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Housing Guaranty Program

Annual Report
Fiscal Year 1978

OFFICE
OF
HOUSING

AGENCY
FOR
INTERNATIONAL
DEVELOPMENT

Agency for International Development

Office of Housing Housing Guaranty Program

Annual Report Fiscal Year 1978

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Introduction

The Housing Guaranty Program was developed as part of the U.S. Foreign Assistance program in the early 1960s to respond to the enormous and rapidly-mounting world-wide shortage of adequate shelter. This program is A.I.D.'s principal instrument for helping developing nations address their shelter problems. Since its beginning, more than $1 billion in Housing Guaranty loans have been authorized for 128 projects in 35 nations and to three regional institutions.

This is a unique A.I.D. activity in which U.S. private sector investors, or lenders, provide long-term financing for low-income housing programs in developing countries. The United States Government underwrites these transactions through the provision of a full faith and credit guaranty that will compensate U.S. investors for losses. Maximum interest rates to investors are established by A.I.D. and reflect the current cost of money in the U.S. mortgage market.

A.I.D. charges a fee for its guaranty to cover operating expenses and to provide a reserve against claim losses. As a result the program is virtually self-sufficient.

In its early years the program focused on introducing new building technologies and modern management practices to developing countries. In the mid-1960s the focus shifted to creating and strengthening housing finance institutions, particularly the savings and loan institutions in Latin America.

Another major change in emphasis occurred in 1973 when the Agency reformulated its shelter strategy. The new strategy, backed by legislative changes in 1975, called for Housing Guaranty resources to be used almost exclusively to finance shelter for lower-income families. Since 1974, all Housing Guaranty projects authorized by A.I.D. have been designed for this income group.

Less-developed countries (LDCs) may request a Housing Guaranty project. Upon receiving a request, the Office of Housing, the U.S. A.I.D. Mission and the requesting country jointly participate in project identification and begin the process leading to project authorization and implementation.

In the development stage of the project, the host country is encouraged to take a broader look at its housing problems, particularly those of low-income households, and to develop new long-range shelter policies based on sound cost-recovery strategies. Important principles of the Housing Guaranty Program are: (1) maximizing a country's resource investment in shelter and (2) continuously recovering and re-allocating that investment to ensure a more equitable distribution of shelter resources.

Fiscal Year 1978 Programs

In the past fiscal year, from October 1, 1977 to September 30, 1978, A.I.D. continued to focus its resources on the problems of lower-income families.

Programs financed by the Housing Guaranty Program include: (1) slum and squatter settlement upgrading, including provision of clean water, sewerage, electricity, roads, community services, and building materials for self-help home improvement; (2) sites and services, including preparation of vacant land for productive shelter use through uniform lot division, installation of water and sewerage lines, provision for building material loans and training programs for self-help constructors and small-scale contractors, as well as construction of some common-use facilities; (3) core housing, involving basically a sites-and-services approach with the addition of a rudimentary housing shell on each lot (perhaps four walls, a roof, and water facilities) designed to be improved and expanded by the owner; and (4) low-cost housing units for sale or rental.

Eleven housing guaranty loans totalling $147.3 million were authorized for guaranty by A.I.D. this year. U.S. investors signed $75.0 million in long-term loan agreements, with each loan guaranteed by the U.S. Government. For each loan, there is also a host country guaranty of repayment to A.I.D.

Additionally, the Office of Housing provided technical assistance and services in a broad range of shelter-related areas to many developing nations.

New Projects Authorized

A $15 million loan to the Interamerican Savings and Loan Bank (BIAPE) was authorized for the development of low-income housing programs for an estimated 15,000 families. The funds are expected to be channeled through central savings and loan banks to their member savings and loan associations in Bolivia, Costa Rica, Ecuador, Honduras, Paraguay, and Peru.

A $19 million loan to the Central American Bank for Economic Integration (CABEI), to be augmented with $11 million from Honduras, El Salvador, Nicaragua, Costa Rica, and CABEI's own resources, was authorized to be loaned to the National Housing Bank of Guatemala (BANVI). It will be used for construction of multi-family units in Guatemala City, cooperative projects in capital and secondary cities, and individual units on property already owned by families in these cities. This housing is part of the reconstruction program following the devastating earthquake of 1976.

