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9. ABSTRACT

Since 1971, the Office of Housing of AID has been conducting preinvestment surveys in countries where housing investment guaranty programs are anticipated in order to provide the background and framework for its intervention. These surveys are, in fact, increasingly sophisticated analyses of the shelter sector of each country. Each report is intended to provide the Office of Housing with the information necessary to enable it to answer three primary questions about a specific country:

- . What is the country's capacity to undertake a large-scale housing program?
- . What is the effective demand for housing at a given price level?
- . What is the country's capacity to repay a foreign loan?

To paraphrase the introduction to the scope of work for a recent survey, its objectives are to determine the need for housing at all socio-economic levels of society, to determine the ability of each socio-economic group to pay for housing; to assess the capabilities of the Government to plan and manage large scale housing programs and projects; to analyze the impact of large scale foreign borrowing on the country's economy and its ability to repay; and to assess the ability of the country to absorb large sums of money into the shelter sector industries.

These objectives have been realized with varying degrees of success. Some of the more recent surveys, in particular, provide broad panoramas of the country housing sectors. Some of the earlier ones are more limited in scope and cover only a part of the sector.

These reports provide valuable orientation for anyone becoming involved in housing sector in one of these countries. They should also be useful for comparative studies of housing programs and policies on a regional or world-wide basis.

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OFFICE OF HOUSING

HONDURAS

**HOUSING
SECTOR
ANALYSIS**

AUGUST, 1974

F O R W A R D

It should be noted by the reader, that the field work and written preparation of this report took place prior to Hurricane Fifi. The devastation wrought by Hurricane Fifi will obviously produce variations of differing magnitudes in certain sections of this sector analysis.

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CORRECTIONS

"LIST OF CONTACTS"

Page (i)--Salvador Mazier - Chief, Architectural Office, INVA (not USAID MISSION)

Page (i)--Mayra Hidalgo - Social Worker (San Pedro Sula), INVA (not INA)

Page (ii)-INTER-AMERICAN DEVELOPMENT BANK (IDB) - (not INTERNATIONAL DEVELOPMENT
BANK)

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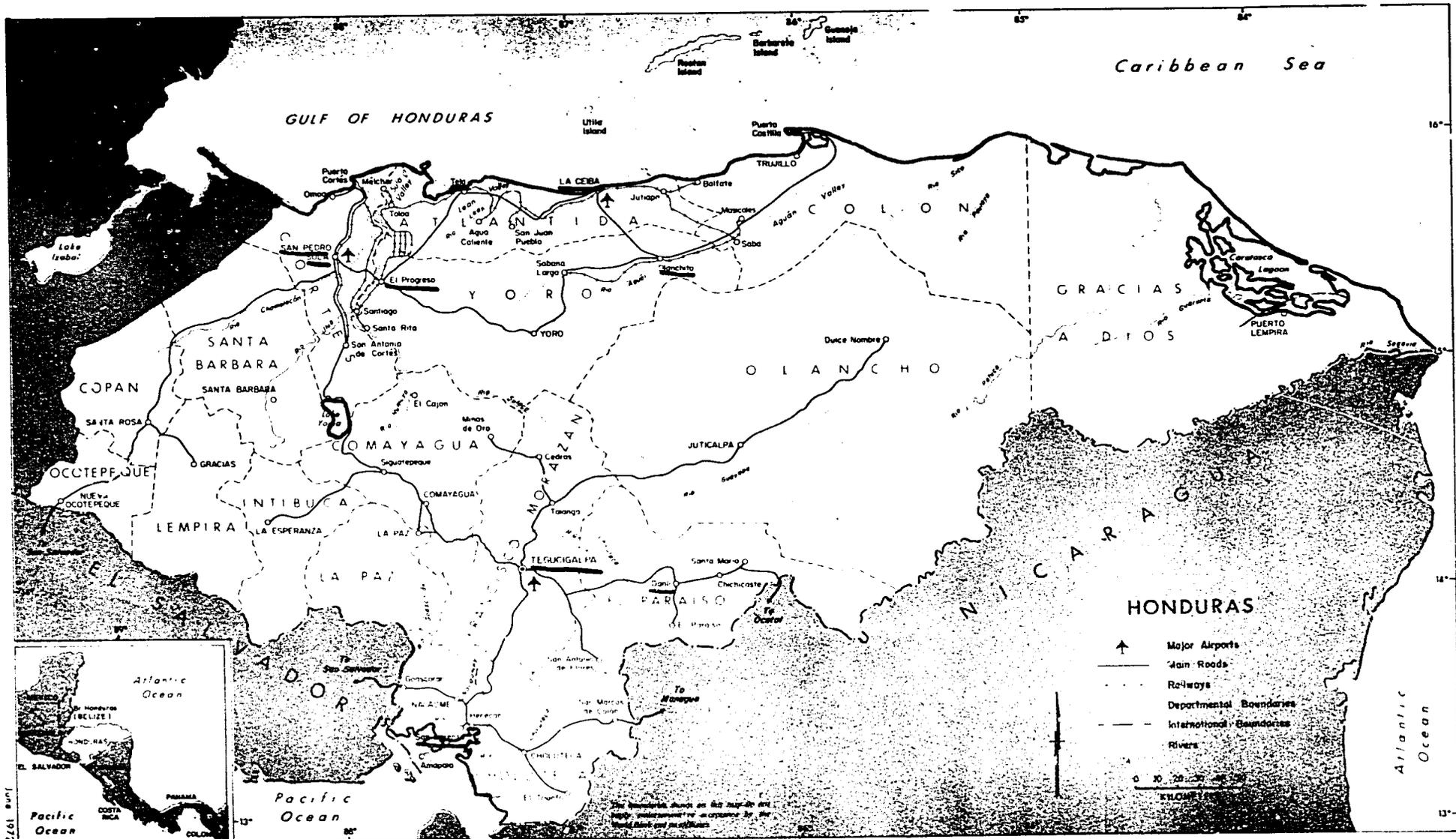
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Caribbean Sea

GULF OF HONDURAS

HONDURAS

- ▲ Major Airports
- Main Roads
- Railways
- - - Departmental Boundaries
- - - International Boundaries
- Rivers

0 50 100 200
KILOMETERS



The boundaries shown on this map are not necessarily in accordance with the local laws and regulations.

JUNE 1972

1810 10080

SUMMARY AND RECOMMENDATIONS

1. Country Background:

Honduras is basically a rural country, where agriculture predominates as the main source of national income. Most exports are also based on agricultural products, which are the principal sources of foreign exchange. However, the country is steadily becoming more industrialized and consequently more urban. It is anticipated that San Pedro Sula, the second largest city, will continue to develop as more and more industry locates there and as agricultural production on the North Coast increases, to the point where that city will overtake Tegucigalpa as the most populous city and, accordingly, the economic center of the country. The number one economic priority in the country is agriculture, followed closely by the desire of the government to exploit its large forest reserves.

2. Market Analysis:

Housing conditions in Honduras are inadequate due to the low level of home building in general and the lack of minimum services, especially in the rural areas. Urban centers are characterized by relatively rapid population growth that outstrips the financial and technical capacity of the government to provide decent housing and services. In the rural areas, very low incomes prevent the great majority of families from acquiring adequate housing, while rural isolation has been a key factor in allocation of services. The need for housing, particularly among moderate income urban families, is especially acute in that these families can afford minimum shelter if it were available.

3. National Policies & Housing:

The Government of Honduras has developed an economic policy which sets priorities for different sectors of the economy. Housing along with agriculture is a primary sector priority, and as such receives a larger degree of attention than those sections of the economy considered as basic and supportive. The housing policy distinguishes between rural and urban housing programs, encourages the participation of the private sector in housing, and appoints INVA as the principal public housing agency.

As a result of the housing policy, the government, through the Economic Planning Council, has developed a housing plan as part of the overall country economic plan. The current 5-Year Plan, from 1974 to 1978, sets physical goals for housing development and allocates financial resources.

4. The Role of Government in Housing:

The government plays a key role in the housing sector. It provides financial assistance to the INVA, the public housing agency, and to other institutions involved in some way in the housing field. The government has also promoted and passed legislation for the creation of public autonomous institutions, such as INVA, the Municipal Bank, etc., which carry out government policy and plans, as well as support private housing and housing-related institutions.

5. The National Housing Institute (INVA):

INVA is the principal institution charged by the government with carrying out the national housing plan. It is an autonomous public agency created in 1957. The institution has been responsible for the development of low and moderate income urban projects throughout the country, but mostly

in Tegucigalpa and San Pedro Sula. Its principal sources of income have been the national government and the InterAmerican Development Bank.

6. Private Institutions in the Housing Field:

Private institutions in Honduras are relatively active in the housing field. There are saving and loan associations, while a soon-to-be-created housing finance agency will regulate and provide financing for the associations as well as insure mortgages. The cooperative housing movement is very active, being led by a strong federation and technical service organization combined. The credit unions and labor unions have also been active in promoting and financing housing. There is a non-profit housing foundation which is taking a key role in promoting very low cost rural and urban housing.

7. The Construction Industry:

The building section is characterized by rapid increases in the cost of materials, and to a lesser extent, of labor, as well as difficulties in the availability of some materials. In general, the predominately local builders are qualified. Skilled labor is in demand while unskilled labor is abundant. There are sufficient numbers of architects and engineers for the scope and complexity of the construction projects.

8. Land:

Honduras is not a densely populated country nor are there excessively large urban areas. Adequate land is available for housing; the problem is the provision of services and utilities to potential housing sites.

9. Urban Services:

High population growth and ever higher urban growth has outpaced

the capability of local and national governments to provide adequate and complete urban services. Most service and utility companies are owned and controlled by the federal and local governments, with exceptions being some electricity suppliers and the railroad companies. Full urban services are available in the largest cities, although not all encompassing.

10. Economic Considerations:

The Honduran economy is characterized by an increasing rate of inflation, increased cost of goods and services, a steady worsening in the balance of payments situation, decreased international reserves, and a decrease in the rate of public and private investment. The economy is most definitely in a less favorable situation than in 1972 and 1973.

RECOMMENDATIONS

As a result of the analysis of the shelter sector in Honduras, some specific recommendations can be made.

1. When the results of the 1974 Census are tabulated, hopefully some time before the end of this year, either the National Planning Council or the Census Office should put together a report on the existing housing situation, particularly in regard to housing stock, tenancy, conditions and family income. This should take the form of a special study and would be of invaluable assistance to the GOH, INVA, and private institutions in determining investments in housing and allocation of resources.
2. The National Planning Council should take on a larger role to include more coordination and control in the allocation and implementation of the national plan. This would help to eliminate discrepancies in the proposed plan and actual project developments.
3. The GOH through INVA, INA, and other interested agencies, should undertake studies to determine the financial status and capability of the new rural settlements to finance and pay for permanent housing, so as to assist the government in allocating funds for rural housing.
4. INVA should develop new cost accounting procedures which would permit the institution to eliminate the use of subsidies which are, in part, decapitalizing the institution. INVA should also be organized in such a way that current expenses are covered by current income and not by income from the interest spread. INVA should also farm out special technical and design work to private contractors, so as to reduce salary costs in slack times.

The Board of Directors of INVA should delegate more authority to the General Manager to handle day-to-day operations which would be a more efficient and reasonable way to run such an institution. An invitation should be made to INVA to join COCO, the rural coordinating committee, if INVA is going to participate, as is likely, in the rural housing programs. At the same time, INA should delegate all responsibility for permanent housing development, including design, to INVA, which is the specialist housing organization.

5. The government should make an effort to pay government and autonomous agency employees better salaries so as to retain the best employees. Some consideration should also be given to decreasing the preponderance of government Ministers on the Boards of the various autonomous agencies, and substitute some of them with either civil servants or private sector individuals who perhaps would have more special knowledge and time to devote to the institution.

6. The construction materials industry should be expanded to produce greater quantities of products needed locally, particularly easy to produce sand and gravel, so as not to impede construction. At the same time, some sort of control should be placed on the exportation of wood products needed to satisfy local demand. In order to insure the availability of construction materials as well as help prevent speculation, stockpiling of materials by the government should be considered. This is often expensive and hard to implement and control, however, some investigation into this possibility should be made.

7. The current efforts of the GOH in preparing master development plans for cities and putting together cadaster surveys for both rural and urban areas is a step in the right direction. However, more effort should be made to control legal and illegal new urban settlements which do not enhance orderly

urban growth and development.

8. Efforts should be made to promote the to-be-created Financiera Nacional de Vivienda as the primary housing finance institution, with INVA as the primary public housing development institution. The government should also consider the possibility of new sources of local financing for housing, perhaps by permitting INVA to issue cédulas backed by its mortgage portfolio, as is permitted in the law.

I. COUNTRY BACKGROUND

1. Geography & Climate:

Honduras is a Central American country, slightly smaller than Pennsylvania with a land area of 43,277 square miles. It is bordered on the West by Guatemala, on the South by El Salvador, and on the East by Nicaragua. The northern border is the Caribbean Sea, with a coastline of some 400 miles. There is an outlet on the Pacific Coast.

The topography is 80% mountainous, with a coastal plain stretching along the northern and the eastern part of the country. Forests cover the highland area - in fact, Honduras has the largest forest reserves in Central America. Temperatures are mild to warm in the highland area, while hot is the word in the lowlands.

2. The People:

In 1974, there were 2,700,000 inhabitants in Honduras. The population growth rate is estimated at 3.4% per annum, with the greatest growth in the cities, due to rural to urban migration. The largest city is Tegucigalpa, the capital, followed by San Pedro Sula, the agricultural and industrial center. About 69% of the population lives in rural areas.

The majority of the population is either of pure Spanish extraction or mestizo. Along the North Coast there are concentrations of Negroes and Black Caribs, the latter being descendants of Negroes and Carib Indians exiled from St. Vincent by the British over a century ago. The official language is Spanish, with some English being spoken among North Coast and Bay Island residents.

3. Political System:

Traditionally, Honduras has had a U. S. style government with executive, legislative and judicial branches. However, the country is now governed by a Council of Ministers headed by the Chief of State, and composed of all the Ministers plus the Executive Secretary of the Economic Planning Council. This Council of Ministers fulfills both the legislative and executive functions of government. All legislation has to be approved by this Council and new laws are enacted by State decrees. The term of the Chief of State is 5 years.

4. Economy:

The economic base is agriculture, with some two-thirds of the population involved in this activity. There is a very active rural settlement program to encourage people to remain in rural areas and settle new rural areas and thereby increase agriculture production. Most export products are agricultural, with banana production in first place with 45% of total exports. This activity is concentrated along the North Coast and controlled mostly by foreign companies. Banana exports were 21.5 million stems for a value of \$65.1 million in 1973. The government has made agriculture the number one priority.

During the past few years the importance of agriculture has declined, in spite of government efforts to the contrary. The industrial service and government sectors have increased at its expense. A still largely untapped source of wealth is the forest reserves. However, due to terrain and transportation difficulties, plans to increase exploitation of this resource have gone unrealized.

No appreciable mineral resources have been discovered.

Honduras is a poor country - per capita income is less than \$300^{1/}
per annum. 65% of all families earn less than \$500 per year.

^{1/}
Exchange Rate Used Throughout This Study: US \$ = 0.50 Lempiras

II.

MARKET ANALYSIS

1. Population:

The 1961 census showed that there were 1,884,800 persons in Honduras. Preliminary results from the census carried out in March 1974, showed an increase to 2,640,630 inhabitants, indicating a growth rate of 40% over the 13-year period between the two census. This is lower than the recorded 3.32% annual growth rate between the 1950 and 1961 census and the official estimate of 3.4% since 1961. However, part of the reason for this difference was the emigration of Salvadorans after the 1969 conflict, which was a one-time phenomenon. If health services continue to improve, then the official rate of 3.4% is probably more accurate for future growth estimates. (Table 6)

About 69% of the inhabitants of Honduras live in rural areas and are principally engaged in agriculture and related activities. The largest city and the capital is Tegucigalpa where some 270,000 persons, or 10% of the population, live. The second largest city and industrial center is San Pedro Sula with some 6% of the population. There are several other relatively important secondary cities, mostly ports, such as La Ceiba with 38,580 inhabitants in 1974; Tela (19,300); Choluteca (28,120); Puerto Cortés (25,660); El Progreso (28,000).

The fastest growing city is San Pedro Sula. In 1950 there were 21,140 inhabitants of that city; in 1961 - 58,600; in 1974 - 140,080. This indicates a phenomenal growth rate of 177.4% between 1950 and 1961, or an average of 9% per annum, and 155% over the

past thirteen years. This compares with the relatively moderate growth in Tegucigalpa which increased by 102% since 1961. There are indications that San Pedro Sula might be the largest city in the country by 1990. Urban population growth is estimated at 5.8% per annum.

The 1961 census contained information on place of birth. From this information it was possible to calculate the number of persons born in departments other than the one in which they currently reside. Those provinces along the North Coast showed the highest percentage of residents born in other departments, for example, Atlantida (whose principal city is La Ceiba) had 38.2% of its residents born in other departments; Cortes (San Pedro Sula) 36.1%; Colon (Trujillo) 29.4% and Yoro (Yoro) 28.0%. This indicates the growing importance of the northern provinces as an agricultural center, and San Pedro Sula as the industrial center of the country. Figures demonstrating migration patterns, based on the 1974 census, were not available, however, given the population growth rate of the northern provinces, vis-a-vis the southern departments, it is evident that this migration pattern toward the North is continuing. In turn, those provinces showing the fewest number of persons born outside their residing province were in the South. Those 4 provinces bordering El Salvador showed the lowest rate - Ocotepeque, with 1.6% of its inhabitants born in other provinces; La Paz - 3.1%; Intibuca - 3.1%; Lampira - 3.3%. The central provinces showed moderate percentages, which again indicated the general population flow.

More and more people are migrating toward the cities as well. The percent of total urban population in 1961 was 24% while in 1974 it is 31%.

In conclusion, it can be said that the center of population is shifting toward the North. Tegucigalpa will continue to be important as the seat of government. The cities will also continue to grow, - the northern urban areas spectacularly so - as the country becomes more industrialized and farming less labor intensive.

2. Housing Conditions:

It is safe to say that a majority of Hondurans live in inadequate housing. And it is also safe to say that the rural housing situation is much more acute than the urban. There are ample statistics that bear out these two statements.

In Tegucigalpa, 50,000 persons or about 20% of the population live in slums. Another 14% in the capital live in rooming houses that do not have adequate sanitary facilities. The available safe water supplies and sewage removal have reached critical proportions in urban areas; 69.7% of urban families have access to a water supply system, while only 4.2% of rural families have water systems leading to their homes. 14% of the population have home sewage waste facilities, most of which were in the urban areas. Even then, 1/2 of the urban families with some sort of waste removal facility have septic tanks. Hardly any rural families have adequate sewage facilities. Electric power is being supplied to only 11% of the population, again, mostly in the urban areas.

The usual standard urban house consists of traditional materials built in a traditional manner - cyclopean concrete footing, walls of clay, solid bricks or concrete blocks, wooden roof trusses with corrugated or asbestos-cement roofing, iron frame windows,

wood doors, and cement floor tiles. Depending on the income level of the inhabitant, this house could be improved by adding plaster to the walls, ceramic tile in the bath and kitchen, a ceiling, aluminum jalousie windows, etc.

Rural housing is very different in that most housing is not built with permanent materials. A typical rural house has a packed dirt floor, unsawed timber frame, "Bahareque" (packed mud and straw) on woven "manaca" (a kind of palm leaf) walls, no interior partitions, one door, no windows, and a "manaca" roof. There is no electricity, indoor water supply or plumbing.

3. Housing Stock & Family Size:

The 1974 census counted 536,537 housing units - unoccupied as well as occupied - regardless of adequacy. Of this amount, 161,677 were in urban areas and 374,860 in rural areas.

Based on this census, indications are that the number of units does not coincide with the generally accepted rule-of-thumb on family size. The Census Department states that the 1974 census is the most complete ever undertaken because of the availability of improved maps, better transportation, better trained personnel, and increased financing. Precautions were taken to insure that every individual was found and every housing unit counted. However, the number of units in 1974 increased by 65% over those counted in the 1961 census (325,492 vs. 536,537) while the overall population increased only 40%. The average family size, based on population divided by number of units (1974 figures) was 4.95 persons. This differs from the official INVA estimate of 5.5 persons per family. It also differs from the results of a survey of urban North Coast families, where it was discovered that the average family size

there is 5.6 persons, and the 1967-'68 Income Survey which indicated varying family sizes of 5.6 persons in rural areas, 5.9 in Tegucigalpa, 5.8 in San Pedro Sula, and 6.2 in other urban areas.

This, of course, raises more questions than answers. Family size might be closer to 5.0 persons than that estimated by INVA and calculated in other studies. Or, perhaps, the 1961 or 1974 census might be inaccurate. The Census Office states that the reason for the large number of units vis-a-vis the population is accounted for in several ways. One, there are a large number of vacant units due to (a) the expulsion of some 73,000 Salvadorans after the 1969 conflict; (b) refugees from the border provinces with El Salvador who fled the area during the conflict (for example, Ocotepeque, where most of the fighting took place, has one unit for every 4.39 persons, based on the 1974 census); and (c) the opening up of new settlement areas in the North by INVA, which has resulted in increased rural to rural migration and abandonment of rural homes. Two, indications are that family patterns are changing, in that the Census people noted that there were a considerable number of rural and small townhouses (about 10% in 2 recorded samples) with only one occupant, usually an older person. It seems that many families migrating to larger cities find it more economical and culturally acceptable to leave older family members at home. They, of course, retain ownership of the unit, visit from time to time, and send money to support those who stay at home. Three, the Census people believe that, because of the above two reasons, calculation of family size by dividing total population by number of units is not

a good indication of family size. If unoccupied units and one and two family units were discounted, a typical family size would be about 5.5 or 5.6 persons.

4. Housing Trends:

There seem to be no new innovations in the ways houses are built and traditional methods seem firmly entrenched and unchallenged. No one is contemplating use of prefabrication or industrial methods in housing constructions. Current low labor costs and low volume do not seem to justify any changes from current construction methods.

People still prefer to occupy single family, detached units. Due to low population density, middle income families, at least, have been able to afford such a dwelling. Row housing has always been acceptable in Honduras. However, increased cost of land and alternative land uses seem to increase the pressure for construction of more row houses or an alternative to detached units.

Multi-family dwellings are not common in Honduras simply because there has been no economic pressure to build them. However, as the large urban areas continue to grow, it would be normal for builders to contemplate building multi-family dwellings if a ready market is available. INVA, the public housing agency, is contemplating building three-story walkups for rental or an experimental basis. However, no feasibility studies as to cost and marketability have been undertaken.

