the eastern Canal Zone border) and elsewhere, and water treatment plants for Chitre and Puerto Armuelles. IDAAN's operating budget for 1977 was \$18 million, of which \$15 million was derived from service fees. Since 1978, central government contributions to operating expenses have decreased, as IDAAN has increased its service fees in an effort towards greater economic self-sufficiency.

4. Panamanian Foundation for Cooperative Housing (FUNDAVICO)

FUNDAVICO is a private, non-profit foundation established in 1967 with the help of IVU (predecessor of MIVI) and AID. With an AID loan of \$3.5 million, FUNDAVICO developed an urban and rural housing cooperative program. Three hundred seventy five units were built in various rural areas and 602 urban units were constructed of which 55 were single

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family dwellings. The urban program comprised four separate projects; two in Panama City, one in Colon and one in David. The first three are multifamily construction while the David project is comprised of single family units. The four urban cooperative projects sponsored by FUNDAVICO are still managed, quite successfully, by FUNDAVICO. Good property management has not only resulted in regular and effective maintenance, but in minimal delinquency collection rates as well. Through proper functioning of the cooperative's reserve funds, the FUNDAVICO cooperatives have remained completely up to date in their own payments to MIVI.

Currently the FUNDAVICO staff numbers fourteen, including its project managers, accountants, and secretarial staff. The director is able to double as the staff architect as the need arises.

Until very recently FUNDAVICO's principal activity was administering the units it built with the above mentioned AID loan. It had not pursued an aggressive or effective investment policy using the capital generated from repayments of loans on the above programs, and which to date has totaled more than \$800,000. However, in spite of this and the fact that it owns land on which new projects could be built, it had not been able to secure long-term financing for these purposes either through the BHN or the private sector.

During the latter part of 1978, as a result of recommendations by RHUDO/PSA and FCH advisers, FUNDAVICO undertook a more active role in promoting the construction of new projects or expanding the existing ones. In this respect, using the leverage provided by the land and the \$800,000 in investment funds, FUNDAVICO was able to secure financing for the construction of an additional 160 units for the La Felicidad Housing Cooperative of Panama City, and 60 houses for a Housing Cooperative in Boquete, Chiriqui Province.

Through an OPG Agreement with FCH, technical assistance is being provided to MIVI and the cooperative housing movement, including FUNDAVICO, to incorporate cooperative techniques into the shelter delivery system to low income families. This assistance, therefore, will result also in an improvement of the cooperative movement's position vis-a-vis the Ministry of Housing and the financial sector.

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República de Panamá

Ministerio de Planificación y Política Económica

Despacho del Ministro

9 de octubre de 1978
DM-119

Señor
William Mann
Oficina de Vivienda y
Desarrollo Urbano
Agencia para el Desarrollo
Internacional (AID)
E. S. D.

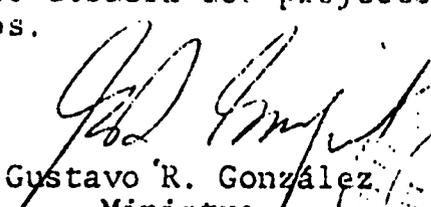
Señor Mann:

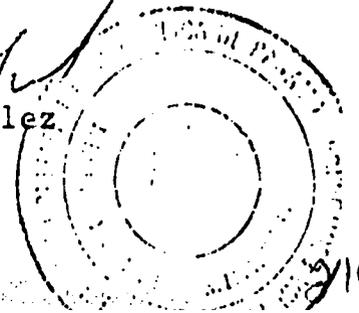
Como es de su conocimiento estamos en espera de la finalización de los trabajos en el área de vivienda que nos darán indicaciones para una estrategia para orientar el área. Este sector lleva para nosotros el doble propósito de activar una industria estancada, de gran poder multiplicador y que le da soluciones a problemas de orden social.

Las inversiones en vivienda de interés social que se financiarán a través de lo pactado en los tratados sobre el Canal, revisten una urgencia especial ya que el período de tiempo seco de diciembre a mayo, debe aprovecharse al máximo con el objeto de abaratar las soluciones de vivienda que deben construirse.

Es por esta razón que me permito transmitir a usted la alta prioridad que damos a cualesquiera posibilidades de iniciar la primera fase del componente de vivienda del paquete económico de los tratados. Una asignación de fondos en el mes de enero, elimina las posibilidades de atender como se debiera los proyectos de construcción que ya conocemos.

De usted atentamente,


Gustavo R. González
Ministro





AGENCIA PARA EL DESARROLLO INTERNACIONAL
USAID/PANAMA

TEL. 64.4011
APARTADO 6659
PANAMA 5, PANAMA

12 de octubre de 1978

Lic. Gustavo R. González
Ministro de Planificación y
Política Económica
Ministerio de Planificación y
Política Económica
E. S. D.

Estimado Señor Ministro:

Mediante la presente le agradezco su carta del 9 de los corrientes en la cual se refiere a la urgente necesidad de iniciar antes de enero del próximo año, las construcciones de vivienda de interés social que se financiarán a raíz de los tratados sobre el Canal.

Puede usted tener la seguridad, señor Ministro, que estamos haciendo todo lo posible para acelerar estos trabajos con toda la rapidez consona con la adecuada planificación y programación que se requieren para este importante elemento del desarrollo nacional.

Como próximo paso, planeamos elaborar, en colaboración con su Ministerio y el Ministerio de Vivienda, un Documento sobre la Estrategia en el Sector Habitacional, el cual formará parte de la estructura básica para la preparación de proyectos para los años inmediatamente próximos. En breve plazo esperamos recibir de la Oficina de Vivienda de la A.I.D. en Washington un borrador de dicho documento. De todos modos, informaremos inmediatamente a nuestra Oficina en Washington sobre la preocupación expresada en su carta.

Por otra parte y como usted sabe, dentro del Banco Hipotecario Nacional actualmente existen condiciones que deben ser corregidas para que esta institución pueda convertirse en un mecanismo satisfactorio para la canalización de financiamiento. Dichas condiciones también impiden que se inicien los trabajos de construcción en la parte correspondiente al programa habitacional del Proyecto URBE. Le agradeceríamos los buenos oficios de su Ministerio para que nos ayude a resolver esta situación que, lamentablemente, está obstaculizando nuestro respaldo al desarrollo del país.

Del Señor Ministro con toda consideración,

Atentamente,
William Mann, Jr.
William Mann, Jr.
Asesor en Vivienda