An $11.4 million loan for improving housing and community facilities in 19 low-income areas in metropolitan San Jose, Costa Rica was authorized. This project will benefit low-income families by providing loans for purchasing and/or securing legal titles to lots occupied by squatter families; home improvement loans; mortgages in sites and services projects; and revolving community funds to provide loans to municipalities to upgrade infrastructure and facilities in low-income areas. The project also includes a $5.5 million development loan, funded by A.I.D.'s Latin America and Caribbean Bureau, for employment generation activities.

A $10.5 million loan to the National Housing Institute of Honduras (INVA) was authorized to finance shelter solutions for 6,300 families in Tegucigalpa and San Pedro Sula and institutionalize the sites and services approach on a national scale. The purpose is to redirect the policy of INVA towards low-cost housing, increase its capacity to produce and service low-cost housing, and initiate the use of market-rate interest for low-income housing.

A $25 million loan was authorized to provide mortgage financing for below-median income beneficiaries of the Government of Israel's mortgage assistance program; construction of low-cost rental housing for the most needy; and the upgrading of existing low-income neighborhoods. This will be combined with technical assistance for property maintenance and management, the development of a private mortgage market, and the neighborhood upgrading program.

A $25 million loan, the eighth and final Housing Guaranty planned for Korea, was authorized. This loan will be to the Korea Housing Bank to expand its role as the principal housing finance institution and introduce lending programs more suitable to the needs and financial capacity of low-income families. The Korea National Housing Corporation, credit unions, and municipalities will act as sub-borrowers to finance expandable core housing; serviced lots and building materials; and home improvement loans for low-income families.

A $15 million Housing Guaranty was authorized to provide for the repair and reconstruction of war-damaged homes for low-income families in Lebanon. This program is a component of the U.S. relief and reconstruction assistance to Lebanon.

In Panama, a $1 million loan was authorized for a program of slum upgrading and home improvement in the San Miguelito District of Panama City. This loan completes a $15 million financing started in FY 77.

A second loan for Panama, in the amount of $5.4 million, was authorized to finance low-cost shelter projects that are expected to benefit 11,000 people in eight market towns in central and western Panama. Six different levels of shelter will be provided, ranging from sites with utility services to completed two-bedroom units on urbanized lots. Also included in the project is a technical assistance loan to help improve the management practices of the National Mortgage Bank of Panama (the borrower), and the Ministry of Housing, which will be the implementing agency.

In Peru, a $10 million loan to the Housing Bank of Peru (BVP) was authorized. This program is the balance of a $25 million Housing Guaranty program, $15 million of which was authorized in 1975/76. This program will provide new and upgraded infrastructure services, minimum houses, and home improvement loans in "Pueblo Jovenes," legalized squatter settlements in cities throughout Peru.

$10 million was authorized for a Housing Guaranty program in Tunisia that will provide low-income families with secure land tenure and access to core housing as well as improved access to infrastructure services and community facilities. This is the remaining portion of a $20 million program, $10 million of which was authorized in FY 1977.

In summary, FY 1978 activity and cumulative totals are as follows:

	(In Millions of Dollars)	
	FY 78	TOTAL
Authorizations	147.3	1,097.3
Contracts Signed	75.0	836.2
Disbursements	100.7	768.7

Program Development

Policy

The policies of the Agency continued to reflect the Congressional mandate to concentrate A.I.D.'s programs on the "poor majority." A.I.D.'s statement of Shelter Program Objectives, which is included in the end of this report, says that "A.I.D.'s goal in the shelter sector is to assist LDCs (less-developed countries) develop the institutional, technological, and financial capacity to provide shelter under reasonable conditions for all levels of society, with emphasis on government actions to meet the needs of the poor." This group is defined as the poorer half of the urban population of a given country or city.

Housing programs are being designed to be within the reach of families earning below the median income. "Legal" housing standards must often be lowered in order to achieve a housing unit affordable by significant numbers of the target population. This usually results in projects which offer something less than a complete "standard" house, such as core houses or sites-and-services, where homeowners either finish building the homes or build them completely on lots with utility hookups provided.

According to the shelter program statement, "A priority objective of A.I.D.'s shelter strategy is to help the LDCs develop their capabilities for analyzing their housing requirements and developing plans and policies that meet these requirements. By assisting LDCs formulate a rational housing policy which addresses the needs of all citizens, A.I.D. will encourage increased attention to the needs of the poor. As an integral part of negotiation for A.I.D. assistance, the Agency will discuss with the LDC its general housing strategy and alternative means of improving the living conditions of poor people.