5. Housing Production:

Municipalities are required to keep records on the number of private building permits issued. In this respect, information from Tegucigalpa and San Pedro Sula was available. As expected,

the volume of construction was greater in Tegucigalpa than San Pedro Sula over the past 4 years, although only slightly, which indicates the growth and growing importance of the second city. Construction costs were lower in San Pedro Sula due to that city's proximity to the principal ports which decreases the costs of imported building materials and location of the cement plant and other building supplies industries. The total number of units built by the private sector in 1973 in those two cities was 1,153 at a total cost of \$12,337,500, for an average price of \$10,900. (Table 7)

Public sector housing is almost exclusively in the hands of INVA, which since its creation in 1957 has built 6,801 units. However, until 1964, when INVA received an InterAmerican Development Bank Loan, only 334 units were built, or an average of 58 units per year. Since 1964, production has been sporadic - INVA having built no units in 1967 while 1,659 were built in 1969.

TABLE # 1

HOUSING PRODUCTION BY INVA

<u>Year</u>	<u>No. of Units</u>
1957-1963	334
1964-1966	997
1967	-0-
1968	862
1969	1,659
1970	428
1971	520
1972	232
1973	N.A.
1974*	1,244

*As of August 1974

SOURCE: INVA - Other public institutions have built small numbers of units. The National Agrarian Institute has built about 100 units in 2 semi-rural areas. The National Board for Social Welfare also has a small home improvement program. The activities of both these organizations will be described later.

6. Housing Need & Deficit:

The term housing deficit is debatable, simply because there are so many varied and conflicting definitions. There are very few people, probably an infinite number, who do not have some sort of shelter, notwithstanding its inadequacy or degree of overcrowding. People are living somewhere - they are not sleeping in the streets or under the trees.

Housing need relates very closely to housing deficit. Need has to do with housing requirements due to inadequate housing, overcrowding, new family formations, and housing taken out of circulation for varied reasons. The National Council for Economic Planning estimated that in 1972 the need for housing amounted to 327,200 units. That is to say, to adequately house the existing population at that time, that many new or improved units would have to be built. This amounts to an astonishing 60% or so of all existing units. This same organization estimated that the deficit is increasing at the rate of 4% per annum. In the Metropolitan Plan now being prepared for Tegucigalpa, it is estimated that there is a need for 30,309 new units to insure that that city's population is adequately housed.

The need to build housing to satisfy need brought about by new family formation is one of the most urgent. Most already formed families do have a place to live, albeit unsatisfactory. However, if newly formed families are not provided housing, then they will only aggravate the overcrowded situation and increase the slum areas. This is particularly true in urban areas where traditional self-help methods of home construction are not always suitable. It is estimated that the urban population is growing at the rate of 5.8%

per annum. To satisfy this need, based on the current urban population, some 8,500 new units should be constructed this year alone.

In addition to the need to house new families, there is also the need to replace urban housing taken out of stock for various reasons such as condemnation, conversion to other use, change of land use, natural disaster, urban renewal, abandonment, etc. It is estimated that about 1.5% of the urban housing stock leaves the market this way each year or some 2,500 units.

Rental vs. Homeownership - The income and expenditure study of 1967-'68 gives figures on home tenancy. In Tegucigalpa and San Pedro Sula, the number of families renting is 47%. The remaining families either own their home, illegally occupy a piece of land, or have company housing available. In other urban areas, the number of families renting decreased to 33%. Tenancy patterns in rural areas differ drastically in that only 2% of families rent. Most rural families are homeowners, even though they probably don't have title to their lot, since rental units and home financing are not available.

TABLE # 2

RENTAL vs. HOMEOWNERSHIP

<u>Location</u>	<u>% Rental</u>	<u>% Homeowner or Other</u>
Tegucigalpa	47%	53%
San Pedro Sula	47%	53%
Other Urban	33%	67%
Rural	2%	98%

SOURCE: Encuesta de Ingresos y gastos (National Office of Statistics & Census)

Monthly Rental Rates - As expected, rental rates increase with the size of the unit and location whether in Tegucigalpa, San Pedro Sula, other urban areas, and the rural areas. In the capital, rent for a 1-room unit or apartment would average Lps. 15.00, increasing to Lps. 23.50 for 2 rooms, Lps. 42.00 for 3 rooms, and so on. (See Table 8)

7. Incomes:

Information on income distribution is contained in a report resulting from a nationwide sample survey of family incomes and expenditures. The National Office of Statistics and Census undertook this survey in 1967-'68 and published the raw data in 1970. The National Council for Economic Planning prepared an analysis of incomes and expenditures in Honduras, principally through use of the data contained in the above study. Preliminary figures on population were available from the Statistics and Census Office on the Mar. 1974 Census. It is expected that the final census results will not be published until November 1974.

Income Group Related to National Income - In Honduras, the upper 5% of the population receives 33% of the total national income. At the other extreme, the lower 50% receives just 13% of national income. In relation to the rest of Central America, only Guatemala has a more unfavorable income distribution, albeit very slight.

TABLE # 3

PERCENT OF INCOME RECEIVED BY INCOME GROUP

<u>Income Group</u>	<u>% of Population</u>	<u>% of Income</u>
Low	50%	13%
Middle	30%	24%
Middle Upper	15%	30%
Upper	5%	33%
	<hr/>	<hr/>
	TOTAL: 100%	100%

SOURCE: Grupo Asesor de la
FAO para la Integración Económica Centroamericana

Urban - Rural Income Differences - In the urban areas, including Tegucigalpa and San Pedro Sula, there is a middle class. The percentage of total urban families earning between \$1,000 and \$3,500 annually is 44%; this income group receives 46.1% of the national income. The urban poor, however, are very poor - the percentage of families earning less than \$1,000 annually is 45.7%, and receive 14.5% of the national income. The urban upper class comprises 10.3% of the population and receives 39.4% of the national income, almost a four to one ratio.

TABLE # 4

URBAN - RURAL INCOME DISTRIBUTION

Annual L	Urban		Rural	
	Families %	Income %	Families %	Income %
INCOME GROUP:				
less than 500	5.9	0.6	60.6	26.4
500 - 2,000	39.8	13.9	33.1	42.4
2,000 - 7,000	44.0	46.1	6.2	29.8
over 7,000	10.3	39.4	0.1	1.4

SOURCE: Encuesta de Ingresos y Gastos 1967-'68

In contrast, rural statistics indicate that 93.7% of the rural population earn less than \$1,000 annually and receive 68.8% of total rural income. There is no rural middle class, as usually perceived in economic thinking.

Sources of Income - Honduras is basically a rural economy; some 65% of the population was employed in the agricultural sector in 1972. This percentage has decreased very slightly from the 67% reported in 1960.

The second most active sector (of four) is the commerce, service and government field, with 23% of the employed population, followed by industry with 9% and construction with 3%.

In Tegucigalpa, 93% of the total income is obtained from non-farm sources, mostly salary and income from business operations. This percentage was less for families earning below Lps. 2,000 annually, perhaps indicating the presence of back-yard gardens as a source of income. San Pedro Sula had roughly the same breakdown as Tegucigalpa. However, in other areas, a smaller percent - 84.3% - of income came from non-farm sources, indicating the number of farmers living in the smaller urban centers, but receiving income from farm work. In the rural areas, 23.7% of personal income came from non-farm activities. (See Table 10)

Employment and Unemployment - Total employment in 1972 was 763,600 persons, with official unemployment counted at 66,400 persons or 8% of the labor force. Included in the 92% of the employed population are seasonal, part-time and under-employed persons. In the rural areas, some 46% of the work force is unemployed or under-employed. It is also estimated that the average small farmer is occupied with his principal farm occupation only 31% of the available working hours. In Tegucigalpa, it is estimated that about 15% of the labor force is unemployed (estimated by the Ministry of Labor and Social Welfare).

Family vs. Head of Household Income - There is no information on the percent of total family income contributed by the head of household. In other Central American countries this percentage contributed by the Head of Family runs about 75% to 80% of total family income. However, there is information on the number of

members of the family employed. In Tegucigalpa, there is an average of two breadwinners per family, that is, the head-of-household plus one other family member contribute to family income, albeit part or full time. In San Pedro Sula, the average is 1.7 member per family employed and in other urban cities 1.9%. As a rule, it can be said that there is one other member employed for each head-of-household. In rural areas, it is more difficult to determine the number of employed persons per family, since employment for all members is not constant, while during crop seasons, practically all family members who can walk are out working in the fields.

Per Capita Income - The per capita income, calculated as an average over the period 1970-'72 was \$253, which is the lowest in Central America and the 3rd lowest in Latin America (after Haiti and Bolivia). Per capita income is greatest in the urban areas.

During the period 1960-'70, per capita income increased at the rate of 2.3% in real terms, which was lower than the rate of population growth.

Wages by Occupation & Profession - The Social Security Institute and the Ministry of Labor both provided information on wages by occupation. As expected, Administrators and Professionals were at the top of the salary scale, Factory and Service Workers were at the bottom. The average wage paid throughout the country was Lps. 115 (\$57) a month. Farm workers and menial laborers not covered yet by social security earn much less than factory and service workers. The Ministry of Labor states that an unskilled laborer would earn as little as Lps. 64.75 (\$32) per month. (See Tables 11 and 12)

8. Consumption Patterns:

In the 1967-'68 Income and Expense study, the amount of total family income dedicated to housing was broken down in three income groups: income families (under \$1,000 annually), middle (\$1,000 to \$3,500), and high (over \$3,500), as well as by location.

TABLE # 5
PERCENTAGE OF INCOME FOR HOUSING

<u>Location</u>	<u>Low</u>	<u>Middle</u>	<u>High</u>	<u>Average</u>
Tegucigalpa	16.3%	23.5%	26.7%	24.1%
San Pedro Sula	18.0%	24.7%	31.5%	25.5%
Urban Areas	15.5%	18.0%	16.9%	17.3%
Rural Areas	10.2%	13.2%	4.4%	11.0%

The amount of income spent for housing tends to increase at a greater rate as income increases. Urban families pay a larger percent of their income for housing than rural families. Upper income families in San Pedro Sula pay the greatest percent of their incomes for housing.

The rule-of-thumb of 25% of total income for housing expense applies to the urban areas of Honduras. In rural areas, families usually construct their homes with local materials, mostly obtained free, thereby incurring minimum money outlays. In some of the new rural settlement areas, the cost of housing can be virtually nil.

Another study of urban family income and expenditures in the northern coast areas indicated that the percent of income spent on housing was only 8.3%. This varied little in regard to the level of family income; lower income families spending only slightly more than average. However, of the some 2,600 families sampled, roughly

40% lived in houses that they neither owned nor rented. The explanation is that many North Coast families live in company housing and, therefore, pay no rent, or either squat on municipal or national land. This, therefore, tends to decrease the sample average spent for housing. It is safe to say that, had the study been adjusted to discount this 40%, the housing expense percentage would have followed the pattern indicated in the country-wide survey previously mentioned.

As a consumption item, housing is in second place. Families spend the greatest percentage of their income on food, whether in rural or urban areas. Urban families earning under Lps. 2,000 annually spend between 50% and 55% of their income on food alone vs. 25% or so that urban families earning over Lps. 7,000 spend on food, and the 40% spent by the middle income group. This indicates that poorer families have a smaller percentage of disposable income for housing and other such needs than the middle and upper income groups. The pattern in rural areas varies slightly although not enough to change the assumption. (See Table 13)

9. Income Distribution:

Tegucigalpa - In the capital, the median income is \$105 monthly. Since there are some 48,000 families in the capital, it is estimated that some 24,000 families earn less than median incomes. Families earning under \$21 monthly comprise only 2.3% of the population or some 1,100 families. Families earning over \$292 monthly make up 14% of the population. (See Table 14)

San Pedro Sula - The income distribution in the nation's second city follows closely that of the capital. The median income

is slightly lower - \$100 monthly income - which is earned by some 13,000 families, while 3.1% or 800 families earn less than \$21 monthly, and 8.9% earn more than \$292 monthly, which is considerably less than Tegucigalpa.

Urban Areas - Other urban areas include such diverse centers as La Ceiba, which probably has many of the income characteristics of San Pedro Sula but is smaller, as well as remote urban centers having only 2,000 inhabitants as required by the census to be classified as urban, but having little else usually considered urban, and often are little more than rural villages.

The percentage of families earning less than \$21 monthly is considerably larger - 9.4%. The median income is smaller - about \$80 per month. Surprisingly, the percentage of families having incomes over \$292 monthly is about the same as San Pedro Sula - 8.5%.

Rural Areas - The outstanding differences in income distribution can be noted in rural areas. Here some 61% of all families have incomes under \$21 monthly. Since a family of 5 or 6 persons having an income under this amount of \$250 per annum cannot possibly afford to purchase everything necessary to survive, it is obvious that there are other sources of livelihood, principally by growing much of the required food supply. The median income is, of course, less than \$21 per month. For all practical purposes, no rural family earns more than \$250 monthly.

10. Effective Demand:

Rural Families - Incomes in rural areas are so low that nearly all rural families are unable to purchase a house under terms

and conditions that INVA would require, given anticipated sources of financing. For example, a family earning \$42 a month could only afford to pay, say, \$4 a month (10% of income) for housing. (See Table 15) This is a fair estimate for a family of five with a yearly income of \$500. A monthly payment of this size with a 10% downpayment would finance a unit costing \$360. Very little can be built for this amount, even if land is free and services not provided. If the per square meter cost of construction is \$35, then perhaps a core house of 10m² is possible. Even then there are only 18,800 families earning \$42 per month up to \$63, out of a total rural family population of 325,000 who could afford that unit and, perhaps, a unit costing up to \$500 for the upper income limits of this range. As monthly income increases, the percent allocated for housing increases as well as the cost of the unit the family can afford. However, the number of families who can afford these increased costs and size houses decreases. In fact, there are only 15,000 rural families throughout the country who can afford units costing \$830 to \$1,900. The rural market is very small and even then only for the most affluent rural families, despite their relatively low income.

Urban Families - It is much more feasible to develop housing programs in urban areas. Just to cover annual population growth, some 8,500 are needed, while another 2,500 units are required to replace existing housing, which gives a total of 11,000 units annually. Half of these families earn less than \$100 per month based on the normal income distribution.

Various government agencies estimate that there are some 88,000 urban families in urban areas earning less than \$100. Probably 50% of these families would be in the market for a new home.

TABLE # 6
POPULATION BREAKDOWN - 1961 & 1974

	1961		1974	
	#s	%	#s	%
Tegucigalpa	134,100	7.0	270,650	10.0
San Pedro Sula	58,600	3.0	148,080	6.0
Other Urban	245,100	13.0	403,350	15.0
Rural	1,447,000	76.0	1,818,540	69.0
Total Population	1,884,800	100.0%	2,640,620	100.0%

SOURCE: 1) Censo Nacional de Población y Vivienda 1961.
2) Preliminary Census Figures - 1974.

TABLE # 7

PRIVATE SECTOR HOUSING PRODUCTION - PERIOD 1970 - 1973

INVESTMENTS IN THOUSANDS OF DOLLARS

	1970			1971			1972			1973		
	Unit	in M ²	Amount	Unit	in M ²	Amount	Unit	in M ²	Amount	Unit	in M ²	Amount
<u>TEGUCIGALPA</u>												
I. USE												
a) Residential	364	39,447	1792.0	340	34,527	2086.0	872	82,111	4547.0	497	76,772	4778.0
b) Comercial	41	18,849	1354.5	31	19,856	1740.5	20	10,240	496.5	41	36,777	1783.5
c) Industrial	5	6,633	154.5	1	500	30.5	3	1,639	60.0	8	14,740	549.5
d) Others ^{1/}	17	5,733	199.5	5	5,684	364.0	12	3,764	271.5	6	1,540	90.5
II. VARIOUS ^{2/}			81.0			96.5			165.0			234.5
TOTAL	427	70,662	3581.5	377	60,567	4317.5	907	97,754	5540.0	552	129,829	7436.0
<u>SAN PEDRO SULA</u>												
I. USE												
a) Residential	393	39,203	2076.5	556	56,249	2883.5	527	52,008	2420.5	509	53,992	2744.0
b) Comercial	72	27,170	1160.0	66	23,174	949.5	60	16,563	1004.0	63	19,006	931.5
c) Industrial	10	4,597	272.5	9	5,487	152.0	15	10,502	333.5	17	20,571	770.5
d) Others ^{1/}	47	12,699	480.5	12	4,528	295.5	49	5,946	313.5	12	1,941	112.5
II. VARIOUS ^{2/}			412			322.0			250.0			343.0
TOTAL	522	83,669	4401.5	643	89,438	4602.5	651	85,019	4321.0	601	95,510	4901.5
<u>RESUME</u>												
I. USE												
a) Residential	757	78,650	3868.5	896	90,776	4969.5	1,399	134,119	6967.5	1,006	130,764	7522.0
b) Comercial	113	46,019	2514.5	97	43,030	2690.0	80	26,803	1500.5	104	55,783	2715.0
c) Industrial	15	11,230	427.0	10	5,987	182.5	18	12,141	393.5	25	35,311	1320.0
d) Others ^{1/}	64	18,432	680.0	17	10,212	659.5	61	9,710	585.0	18	3,481	203.0
II. VARIOUS ^{2/}			493.0			418.5			415.0			577.5
TOTAL	949	154,331	7983.0	1,020	150,905	8920.0	1,558	182,773	9861.5	1,153	225,339	12,337.5

^{1/} Includes: churches, social clubs, etc.

^{2/} Includes: retaining walls, sidewalks, repairs, etc.

SOURCE: Central Bank

Table # 8

Monthly Rental Rates based on # of Rooms

# of Rooms	Tegucigalpa L's	S.P.S. L's	Other Urban L's	Rural L's
one	14.68	13.47	10.64	3.00
two	23.49	18.55	11.90	4.37
three	41.64	27.62	22.31	8.67
four	66.92	53.11	38.22	10.00
five	104.07	59.79	41.64	-

Source: Encuesta de Ingresos y Gastos familiares 1967-1968

TABLE NO. 9

SOURCES OF INCOME BY INCOME GROUP

	(\$ per year)		
	<u>%</u> <u>Non-Farm</u>	<u>%</u> <u>Farm</u>	<u>%</u> <u>Other</u>
Tegucigalpa - Total	93.6	2.0	4.4
under 1,000	84.3	11.0	4.7
1,000 - 3,500	94.2	0.1	5.7
over 3,500	95.1	0.1	4.8
San Pedro Sula - Total	95.2	2.3	2.5
under 1,000	90.0	8.6	1.4
1,000 - 3,500	95.1	.2	95.3
over 3,500	98.4	-	1.6
Other Urban - Total	84.3	13.6	2.1
under 1,000	85.2	13.7	1.1
1,000 - 3,500	92.3	4.8	2.9
over 3,500	72.7	25.9	1.4
Rural - Total			
under 1,000	23.7	73.3	3.0
1,000 - 3,500	58.2	38.1	3.1
over 3,500	-	-	-

SOURCES: Encuesta de Ingresos y Gastos Familias 1967 - 1968

TABLE # 10
EMPLOYMENT BY SECTORS

	1960		1965		1970		1972	
	#'s	%	#	%	#	%	#	%
Economically Active Employment Total	<u>563.6</u>		<u>668.9</u>		<u>774.3</u>		<u>830.0</u>	
(a) Agriculture, etc.	353.7	67	413.2	6	464.4	65	497.1	65
(b) Industry	42.6	8	52.2	8	64.6	9	70.1	9
(c) Construction & Mines	10.7	2	15.2	2	17.8	3	19.9	3
(d) Commerce, Service, etc.	<u>122.8</u>	<u>23</u>	<u>147.5</u>	<u>24</u>	<u>165.6</u>	<u>23</u>	<u>175.9</u>	<u>23</u>
% Total of Employed:	529.8	100	628.1	100	712.4	100	763.6	100
Unemployed:	33.8	6	40.8	6	61.9	8	66.4	8

SOURCE: CONSUPLANE, Diagnostico de los Recursos Humanos en Honduras 1960-1972

TABLE # 11

Typical Wages - by Month L's

Occupation	Tegucigalpa	San Pedro Sula
1. Bus driver	Lps. 201.65	Lps. 210.90
2. Salesman	146.77	209.54
3. Salesman	72.02	91.56
4. Bank teller	300.56	291.67
5. Bricklayer	129.50	175.75
6. Carpenter	164.65	131.35
7. Unskilled laborer	74.00	64.75
8. Cabinet Maker	166.50	166.50

SOURCE: Labor Statistics 1972.

TABLE # 12

AVERAGE MONTHLY SALARY BY OCCUPATION

<u>Type of Work</u>	<u>Average Salary</u>
Professional	\$ 302
Administrators	648
Office Workers	179
Salesman	102
Farmers, etc	122
Miner	300
Transport Workers	135
Factory Workers	75
Service Workers	70
Average	115

Source: Instituto Hondureño de Seguridad Social

TABLE # 13

Consumption Patterns

(yearly income)

	Food	Clothing	Housing	Other
<u>Tegucigalpa</u>				
under \$ 1,000	55.9	10.9	16.3	16.9
\$ 1,000 - 3,500	42.2	12.6	23.5	22.7
over \$ 3,500	25.0	11.4	26.7	36.9
average	36.1	11.9	24.1	27.9
 <u>San Pedro Sula</u>				
under \$ 1,000	53.1	13.1	18.0	15.8
\$ 1,000 - 3,500	41.1	13.4	24.7	20.8
over \$ 3,500	26.1	14.6	31.5	27.8
average	38.9	13.7	25.5	21.9
 <u>Other Urban</u>				
under \$ 1,000	54.8	10.9	15.5	18.8
\$ 1,000 - 3,500	41.8	14.7	18.0	25.5
over \$ 3,500	26.9	13.4	16.9	42.8
average	39.9	13.6	17.3	29.2
 <u>Rural</u>				
under \$ 1,000	48.2	18.8	10.2	22.8
\$ 1,000 - 3,500	37.9	15.0	13.2	33.9
over \$ 3,500	24.6	19.3	4.4	51.7
average	45.4	17.8	11.0	25.8
 <u>Total Country</u>				
under \$ 1,000	50.4	16.3	12.2	21.1
\$ 1,000 - 3,500	41.1	13.9	19.9	25.1
over \$ 3,500	25.8	12.6	23.8	37.8
average	40.3	14.4	18.3	27.0

Source: Encuesta de Ingresos Y Gastos.