"A.I.D. programs will also assist developing countries in creating and strengthening the necessary institutional framework to implement their shelter policies. Given the magnitude of the need and the relatively small amount of resources available, A.I.D. assistance should have a strong multiplier effect. By building shelter finance institutions capable of replication on a large scale and encouraging technical and financial innovations, the effect of small resource allocations will be substantial."

Environmental Policy

The Office of Housing has developed Environmental Guidelines intended to maximize the beneficial effects and minimize the detrimental effects of the changes brought about by a shelter project. Evaluation of the potential environmental impact of A.I.D. shelter programs begins at the inception of a proposed project and continues throughout project design and implementation.

In accordance with the purposes of the National Environmental Policy Act of 1969 and A.I.D. Regulation 16, the Office of Housing conducts an Initial Environmental Examination (IEE) prior to the development of all housing guaranty projects. Where advisable, a more detailed study, an Environmental Assessment (EA), is made before the Agency authorizes a specific project. IEEs have been conducted for the Housing Guaranty programs that were authorized in FY 78 in Costa Rica, Honduras, Israel, Korea, Lebanon, Panama, Peru, and Tunisia. In addition, Environmental Assessments were conducted for the Costa Rica and Panama programs.

New Program Directions

The Office of Housing is participating in the development of several new housing programs in which A.I.D. grants or concessional loans for housing or complementary development activities are integrated with Housing Guaranties. The intent of these programs is to provide additional technical assistance to institutions that extend housing assistance to the lowest income groups and to provide a more comprehensive development scope for Housing Guaranty projects.

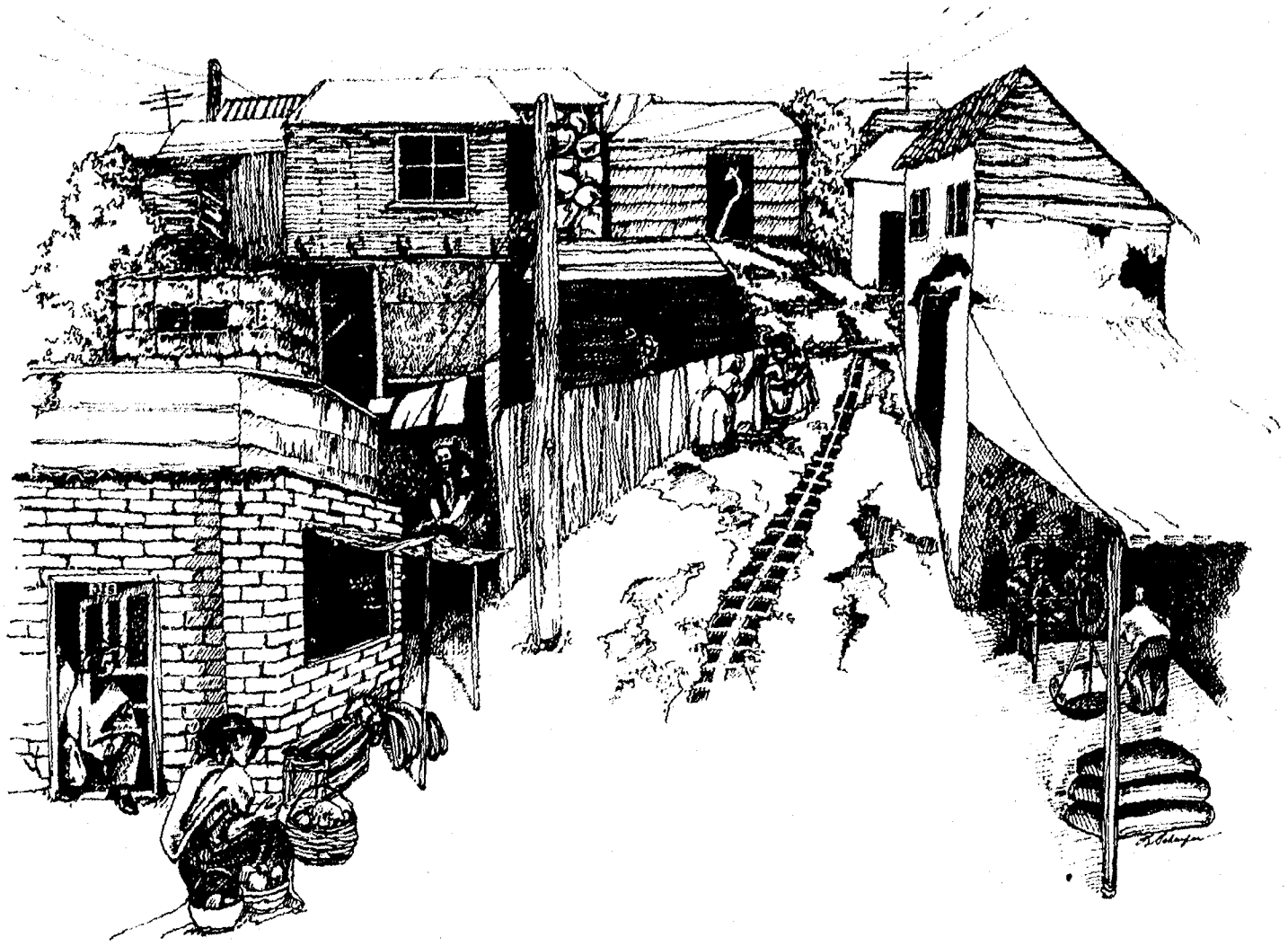
In addition, the Office of Housing and the Office of Urban Development have jointly initiated the Integrated Improvement Program for the Urban Poor (IIPUP) that aims to provide improved social services (including health and education programs, employment generation activities, and improved access to credit) in conjunction with Housing Guaranty and development loan and grant programs.

International Conferences

The Office of Housing each year co-sponsors and participates in several international housing conferences. In meeting regularly with its colleagues throughout the developing world, the Office of Housing staff is provided the opportunity to present to users of Housing Guaranty resources new ideas and changes in program directions and to receive their views in return. The meetings also provide representatives from developing nations the opportunity to exchange information about their respective housing and urban development situations.

The Sixteenth Inter-American Savings and Loan Conference* was held in Quito, Ecuador in June, 1978 and was attended by over 500 delegates from most of the western hemisphere nations. The housing finance institutions in Latin America that they represent are among the strongest and most sophisticated in the developing world. Virtually all of them received seed capital and technical assistance from A.I.D. during their beginnings in the 1960s.

*This conference was sponsored by the Inter-American Savings and Loan Union and co-sponsored by the Banco Ecuatoriano de la Vivienda, Asociacion Nacional de Mutualistas del Ecuador, A.I.D., the National Savings and Loan League, the U.S. League of Savings Associations, and the Inter-American Savings and Loan Bank.



In May, 1978 the Fifth Conference on Housing in Africa, sponsored by the National Housing Authority of Liberia, the Municipality of Monrovia, and A.I.D., was held in Monrovia, Liberia. Close to 150 delegates attended, representing 22 African nations and eight international organizations concerned with shelter in the developing world. The theme of the conference was low-income housing, with several sessions focusing on sites and services projects and settlement upgrading.

The Office of Housing also participated in the Symposium on the Reduction of Housing Costs organized by the National Housing Bank of Brazil in Salvador, Bahia, Brazil in March, 1978; the United Nations Ad Hoc Expert Group Meeting on Slum Upgrading in December, 1977 in New York City; and the Fifth Central American Housing and Urban Development Conference (COPVIDU) held in September, 1977 in Managua, Nicaragua.

Technical Assistance and Services

During the past year, the Office of Housing continued to provide technical assistance and services to borrowing institutions as part of the Housing Guaranty Program, in support of other A.I.D. programs, and to a few countries willing and able to pay for professional services. In collaboration with local institutions, help was provided in a broad range of areas. Short-term assistance was supplied by both individuals and teams and long-term assistance was provided by resident technical advisors.

Technical Assistance Funded by A.I.D. Grants and Housing Guaranty Fee Income Was Provided As Follows:

Africa Region

African Development Bank (ADB)—Study of the bank's entry into shelter activities, formulation of a sector policy, and the development of long-range program plans.

Botswana—Development of self-help shelter construction techniques and training programs, and planning and implementation of sites and services projects.

Cameroon—Development of an institutional framework to plan and implement shelter projects.

Djibouti—Assistance in planning for refugee resettlement.

Ivory Coast—Assistance in the development of a savings and loan institution and in the implementation of shelter projects.

Kenya—Analysis of the problems of marketing new shelter solutions and potential for developing an institutional framework to promote cooperative housing.

Lesotho—Assistance in developing a building materials production system and in drafting a national housing policy.

Liberia—Assistance in developing the capabilities of the national housing agency.

Mauritius—Analysis of shelter needs and potential for developing a reduced standard core housing solution to satisfy a broader range of low-income shelter needs.