TABLE # 14
POPULATION - MARCH 1974

INCOME RANGE US \$		INCOME RANGE L's		TEGUCIGALPA		SAN PEDRO SULA		OTHER URBAN		RURAL		TOTAL COUNTRY	
Annual	Monthly	Annual	Monthly	# of fam.	%	# of fam.	%	# of fam.	%	# of fam.	%	# of fam.	%
under 250	under 21	under 500	under 41	1112	2.3	820	3.1	6771	9.4	196791	60.6	205494	43.7
251 - 500	21 - 41	501 - 1000	42 - 83	5220	10.8	3041	11.5	11669	16.2	81185	25.0	101115	21.4
501 - 750	42 - 62	1001 - 1500	84 - 125	6320	13.1	3172	12.0	12173	16.9	18835	5.8	40510	8.6
751 - 1000	63 - 83	1501 - 2000	126 - 166	5075	10.5	4601	17.4	6987	9.7	7469	2.3	24132	5.1
1001 - 1250	84 - 104	2001 - 2500	167 - 208	6041	12.5	2591	9.8	8789	12.2	7469	2.3	24890	5.3
1251 - 1500	105 - 125	2501 - 3000	209 - 250	2803	5.8	2934	11.1	3890	5.4	5196	1.6	14823	3.1
1501 - 1750	125 - 145	3001 - 3500	251 - 290	4639	9.6	1638	6.2	2881	4.0	4222	1.3	13380	2.8
1751 - 2000	146 - 166	3501 - 4000	290 - 334	1982	4.1	1058	4.0	2880	4.0	325	0.1	6245	1.3
2001 - 2500	167 - 208	4001 - 5000	335 - 416	4108	8.5	2353	8.9	4682	6.5	650	0.2	11793	2.5
2501 - 3000	209 - 250	5001 - 6000	417 - 500	2272	4.7	1296	4.9	3385	4.7	1299	0.4	8252	1.8
3001 - 3500	250 - 291	6001 - 7000	501 - 583	1981	4.1	582	2.2	1801	2.5	974	0.3	5338	1.1
3501 - 4000	292 - 333	7001 - 8000	584 - 666	1112	2.3	582	2.2	504	0.7	-	-	2198	0.5
4001 - 4500	334 - 375	8001 - 9000	667 - 750	435	0.9	344	1.3	1008	1.4	325	0.1	2112	0.4
4501 - 5000	375 - 416	9001 - 10000	751 - 833	677	1.4	476	1.8	1008	1.4	-	-	2161	0.5
5001 - 6000	417 - 500	10001 - 12000	834 - 1000	1015	2.1	132	0.5	129	1.8	-	-	2444	0.5
over 6001	over 501	over 12001	over 1001	3528	7.3	820	3.1	2305	3.2	-	-	6653	1.4
				48330	100.0	26440	100.0	72030	100.0	324740	100.0	471540	100.0

SOURCES: Calculated & based on:

- 1) Preliminary Data, March 1974 Census - Dirección General de Estadística y Censos, and
- 2) Encuesta de Ingresos y Gastos Familiares

TABLE NO. 15

Rural Housing Purchasing Power (\$)

<u>Family Monthly Income</u>	<u>Monthly Payment</u>	<u>Total Mortgage</u>	<u>10% Down- Payment</u>	<u>House Cost</u>	<u>Rural Percent</u>	<u>Families Number</u>
to 42	4	360	40	400	—	—
" 62	9	775	85	860	5.8	18,835
" 83	16	1,375	150	1,525	2.3	7,469
" 104	26	2,225	245	2,470	2 3	7,469
						TOTAL: 33,773

SOURCE: Calculated

Terms: 1) 11% interest (maximum rate), 15 years;
 2) Percent of income for housing varies accordingly:
 For families earning \$42, use 10% of income for
 housing; \$62, 15%; \$83, 20%; \$104, 25%.

III. NATIONAL POLICIES & HOUSING

The Government of Honduras recognizes the need for elaborated economic policies. A national economic planning agency - The National Council for Economic Planning (CONSUPLANE) - has been set up to coordinate and develop national economic policies and plans. The importance of CONSUPLANE is demonstrated by the presence of its Executive Secretary (Manager) on the National Council of Ministers, which is the nation's Legislative and Executive Branch. The Executive Secretary is the only non-Minister on the Council of Ministers.

CONSUPLANE has a Board of Directors composed of the Ministers of Finance, of Economics, the President of the Central Bank, the Executive Secretary of CONSUPLANE, and a representative from the private sector. The Executive Secretary carries out the day-to-day operations.

CONSUPLANE works with the Ministers and autonomous agencies that implement government plans and policies. In regard to national economic planning, the staff of CONSUPLANE prepares various alternative plans, most of them with the assistance of the relevant Ministry and/or Agency. These alternatives are presented to the Board of CONSUPLANE for approval. The approved alternative is then presented to the Council of Ministers for its approval. If approved by the Council, then it is the operational plan for the sector. A role of CONSUPLANE is to monitor the plan after approval and during the implementation stage.

National Development Plans have traditionally covered a 5-year period. The plan currently being prepared for the period 1974-1978 includes a 15-year overview, a 5-year plan and a 1-year operational program, the

latter corresponding to financial realities and restraints in the national budget. The plan has cleared the Board of CONSUPLANE and is now being approved section-by-section by the Council of Ministers.

This 5-year plan establishes three sectors: (1) Primary or Strategic, (2) Basic, and (3) Support. The primary sector includes agriculture, forestry, and social services such as health, education, and housing. The basic sector includes industry, mining, fishing, and tourism, while the support sector, as implied, includes those elements tending to support the primary and basic sectors, such as transportation, energy, communications, and urban development.

In this scheme, the most important single sector is agriculture; the least important is urban development. Social Services, including housing, is third in importance.

The strategy for the housing sector was defined by the Chief of State in his New Year's speech this year. He stated that "housing projects will complement the agricultural and industrial sectors. For that reason, the housing problem will be tackled in both the rural and urban areas. Urban housing projects will be developed in conjunction with industrial and tourism projects. Rural housing projects will be oriented toward the new rural settlements developed through the agrarian reform program".

1. Housing Policy:

There is a constant dialogue between the National Planning Agency and those financial and implementing agencies which facilitate the formulation of housing policies.

National development policies have recognized the economic importance of housing and its degree of priority compared to other economic and social sectors. The housing sector has been analyzed and comprehensive policies have been defined and formulated which are now at the point of being approved.

A natural result of the formulation of housing policies is the National Housing Plan. The overall policies clearly distinguish between urban and rural housing with more emphasis in rural areas than in the past. In this sense rural housing will be complementary to the agrarian reform programs in that projects should be located in new rural settlements. Local construction materials and aided self-help housing methods should be utilized.

In urban areas there will be a trend toward decentralization of housing programs and more action in secondary cities. More participation by the private sector in urban areas in both financing and implementation is recommended.

INVA will continue to be the main implementing agency for both urban and rural housing in the public sector. The National Board for Social Welfare has been given responsibility in rural housing improvement programs.

Sources of financing should be predominantly local. Mechanisms, such as the Financiera Nacional de Vivienda, are being created to attract more private capital for investment in housing. Since local sources of housing finance are not sufficient, foreign loans will be solicited to the degree necessary to cover the short-fall in local funds.

2. Monetary Policies & Housing:

The current worldwide economic situation is producing an impact on the local monetary policies. The Central Bank modified the interest rate terms on loans by permitting an unlimited market rate for deposits over \$50,000 with a minimum 1-year term. Interest rates on savings accounts were also increased (see section on Economic Considerations) in an attempt to attract more savings, some of which would flow into housing.

The Central Bank also permits a 10% interest rate on mortgage loans with terms between 10 and 15 years. For loans over 15 years, the interest rate increased to 11%. The interest rate on mortgage loans with under 10-year terms is 9%, while the increased interest rate for longer term loans tends to attract funds for long-term housing loans, thereby decreasing monthly house payments, enlarging the potential market, and encouraging monetary flow into housing loans.

3. Importation Policies & Housing:

There are no explicit government policies regarding importation of goods in general. An implied policy is the imposition of import duties and taxes on materials and goods in general, which covers building materials. Most building materials are subject to taxes at the same rate as other non-luxury goods.

The value of imports for construction as percent of total imports is relatively small, averaging 4.5% over the past 15 years. This includes imports for all types of construction, not just residential construction, which is a minor element in total value of construction.

IV. THE ROLE OF GOVERNMENT IN HOUSING

The government's role in housing takes several forms. Primary, of course, is its financial support to housing. Over the past 5 years, more than \$4,000,000 of government budgetary funding has flowed into INVA's coffers, although this has tapered off to \$250,000 yearly in 1973 and 1974. Funding for other public housing projects has been negligible, and consists of only 2 small projects by INA. However, the government has allocated some \$1.3 million for housing in the Aguan Valley Program, part of which has been disbursed for infrastructure services but not housing. Through the Ministry of Public Works, further financing is available for urban infrastructure and transportation, which is necessary to support housing development.

Secondly, the government supports housing through the creation of public bodies related to housing, i.e., INVA, and to a lesser extent INA, as well as the semi-autonomous banks and other financial and technical institutions.

Thirdly, the government supports the creation and development of private institutions, often by means of the passage of enabling legislation, such as FEHCOVIL and the S&L Associations, which have undertaken housing developments.

Fourthly, the government sets policy and makes housing plans through its Economic Planning Council (CONSUPLANE).

Finally, the government makes regulations, albeit superficial, for the housing industry, as a whole. Part of this is through the regulation of exports and imports of housing materials, taxes and duties, minimum wages, etc.

1. The National Housing Plan:

The National Housing Plan for 1974-1978 has not yet been approved. Conversations with CONSUPLANE officials in the housing section and other private and public sector officials gave the team a general idea of the plan as now formulated.

A total of some 12,000 urban units have been programmed for construction over the 5-year period. Most of the units will be developed by INVA with some 2,000 units as the responsibility of local governments.

Rural housing will be built preferably in new settlements under three types of programs: Permanent Housing, Provisional Housing for New Settlers, and Housing Improvement. About 70% of the units will be for housing improvement, while the rest will be permanent or provisional housing - 15% each. Total units to be improved and built in rural areas during 1974-1978 will be about 70,000.

The investment goal for housing for the 5-year period is close to \$30 million with about 20% of this amount to come from foreign sources. This proportion may be changed, however, in case more foreign assistance is required. This, in turn, would modify the number of units that are to be built. In any case, the same policies and guidelines will be applicable to any new housing investment.

Rural housing will be a responsibility of the National Agrarian Institute, INA; the National Development Bank; the National Housing Agency, INVA; and the National Board for Social Welfare.

Investment goals in the plan show that even though most of the units in the plan will be in rural areas, most of investment will take place in urban areas. In fact, about 2/3rds of the financial investment will be in urban areas built by INVA.

There are several areas of concern in regard to the 1974-1978 National Housing Plan. First of all, there is the problem of financing. The government has been decreasing its contributions to INVA for housing over the past few years to the point where the 1974 contribution was only \$250,000. Yet, the plan calls for INVA to make a total investment in housing during this period of U.S. \$16,800,000, of which U.S. \$10,440,000 will be raised locally and \$6,360,000 will be raised externally. This indicates several possibilities, one of the most interesting being that the government is reversing the past trend and will allocate on a yearly basis some eight times what was allocated in 1973 and 1974. In addition, part of the funds INVA would use during this period would be from its annual capital roll-over of \$300,000. If the government does not radically increase its contribution to INVA, as would be expected, then INVA will have to raise funds from the local market, either by borrowing, issuing bonds, etc. or, rely more heavily on external financing. If more external financing is obtained, then the planning exercise is less reliable. All this indicates the problems related to planning in developing countries where financial and other resources are scarce and difficult to anticipate.

The most important aspect of the plan is the physical goals set up, notwithstanding the financing and budgetary problems. The

housing goals under the last plan were 80% accomplished, which was the highest of all the basic sectors.

2. City Planning & Zoning Regulations:

City planning is the responsibility of municipal governments. However, financial restraints and the lack of trained personnel in the municipalities have prompted the GOH to organize a Department of Urban Planning (Dirección General de Urbanismo) within the Ministry of Public Works. The function of this agency is to assist local governments prepare Master Plans.

Plans have been prepared for the cities of Puerto Cortés, Danli, and Olanchito. Four more are currently being prepared in Choluteca, Tela, Tornasal, and Juticalpa. Plans will be prepared in the future for La Ceiba, Progreso, Comayagua, Santa Rosa de Copán, Sta. Barbara, Siguatepeque, La Paz, Tocoa, and Trujillo. All prepared plans must be approved by CONSUPLANE.

Financing for the Department of Urban Planning comes from the National Budget. Foreign financing for this is the form of a technical assistance grant which has been secured from IDB. The main objective of this loan is to finance studies for the Metropolitan Master Plan of Tegucigalpa and the Master Plan for San Pedro Sula.

3. The Metro Plan for Tegucigalpa:

The Central District of Tegucigalpa has prepared a Metropolitan Master Plan called the Metro Plan. It includes development policies, programs and specific investment projects and has been undertaken with technical assistance provided by the InterAmerican Development Bank.

A diagnosis of the urban area has been already made,
which includes 10 aspects:

1. Regional structure, including urban centers;
2. Natural Resources, mainly agriculture and cattle;
3. Population, including growth rates and death/birth rates;
4. Land use, present land use patterns, including population density;
5. Housing, including shortage, and market aspects;
6. Social equipment, including education facilities, health, market places, etc.;
7. Public services, including water supply, sewage, electricity;
8. Transportation, including streets, traffic, parking, public transportation studies;
9. Economic aspects, including economic base, active population, income;
10. Administrative organization to implement the Metro Plan.

There are 13 professionals working on the Metro Plan with 4 employed by the Central District and 9 financed by the IDB loan. This is a multi-disciplinary team including experts in the fields of sociology, economics, statistics, traffic engineering, geology, and public service engineering.

A Metropolitan Planning Committee has been created to advise the Metro Plan Team. Plans are being considered on three different levels, namely, (1) annual plans reflected in the annual municipal budget and in the budgets of participating agencies, (2) 5-year plans,

to carry out medium term projects and activities, and (3) a long range plan covering the period 1974 to the year 2000.

4. Saving & Loan System:

The GOH is interested in attracting more private capital for investment in housing. For this reason, the Central Bank authorized in 1968 the establishment of saving and loan institutions within the existing banking system. Three institutions are currently in operation, two stock and one mutual.

The government is now considering the establishment of an autonomous savings and loan system. A housing bank is proposed which will regulate and provide liquidity for member savings and loan institutions.

USAID has approved a \$4 million loan to match a \$1.3 million government contribution to provide the initial capital. The purpose of the Financiera is to (a) provide a source of liquidity for the savings and loan associations so that they can provide a greater level of mortgage lending resources to the public and promote the attraction of savings for housing; (b) provide FHA-type mortgage insurance in order to increase the flow of internal capital into mortgage financing; (c) provide the supervisory and regulatory authority necessary to the planned and orderly growth of an S&L and mortgage finance system.

5. The Autonomous Municipal Bank - BANMA:

BANMA was created in November 1961 by the government as an autonomous agency to provide financial and technical assistance to municipal governments, and to promote municipal development.

The Bank is empowered to serve as:

- i. Depository of municipal funds, guarantees, and bonds;
- ii. Financial agent to municipal governments;
- iii. Fiduciary agent, guarantor and marketeer for municipal obligations;
- iv. Economic and financial advisor to municipalities;
- v. Coordinator of municipal economic and financing activities;
- vi. Sponsor of municipal enterprises;
- vii. Municipal purchasing agent;
- viii. Administrator of a municipal employee retirement fund.

The Board of the Bank has two representatives of the municipalities and four representatives of the Central Government, namely, the President of the Bank and the Ministers of Finance, Economy, and Government.

Since initiating operations, the Bank has been undercapitalized, never having received from the government the necessary and required funding. In addition, the municipalities are required to invest 5% of their total revenues in BANMA which has not been forthcoming. In an effort to rejuvenate BANMA, AID has approved a \$4.1 million loan to recapitalize the institution. The purpose of the loan is to (1) permit BANMA to provide financial and technical assistance to municipal government, and (2) to effectively develop 27 municipalities to serve as service centers.

Though BANMA can make investments in housing it has not done so, due principally to lack of funds. The Bank has normally financed

urban development projects such as water and sewer facilities, electricity, and road.

6. The National Development Bank - BANAFOM:

BANAFOM, an autonomous agency, was established in 1950 and started operations that same year. The general objective of the Bank is to promote economic development, most often by assisting the agricultural sector. In order to achieve this purpose the Bank is empowered to give short, medium, or long term credit, receive deposits, issue securities, bonds, participate totally or partially in the capital of private, public or mixed enterprise, act as financing agent for the GOH, and, in general, perform all the banking operations tending to promote development.

The Board is the maximum authority of the Bank. In addition to the President of the BANAFOM, the Board includes the Ministers of Economics, Finance, Communications and Public Works, and Natural Resources, the President of the Central Bank, and a representative of private banking system.

The orientation of credit has been traditionally toward agriculture, and to a lesser extent, industry. In 1969 loans to the agriculture sector represented 81.8% of all the loan amounts and in 1970 to more than 90%. Industry represented in 1969--7.7%, which decreased to 5.5% in 1970. Most of the credit went to develop cotton and coffee production and storage warehouses. Corn, sugar cane and tobacco production also received large amounts of credit.

The source of financing for BANAFOM, in addition to its own resources, has come mainly from foreign loans from the Inter-American Development Bank, the USAID, and the OAS. In 1973, the Bank made 14,000 loans, most of which (12,000) were for amounts less than \$1,250. For this reason its administration costs for small loans were estimated at about 27% of the amount of the loans, which decreases to 4% in case of loans to rural settlements, and 2.6% for rural agricultural cooperatives. The administrative capacity of this Bank has been constantly improving, both in domestic as well as in international operations. BANAFOM is a well established institution with some 750 staff members, of whom some 250 are executive, professional and technical staff. There are 22 branch offices in addition to the central office in Tegucigalpa.

The Bank has been involved in the housing field since it was appointed administrator for an AID Guaranty Loan to FEHCOVIL in 1971. It relinquished this role several years later when FEHCOVIL became better established to carry out this role. It also financed the INA rural housing project for the Guanchias Cooperative in Santa Rita, Yoro.

7. The National Council for Social Welfare:

The National Council for Social Welfare is a semi-autonomous institution set up in 1958. Its Board is composed of the Ministers of Health, Education, Government and Natural Resources. There is one representative of the Executive Power, usually the wife of the President of the Republic.

This institution has concentrated its activities in three different fields, namely, juvenile delinquency, child abandonment and community development, with emphasis in rural areas.

The activities of the Council in housing have been to supply physical infrastructure, provide community training, and promote productive projects, particularly in the rural southern provinces.

Community development activities have been combined with the World Food Program in order to develop infrastructure through the use of under-utilized labor.

The Board has built 132 aqueducts, 125 wells, 6,026 latrines, 6,730 mts. of sewer lines, 118 classrooms, 120 kilometers of roads, 182 wooden bridges, 11,400 square miles of streets, 9 systems of public lighting, 4,386 community family farms, 42 health posts, 36 centers, 40 public baths and laundries. It has also improved 377 classrooms, 822 kilometers of road, 1,360 housing units, and 45 Municipal Buildings. A total of 29,900 people have been trained in various fields such as home economics, community development, job upgrading, adult education, etc.

A common way to implement housing improvement programs is by creating a revolving fund for the community. The money is used to improve a number of units, while the repayments permit continuation of the work on other housing units.

8. National Agrarian Institute - INA:

INA was created as the principal government agency for land

reform and agricultural development. The institution was not too active in carrying out its role until a new Land Reform Act was passed in December 1972, which was one of the first decrees of the new government. This decree-law was passed for a 2-year period, during which time the government would have an opportunity to draw up and pass a comprehensive agrarian reform law. In the intervening 2 years, until December 1974, INA is working under the current decree, which is not considered sufficiently comprehensive to do everything necessary for rural development.

INA has developed two housing projects as will be described later. Currently, under the terms of the IDB loan to INA for development of the Aguan Valley, INA is to spend 1/10th of the entire project cost, i.e., \$1,300,000, for rural housing. A fraction of this money has already been spent on services, but not housing. This is the only INA housing program being planned now.

The technical section of INA is preparing typical house designs for units to be built in the Aguan Valley. INA's concept of housing is one of minimum standards, with no consideration of need or ability to pay. The proposed INA house would be about 100m² on a 600m² lot, with a cost estimate (by INA) of \$2,000 to \$2,500, using self-help techniques. House specifications are for concrete footings and floor, concrete block walls painted, galvanized iron roofing, indoor plumbing, etc. This contrasts rather sharply with the present Aguan Valley housing where most houses are made of "manaca" (palm leaf) walls and roof over a rough timber frame, dirt floor, no plumbing, etc.

There are several problems regarding the proposed INA Aguan Valley housing program. First of all, house costs are not realistic since land and infrastructure costs are not included. In the aforementioned cost estimate, only the house would be built for that price, even if self-help is used, and, all in all, the estimate is unrealistic.

Secondly, purchase of even a \$2,000 to \$2,500 unit would require a monthly amortization of, say, \$20.00. In the Aguan Valley, many families have just arrived with their possessions on their backs, are now receiving Food for Peace rations, and are mainly concerned about the first crops, which, in some cases, are several years away. Although these people want housing, in most cases they can neither afford it nor is it a priority. They have a home to live in now, albeit unsatisfactory in view of modern minimum standards, which has cost very little.

Thirdly, the house design and style is completely foreign to what the rural inhabitant is used to. The INA design calls for a 3-bedroom house, separate, indoor kitchen, dining-living room combined, and indoor bath, which is really a relatively sophisticated urban house design. The common rural unit has one room, no windows, one door. This is not to say that the design and construction of the common rural unit should not be improved, but, rather, that the design should try to conform to that which the people are most accustomed to and can use.

INA's position in regard to housing is that public housing development, be it urban or rural, is the responsibility of INVA,

the national housing agency. INA feels that it is not qualified to undertake housing programs. However, since housing development is and will be a factor in the rural area, including the new settlements, INA will collaborate with INVA and other institutions which will undertake such programs.

INA's role will consist of providing information, designating sites and cooperatives eligible for housing programs, providing non-housing technical assistance, etc. INA will not take responsibility for developing and managing housing projects.

The one exception to the above is the Aguan Valley program where the terms of the IDB loan involve INA in housing development.

The Rural Settlement Program:

One of the government priorities is rural development and increased agricultural production. To help accomplish this goal, a program of new rural settlements was initiated a few years ago to colonize unused land as well as give the poor rural inhabitant a chance to participate to a greater degree in rural development.

The rural settlement program is active throughout the country, although the Aguan Valley settlement program is the most active. There is some controversy about the settlement program with regard to land seizure and compensation. Many of the new settlements have taken place on federal or municipal lands. However, in cases where private, unused lands are designated for new settlements, the owners often are not cooperative. The current agrarian law does not spell out clearly procedures and compensation measures,

which tends to complicate things. Moreover, the government has still not decided on what kind of land tenure system[s] would be most appropriate - for example, long term lease-purchase, rental, fee simple, cooperatives, etc. At the present, the government, whether federal or municipal, owns all new settlement lands.

There are now some 500 rural settlements throughout the country, most of which are not yet self-sufficient. In setting up a new settlement, INA, in conjunction with the other relevant institutions, develops a master plan for the site, including a survey of the boundaries, the number of families required to work and settle the land, type of crops, land use plans, etc. Families are recruited, often from the southern provinces, where land is scarce vis-a-vis the number of inhabitants there.

Each family is allocated a lot, usually 600m², within the new village nucleus. The land is cleared and roads laid out. With technical assistance from INA, the family builds a temporary shelter as described earlier. The families are organized into a sort of agricultural cooperative and loans are made to the group for seeds, fertilizers and other agricultural cooperative necessities. In the meanwhile, food grants keep the family alive until the crops come in. Often, INA and the other agencies in the area employ members of the family in various, unskilled jobs, so as to provide a secondary source of income, which in the early stages is the primary source.

Rural Housing:

Institutional experience in rural housing in Honduras has been minor. INA has put together two projects, both of which have

very special characteristics, and are described below:

The Guanchias Cooperative in Santa Rita, Yoro, produces bananas and is probably the most successful rural settlement in the country. INA, with financing from BANAFOM, planned a 150 unit housing project, of which 120 units have been completed. By anyone's standards these units are middle income housing. Units range in size from 140m² to 160m² on a 300m² lot and cost about \$4,500 per unit. The house has 4 bedrooms, living-dining room, indoor bath and kitchen, and is built of durable materials. Information on financing terms to the homebuyer, repayment record, and management method were not available.

A second project in the rural village of Buena Vista, near Choluteca, was developed by INA. 110 units were planned, of which 25 were completed before a decision was made not to finish the project. The unit cost was \$1,250, with a 60-70m² house on a 300m² lot. Since the land was donated, no charge was made to the homeowner for land. INA indicates that there are real problems with this project. First of all, it was very difficult to sell the units, which was the principal reason why all the planned units were not built. The reason for its apparent unacceptability was the style and type of units; i.e., cultural and social reasons, not economic. Moreover, not one monthly payment has been made by any homeowner to INA. Finally, the project is already in a high state of disrepair due to lack of management and maintenance.

The National Council of Social Welfare has developed programs for rural home improvement which are discussed in a previous section. INVA has no experience in rural housing.

9. The National Training Institute - INFOP:

The GOH and private enterprise are aware of the urgent need for capacitation of labor in order to cover not only the immediate but the future demand for more and better skilled workers. Taking this into consideration, the GOH in December of 1972 created the "Instituto Nacional de Formación Profesional" (INFOP)

The basic objectives of the Instituto according to its law are to:

- a) Establish and maintain permanent studies and research activities on human resources needs to better support future development programs.
- b) Organize and promote labor capacitation programs in different economic sectors and for different employment levels.
- c) Provide technical assistance to sponsoring organizations toward the creation and formation of their own capacitation programs.

The INFOP is headed by a Board of Directors comprised of representatives of the business, labor and public sectors. An Executive Director handles day-to-day operations. Funding for INFOP comes from the following sources:

- 1/2% tax on public institutions annual budget;
- 1% payroll tax on autonomous institutions, excluding the University;
- 1% payroll tax of private organizations which have more than 5 workers;
- Enterprises with more than \$10,000 working capital contribute with 1% of their payroll even if they have less than 5 workers.

Since INFOP started functioning in early 1973, 91 courses have been given. These courses cover those areas of activity such as masonry, carpentry, electricity, plumbing, which are considered of primary importance for the construction industry. Some 1,300 persons have been trained in all types of INFOP courses since 1973.

INFOP has indicated they are willing to provide whatever support is necessary to capacitate skilled labor to better undertake development programs in different areas of social and economic activity, including housing.

V. THE NATIONAL HOUSING INSTITUTE (INVA)

INVA is an autonomous public agency specializing in housing and related activities. Created in 1957 by the national government, its main objectives are to:

1. Make housing available to limited income families;
2. Build or facilitate the construction of housing for rent;
3. Finance the development of social interest housing;
4. Rehabilitate and improve existing housing;
5. Eradicate slums;
6. Promote cooperative housing;
7. Develop minimum specifications for urban and rural housing;
8. Promote sound urban development;
9. Undertake housing research.

INVA is thereby empowered to undertake any activity necessary to carry out its above objectives.

1. Organization:

The Institution is governed by a Board of Directors composed of the Minister of Public Works, the Minister of Labor, the Executive Secretary of the National Council for Economic Planning, a representative of the Central Bank, a representative of the Association of Civil Engineers, and 2 representatives from the executive branch of government who are nominated by the Chief of State for a period of 2 years. The Board appoints a general manager who handles operations. The manager does not have a vote on the Board of Directors.

The organization's headquarters are in Tegucigalpa, with one branch in San Pedro Sula. There are 153 employees.

2. Legal Structure:

The law setting up INVA states that all INVA operations are guaranteed by the State. This means that any financial obligations undertaken by INVA have the State's automatic guaranty. In cases where INVA makes an external borrowing, the State, however, must approve the action in order for the guaranty to be valid.

INVA may issue bonds and securities with the approval and authorization of the Central Bank. The mortgage portfolio held by INVA can be the basis for issuing bonds.

Houses built and held by INVA are not subject to liens. At the same time, INVA is not subject to business or corporate taxes which gives INVA an edge over private housing developers.

3. Functions:

The principal activity of INVA is building low and moderate income housing. Most projects have been built in Tegucigalpa and San Pedro Sula. No rural projects have been built.

INVA also has developed some community services in conjunction with the housing projects, such as playgrounds and community centers. The scale and degree of investment varies from project to project.

There is a savings and loan operation within INVA whose role is to accept savings deposits and make home improvement loans.

Since INVA is the state housing agency, it provides technical assistance to other agencies undertaking housing and related activities.

There are 6 operational sections in INVA. The Administration Section deals with internal agency administration, accounting, personnel, maintenance, purchases, etc. It also manages funds received from sales and repossession of houses and land.

The Legal Department handles all legal aspects, including closing and disposition of sales. It prepares, supervises, contracts and handles repossession actions.

The Planning Department prepares operational and financial plans and determines financial needs and flows. It also keeps the statistical records, selects purchasers, and coordinates community activity programs.

The Technical Section plans and designs projects, prepares bid documents, and lets contracts.

The Savings and Loan Section has a very special function and will be described later in detail.

Finally, the Development Section coordinates, controls and supervises the construction of housing projects.

The present administration would like to reorganize INVA's operations. By the end of 1974, INVA will have hired a deputy manager and spun off the savings and loan operation. By the end of 1975, the deputy manager will be in a line position just below the manager and will assume more responsibility for daily operations. The Planning Department will be consolidated with the Technical Department, (see organizational charts).

4. Financial Operations:

A) The INVA Savings & Loan Operation

This section was set up in 1966 within INVA to promote housing finance. It was created in response to a need to have a vehicle through which a middle income loan from CABEI could be made. This \$1,000,000 CABEI loan to INVA resulted in the development of 148 units at an average price of \$9,250 per unit (INVA also contributed to the financing) for the project called "Colonia 15 de Septiembre". When the nationwide savings and loan system was finally created, this mortgage portfolio was sold to La Vivienda Saving and Loan Association in 1971 as requested by CABEI.

The scale of savings operations is very low. In 1971, there were 193 savings accounts with \$16,700 total savings. By 1973, that had increased to only 235 accounts and \$25,450 in savings.

Loans are made exclusively for improvement, repairs and additions to existing houses. Since 1971, 186 loans have been made totaling \$113,200.00. In 1973 alone, 139 loans totaling \$61,000 were made. The loan portfolio totaled \$90,000 at the end of 1973.

The paid-in capital, that is equity of INVA, is \$225,000, most of which resulted from profit made on the CABEI S&L project. This capital is invested in bonds, and the resulting interest used to cover administrative expenses. For this reason, the agency is able to operate in the black. However, it is not carrying out its objectives and functions in that the funds in this operation are not being invested in housing, as required in the legislation.

There are suggestions that the S&L operation be spun off and a mutual S&L set up. The advantage in this would be that INVA

would be freed of a financial operation foreign to its normal function and role. At the same time, a mutual company would have access to more sources of financing, including CABEI and the new proposed housing bank.

B) Analysis of Financial Statements

The principal source of income for INVA is interest on loans. Roughly 95% of total income in 1973 came from this source. Virtually no income is derived from production of housing projects. The remaining 5% of income came from rental of houses and technical assistance to other institutions. Total income in 1973 was Ls 972,530.83 (\$486,165). (See Table 18)

Expenses totaled Ls 1,651,571.16 (\$825,786), which gave a loss for 1973 of Ls 679,040.33 (\$339,520). Administrative expenses were the heaviest, roughly 79% of total expenses, followed by interest expense, 12%, depreciation, 5%, and reserve for bad debts, 4%.

In analyzing the income statement, it is noted that no income is derived from housing development. While it is intended, of course, for INVA to not make a profit on its operations, the Institution should, nevertheless, cover that part of its operating expenses for project development. Instead, INVA depends on interest income to cover development expenses. In normal situations, interest income should be used to cover administration expenses in managing a project, as well as a percentage of overhead. For example, the cost of developing the plans and specifications, contracts, sales, interim financing costs (if any), salaries, etc., all related to putting together a project should be included in the cost of

the house. INVA does this partially and, in fact, in one project - Colonia Kennedy - a house costing Ls 3,820.00 only includes Ls 250.00 for administration expenses, nothing else. This is a minimal, 6.6% far below that which is normal in units of this cost.

INVA, therefore has to recoup these expenses in the interest spread which obviously is not enough, since INVA is losing money each year.

The cash flow situation is even more grave. In the 5-1/2 year period from 1969 to mid-1974, total income equaled Ls 8,795,487 (\$4,397,500) while expenditures, less capital expenditures equaled Ls 6,339,266 (\$3,169,650). However, amortization payments totaled Ls 3,270,985 (\$1,635,500), meaning that non-capital expenses were greater than non-capital income. (See Table 20)

During this same 5-1/2 year period, there was a negative cash flow of Ls 3,951,557 (\$1,975,800). INVA has been slowly decapitalizing itself over this period of time. In fact, INVA is paying administrative expenses out of its capital funds.

In itself, the balance sheet gives a rather favorable picture. Paid-in capital is equal to 2/3rds of the capital and liabilities account, indicating the very favorable debt to capital ratio of 1:2. Current assets are 3 times current liabilities, again a favorable ratio, while cash in banks and on hand is double current liabilities. INVA could weather any financial cash problems with ease. Interest expense in 1973 was close to \$100,000, which is easily covered by the more than \$350,000 available cash at that time. Yearly operating expenses were little more than double the cash on hand, meaning that the institution could cover about 6 months expenses with available

5. Sources of Financing:

A) Past & Present

The InterAmerican Development Bank has been the principal source of financing for INVA projects. The first loan (#48/TF-HO) was made in 1963 for \$1,000,000 in the construction of 736 housing units and 298 urbanized lots. A second loan of \$2,725,000 was made in 1966, and helped in the construction of 2,794 units. Both of these loans were made to help capitalize the Institution in that the Honduran Government is repaying these loans, which permits INVA to retain the capital rollover as operating capital. Capital derived from these IDB loans comprises roughly 60% of total capital. (See Table 17)

The government has been the second source of funding for INVA operations. Since 1969, the government has made budgetary contributions to INVA to the tune of Ls 8,331,302 (\$4,165,650). A third source has been CABEI, which financed a 148 unit middle income project; however, this portfolio was sold to a private S&L association.

The only other source of financing has been the downpayments provided by the beneficiaries of housing projects. This generally ranges from 5% to 10% of total cost of the unit. In some cases, no downpayment is required.

There is one source of non-monetary financing which is the sweat equity in self-help projects. This can amount to as much as 10% of unit cost in some cases.

B) Potential

The Government of Honduras is a potential source of

to INVA, from a high of Ls 2,745,000 (\$1,372,500) in 1969, to Ls 500,000 (\$250,000) in 1973 and 1974. Although the government probably could afford to increase its capital contribution, indications are that it will not.

Foreign loans are a very likely source of financing, particularly through the USAID Housing Guaranty Program. The IDB, if it continues its current policy, is not a potential source. The World Bank is now making housing loans through a program known as sites-and-services, and Honduras might be eligible under this program. Foreign commercial banks have not traditionally made mortgage loans in developing countries, although with the increase in "Petro Dollars", this is a possibility. Bilateral, international financial assistance from other countries is not expected.

The Central Bank of Honduras can make loans to INVA. This has never been requested, although it remains an option.

INVA can issue bonds backed by its mortgage portfolio. One potential purchaser would be the Social Security Institute which has 2 separate welfare funds; one to cover current health and employment benefits, the other for retirement pension. Although this latter fund cannot be invested directly in housing, it can purchase bonds backed by mortgages.

Another source of financing could be the soon-to-be-created Financiera Nacional de Vivienda, which can purchase mortgages.

6. Various Operations:

Past Due Payments - At first glance the problem of non-payment of loans is not as bad as expected. Information obtained from INVA shows that past due payments are only 4% of the total amount due

as of June 1974. The breakdown by projects ranged from a low of 2% at "Colonia 21 de Octubre" in Tegucigalpa to 14% at Acacias in Choluteca and 15% at Brisas. What was not available from INVA was the percentage of accounts past due and the breakdown by number of months. (See Table 21)

The total amount of past due payments was Ls 335,521.50 (\$177,760), which in itself is a considerable amount. Reserves to cover this sum were Ls 75,995.93, as of 31 December 1973, which might not be sufficient. The problem is that it is impossible to tell from information provided by INVA what percentage of the past due loans are not collectable and what percentage are merely past due and will probably be collected at a later date.

Within the INVA Administration Section is a collection office, which recognizes the need to tackle the problem of past due loans. Accordingly, this office has prepared the outline of a collection program to reduce the percent and amount of past due accounts, without having to use legal measures. The most important step would be the implementation of the "check off" system for monthly payments, although the implementation of this system would probably be more effective for future programs. Secondly, this office would like to increase fines for non-payment by charging one Lempira per month for each month overdue, notwithstanding the amount of the monthly payment, rather than the present 1-1/2% to 5% additional charge. Thirdly, 2 new branch offices at the largest projects in Tegucigalpa and San Pedro Sula would be opened to better monitor collections. Also, home collection procedures would be initiated.

The aforementioned measures have not been approved, however, it shows the forward thinking of INVA as to this problem.

Insurance - Mortgage insurance to cover repayment of the loan in case of the death of the purchaser is provided for all INVA projects. The purchaser pays for this service which runs about 12% of total monthly payment. (Monthly payments being made up of principal, interest and insurance.) For example, a unit costing \$4,000 will have a monthly payment of \$33.34 (240 payments) to include an insurance premium of \$3.52. Reserves to cover insurance payments total Ls 699,012 (\$349,506) as of December 31, 1974.

Subsidies - Various kinds of subsidies are a large element in INVA programs. It has already been noted that INVA has been decapitalizing itself over the past few years, due largely to the practice of covering current operating expenses with the interest spread which is a form of indirect subsidy. Another form of subsidy is by undercharging the purchaser the price of land in some projects when land is received free or at below market rates. These rates, as explained below, are a third form of subsidy.

Terms to Purchasers - INVA has received all of its capital at either no interest rate from the government or on concessional terms from IDB. For those reasons, terms to purchasers have been very favorable, and below the market rate which, in fact, is another form of subsidy. Terms of loans have usually been for 20 years, although occasionally there have been slight variations. Interest rates are 8%, which is some 3 percentage points below that permitted commercial banks for similar loans. Downpayments have ranged from

5% to 10% of total unit cost.

Closing Costs - This house expense will run about 3.6% of total cost of a unit costing \$2,500, and is calculated as follows:

- Fee on 1st \$100.00 value	\$ 12.50
- 2% on remaining \$2,400	48.00
- Mortgage Registration	7.50
- Sale Contract Registration	7.50
- Court Registration	7.50
- Mortgage Fee	3.75
- Sale Fee	3.75
- Stamps & Other Fees	2.70

TOTAL: \$ 93.20

If it is necessary to write a second contract to cover additional arrangements, then add another 50% to the above total, which increases closing costs to nearly 5.5%.

In 2 specific INVA projects, a house selling for \$1,200 in the El Pedregal de San José project in Tegucigalpa, the closing costs were \$96.30, including the 50% surcharge; in the Colonia Kennedy project, a unit selling for \$2,150 had closing costs of \$114.95, again including the 50% surcharge. For INVA projects, the closing costs are included in the sales price of the units; it is not a one-time fee at closing paid by the purchaser.

In the FEHCOVIL "Hato de Enmedio" project, there were additional closing costs for the 1st year of insurance paid in advance, and a fee of about 18% of total closing costs to SANAA for connection of the water supply.

7. Technical Capability & Experience:

Since its creation in 1957, INVA has been responsible for building some 6,800 units at a total cost of some \$8.8 million. Until 1963, INVA had built only 334 units (see Table 1, Section II) which quite probably reflects the scarcity of housing finance during that period. However, in 1963, IDB made its first loan for \$1,000,000 to INVA. This had the effect of pumping badly needed capital into the Institution and the increased production figures during the next 3 years of 997 units reflect this. Although a second IDB loan of U.S. \$2,725,000 was made in 1966 to again inject capital into INVA, production is reflected only in the 1968 figures. This explains the reason why there apparently were no completions in 1966 even though housing was under construction that year. In 1969, production jumped considerably to 1,659, which has been the largest amount of units built in any one year to the present. During 1969 and 1970, the government made capital contributions to INVA totaling slightly more than \$2.5 million, which helped to keep INVA production at a relatively high rate. Following 1969, INVA production has decreased; to the point where no units were completed and sold in 1973, although construction was taking place. Production during the first seven months of 1974 shows that 1,244 units have been completed, while another 530 are slated for completion prior to the end of the year. It is generally accepted that this dramatic increase is due primarily to the new leadership in INVA. The average during the past 7 years was 700 units per annum, or 4,942 units.

INVA programs have served low income families. For example, INVA urbanized 298 lots on the project Colonia 21 de Octubre" at an average price of \$334.00 during the middle of the 1960's. They also produced 3-bedroom units for an average of \$2,052 per unit and 2-bedroom units for \$1,876, all in Tegucigalpa. During the latter part of the sixties, units built with self-help methods, cost as low as \$1,000, with monthly payment of \$7.53 including insurance. This meant that families earning as little as \$35.00 per month could afford such a unit. (See Table 16)

This self-help element has been an important factor in contributing to the total number of units built by INVA, in that it permits INVA to build more units with a given amount of financing. Of the 4,352 units built with IDB financing (up to the year 1973), 2,614 were built under the self-help plan, while the remaining units were built under direct contract with private builders. For a typical low cost, self-help unit, labor costs are only 17% of total construction costs, which is about 1/2 of the normal cost of labor in direct contract projects.

Operational Components

The chief function of the Technical Section is to plan and design housing projects. Within this section are sub-sections of Architecture / Technology and Engineering. The Architecture / Technology Section is responsible for the design and production of preliminary and full working drawings, including infrastructure layout and specifications. It is also responsible for establishing

minimum standards, developing new construction methods, feasibility studies, etc. Most of the design work has been done "in-house" by INVA, however, some work has been farmed out, particularly lately, when INVA's work load has increased considerably.

Most of Inva's projects do not require extensive new design inputs since it draws almost exclusively from several basic designs, whose architectural characteristics are limited.

The Architectural Section is comprised of a chief architect, 2 other architects, 1 engineer, and 4 draftsmen, which has been adequate for past project development.

The Engineering Section is in charge of making studies and in depth design for infrastructure works as well as structural aspects of housing units. In addition, this Section makes the necessary take-offs and estimates for the bidding procedures. The staff is composed of 4 engineers and 3 draftsmen.

A separate Production Section is in charge of coordination, supervision and control of projects, whether built by self-help or by direct contract methods. For projects located outside of Tegucigalpa, private engineers are hired to inspect projects. They perform the function of resident inspection and report weekly to the main office about the progress of works and general performance of the contractor. This Section is staffed by 4 engineers.

Bidding procedures follow those prescribed for government agencies (see Construction Industry section). Within INVA, there is a Commission composed of the heads of sections, which handles

all operations leading to processing of bids. When a project is designated, and the plans and specifications completed, this Commission accepts and evaluates the bids from pre-qualified builders, and makes a recommendation to the General Manager. The Manager, if he is in agreement, presents the recommendation to the Board which may authorize the awarding of the contract. The Board may reject or request modifications also, For contracts with a value of less than \$5,000, the Manager does not have to consult the Board.

8. Institutional Analysis:

In general, with the possible exception of the Central Bank, most government agencies in Honduras do not enjoy a great amount of public respect. Salaries are low and inefficiency runs high; nor is the spirit of public service apparent in government operations. Within this general context, INVA was found to be better than expected and rapidly improving its administrative practices and organization.

Unfortunately, INVA's public reputation has suffered in the past as a direct result of the inactivity of some of its managers and the predominance of its Board of Directors. A number of staff weaknesses were found, but not to any extraordinary extent. Aside from the previously noted absence of rural housing experience, substantial technical assistance could be utilized in the areas of accounting, financial analysis, delinquency control and reporting, property management, collection and main-branch office relationships.

It was mentioned that the organization is proposing internal organizational reforms, which would help to streamline operations and expedite project development. The increased housing production of this year is another indication of the improvement in INVA's management. Finally, the new General Manager of INVA, who is providing effective leadership, is attempting to restrain the influence of the Board of Directors on day-to-day discussions and operations and, instead, let the Board concentrate on policy, as would normally be the case. The problem is that there are no fewer than 3 Ministers on the Board, whose decisions tend to be ponderous and drawn out, and who appear to be unwilling to delegate authority to the Manager and his staff on more than minor matters. There is less than a harmonious relationship between the Board and the General Manager.

With respect to the S&L Department, this is viewed as an anomaly within a public housing agency such as INVA. The present status of this Department is stagnant and it operates as a half-forgotten appendage to the balance of the Institution. The Board should make a decision as soon as possible on whether to spin-off the S&L operation as a separate entity, or recognize it to carry out its planned function.

INVA's operations in the past have tended to include a number of indirect subsidy elements, although these have not been uniform throughout their operational history and vary from project to project. Their presence is apparent from previously analyzed financial statements where operating losses were noted. INVA receives

funding from the GOH each year. These amounts vary and are supposed to be additions to capital under an earlier IDB-INVA-Government of Honduras agreement whereby the government was to provide \$5 million in capital to INVA. To date, some \$4 million has been forthcoming and the contributions received are often put to use in general operations rather than being invested in housing. Furthermore, over the recent past, INVA's interest rates have been unrealistic in terms of the local market. Whereas by law it can charge as much as 11% interest plus 1% commission for a loan in excess of 15 years, it has only charged 6% - 8% on its housing loans. In some projects where land is donated or is ceded by the GOH or others to INVA, only a portion of its fair market value has been prorated to unit prices. Similarly, certain infrastructure works are not attributed to the project but reimbursed to INVA by the pertinent Ministries, although these debts are often carried by INVA for substantial periods of time. In resales, INVA is not yet empowered to resell unoccupied units at a price greater than the one originally charged for the unit. The Institution, therefore, cannot adopt maintenance of value resale policies to protect itself against decapitalization. Finally, the team does not feel that the value of INVA's costs with respect to project design and development are adequately reflected in unit pricing practices.