Nigeria—Under special provisions of the Reimbursable Development Program, a study was conducted to help identify national housing program planning and management needs, staffing requirements, and training needs.

Somalia—Assistance in planning a settlement area, designing a model unit, and implementing a demonstration shelter project for resettled nomads in southern Somalia.

Asia Region

Korea—Study of the housing finance system, the development of a variable mortgage system, the analysis of the potential for credit union involvement in the shelter loan program, and the development of a large scale shelter finance program to reach low-income families.

Philippines—Analysis of the potential for developing shelter programs as part of a program to develop rural service centers.

Latin American Region

BIAPE—(Inter-American Savings and Loan Bank)—Analysis of the potential for the development of an inter-regional secondary mortgage market and the development of a methodology for identifying beneficiary target income groups.

Bolivia—Study of the secondary mortgage market and the regulation of savings and loan institutions.

Costa Rica—Development of an integrated shelter program combining shelter assistance with the provision of social services, local infrastructure, and job production activities.

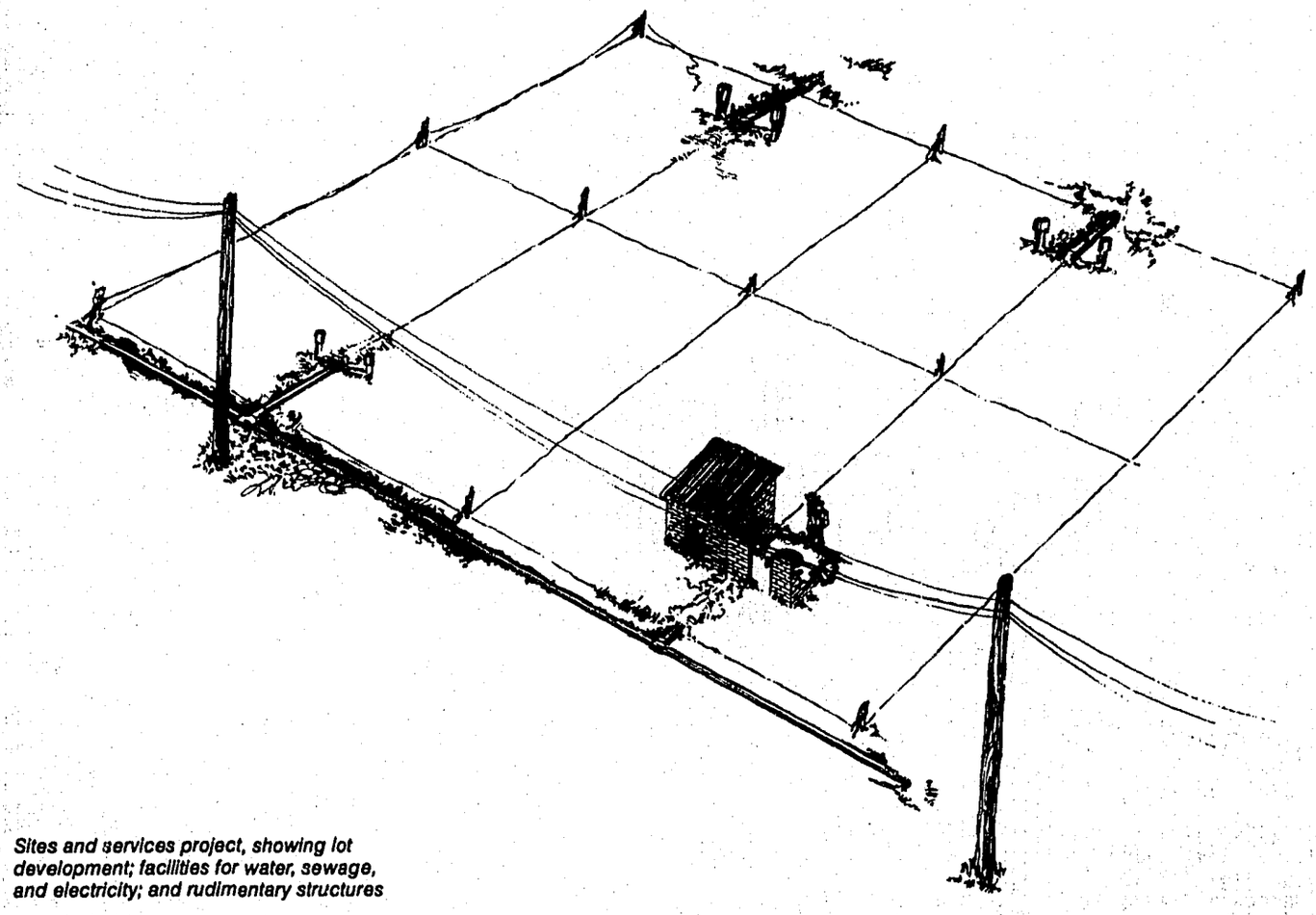
Honduras—Development of methodology for home improvement loans, improved accounting and collection procedures, and the planning and design of shelter projects incorporating environmental considerations.