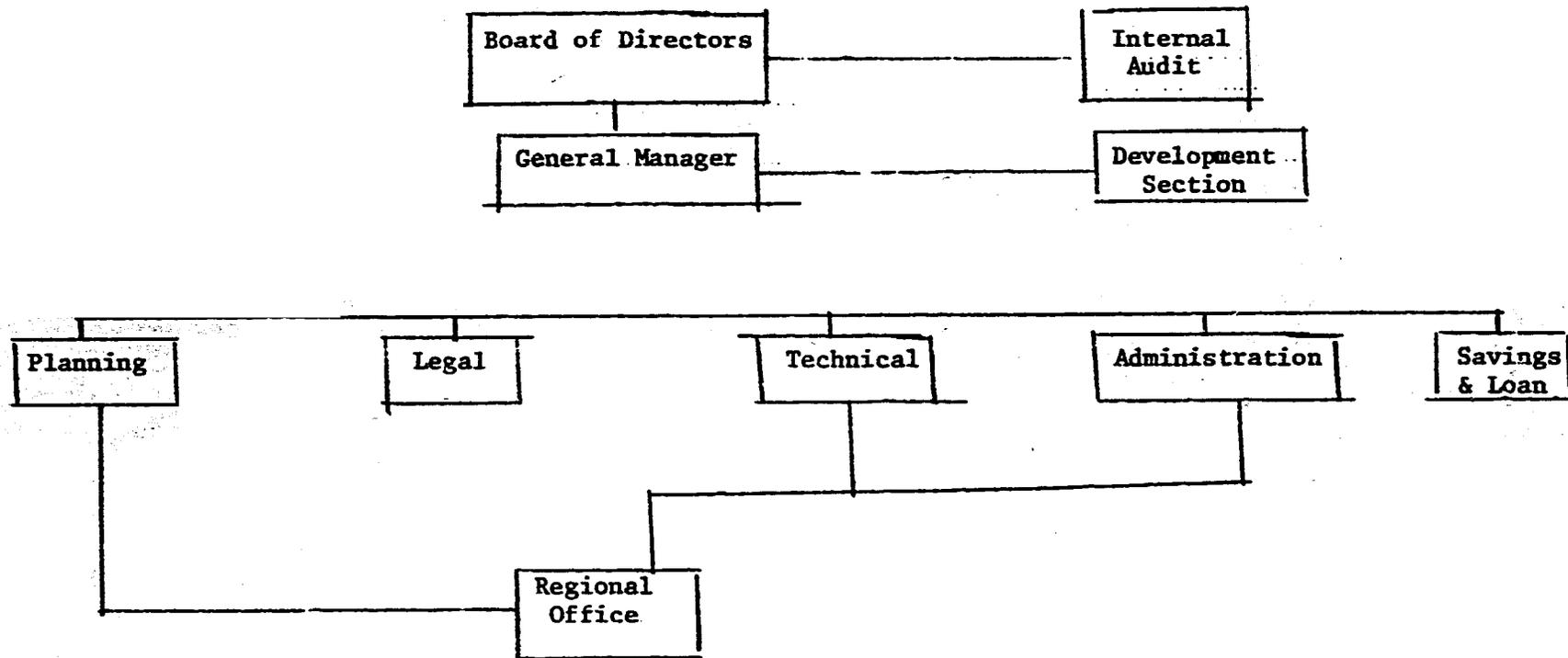
INVA is taking steps to improve its financial position in the form of two draft decrees it is currently preparing for submission to the GOH. One would permit monthly amortization and interest payments via salary check-offs on an involuntary basis

at INVA's sole option. It is felt that this would substantially improve INVA's collection problem.

The other is more far reaching: It calls for the establishment of a workers housing fund like the ones presently operating in Mexico, El Salvador, Brazil, Argentina and Uruguay. However, since the number of workers who contribute to social security in Honduras is relatively small, (virtually dropped to zero in the rural areas) INVA has sought to develop a radically different tax base from which to draw funds. Under the plan, INVA would receive via the Central Bank the proceeds from a non-prohibitive (unlike the recent banana fracas) tax on Honduran export products which are used for housing or construction abroad. Prime among these would be lumber, cement and mining products. It has not been estimated as yet what kind of revenue would be produced from such a tax although INVA's objectives lie in the range of \$5 to \$10 million annually.

ORGANIZATION CHART - I N V A

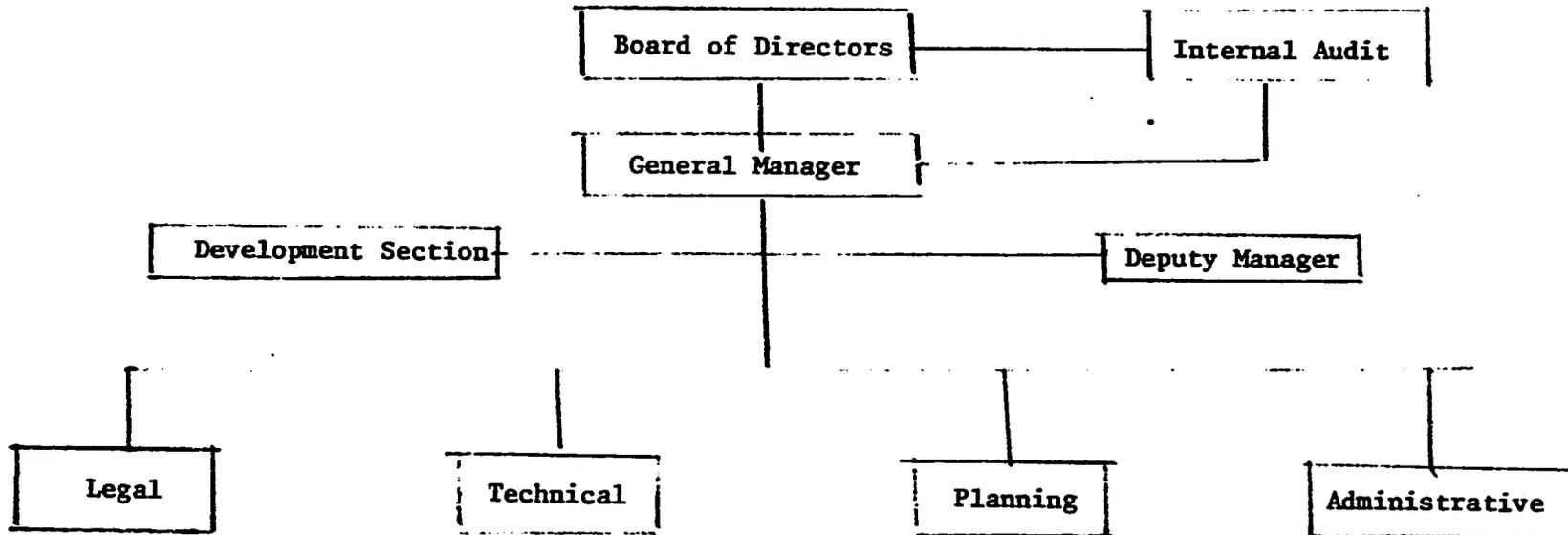
(Present operations)



Source: INVA

ORGANIZATION CHART - I N V A

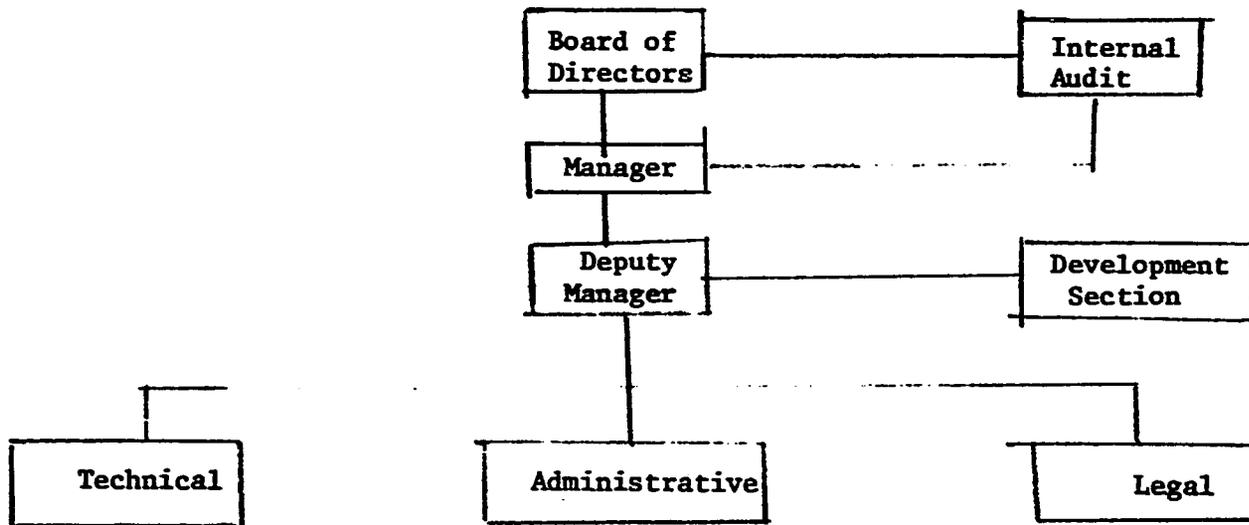
(Proposed by end of 1974)



Source: INVA

ORGANIZATION CHART

(Proposed by end of 1975)



Source: INVA

TABLE NO. 16

Breakdown by Type of Construction
Income Range, Costs & Location,
IDB - Housing Loan # 299/SF-HO

<u>System</u>	<u>Income Range</u>	<u>Average Unit Cost</u>	<u>Location</u>	<u>No. of Units</u>
Self-Help	US \$35 - 70	US \$ 600	Tegucigalpa-Min.	250
" "	" " "	" " "	San Pedro Sula-L.A.	1,401
" "	" " "	" " "	" " " Tep	250
Self-Help	US \$73 -135	US \$ 1,685	Tegus. - Kennedy	680
" "	" " "	US \$ 1,750	" - Pedregal	33
Direct Contract	US\$136 -225	US \$ 3,300	Tegus. - Kennedy	72
" "	" " "	" " "	La Ceiba - Alhambra	126
" "	" " "	" " "	San Pedro Sula - Cast.	600
" "	" " "	" " "	El Progreso	66
" "	" " "	" " "	Puerto Cortes	100
Direct Admin- istration	US\$136 - 225	US \$ 2,755	Tegus. - Kennedy	500
" "	US\$226 - 275	US \$ 4,800	Tegus. - 21 Oct.	24
Savings & Loan	US\$226 - 275	US \$ 4,000	Tegucigalpa	250
Total:				4,352

SOURCE: IDB

Table # 17

PRESTAMOS PARA VIVIENDA OTORGADOS POR EL BID A INVA

PRESTAMO No. 48/TF-HO. - Mayo de 1963 - INVA

MONTO: US\$ 1.000,000

OBJETO: Construcción de 736 viviendas y urbanización de 298 lotes para familias de bajos ingresos en la Colonia 21 de Octubre de Tegucigalpa.

<u>Sistema</u>	<u>Número de Unidades</u>	<u>Costo Unitario US\$ *</u>
Construcción Directa	160 (3 dormitorios)	2,052
	56 (2 dormitorios)	1,876
Urbanización	298 Unidades favorecidas	334
Auto Construcción	520 (3 dormitorios)	1,800

* Incluye terreno urbanizado.

PRESTAMO NO. 89/F-HO - Abril de 1966 - INVA

MONTO: US\$ 2.725,000

OBJETO: Construcción de 2,794 viviendas y 4 comercios en las Colonias Kennedy y El Pedregal de Tegucigalpa y las Acacias de Choluteca.

<u>Sistema</u>	<u>Número de Unidades</u>	<u>Costo Unitario US\$ *</u>
Construcción Directa	285 (3 dormitorios)	2,000
Auto Construcción	1,092 (3 dormitorios)	1,750
Inacabadas	380 (3 dormitorios)	1,600
	187 (2 dormitorios)	1,468
Inconclusas	340 (a desarrollarse Sala-dormitorio-cocina)	678
Autoconstrucción	510 (por etapas)	630
Comercios		4,000 M ²

Incluye terreno urbanizado.

SOURCE: IDB

Table 18
INSTITUTO DE LA VIVIENDA
Tegucigalpa, D.C.

BALANCE GENERAL CONSOLIDADO AL 31 DE DICIEMBRE DE 1973

<u>A C T I V O</u>		<u>P A S I V O</u>	
<u>DISPONIBLE</u>		<u>PASIVOS EXIGIBLES</u>	
Caja	11,946.78	Cuentas a Pagar	154,699.01
Depositos	708,787.12	Depositos Especiales Recibidos	113,178.84
Depositos en Tránsito	24,183.46	Obligaciones por Pagar	31,529.50
Depositos Rotatorios	17,000.00	Intereses y Comisiones por Pagar	<u>31,978.99</u>
Conversiones en valores	<u>315,000.00</u>		L. 331,386.34
	L. 1,076,917.36		
<u>DEUDORES Y DEPOSITOS</u>		<u>OTROS PASIVOS</u>	
Obligaciones Hipotecarias de Amortiz.		Depositos para Primas y/o Oblig.en mora	88,372.55
Capital (Neto)	14,275,110.52	Operaciones Financieras a Largo Plazo	<u>6,446,627.98</u>
Cuentas a Cobrar (Neto)	644,289.98		L. 6,535,000.53
Depositos dados en Garantía	2,145.00		
Cartas de Cambio a Cobrar	<u>10,473.50</u>	<u>SUMA DEL PASIVO</u>	<u>6,866,366.87</u>
	L. 14,932,019.00		
<u>INVENTARIOS</u>		<u>CAPITAL Y RESERVAS</u>	
Terminados	1,966,541.67	Reserva para Seguro de Obligaciones	699,012.20
En Ejecución	499,079.15	Otras Reservas	<u>75,995.93</u>
Viviendas Terminadas (Neto)	872,912.34		775,008.13
Materiales (Neto)	121,821.20		
Materiales y Equipo en Tránsito	<u>31,844.47</u>	<u>CAPITAL</u>	12,857,739.36
	L. 3,512,198.83	Más:	
<u>ACTIVOS</u>		Incremento por resultado del Ejercicio	
Mobiliario y Equipo en Servicio (Neto)	246,698.78	en el Depto. de Ahorro y Préstamos	12,245.30
Alfombra de Prefabricados	<u>63.20</u>	Menos:	
	L. 246,761.98	Disminución por resultado en el ejercicio	
<u>PASIVOS DIFERIDOS</u>		del INVA	<u>679,040.93</u>
Estudios y Proyectos de Obra	39,856.48		12,200,944.33
Proveeduría	24,562.37		
Otros Activos Diferidos	<u>10,023.31</u>		
	L. 74,442.16	<u>SUMA DEL PASIVO, CAPITAL Y RESERVAS</u>	<u>L. 19,842,339.33</u>
<u>SUMA DEL ACTIVO</u>	<u>L. 19,842,339.33</u>		

CONTADOR GENERAL

SOURCE: INVA

Table 19
INSTITUTO DE LA VIVIENDA
Tegucigalpa, D.C.

ESTADO DE PERDIDAS Y GANANCIAS POR EL PERIODO DEL 1 DE ENERO AL 31 DIC./73

<u>PRODUCTOS DE LA OPERACION</u>		
Rendimiento de la Operación	L	205.54
Rendimiento en Venta de casas Recup.		21,821.30
Intereses sobre Préstamos		912,761.07
Arrendamientos devengados		10,395.84
Servicios prestados		<u>21,928.00</u>
	L.	967,111.75
Menos:		
<u>GASTOS DE OPERACION</u>		
<u>Gastos Generales de Administración</u>		
Gerencia General		72,786.94
Planificación Económica		186,540.60
Depto. Financiero y Administrativo		453,944.09
Departamento Técnico		395,711.83
Departamento Legal		62,830.60
Auditoría Interna		28,481.74
Depto. Relaciones Públicas		128,803.05
Depreciación muebles y Enseres		8,196.76
Depreciación Equipo en Uso		18,677.33
Depreciación Maquinaria de Construcción		2,943.18
Depreciación de Vehículos		23,123.53
Depreciación de Edificios		16,314.78
Depreciación Biblioteca		294.79
Reserva Deudas Incobrables (1973)		<u>59,204.66</u>
	L.	<u>1,457,861.88</u>
	L.	490,750.13
Más:		
<u>OTROS GASTOS NO DE OPERACION</u>		
Gastos Financieros		193,558.30
Pérdida en Venta de Activos		<u>150.98</u>
	L.	<u>193,709.28</u>
	L.	684,459.41
Menos:		
<u>OTROS INGRESOS NO DE OPERACION</u>		
Ingresos Varios		L. 5,419.08
Pérdida Neta del Ejercicio		<u>L. 679,040.33</u>

CONTADOR GENERAL

SOURCE: INVA

CUADRO DE EGRESOS E INGRESOS INVA. (1969 - 1974)
(In Lempiras)

	1969	1970	1971	1972	1973	1974 al 31 de Mayo
EGRESOS CORRIENTES						
Servicios Personales	693.242.43	661.492.01	696.507.41	792.102.60	877.703.86	416.143.53
Servicios no Personales	159.325.46	212.985.42	218.956.61	253.552.58	207.350.82	105.539.49
Materiales y Suministros	65.669.38	57.322.33	55.519.25	54.781.08	57.255.25	38.955.95
Transferencias	81.530.17	81.652.91	240.001.87	119.351.80	102.568.77	43.607.84
	<u>1.029.827.44</u>	<u>1,013,452.67</u>	<u>1,210,985.14</u>	<u>1,225,788.06</u>	<u>1,244,878.70</u>	<u>604,296.81</u>
EGRESOS DE CAPITAL						
Maquinaria y Equipo	37.980.88	43.092.21	30.655.62	59.851.75	65.934.98	23.174.98
Adquisición de Inmuebles	168.524.33	93.500.00	-.-	486.570.15	257.000.00	-.-
Const. Adiciones y Mejoras	4.363.645.19	2,022,335.65	1,540,892.50	616,917.83	351,371.41	1,294,695.97
Asignaciones Globales	145.383.33	27.317.07	24,406.29	2,904.38	8,754.90	755.00
Deuda Pública	1,082,859.62	643,256.60	593,322.88	491,380.17	807,986.71	320,916.15
Sub Total	<u>5,793,393.34</u>	<u>2,837,491.53</u>	<u>2,181,278.29</u>	<u>1,657,624.23</u>	<u>1,491,048.00</u>	<u>1,620,962.10</u>
Total Egresos	<u>6,828,220.78</u>	<u>3,850,944.20</u>	<u>3,392,263.43</u>	<u>2,883,412.29</u>	<u>2,735,926.70</u>	<u>2,225,258.91</u>
INGRESOS CORRIENTES						
Amortización de Viviendas	613.150.89	503.936.32	566,106.00	614,999.31	665,986.85	312,808.69
Intereses sobre Viviendas	270.207.64	535,957.47	619,730.12	861,779.60	905,130.76	371,339.96
Seguro de Viviendas	64,534.89	107,627.62	154,801.36	163,913.43	173,461.00	69,695.45
Primas de Viviendas	-.-	294,132.00	50,603.62	40,662.49	39,290.47	23,807.67
Arrendamiento de Viviendas	-.-	-.-	5,209.24	6,355.11	5,347.41	997.69
Centros de Esparcimiento	-.-	-.-	10,317.54	31,627.47	15,055.78	5,921.65
Ingresos Varios	74,220.11	57,337.72	44,335.05	34,500.43	132,591.03	21,712.06
Ventas de terrenos	-.-	-.-	53,532.72	12,671.03	11,972.36	-.-
Sub Total	<u>1,022,113.53</u>	<u>1,458,991.13</u>	<u>1,735,036.95</u>	<u>1,755,690.17</u>	<u>1,965,235.66</u>	<u>600,451.13</u>
Saldo al 31/12/73						742,313.66
INGRESOS DE CAPITAL						
Aportes del Gobierno C. Préstamo 299-SF-HO	2,745,090.00	2,336,212.00	1,500,000.00	750,000.00	500,000.00	500,000.00
	-.-	-.-	-.-	1,153,356.00	-.-	-.-
Sub Total	<u>2,745,090.00</u>	<u>2,336,212.00</u>	<u>1,500,000.00</u>	<u>1,903,356.00</u>	<u>500,000.00</u>	<u>500,000.00</u>
Total	<u>3,767,203.53</u>	<u>3,835,203.13</u>	<u>3,235,036.95</u>	<u>3,659,046.17</u>	<u>2,465,235.66</u>	<u>2,050,754.84</u>

TABLE # 21

PAST DUE LOANS L's ^{1/}

<u>Project</u>	<u>Amount Collected</u>	<u>Total Past Due</u>	<u>% (Rounded)</u>
Kennedy	5,280,674.11	219,940.20	4
21 de Octubre	2,275,323.06	37,258.97	2
El Pedregal	968,609.08	51,753.87	5
Altos San José	161,538.00	6,198.90	4
Brisas	119,255.50	17,927.00	15
Acacias	134,659.51	18,726.83	14
Del Valle	52,287.20	3,715.73	7
	<hr/>		
	8,992,346.45	355,521.50	4

SOURCE: INVA

^{1/}As of June 1974

VI. PRIVATE INSTITUTIONS IN THE HOUSING FIELD

There are a number of private institutions in the Honduran private sector which have had experience in housing, although their record is mixed and their target group varies from upper to low income families. Despite different accomplishments by some of the institutions, on the whole, they remain interested in the possibility of obtaining financing for further efforts in a field where expressed popular need is quite vocal.

Two institutions have concentrated their efforts in the low cost housing area: "Asociacion Pro Desarrollo Humano" and the Federation of Credit Unions of Honduras (FACACH).

Asociacion Pro Desarrollo Humano is one of 6 service organizations which form the Council for Development Coordination (CONCORDE). Formed in 1967, it has to date completed two projects (200 units) whose unit cost averages about \$750 including attributed "sweat equity". A further two projects totaling 100 similarly priced units is presently underway. Funding for the above comes from a mix of overseas grants and locally raised capital. The organization is anxious to begin housing projects on a large scale and has requested financing from CABEI and technical assistance from AID. The greatest problems it faces have to do with post-occupancy project management and collection procedures. Despite the shortcomings, very inexpensive, reasonably attractive shelter is being provided which incorporates a good measure of community participation and integration into the building process. The construction technique utilized is a primitive wooden frame modular construction system which has found wide local acceptance and has been manufactured and sold in large numbers (modules) to Nicaragua in connection with Managua earthquake relief efforts.

To a lesser extent, FACACH has taken two experimental initiatives in semi-urban housing on a very limited scale. Two of FACACH's 110 member credit unions have sponsored the construction of 10 unit projects, with funding from FACACH's general fund at typical 1% per month interest rates over a 10-year period, with an average unit price of \$750. In each case, the projects turned out to be less than successful due mainly to the lack of orientation FACACH was able to provide its affiliates in the housing area, especially in post-occupancy management. Aside from these two experiences, 10% of FACACH's re-lending portfolio (and it is thought that this holds true for the entire credit union movement), goes for home improvement loans. FACACH is also a member of the CONCORDE group and some consideration is being given to the possibility to unifying its efforts to those of ASOCIACION PRO DESARROLLO HUMANO's with CABEI financing in order to provide each with greater outreach and effectiveness.

Three institutions have been active in the development of middle income housing: The Honduran Cooperative Housing Federation (FEHCOVIL), the Saving and Loan System, and the Banco Hipotecario.

FEHCOVIL is an institution assisted at its inception, and nurtured to maturity through AID's initiative. Begun in 1963, its first projects came about as a result of an AID concessional housing loan whose administration has since been passed to FEHCOVIL. The interest spread from this loan and rollovers will provide substantial operating income for FEHCOVIL into the foreseeable future. To date 688 units have been completed in 4 main projects located in Tegucigalpa, San Pedro Sula and La Ceiba.

Financing for two of the above was provided by the AID loan, another was funded by CABEI, while the fourth and largest was financed by an AID housing

guaranty. Unlike many cooperative technical service organizations, FEHCOVIL is governed by a Board of Directors elected from among the residents of the above four cooperatives which lends a touch of community participation to the design of new programs and institutional management and planning. In the immediate future FEHCOVIL is nearing completion of the design of two other guaranty projects and has solicited from CABEI a large line of credit for low cost housing projects outside of Tegucigalpa.

FEHCOVIL signed a contract with the National Agrarian Institute (INA) to provide the latter with technical assistance in the development of low cost rural cooperative housing projects. In addition, a loan arrangement has recently been concluded with CARE/HONDURAS whereby CARE will lend FEHCOVIL at favorable rates \$50,000 per annum over a 3-year period to construct approximately 150 semi-urban units outside Tegucigalpa.

1. The Savings & Loan Associations:

In May 1968, the Government of Honduras, through the Central Bank, established regulations which authorize the chartering of Savings and Loan Associations (both stock and mutual) within the banking system of Honduras.

There are three Savings and Loan Associations presently chartered to conduct business in Honduras. Two of the associations are stock companies, both having the same general shareholders. One of these associations, La Vivienda, is located in the capital city of Tegucigalpa, while the other, La Vivienda de Sula, is located in San Pedro Sula. The third association is a mutual organization owned and controlled by its member-savers. It is located in Tegucigalpa, with a branch operation in Choluteca.

The three Associations are small and all have been in operation less than five years, with the newest association, La Vivienda de Sula, operating only since 1971. At December 31, 1973, the total portfolio for all three associations amounted to 339 mortgages valued at Ls 5,620,648. Savings accounts for the three associations total 2,349 accounts with Ls 1,748,008 in deposit. The two stock companies have paid-in capital totaling Ls 1, 107,580, while the Mutual Company capitalization is dependent upon member savings deposits.

The organization charts for the three Associations reflect relatively simple organizational structures due to the current size and volume of current operations of the Associations. The Board of Directors provide policy guidance while the operational responsibilities are vested with the General Managers of each Association.

The Associations are well located in the commercial districts of their respective cities, on the ground floors of relatively new buildings. The physical layout of the banks make a positive impression on the public. The staff of the Associations appear to be thoroughly knowledgeable in S&L banking practices and are certainly adequate to meet management requirements at the current level of operation. Since the S&L's are not now operating at capacity, they have the management resources to administer any additional activities without major staff additions.

La Vivienda:

La Vivienda is the largest of the Associations and, accordingly, has generated the most mortgages, but it has also engaged in borrowings in order to meet the demands for mortgages. As of December 31, 1973, its paid-in capital amounts to Ls 799,560 while borrowing from outside sources totaled Ls 4,146,881, which reflects a debt/equity ratio of 5.2:1. This must be considered as a liberal use of leverage, particularly in view of the low margin of return on capital that this Association is experiencing. One of the reasons for the required borrowings is the low level of savings deposits held by the Association, which amounted to only Ls 761,022 at December 31, 1973, an amount less than the Association's total paid-in capital. An interpretation of these facts and the financial position of La Vivienda is that savings deposit generations have not kept pace with lending operations, to the point where it has been necessary to provide supplemental capital by borrowing.

Alternative solutions to seeking debt capital are to sell off a portion of the existing loan portfolio and/or to make major efforts to provide additional liquidity from increased savings deposits. Both of these alternatives are included in the loan project, to provide the system with the necessary capital to meet the demand for housing.

La Vivienda Sula:

This Association has been operating only since 1971 and in 1973 reached a break-even point in operations, having earned a small return on investment for the year. It, too, borrowed in order to meet lending demand while savings deposit increases for the year were nominal. The mortgage portfolio for this Association more

than doubled in the year but net savings deposits increased by only 18,000 Ls, a 16% increase. The comments made above for La Vivienda also apply here.

Casa Propia:

The Casa Propia is a mutual association and relies on members' deposits for its equity capital. Unfortunately since its establishment in 1970, total net deposits have reached only Ls 910,633, which has not been adequate to meet its capital needs. Borrowings as of December 31, 1973, amounted to Ls 255,438 which again reflects a need for an infusion of capital into the S&L system through a mortgage banking arrangement coupled with a program to capture a greater share of savings in the country.

2. Financiera Nacional de Vivienda (FNV):

AID is presently engaged in a concessional loan project in conjunction with the Government of Honduras to establish an autonomous Honduran savings and loan system. The system will consist of the Financiera Nacional de la Vivienda (FNV) and private savings and loan institutions. Additionally, other selected organizations experienced in housing construction and finance will also be eligible for participation in the project. The FNV will be a central regulatory, financing and promotional agency for the system. The project will also provide the system with a level of mortgage lending capital necessary to enable the system to become self-sufficient and thus allow it to finance an ever increasing volume of middle income housing in Honduras..

The FNV will consist of a board of directors composed of 8 members (4 GOH, 3 private sector and the FNV General Manager).

who will determine policy and the general guidelines within which the FNV will operate. The General Manager will participate without the right to vote at the board meetings, to be conducted at least on a monthly basis, or as frequently as deemed necessary.

The General Manager will implement overall FNV policy and oversee operations. He will be assisted by 2 departmental managers, one for the mortgage department and one for insurance. It is estimated that the number of employees, including clerical personnel, will range from 3 to 5 during the first three years.

Financiera Nacional de la Vivienda - will represent an important new departure from the present Honduran national housing scene. It will provide a much needed nexus between first mortgage generating institutions serving all income ranges in the national housing market and at the same time provide FHA mortgage insurance that will facilitate the pass-through portability to the regional secondary market institution, CABEI.

Banco Hipotecario - is a private commercial bank founded about four years ago in San Pedro Sula by an influential financial group there. Although it is legally empowered to perform all types of commercial banking operations, it has concentrated almost exclusively on upper and upper middle income housing. Funding for its project (about 200 units p.a.) comes from savings deposits and mortgage sales to CABEI. BH has not expressed interest in serving lower income groups.

Banco de los Trabajadores - is a full-service commercial bank which has expressed interest at various times in helping to finance housing projects, especially worker housing. To date, however, all of its efforts have been abortive in this field. While still interested in housing as a banking activity, housing projects presently under consideration by the BT are solidly middle income under private, profit oriented sponsorship.

In the past, private banks and insurance companies also provided take-out and interim financing for housing. As late as 1970, in fact, in the case of Banco Atlántida, the largest commercial bank, several million dollars a year were being lent for these purposes. Since the energy crisis, however, the Central Bank of Honduras has severely restricted commercial bank liquidity as an anti-inflationary measure to the extent that virtually no loans for housing are being made from this source at this point in time.

3. Union-Sponsored Housing:

Honduras is a country where trade unionism is relatively well developed in comparison with the nation's overall development. Two unions have demonstrated interest in housing which has been translated into concrete achievements: (1) FEDERACION DE SINDICATOS DE TRABAJADORES DEL NOTRE DE HONDURAS (FESITRANH); (2) SINDICATO DE TRABAJADORES DE LA TELA RAILROAD COMPANY (SITRATERCO). Between the two, approximately 1,600 units have been built in the larger northern urban centers, but mainly in San Pedro Sula. Funding for these projects has come from IDB and AIFLD sources. In general, the project and unit design would have to be characterized as lower middle income. Post-occupancy management and collection problems are being experienced by the sponsoring union.

VII. THE CONSTRUCTION INDUSTRY

1. Organization & Capacity:

The construction industry is characterized by rapid increases in the cost of materials and, to a lesser extent, of labor, as well as difficulties in the availability of some materials. The soaring costs of construction materials is in part due to the maneuvers of some builders to stockpile materials so as to hedge against further anticipated price increases. This has the effect of creating a false scarcity of materials and, in fact, has helped to increase material prices as well as builders' profits. There are other factors as well such as increased duties on some imported materials and difficulties in obtaining government import approvals, a delay which naturally increases costs. In regard to labor, the government last April increased the daily minimum wage from \$1.50 to \$2.00, which is the wage unskilled workers on a construction site receive. Given that construction in Honduras is labor intensive, this adds to increases in costs.

Since 1960, annual investment in the building industry has increased from \$26.7 million to \$73.6 million, a three-fold increase. Investment in housing has been about one half of total building investment, although in the last few years, it has slipped somewhat. In 1973, of the total investment by the construction industry, \$50.85 million corresponded to the private sector and the remaining to the public sector. (See Table 23)

At the present rate of building activity, the capacity of the industry seems adequate. Any substantial increase, however,

in building activities might create difficulties in the availability of some materials as well as other difficulties as will be explained in subsequent parts of this section.

2. Builders:

There are 18 construction companies which are prequalified by the National Association of Engineers and Architects. Of these nine are considered to have the necessary capacity, capital and experience to undertake large housing developments. Most of the prequalified firms are located in either San Pedro Sula or Tegucigalpa.

These firms make use of construction (interim) financing provided by the commercial banks. However, increased interest rates and curtailing of the supply of short term money, are affecting the construction companies, especially the smaller ones. These firms perform most jobs through open bids and are familiar with this procedure. The quality and capacity of the construction companies are adequate. The largest firms are well organized and experienced.

3. Labor:

The total labor force is sufficient for the present demand. Unskilled labor is abundant, while skilled labor sometimes becomes scarce, especially for projects located away from the principal urban centers. Skilled construction foremen are in demand at all times and places. Any radical increase in construction activity will probably produce a shortage of skilled workers, even in the capital.

Increases in the costs of labor over the past four years have been considerable. (See Table 22) As mentioned, the minimum wage has lately been increased to \$2.00 per day. Social benefits, which include such costs as vacation time, social security, severance pay, add some 42% to the salary base.

In residential construction, labor costs account for 30% to 35% of the direct construction costs of a house, excluding land.

TABLE # 22

LABOR COSTS PER DAY

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1971-74 Increases</u>
Laborers	\$ 2.75	\$ 3.00	\$ 3.70	\$ 4.00	60 %
Masons	1.25	1.37	1.60	2.00	36 %
Carpenters	3.00	3.25	3.75	4.00	33 %
Plumbers	3.00	3.75	5.40	4.50	50 %
Electricians	4.00	4.25	4.75	4.75	25 %

4. Architectural & Engineering Services:

For its size and capacity, Honduras has an adequate number of professionals, especially civil engineers. Information provided by the National Association of Architects and Engineers indicates that there are 488 civil engineers, 6 electrical engineers, 9 mechanical engineers, 1 industrial engineer, 2 geologists, and 49 architects.

Fees charged for professional services are set by the A&E Association and vary according to the extent of the service provided. In a typical residential project, 3% of the direct cost of the project, less land, would be charged as a professional fee.

5. Building Codes:

Honduras has no official building codes. If used at all, copies of U. S. and some European countries' codes are used as guidelines. Since most of Honduras is located outside of the Central American seismic zone (the exception being the southern tip of the country around the Port of San Lorenzo), there is no need to build with this potential problem in mind. However, high rise buildings are designed so as to resist horizontal forces, as a precautionary measure.

6. Contractual Practices:

For public (government) jobs, only those whose cost does not exceed \$25,000 can be directly contracted without using bidding procedures. All other jobs must follow the government bidding and contract awarding procedures. The normal procedure calls for invitation to bidders, prequalification, accepting bids, and awarding the contract. All bidders must adhere to specifications and design already approved by the government body in charge of the project. Prequalification is based on certain minimum qualifications such as experience, past performance, capital capacity, equipment, workload, personnel, etc. Each bidder has to place a bond that ranges from 2% to 5% of the cost of the job. This assures legal compliance on the part of the bidder in the case his bid is successful. A performance bond from 10% to 15% is also required of the successful bidder. Penalties are stipulated in the case of non-compliance. Advances are usually made to the contractor to start up operations. A retainer of 10% to 15% is withheld from payments to cover any possible patent defects. An escrow account of 5% is retained for one year

after completion of the job to cover latent defects.

7. Construction Materials:

Most of the construction materials industries are located in the several large urban areas, meaning that costs of material increase proportionately to the distance of project from the material source, due principally to transportation costs.

The percentage of imported materials in a typical middle income house is 10%. The remaining 90% is locally produced, although not always readily available. Orders often have to be placed well in advance to assure delivery of certain materials such as concrete blocks and clay bricks. The overall quality of domestic materials is acceptable, although less than acceptable workmanship, due to lack of quality control, is found in some products.

Cement - Honduras has one plant in San Pedro Sula that has the capacity to satisfy domestic needs and produce a surplus for export to neighboring countries. Production has increased every year since 1960, rising from 861,000 sacks that year to 5,542,000 sacks in 1973. Honduras has exported cement directly all these years, and in 1973 the export amount was 1,667,000 sacks. Much of the cement has been exported to Nicaragua, where it has been a major factor in rebuilding Managua after the earthquake. Recently, some cement was exported to Guatemala to help alleviate a shortage there. If there is an increase in local consumption, then it would be logical to cut back on exports, to cover the increased demand. (See Table 24)

Concrete Blocks and Clay Bricks - The supply of these two items is essential in residential construction. The supply is sufficient, however, there are some problems since manufacturers do not keep a large stock of the materials. To ensure availability of blocks and bricks, orders must be placed in advance.

Sand and Gravel - The lack of sand and gravel in the local market is causing some disruptions in the scheduling and progress of works. The reason for this scarcity is the lack of increase in production vis-a-vis increased demands during the last year or so. To satisfy this demand, a rock crushing plant formerly operating in the North Coast area, where supply is more than adequate, is being relocated near Tegucigalpa where the scarcity is acute. Other plants are being planned in order to increase availability of these supplies.

Wood - Honduras has large forests, in fact, the largest forest reserves in Central America. Most of the lumber produced is exported, which is a major source of export earning. Local demand for wood is much higher than the domestic allocation, creating the anomaly of scarcity and higher prices in a country famous for the quality and quantity of its wood products. There are two wood drying plants, whose production normally falls short of demand.

Roofing - Asbestos cement planks are most widely used as a roofing material. Traditionally clay tiles were used, however, due to increased costs, only upper income families can afford them. At the present time, local plants are able to maintain adequate supplies, although the occurrence of leaks which weaken the planks

have been noticed. This has increased the breakage factor and ultimately had an effect on the market acceptability of this product. Corrugated galvanized iron sheets are also used, although they are more expensive because of the need to import them.

The Ministry of Economy has recognized the need for materials control and has proposed the creation of a control office within the Ministry to supervise the quality of building materials. ICAITI (Instituto Centro Americano de Investigaciones Tecnicas and Industriales) is drawing up specifications which will be the basis for this new system.

8. Construction Methods:

Low Cost Housing - The basic low cost house, as built by INVA, consists of reinforced concrete footing, clay brick on block walls, concrete floors, asbestos cement roof, and wood framed glass windows and wood doors. Interior and exterior walls are left bare and no ceilings are put in. These houses have electricity and indoor plumbing. The kitchen is equipped with a concrete sink with cold water only, while electrical wiring is left exposed. Pipes are concrete and galvanized iron. The standard of construction is adequate, even though economy is the primary factor, and the houses are expected to last a lifetime easily. A typical lot would be 72m² and the building area 30 to 35m². Construction costs of this unit would be about \$35m², or about \$1,000.

Land, infrastructure, and indirect costs, which vary as to location and degree, must be included in the cost of the house, and would add another \$800 to \$1,000.

Standard on Middle Income Housing - Construction materials in this house area are the same as in low cost housing, but with improvements and larger spaces. The bathroom is complete with lavatory and probably a ceramic tile wainscot. A dropping ceiling is included and electric conduits are concealed in the walls. Lots are larger, being some 150 to 200m², and the constructed area is 70 to 80m². The cost of construction of a house of this type would be about \$60m² plus land and infrastructure costs.

Higher Standard on Upper Income Housing - Even better improvements, fixtures and finishes characterize this house. Lot area would be up to more than 250m² for a house of 120m², which would increase accordingly with the increase in the house size. The house would have three or more bedrooms, servants' quarters, and a garage or carport. The cost of the house alone would run \$100m² and up.

Multi-Family Housing - This building would have a reinforced concrete structure with the non-bearing walls and partitions made of clay bricks or concrete blocks. Since this sort of housing is either for middle to upper families or offices, finishes are complete and of good quality. Demand at present for this type of building as a residence is limited.

Rural Housing - Rural housing is usually characterized by its temporary nature, since the materials used are not stable and require constant maintenance and replacement. This type house is described fully in Section II on Housing Conditions.

9. Construction Costs:

Labor - This accounts for roughly 30% to 35% of construction costs. When self-help is used for certain INVA projects, this is reduced to 17% on the average. Wages have been increasing over the past few years (see Table 22), including the costs of social benefits. Wages normally fall behind general increases in the costs of living, therefore, it is anticipated that wages will continue to rise even if and after inflation is reduced. Contractors are aware of the potential increase and pressure to raise wages and are including escalation clauses in their bids and contracts to cover this.

Materials - There have been steep increases in the cost of materials, particularly those imported items such as steel which have increased by 300% from 1972 to 1974.

Unit Prices - Based on the increased costs of labor and materials, comparisons in the cost of some unit prices are given in Table 25. The cost of a low income unit constructed by INVA has increased by 14% over a one year period from 1973 to 1974. The average construction cost of an upper income unit in Tegucigalpa has increased by 37% from 1970 to 1974, while in San Pedro Sula, the increase has been 26% over the same period of time. (See Table 26)

Infrastructure Costs - For low income housing, with a minimum of car access roads and paving, costs would run about \$7.50m², while for middle income projects with upgraded access roads and lower densities, the cost would be \$12.00m².

Land - The lowest price for land in Tegucigalpa is \$1.50m² for raw land and \$3.00 for net usable land. Since there are no laws to control land speculation and taxes are minimal, land costs have been increasing at a much faster rate now than in the past, particularly as an anticipated hedge against inflation.

10. Cost Trends:

It is doubtful that the current rate of increases in labor and materials will stabilize in the short term. This is mainly due to the fact that inflation is worldwide and Honduras is no exception. Builders are aware of this critical situation and the consequences it may have on the construction industry. In turn, they are requesting that the government take action and try to develop solutions to hold down rampant price and wage increases.

11. Rationalization & Innovation:

One very blatant problem in trying to rationalize the construction industry is the common interchangeable use of both the metric and English system. Manufactured products may have dimensions based on either of the two, which makes it difficult to apply any sort of modular coordination. In spite of the problems arising from this, no effort has been made on the part of the government to exclude, as is most likely, use of the English system.

The traditional building methods continue to be used today. Off-site prefabrication has not yet been introduced, nor have the more modern up-to-date modular systems been considered. Given the relative simplicity of house designs and low cost of labor, albeit relatively unproductive, there is no felt need to introduce new systems.

Bar Charts are used to program project development in residential projects with the more sophisticated CPM system used in high rise construction.

TABLE # 23

\$ INVESTMENT IN CONSTRUCTION BY CATEGORY

(in \$ 000,000)

DESCRIPTION	1960	1965	1970	1971	1972	1973
Private Sector	17.90	27.80	40.25	37.80	42.95	50.85
A) Local	15.50	24.05	33.60	35.30	40.60	48.35
1. Housing	13.20	17.85	22.35	24.60	28.45	34.45
Urban	8.75	12.80	16.70	18.80	22.50	28.35
Rural	4.45	5.05	5.65	5.80	5.95	6.10
2. Non-residential	1.75	3.95	5.45	4.65	4.90	6.95
3. Farm Buildings	0.55	2.25	5.80	6.05	7.25	6.95
B) Foreign	2.40	3.75	6.65	2.50	2.35	2.50
1. Farm Buildings	1.50	2.50	5.20	1.00	0.95	1.05
2. Housing	0.90	1.10	1.35	1.20	1.20	1.20
3. Others	---	0.15	0.15	0.30	0.20	0.25
Public Sector	8.80	10.40	33.75	30.75	23.90	22.75
1. Housing	0.10	1.00	1.25	0.75	0.30	0.45
2. Non-residential bldgs.	1.30	0.80	4.85	2.55	2.90	2.10
3. Highways & Bridges	5.75	4.15	19.50	20.25	12.55	14.30
4. Others	1.65	4.45	8.15	7.20	8.15	5.90
TOTALS:	26.70	38.20	74.00	68.55	66.85	73.60

SOURCE: Central Bank

TABLE # 24

CEMENT PRODUCTION
(in thousands of sacks)

YEAR	ANNUAL PRODUCTION	IMPORT	SUB-TOTAL	EXPORT	LOCAL CONSUMPTION
1960	861	37	898	232	666
1961	980	75	1055	400	655
1962	1308	100	1408	537	871
1963	1415	126	1541	536	1005
1964	1663	137	1800	526	1274
1965	2218	98	2316	759	1557
1966	2327	99	2426	638	1788
1967	2613	159	2772	691	2081
1968	3031	216	3247	664	2583
1969	3099	106	3205	337	2868
1970	3794	33	3827	156	2671
1971	3808	39	3847	436	3411
1972	4589	72	4661	1187	3474
1973	5542	90	5632	1667	3965

SOURCE: Central Bank

TABLE # 25

UNIT PRICES

Item	Unit	1973	1974	Increase
1. Layout	M ²	\$0.025	\$ 0.05	100%
2. Excavation	M ³	1.50	1.50	-
3. Footings (Cyclopean concrete)	M ³	49.35	68.49	38.78%
4. Drainage (Concrete Pipe 4")	M ¹	1.87	4.36	133.15%
5. Compacted fill	M ³	1.65	2.50	51.51%
6. Brick walls	M ²	5.33	5.90	10.69%
7. Roof (wood purlins covered with asbestos-cement pants)	M ²	3.02	3.90	29.14%
8. Water supply lines	M ²	2.62	3.55	35.50%
9. Cement floor tile	M ²	5.50	6.00	9.09%
10. Wood doors	U	30.00	30.00	
11. Electricity	U	13.88	15.61	12.46%

SOURCE: INVA

TABLE# 26

Construction Costs & Increases

<u>Year</u>	<u>Tegucigalpa, D. C.</u>	<u>San Pedro Sula</u>
1970	\$ 74.00/M ²	\$ 65.00/M ²
1971	76.00/''	72.00/''
1972	70.00/''	74.00/''
1973	87.00/''	70.00/''
1974*	97.00/''	82.00/''

*
As of May 1974

SOURCE: Private Contractors & INVA

VIII. LAND

1. Tenancy:

It is not known how much land is owned by the national government. Estimates are that some 50% is owned by the government, the bulk in the low density eastern provinces of Olancho and Gracias de Dios. Much of the rural settlement lands, such as in the Aguan Valley, are owned by the government, although in the past much of these lands were granted as long term agricultural concessions to large concerns. This still remains true in many northern areas, particularly in the San Pedro Sula and La Ceiba areas of influence. Municipalities also own land, much of which is leased or allocated to farmers, including cooperative or other communally oriented agricultural groups.

In other parts of the country, particularly the South, the small owner-occupied and cultivated farm predominates. Many of these farms are uneconomical, unproductive and over-worked. It is for these reasons that the government, in part, is encouraging migration to the less populated land rich North.

Land tenancy on the new rural settlements varies. The agrarian reform decree now in operation does not specify how land is to be acquired and owned by the "cooperative" groups. There are several forms of tenancy on these new settlements: (1) privately owned land leased by INA, which in turn allocates the parcels among various groups; (2) government or municipal lands rented or allocated to these groups. It is not known what form of land occupancy and ownership is contemplated under the new proposed agrarian law which will

replace the one currently in effect, although it is anticipated that the legally constituted agricultural cooperatives will be able to purchase land in common title.

In urban areas, most land is owned privately by individuals. Land is also held by the government, particularly in Tegucigalpa where the seat of government is located, and by incorporated businesses.

2. Availability for Housing:

There is little information regarding availability of land for housing. There are no zoning regulations, building codes or subdivision regulations which would assist in determining land availability.

The population density in Honduras is the lowest in Central America, while the largest city, Tegucigalpa, has only 270,000 inhabitants. So the question of land availability is rather a question of land cost, availability of services and demand. The private sector indicates that obtaining land is usually no real problem, but that getting the services put in and roads paved is a problem. Land costs have been increasing more or less in line with the overall increase in price levels and inflation.

3. Title Registration:

All real estate in Honduras has to be registered. The current system of property registration consists of keeping a record of ownership, mortgages, and liens in a special office in the Ministry of Justice. Registrations are made in three types of books,

according to their nature. They are: (1) The Real Estate Book (Libro de Dominio); (2) The Book of Mortgages; and (3) The Book of Liens and Restrictive Annotations. The Real Estate Book includes the registration of deeds, which is made in chronological order and is handwritten. A similar system is used in the other two books.

The system is incomplete and inaccurate in that sales of real estate through private contracts may or may not be registered. In this case two persons may claim rights over the same property and it is extremely difficult to locate past registrations unless the exact date of registration of each transfer is known. This date usually is different from the date of the deed. There is no record of each real estate property as in the system using a "Folio Real".

This situation makes ownership very much uncertain in many cases in that a property may have been bought from a person who is not legally the owner. So as to avoid this kind of problem, INVA has been authorized to legally clear titles of any properties that they buy.

The USAID Mission in Honduras is aware of this serious problem and has recently approved a loan of \$6 million dollars to finance a cadaster project. There are three components involved in this loan: (a) Property Registry, (b) Property Tax Administration, and (c) Agricultural Resource Inventory.

The property registry calls for the establishment of a new registry system permitted to issue clear land titles. This will

include the identification of both properties and owners, the organization of a new registry system, the definition of procedures to resolve conflicts, and the maintenance of property registry data.

Property tax administration will include the valuation of properties, a centralized billing system for property taxes, creation of a National Office for Tax and Billing, tax collection, and maintenance of up-to-date assessments.

The agricultural resource inventory will also include maps, data, dissemination of information, analysis and data maintenance.

In the meantime a pilot project is being carried out in the Departments of Choluteca and Valle in order to test the methodology to be used in the National Cadaster, as well as to train personnel. This pilot demonstration project is expected to be finished by April 1975. The National Cadaster is expected to take about four years for the entire country, but only 60% of properties are to be included. The remaining 40% will take an additional three years. A total of about 400,000 properties are expected to be registered in the whole country.

Registration costs today are rather low - a payment of only \$0.75 per \$500 of the value of the real estate. In addition to this, the contract or deed has a tax of \$0.08 per \$50 of value, with a minimum payment of \$0.50. This tax is paid in current fiscal stamps.

The nation does not have a registry of its own properties, and very few municipalities keep a record of their own properties.

4. Real Estate Taxes:

The inconvenience of the title registry system in the country is reflected in real estate taxes. It is difficult to identify the owner and it is often difficult to identify properties. Even when a property is identified, taxes are not always paid due to problems of locating the owner.

The situation is so serious in some cases that the tax revenues in many municipalities are seriously affected. Studies by the Metro Plan team in Tegucigalpa, for instance, have indicated that only 40% of the properties in this capital city are registered for taxing purposes. Of these, only 22% pay any tax at all. The rates are low and the assessment of the property is usually very low. It is estimated that the Cadaster will include about 20,000 new real estate taxpayers in this city. The situation is no better in other municipalities.

The main tax is the Real Estate Transfer Tax (Tradición de Bienes Inmuebles) which varies as to urban and rural properties. The assessed value is declared by the taxpayer and may be revised by the National Government. Urban areas have two rates, one for raw land or empty lots which is 2.5% of assessed value, and another for lots with building which is 2.0%.

The GOH is studying modification of real estate taxes, which will probably increase rates. This measure, the enlargement of the tax base due to the new registration system, the identification of properties and owners by the Cadaster, as well as an up-to-date property assessment, are expected to increase the property tax revenues.

5. Eminent Domain:

There is a law permitting use of eminent domain. It is obsolete and has been used principally, if sparingly, for construction of highways. A new law is being studied and prepared and will be presented to the Council of Ministers for approval. This law has been prepared, with advice and assistance financed by the Metro Plan loan.

Eminent Domain has never been used in connection with housing or housing projects. The normal way of obtaining land is through direct negotiation and purchase.

IX. URBAN SERVICES

The high population growth and even higher urban growth has out-paced the capability of local and national governments to provide adequate and complete urban services. Most often it is a problem of lack of adequate financing as well as trained personnel and qualified institutions. No matter the reason, it is sufficient to say that urban services are in general inadequate in Honduras.

There are a variety of institutions, both public and private, involved in providing urban services. In the key utility services, the national government plays the major role, exception being electric power. A description of urban services follows:

1. Water Supply:

There are 230 municipalities with some sort of water supply in the county seat, of which 150 are owned by the local government. Only 389 of the approximately 7,500 aldeas (villages) have some type of water system. The overwhelming majority of these municipal water systems are inadequate; 55% need to be enlarged, 36% need to be repaired, and only 9% are considered adequate. Only 61% of the systems provide water all day during the dry season, and in only 21% had the bacterial level of the water been tested and found satisfactory.

SANAA (Servicio Aut^onomo Nacional de Acueductos y Alcantarillado) is the government autonomous agency dealing with the supply of water. The construction of reservoirs, plants and the laying of pipes is the responsibility of SANAA. SANAA operates principally in the larger cities and on projects involving government financing. Smaller cities and towns most often operate local plants and systems.

In Tegucigalpa the water distribution system has a capacity of 29.3 thousand M³ per day, leaving a deficit of 3.5 thousand M³. To cover this deficit, SANAA is now constructing a new reservoir - Los Laureles - which will have a capacity of 8 million M³. This will provide around 10 million gallons daily and would satisfy the anticipated needs of Tegucigalpa. Operations are expected to start up during the first semester of 1975.

Installation of an individual water connection costs \$15.00 with \$5.00 deposit, \$5.00 installation, and \$5.00 for right of usage.

Water consumption rates are:

Residential Use:

From 0 to 15M ³	Fixed amount of \$1.25
16 to 45M ³	\$0.065/M ³ for each M ³ of excess
45 on	\$0.08/M ³ for each M ³ of excess

Commercial Use:

From 0 to 25M ³	Fixed amount of \$2.25
26 on	\$0.08/M ³ for each M ³ of excess

Industrial Use:

From 0 to 35M ³	Fixed amount of \$6.25
36 on	\$0.13/M ³ for each M ³ of excess

Government Use:

From 0 to 15M ³	Fixed amount of \$1.875
16 on	\$0.065M ³ for each M ³ of excess

2. Electricity:

Approximately 190 municipalities have some sort of electrical service, of which 75% are local government or community owned. These systems are usually used for lighting only and operate an average of five hours daily.

ENEE (Empresa Nacional de Energía Eléctrica) is the government autonomous agency responsible for the provision of electric energy. This agency operates in most of the municipal capitals and larger cities. In some of the smaller cities on the North Coast, electricity is purchased from the banana companies which have excess capacity. The source of energy is 80% hydraulic and 20% thermal. This indicates increased costs in electric power since the cost of fuel for powering generators has increased.

ENEE is building a dam and generating plant in the central part of the country - Yojoa Rio Lindo - which will add 46,000 Kw. to existing capacity and cover anticipated future needs. Capacity is adequate to cover existing needs now.

There is a plan to introduce electrical facilities in the rural areas, which would benefit 55,000 families in the first 5 years and 80,000 in the following 10 years. The total cost of this rural electrification plan is \$11.2 million.

The electric rates for residential use are as follows:

Minimum quota of \$1.75 for the first 20 Kw.	
\$0.06/Kw for the following	80 Kw.
\$0.045/Kw for the following	200 Kw.
\$0.040/Kw for the following	200 Kw.
\$0.035/Kw for the excess of	500 Kw.
Plus \$0.25/month for the rent of the meter.	

For private housing projects ENEE charges 100% of the total investment to provide the energy requested. In some cases, this

percentage may be reduced to 65% to subsidize social interest housing.

3. Sewerage:

Only 43 municipalities have some sort of sewage system. There are no sewerage treatment plants in the country. Of the 43 systems, 36 are municipality owned, while 34 need to be enlarged and improved.

Septic tanks are used in some 50% of the homes with sewerage facilities.

In Tegucigalpa, there is a main underground collector running along the Rio Choluteca which collects most of the sewerage and discharges it into the river outside the city limits. At present the city is considering the possibility of constructing seven new underground sub-collectors to take the place of the superficial run-off system that operates in other parts of Tegucigalpa, and to provide this sewerage service to those parts of the city previously unserved.

4. Garbage Removal:

This is a responsibility of the municipalities, of which 23 have some sort of removal program. In Tegucigalpa, the city charges \$1.25 per month for this service.

5. Other Municipal Services:

The size and degree of municipal services is usually directly related to size, wealth and importance of the municipality. Tegucigalpa and San Pedro have most of the municipal services normally

provided in cities in developed countries. The remaining municipalities have these other services to a lesser degree. The following gives some idea of the number of municipal services other than the ones mentioned above:

- 18 have at least some paved streets;
- 161 have at least some street lighting--in 124 of them this is provided by the local government;
- 82 have public parks;
- 35 have some kind of public library--71% of these are provided by the local governments;
- 272 have a public cemetery;
- 278 health centers exist--municipalities contribute to 65% of them;
- 270 have at least one public school--87% of these municipalities contribute to their construction and maintenance;
- 33 have community centers--in 64% of these the municipality helped to construct or maintains these centers;
- 52 have children's feeding centers--in 52% of these there is a municipal contribution;
- 100 have recreation fields--in 82% of the cases these are municipal properties.^{1/}

6. Transportation:

The latest estimate is that there are 1,200 Km. of paved roads and another 2,500 Km. of all weather roads throughout the country. The most important stretch of highway runs for some 412 Km. from Choluteca in the South, through San Lorenzo, (the most important port on the Pacific) Tegucigalpa, San Pedro Sula to Puerto Cortés, on the Caribbean. Another well constructed highway connects La Ceiba and San Pedro Sula on the North Coast. The InterAmerican Highway

passes through the southern tip of Honduras, however, due to the 1969 conflict, the Honduran-Salvadoran border remains closed.

Due to the mountainous nature of the country, the airplane has been an important factor in transportation. There are some 125 airports in the country, most of which are little more than grassy fields. There are three international airports, namely, Tegucigalpa, San Pedro Sula, and La Ceiba.

Almost 650 miles of railway are located in the northern coastal area. The three separate railroads are owned and operated by the banana companies, principally for transport of produce to the ports. Passenger service is provided, however.

Inter-city mass transportation is provided by local bus companies, some of which are cooperatively owned and/or operated by individuals. Intra-city transportation is provided by taxis, buses and mini buses. The cost of a one-way ticket from Tegucigalpa to San Pedro Sula is U. S. \$5.00, while the cost of a bus-ride anywhere within the city limits of Tegucigalpa is U. S. \$0.07.

Supervision and licensing of taxis and buses is the responsibility of the traffic section of the Special Security Corps (National Police).

7. Social Services:

Schools - Government operating expenditures for education, that is, salaries, books, etc., consumed roughly 25% or Ls 42,300,000 of the total 1973 federal operating budget. Another Ls 7,000,000 (roughly 10% of the capital budget) was spent for construction and

renovation of primary and secondary schools.

The Ministry of Education administers all educational programs. Within the Ministry is a Department of Maintenance and School Construction which handles matters relating to new school construction. There are also several private and semi-autonomous institutions which promote and finance educational projects. Most prominent is the National Council for Social Welfare, which works primarily in the densely populated southern departments and has an active program of school construction. Through the CARE program, some 2,600 rural classrooms have been built, mostly self-help, with CARE supplying materials and technical assistance. The Honduran Army also has a civil action program, under which some 750 classrooms have been constructed. During 1973, the national budget called for construction of 23 primary schools and two technical institutes. External financing for school construction was Ls 3,393,000 in 1973. Public education is free and primary education compulsory. However, a literacy rate of 47% is said to be the lowest in Central America. During 1972, 412,000 students were enrolled in primary schools, and 43,000 in secondary and technical schools. The National University of Honduras has a current enrollment of 7,340.

Health:

Government expenditures for health services was Ls 19,000,000 in 1973, or roughly 12% of the total operating budget, to operate government hospitals and clinics and cover administrative expenses.

There are some 35 hospitals scattered throughout the country plus small clinics scattered about in rural areas. The 1973 budget

called for construction of one hospital school. New clinics are being constructed annually, particularly in the new rural settlements sponsored by the National Agrarian Institute.

The Ministry of Health administers and coordinates all health programs and projects. The Social Security Institute provides a wide range of health services to affiliates in the urban areas.

There are some 850 doctors, 225 dentists, and 400 trained nurses in Honduras, of which a disproportionate number are located in the urban areas.

It should be noted that the National Air Force operates a "Wings for Health" program to provide medical services in rural isolated areas.

8. Cooperatives & Homes Associations:

The cooperative housing movement is active and strong in Honduras. The Federation of Housing Cooperatives - FEHCOVIL - is promoting the development and construction of cooperatives for moderate and middle income urban families. It has recently signed an agreement with CARE to develop low cost rural cooperatives.

Cooperatives formed by FEHCOVIL use the blanket mortgage concept in that the cooperative owns the entire project and the residents are members of the cooperative and thereby the owners in common. Four cooperatives have been completed and are now functioning well.

The cooperatives are gaining maturity now, and visits to any of the cooperatives, but particularly the two on the North Coast, indicate that the maintenance and management aspects of these co-ops are functioning very well. This, of course, is the key to a good housing cooperative.

Other housing projects have been built using the term cooperative. The 1,000 unit FESITRANH project in San Pedro Sula is a "cooperative". However, in this instance each resident holds title to his individual lot, while the co-op merely owns the common areas. The cooperative has a representative Board of Directors. The union, FESITRANH, continues to exercise a strong influence on the co-op and, in fact, names the project administration.

9. Police Protection:

Police services are provided by the Special Security Corps, which is composed of 2,000 to 3,000 policemen. Most policemen are stationed in the largest cities; few are in the smaller towns and rural areas. There are no local or municipal security organizations.

The police service operates a training school for new, career policemen. Most policemen have prior military service and, therefore, have some basic training and experience relating to police work.

X. ECONOMIC CONSIDERATIONS

Recent Trends & Present Status of National Economy:

In Honduras, fluctuations in economic activity which have direct impact on the Gross Domestic Product (GDP), reflect, to a large extent, developments in the export sector. From 1965 to 1972 GDP grew at an average rate of 4.7% per year while exports were growing at slightly more than 7% per year. (See Table 22) However, the growth was not uniform. It was highest from 1965-68, corresponding to export expansion. As a result of hurricane damage to agricultural areas which seriously affected banana output, and of the war with El Salvador which led to a decrease of Honduran exports to Central America, the volume of exports declined in 1969. Export prices also fell and GDP growth rate was reduced to 2.1%. During the years 1970-72, GDP grew in real terms, although at a decreasing rate from previous years.

The components of GDP and their respective contribution, are illustrated in Table 28. In absolute terms, the contribution made by primary production has been increasing. However, its percent contribution to GDP has been decreasing, while that of secondary production and services have been increasing. This change appears to reflect somewhat the increased importance of manufacturing and related industries. The sectors of construction and homebuilding also increased their percent contribution to GDP.

In per capita terms, GDP grew at the rate of 1.6% from 1965-72, (see Table 29). However, it increased at an average rate of 2.4% from 1965-68 while the rate of growth from 1969-72 decreased to an average of 1.1%. (Both the decline in per capita GDP in 1969 and the rapid increase in 1970 are somewhat misleading since they result in large part from the emigration of approximately 73,000 persons to El Salvador following the July 1969 war.)

Honduras' population growth rate, which, at 3.5%, is one of the highest of any country in the world, only serves to exacerbate the per capita figures.

Inflation, as measured by the country price index, has remained fairly stable, rising at the rate of only 2.1% for the years 1965-72.

(See Table 30) However, prices rose at the rate of 3.6% during the latter part of this period as a result of the slow growth of domestic food production as well as higher import prices. Even at this low rate of inflation, the growth per capita GDP of 2.3% has not kept pace.

Balance of Payments:

The overall balance of payments situation at the end of 1972 was favorable in that the value of exports exceeded imports, in spite of a 7.1% increase in the export of goods and services with a corresponding 8% increase in imports over 1971. In monetary terms, exports increased by \$15.1 million over 1971 while imports only increased by \$1.6 million. In addition, net capital movements into the country were able to finance the trade accounts while simultaneously increasing net international reserves (although sources differ as to the exact amount, it is probably in the \$27-\$30 million bracket). This strong balance of payments position continued into the first quarter of 1973 due to the favorable export situation for coffee, wood, banana and refrigerated meat.

Exports increased by more than 66% from 1965-72, with agricultural products, especially bananas, being the major contributor. Coffee, wood and meat exports also increased substantially. Imports, meanwhile, grew by about 62% during the same time period. Industrial and mining raw materials, followed by non-durable consumer goods and capital goods for industry were the greatest sources of imports.

However, the picture may not be as bright as it appears. First, the relationship between the export and import price indices (see Table 30) is not conducive, from a balance of payments point of view, to the present rates of export versus import expansion. The 1965-72 average annual inflation on the prices received for exports increased by only .17%, while the corresponding rate of imports has been 2.6%. Also, in order to fuel its industry Honduras has had to import increasing supplies of petroleum. Prices on these basic materials have increased. In addition to this, most of Honduras' export earnings come from agricultural products which fluctuate considerably in market price and can be easily upset by adverse environmental conditions; e.g., weather, natural disasters, etc. This last point is especially poignant in view of the tapering off of coffee (after the first quarter of 1973) and meat exports, and damage a few years ago to banana fields.

International Reserves:

Net international reserves, and the strong position they presently enjoy, was discussed previously. However, it should be emphasized at this time that the present situation could be seriously eroded by the factors already mentioned. If both the volume and price of imports continue to increase as projected (Table 31) in relation to exports, it will have a negative effect on the export/import group and could weaken the present foreign reserve position.

Public Sector Investment (Fixed Capital Formation):

From a high of Ls 94.4 million in 1970, public sector investment has been steadily decreasing. (See Table 32) What is somewhat disconcerting about this trend is the fact that it comes in light of an increasing GDP. Therefore, on a percentage basis the decrease becomes even more apparent. Current national savings are high and are increasing. Hence, the continued

stagnation in investment is not from a lack of funds but, apparently, a lack of programs and projects. As large infrastructure projects begun several years ago were completed, preparation for new ones were being made. It seems that much new project implementation is pending approval of the 5-year Development Plan.

In the past, public investment programs have favored economic sectors, especially power and road construction (transportation), more so than social sectors. (See Table 33)

The overall low priority of housing is more than adequately reflected by the small investments made in the sector. The period 1969-72 saw a significant reduction in the investments by the public sector in housing. In part, this is due to the decrease in the operation of the public housing agency, INVA.

While the orientation toward construction and power projects will no doubt continue, it is expected that serious efforts will be made to develop programs in agriculture and social services. Housing will be included in this package.

Banking System:

The Honduras banking system is controlled by the Central Bank which sets policy on minimum legal reserves, rediscount rates, and interest rates on both loans and deposits of all kinds.

The minimum legal reserve varies as to the type of liability, whether liability in local currency, foreign currency, or in Saving and Loan Associations operations.

In addition, there is a different minimum reserve required, depending on whether the deposit is cash or another form of obligating document.

The breakdown on minimum required legal reserves is as follows:

1. Local Currency Deposits

(Deposits in checking accounts, other site deposits, savings deposits, term deposits, etc.)

Cash-----10%

Other Document-----18%

2. Foreign Currency Deposits

Cash-----10%

Other Document-----20%

3. Savings Deposits in Savings & Loan Associations

Cash----- 5%

Other Document-----10%

Maximum rate on saving accounts and loans also varies according to type of activity. Interest rates range from 4% on regular passbook saving accounts to a maximum of 7% on certain term deposits. Interest on loans fluctuate from 9% to 14%. Housing Mortgage Loans carry a 10% interest rate for 10-15 year terms while it jumps to 11% for anything longer than 15 years. However, there are special rates if the construction is financed through a CABEI loan. These rates are as follows:

1. 12-16 years-----10%
2. 16-17 years-----10.25%
3. 17-18 years-----10.50%
4. 18-19 years-----10.75%
5. 19-20 years-----11%

Hence, these terms are somewhat more favorable than the regular rates.

Housing construction or interim financing loans carry an interest rate of 9%. Loans for production, services, transportation and communication also carry a 9% interest rate, while consumer loans range from 12% to 14%. In addition, there is a one-time 1% commission which is charged at the time the loan is signed for credit supervision.

There are sufficient funds available for project financing. Liquid assets have been increasing both in absolute terms and as a percentage of GNP. During the period 1965- 72, liquid assets increased by Lps. 264.1 million, an increase of 158%. As a percentage of GNP, it increased from 16.8% in 1965 to 27.6% in 1972. These figures do not include capital, reserves, and SDR's which, while they are not entirely liquid assets, would tend to increase the amount available. Hence, there certainly is no shortage of funds for financing increased public investments. It is, rather, a case of the government determining its priorities and utilizing the funds accordingly.

Foreign Assistance & Debt Servicing:

The outstanding public debt repayable in foreign currency increased from \$59.1 million at the end of 1965 to \$169.9 million at the end of 1972. (See Table 36) Honduras continues to have an excellent credit standing with international lending agencies. Over 95% of the outstanding public debt is with these agencies, and only very minor amounts with suppliers and private banks.

Consequently, the terms of Honduras' public external debt are still favorable even though they have hardened considerably during the last several years (Table 37), reflecting worldwide trends as well as a change in the debt structure. The major change in the structure is that the share of debt contracted with CABEI has increased while that with IDB and IDA has decreased.

The debt service ratio of total debt payments as a percentage of exports has risen slightly over the past several years but, at 3.4%, it is still quite low. (See Table 38) In fact, it is the lowest debt service ratio in Central America.

While Honduras appears to have good potential for additional foreign borrowing, caution should be taken to guard against over optimism for several reasons. Loan terms are hardening; shorter maturity, decreasing grace periods, and increasing interest rates (see Table 37) -- and while the present balance of payments and foreign reserves position looks good, that can easily change given the factors discussed in the section devoted to the balance of payments. Adding strength to this point of view is the fact that the Technical Office of the National Council for Economic Planning is projecting a worsening in the export/import relationship which could lead to a drain of the foreign

reserves currently built up. Moreover, the international lending institutions (particularly the IDB, IBRD, and CABI) plan large injections of funds for projects in Honduras to be executed over the next few years. The total planned figure for all of these agencies (including A.I.D.) approximates \$75 million.

Future Prospects:

The monitoring and fiscal policies of the Honduran Government have been conservative for the past three years and there is every indication that this will continue. However, inflation is causing distortions in the economy. The effect of inflation on the balance of payments, the projected import/export gap, and increased petroleum prices will be serious for Honduras; though given the strong foreign exchange reserve position which the country currently enjoys, the blow should not be insuperable, at least in the short run. It may, however, be a jolt to the full implementation of the development plan. Weathering the storm for an extended period will require a strongly favorable export market for Honduran agricultural and forestry products.

Since Honduras imports almost all of its intermediate and finished products, the generalized inflation which exists worldwide is being imported into the Honduran economy. With regard to the internal inflation rate, preliminary estimates of 12% to 15% for 1974 are not unrealistic and represents a sharp change from inflation rates of the recent past. These facts underscore the need for Honduras to maintain a strong export position and increase domestic food production. Therefore, investment plans will have to be well thought out and possibly scaled down because of the adverse cost picture of needed imports. Much will depend on the export prices and quantity of key products such as meat, lumber, and bananas. The government imposed a tax on bananas with the hope of increasing foreign exchange needed to alleviate the effect on the importation of inflation and the increasing petroleum bill. At the present time it is too early to say how the world market will adjust.

Table 27 GROWTH OF GROSS DOMESTIC PRODUCT

1967-1969

\$ Millions

	<u>GDP</u>	<u>% INCREASE IN GDP</u>
1965	545.0	
1966	575.4	5.5
1967	609.2	5.9
1968	645.9	6.0
1969	659.4	2.1
1970	692.1	5.0
1971	722.1	4.3
1972	752.6	4.2

Average Growth of GDP, 1965-72 - 4.7%

Source: Central Bank

Table 28 : HONDURAS: ORIGIN OF GROSS DOMESTIC PRODUCT, 1965-1972
(In millions of current Lempiras)

	1965	1966	1967	1968	1969	1970	1971	1972	
<u>Primary production</u>	<u>401.3</u>	<u>436.5</u>	<u>468.5</u>	<u>488.0</u>	<u>470.2</u>	<u>481.5</u>	<u>505.5</u>	<u>520.2</u>	
Agriculture	382.6	417.7	443.6	458.0	441.1	452.4	475.2	487.7	
Mining	18.7	18.8	24.9	30.0	29.1	29.1	30.3	32.5	
<u>Secondary production</u>	<u>154.5</u>	<u>168.1</u>	<u>193.0</u>	<u>220.0</u>	<u>239.0</u>	<u>260.3</u>	<u>285.1</u>	<u>312.6</u>	
Manufacturing	110.8	123.7	135.9	151.1	164.7	179.3	197.5	218.4	
Construction	34.4	34.5	44.4	54.0	58.1	63.3	67.7	72.4	
Utilities	9.3	9.9	12.7	14.9	16.2	17.7	19.9	21.8	
<u>Services</u>	<u>370.2</u>	<u>400.4</u>	<u>433.7</u>	<u>472.4</u>	<u>507.2</u>	<u>539.9</u>	<u>573.7</u>	<u>613.4</u>	
Transport & Communications	62.6	65.8	71.2	73.2	77.4	82.7	87.8	92.9	
Commercial	117.4	131.8	142.7	156.2	163.9	171.1	175.4	183.8	
Financial	18.3	20.6	20.7	27.4	31.7	37.2	40.3	43.1	
Housing	69.4	71.7	77.5	83.8	90.8	98.4	106.7	115.7	
Public administration	30.7	33.3	38.2	40.9	42.9	46.8	49.7	53.2	
Other	71.8	77.2	83.4	90.9	100.5	103.7	113.8	124.7	
<u>GDP at factor cost</u>	<u>926.0</u>	<u>1,005.0</u>	<u>1,095.2</u>	<u>1,180.4</u>	<u>1,216.4</u>	<u>1,281.7</u>	<u>1,364.3</u>	<u>1,446.2</u>	
				(percentages)					
<u>Primary production</u>	<u>43.3</u>	<u>43.4</u>	<u>42.8</u>	<u>41.4</u>	<u>38.7</u>	<u>37.6</u>	<u>37.1</u>	<u>36.0</u>	
Agriculture	41.3	41.5	40.5	38.8	36.3	35.3	34.9	33.7	
Mining	2.0	1.9	2.3	2.6	2.4	2.3	2.2	2.3	
<u>Secondary production</u>	<u>16.7</u>	<u>16.7</u>	<u>17.6</u>	<u>18.6</u>	<u>19.6</u>	<u>20.3</u>	<u>20.9</u>	<u>21.6</u>	
Manufacturing	12.0	12.3	12.4	12.8	13.5	14.0	14.5	15.1	
Construction	3.7	3.4	4.1	4.6	4.8	4.9	5.0	5.0	
Utilities	1.0	1.0	1.1	1.2	1.3	1.4	1.4	1.5	
<u>Services</u>	<u>40.0</u>	<u>39.9</u>	<u>39.6</u>	<u>40.0</u>	<u>41.7</u>	<u>42.1</u>	<u>42.0</u>	<u>42.4</u>	
Transport & Communications	6.8	6.6	6.5	6.2	6.4	6.4	6.4	6.4	
Commercial	12.7	13.1	13.0	13.2	13.5	13.3	12.9	12.7	
Financial	2.0	2.1	1.9	2.3	2.6	2.9	3.0	3.0	
Housing	7.5	7.1	7.1	7.1	7.5	7.7	7.8	8.0	
Public administration	3.3	3.3	3.5	3.5	3.5	3.7	3.6	3.7	
Other	7.7	7.7	7.6	7.7	8.2	8.1	8.3	8.6	
<u>GDP at factor cost</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	

SOURCE: Banco Central de Honduras

Table 29 GROWTH RATES POPULATION & PER CAPITA
GDP

	Population Estimates (000's)	Population Growth Rate	GDP \$ Mil. (1967-69 Prices)	Per Capita GDP	Per Capita Growth Rate
1965	2182.0	3.4	545.0	250	
1966	2256.0	3.4	575.4	255	2.0
1967	2333.0	3.4	609.2	261	2.4
1968	2413.0	3.4	645.9	268	2.7
1969	2496.0	3.4	659.4	264	-1.5
1970	<u>1/</u> 2508.0	<u>1/</u> 0.5	<u>1/</u> 692.1	276	<u>1/</u> 4.5
1971	2595.8	3.5	722.1	278	0.7
1972	2686.5	3.5	752.6	280	0.7

Average Growth Rate of GDP, 1965-72 - 4.7%

Average Growth Rate of Per Capita GDP, 1965-72- 1.6%

Average Growth Rate of Per Capita GDP, 1965-72- 2.4%

Average Growth Rate of Per Capita GDP, 1968-72- 1.1%

1/ Skewed due to emigration of 73,000 persons following July 1969 war.

Source- Planning Council

TABLE 30 INFLATION BASED ON SELECTED PRICE INDICES
(1966 - 100)

	1965	1966	1967	1968	1969	1970	1971	1972
CPI	99.1	100.0	102.1	104.0	105.3	108.5	110.7	114.7
Inflation %	--	.9	2.1	1.9	1.3	3.0	2.0	3.6
Export Price Index	101.7	99.8	99.0	102.3	98.6	98.4	102.0	102.5
Inflation %	--	1.9	0.8	3.3	3.6	0.2	3.7	0.5
Import Price Index	96.8	95.7	99.4	98.3	102.3	109.2	113.1	114.9
% Inflation	--	.9	3.9	1.1	4.1	6.7	3.6	1.6
Increase Inflation; CPI	-	2.1%	(1965-1972)					
Increase Inflation; Exports	-	.1%	(1965-1972)					
Increase Inflation; Imports	-	2.6%	(1965-1972)					

SOURCE: Central Bank and IBRD Estimates.

TABLE 31

(TABLE 31)

Balance of Payments 1960-1972
(millions of current
Lempiras)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
A. Current Accounts														
Exportation of Goods & Services	142.1	157.0	172.2	179.7	202.5	274.0	311.6	344.6	388.7	369.5	388.4	424.5	454.7	542.3
Goods FOB	128.8	148.1	165.1	168.8	190.2	255.4	288.9	319.4	361.9	341.8	356.2	387.9	414.6	499.3
Services	13.3	8.9	7.1	10.9	12.3	17.6	22.7	25.2	26.8	27.7	32.2	36.5	40.1	43.0
Importations of Goods & Services	158.1	160.1	175.1	209.5	223.9	270.2	328.3	364.6	410.3	414.0	490.9	439.5	443.1	553.3
Goods CIF	146.3	146.8	162.3	193.5	206.8	248.4	302.6	335.2	376.1	375.8	449.9	596.6	590.4	433.2
Services	11.8	13.3	12.8	16.0	17.1	21.8	25.7	29.4	34.2	38.2	41.0	42.9	52.7	120.1
Commercial Balance	16.0	3.1	2.9	29.8	21.4	3.8	16.7	20.0	21.6	44.5	102.5	15.0	11.6	109.0
Payments by Item	17.4	1.4	7.7	11.6	13.4	25.3	30.2	40.2	44.2	34.9	42.9	44.2	50.8	50.0
Exterior Receipts	3.1	3.5	3.8	3.2	5.0	6.0	7.2	7.7	8.4	9.8	9.2	9.5	10.6	12.0
Exterior Payments	14.3	4.9	11.5	14.8	18.4	31.3	37.4	47.9	52.6	44.7	52.1	53.7	61.4	72.0
Interest	1.1	1.2	1.8	2.4	3.6	5.4	5.1	4.9	5.7	7.1	9.8	14.1	16.1	20.0
Services	16.8	2.1	8.2	11.0	12.5	23.5	30.0	41.0	44.7	35.5	40.0	37.2	42.4	50.0
Others	1.4	1.5	1.4	2.3	2.4	2.3	2.0	2.2	2.1	2.3	2.4	2.4	2.9	3.0
Transfers	5.3	9.1	6.0	5.8	12.3	7.3	8.5	9.5	12.5	14.6	13.1	13.5	13.1	13.0
Exterior Receipts	7.7	11.5	8.9	8.8	15.5	10.5	11.5	13.8	17.8	21.3	20.1	20.7	22.2	23.0
Exterior Payments	2.4	2.4	2.9	3.0	3.2	3.2	3.0	4.3	5.3	6.7	7.0	7.2	9.1	8.0
Current Account Balance	6.7	4.5	4.6	35.6	22.5	14.2	38.4	50.7	53.3	64.8	132.3	45.7	26.1	89.0
B. Capital Accounts														
Net Receipts of Capital	7.4	8.3	4.5	34.7	29.9	24.8	43.2	39.2	77.4	58.3	104.3	56.9	50.0	58.0
Receipts of Capital	2.8	1.5	18.4	38.1	36.5	42.1	39.6	51.7	94.0	72.6	113.9	85.9	102.4	121.0
Credit	12.0	6.4	19.9	32.2	21.0	22.3	19.0	25.1	53.8	50.5	75.3	02.0	76.8	88.0
Public	11.5	6.0	18.5	27.7	14.4	16.6	13.3	19.7	33.4	45.7	64.0	48.3	49.2	51.0
Private	0.5	0.4	1.4	4.5	6.6	5.7	5.7	5.4	20.4	4.8	11.3	14.3	27.8	40.0
Direct Investments	15.2	12.5	2.1	4.0	13.9	12.6	16.5	17.5	28.8	17.7	16.7	14.6	6.1	11.0
Other Capital Receipts	0.4	4.6	0.6	1.9	1.6	7.2	4.1	9.1	11.4	4.4	21.9	8.7	19.5	12.0
Capital Outflow	6.0	11.8	5.2	7.7	9.4	7.5	7.0	19.3	8.2	13.7	17.8	37.4	55.7	42.0
Amortization	2.9	4.6	4.0	4.4	5.9	5.0	4.7	5.7	6.3	9.4	12.1	16.5	22.4	30.0
Other Outflows	3.1	7.2	1.2	3.3	3.5	2.5	2.3	13.6	1.9	4.3	5.7	20.9	33.3	9.0
Fluxuation in International Reserves	0.7	3.7	0.1	0.9	7.4	10.0	4.8	11.5	24.1	6.5	28.0	11.2	23.9	7.0
Unanalyzed Outflows	1.4	4.9	8.7	4.3	2.8	9.8	10.6	6.8	8.4	0.6	8.2	8.4	3.3	11.0
Capital Account Balance	6.7	4.6	4.6	35.6	22.5	14.2	38.4	50.7	53.3	64.8	132.3	45.7	26.1	89.0

SOURCE: CONSUPLANE
1) Estimate

TABLE 32 PUBLIC SECTOR INVESTMENT
(Capital Formation)

(Millions of Current Lempiras)

YEAR	GDP	Public Sector Investment (Capital Formation)	Public Sector Investment As % Of GDP	Public Sector Investments In Housing	% of Public Sector Investments In Housing
1965	1018.9	24.0	2.4	2.4	10.1
1966	1100.6	28.4	2.6	1.6	5.6
1967	1197.9	40.2	3.4	3.0	7.5
1968	1295.6	48.2	3.7	4.6	9.5
1969	1335.3	85.4	6.4	5.0	5.8
1970	1422.8	94.4	6.6	2.1	2.2
1971	1508.9	71.0	4.7	1.3	1.8
1972	1598.5	62.6	3.9	0.6	0.9

SOURCE: Central Bank; IBRD Estimates; & Planning Council.

TABLE 33 PUBLIC INVESTMENT BY SECTOR

1965 - 72
(%)

	1965	1966	1967	1968	1969	1970	1971	1972
Economic Sectors	<u>58.8</u>	<u>48.0</u>	<u>54.3</u>	<u>64.2</u>	<u>74.5</u>	<u>85.2</u>	<u>86.6</u>	<u>84.8</u>
Transportation	39.1	32.3	39.4	48.3	52.6	51.5	54.1	46.0
Power	9.2	8.6	11.6	12.7	18.4	24.6	12.2	29.0
Agriculture	8.0	6.5	2.8	1.5	2.7	7.1	16.9	7.0
Communications	2.5	0.6	0.5	1.7	0.8	2.0	3.4	2.8
Social Sectors	<u>31.5</u>	<u>22.3</u>	<u>30.4</u>	<u>27.4</u>	<u>20.9</u>	<u>10.9</u>	<u>8.9</u>	<u>9.9</u>
Education	3.8	3.9	5.9	3.9	4.8	3.7	3.1	4.5
Health	17.6	12.8	17.0	14.0	10.3	5.0	4.0	4.5
Housing	10.1	5.6	7.5	9.5	5.8	2.2	1.8	0.9
Other	<u>9.7</u>	<u>29.7</u>	<u>15.3</u>	<u>8.4</u>	<u>4.6</u>	<u>3.9</u>	<u>4.5</u>	<u>5.3</u>
Total	<u>100.0</u>							

TABLE 34 FINANCING CAPACITY OF THE BANKING SYSTEM
(Millions of Lempiras)

	1965	1966	1967	1968	1969	1970	1971	1972
Net Initial Reserves	<u>35.0</u>	<u>40.0</u>	<u>28.4</u>	<u>52.6</u>	<u>46.1</u>	<u>18.0</u>	<u>29.2</u>	<u>53.1</u>
Domestic Assets:	<u>178.3</u>	<u>203.4</u>	<u>257.2</u>	<u>279.7</u>	<u>343.8</u>	<u>425.5</u>	<u>456.5</u>	<u>515.4</u>
Public Sector, Net	18.1	10.9	13.7	8.4	22.9	53.8	70.2	80.1
Central Govt.	(15.8)	(9.4)	(12.2)	(7.9)	(25.1)	(49.2)	(64.3)	(73.4)
Rest	(2.3)	(1.5)	(1.5)	(0.5)	(-2.2)	(4.6)	(5.9)	(6.7)
Private Sector	135.3	170.1	213.8	242.6	298.7	347.3	369.1	413.6
Subscription To Initial Agencies	35.9	45.6	52.1	52.1	53.1	63.1	65.8	77.2
Unclassified, Net	-11.0	-23.2	-22.4	-23.4	-30.9	-38.7	-48.6	-55.5
Assets = Liabilities	<u>213.3</u>	<u>243.4</u>	<u>285.6</u>	<u>332.3</u>	<u>389.9</u>	<u>443.5</u>	<u>485.7</u>	<u>568.5</u>
Money ^{1/}	104.4	105.9	120.2	135.2	157.4	167.3	180.7	209.0
Quasi-Money ^{2/}	62.8	76.6	91.8	109.4	136.6	167.4	192.7	222.3
Foreign Liabilities (Med. & Long Term)	18.3	27.6	32.2	42.9	47.9	48.0	45.4	58.6
Other Liabilities ^{3/}	27.8	33.3	41.4	44.8	48.0	60.8	66.9	78.6
GNP	992.7	1069.6	1155.5	1249.4	1298.1	1377.6	1462.3	1561.5
Exports	256.4	288.8	311.8	362.8	341.8	356.4	389.6	415.6
Money as % of GNP	10.5	9.9	10.4	10.8	12.1	12.1	12.4	13.4
Quasi-Money % of GNP	6.3	7.2	7.9	8.8	10.5	12.2	13.2	14.2
Total Liquid Assets As % of GNP ^{4/}	16.8	17.1	18.3	19.6	22.6	24.3	25.6	27.6
Other Liabilities As % of GNP	2.8	3.1	3.6	3.6	3.7	4.4	4.6	5.0
Grand Total Liquid Assets As % of GNP	19.6	20.2	21.9	23.2	26.3	28.7	30.2	32.6

^{1/} Money= Currency in Circulation + Sight Deposits.

^{2/} Quasi-Money= Time Deposits + Savings Deposits + Specialized Savings + Deposits in Foreign Exchange + Bonds + Other Obligations.

^{3/} Other Liabilities= Capital + Reserves + Allocation of SDRs.

NOTE: Assets & Liabilities are end-of year stock figures; GNP & Exports are flows during the year.

SOURCE: Central Bank & IMF.

TABLE 35

HONDURAS: EXTERNAL PUBLIC DEBT OUTSTANDING (INCL. UNDISBURSED)
AS OF DEC. 31, 1965 AND 1972

DEBT REPAYABLE IN FOREIGN CURRENCY

	<u>1965</u>		<u>1972</u>	
	<u>million US\$</u>	<u>Percent</u>	<u>million US\$</u>	<u>Percent</u>
Suppliers	<u>2.9</u>	<u>4.9</u>	<u>5.0</u>	<u>2.9</u>
Private banks	<u>0.1</u>	<u>0.2</u>	<u>3.0</u>	<u>1.8</u>
International organizations	<u>39.9</u>	<u>67.5</u>	<u>122.6</u>	<u>72.2</u>
CABEI	1.0	1.7	36.0	21.2
IBRD	19.9	33.7	58.3	34.3
IDA	12.5	21.1	24.8	14.6
ID IDB	6.5	11.0	3.5	2.1
Governments	<u>16.2</u>	<u>27.4</u>	<u>39.3</u>	<u>23.1</u>
USAID	14.7	24.9	39.1	23.0
Eximbank	1.5	2.5	0.2	0.1
TOTAL	59.1	100.0	169.9	100.0

SOURCE: IBRD Debt Reporting System.

TABLE 36

HONDURAS: EXTERNAL PUBLIC DEBT OUTSTANDING (INCL. UNDISBURSED) AS OF DEC. 31, 1965-72, AVERAGE TERMS
DEBT REPAYABLE IN FOREIGN CURRENCY

	Amount (in million of US\$)	Average Interest Rate (percent)	Average Grace Period (years)	Average Maturity (years)	Grant Element for 10% Discount Rate (percent)
1965	59.1	3.5	6.9	31.0	53.0
1966	76.5	3.6	7.0	31.2	52.0
1967	93.4	3.8	6.9	30.3	50.0
1968	112.2	3.9	6.7	30.1	49.0
1969	124.4	3.9	6.9	30.6	50.0
1970	143.9	3.9	7.0	30.8	50.0
1971	153.5	4.0	6.9	30.1	48.0
1972	169.9	4.3	6.6	29.3	45.0

SOURCE: IBRD Debt Reporting System.

TABLE 37

HONDURAS: EXTERNAL PUBLIC DEBT CONTRACTED, 1965-1972, AVERAGE TERMS
DEBT REPAYABLE IN FOREIGN CURRENCY

	Amount (in million of US\$)	Average Interest Rate (percent)	Average Grace Period (years)	Average Maturity (years)	Grant Element for 10% Discount Rate (percent)
1965	18.1	3.0	8.7	35.0	60.0
1966	19.4	4.3	7.0	29.9	46.6
1967	19.5	4.6	6.1	25.3	41.0
1968	20.7	4.6	5.5	28.1	42.0
1969	14.8	3.7	7.9	30.6	51.0
1970	22.7	4.1	6.8	29.6	47.0
1971	13.9	5.7	4.5	19.3	29.0
1972	19.8	7.4	3.6	19.2	17.0

SOURCE: IBRD Debt Reporting System.

TABLE 38
HONDURAS: DEBT SERVICE RATIO, 1965-72

	Debt Service (in million US\$)	Exports of Goods & N.F.S. (in million US\$)	Debt Service Ratio (percent)
1965	3.3	138.6	2.4
1966	3.4	157.4	2.2
1967	3.5	170.6	2.1
1968	3.4	196.7	1.7
1969	4.3	186.9	2.3
1970	5.6	196.5	2.8
1971	7.0	215.6	3.2
1972	7.9	230.6	3.4

SOURCE: IDB & Balance of Payments Data

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