Jamaica—Development of techniques and methods for conducting socio-economic analysis and planning and implementing urban upgrading projects.

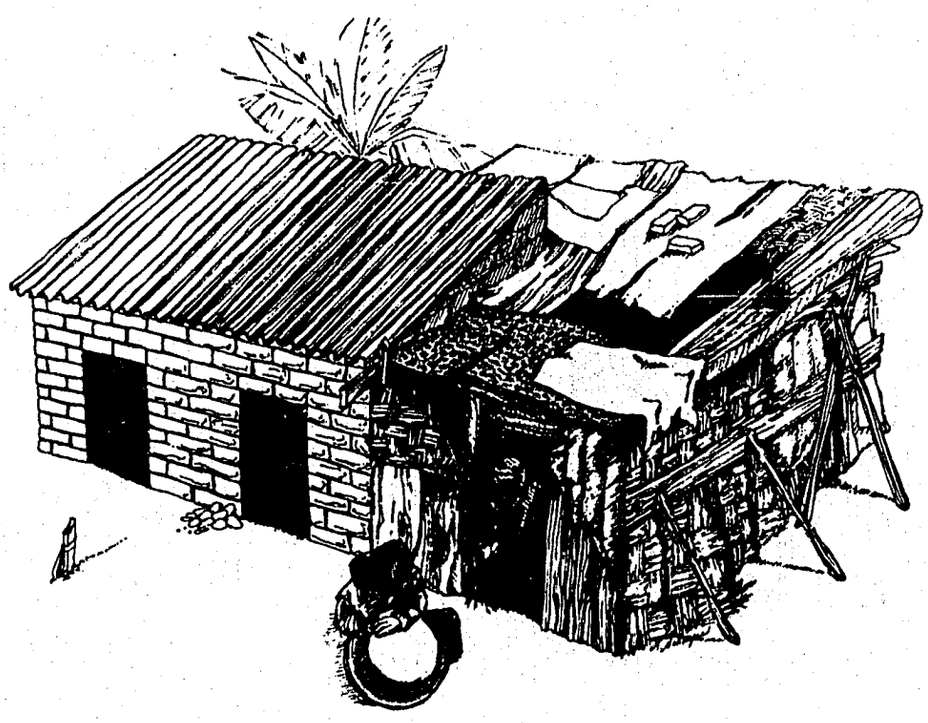
Panama—Study and analysis of housing finance institutions and cooperative housing organization and management, and the preparation of long-range strategies for the shelter sector.

Paraguay—Study of the housing finance system and the improvement of technical capabilities in this area.

Peru—Analysis of the applicability of variable mortgage payment techniques, and the development of skills and techniques for planning and managing shelter improvement projects.



Sites and services project, showing lot development; facilities for water, sewage, and electricity; and rudimentary structures



Completed bath and kitchen core unit in sites and services project. Purchaser has constructed temporary shelter on site before building permanent additions.

Near East Region

Egypt—Assistance in planning a large scale program in urban upgrading, sites and services, and core housing.

Israel—Assistance in improving the management and maintenance of housing, a study program to examine U.S. experience in management and maintenance of, and assistance to, distressed neighborhoods, and a study of U.S. housing finance and secondary market institutions and operations.

Lebanon—Assistance in planning and implementing a home repair and improvement program.

Tunisia—Assistance in planning and implementing an urban urgrading and a sites and services/core housing program.

Technical Services Paid Entirely By Requesting Countries Were Provided As Follows:

Bahrain—Assistance in planning production and management of housing programs.

Dominican Republic—Continued to provide periodic assistance in improving the management and monitoring of savings and loan organizations.

Kuwait—Continued to provide senior staff members to the National Housing Authority to assist in planning and implementing their national housing program.

Venezuela—Continued to provide consultants for forecasting the supply and demand for construction materials.

Methodology

The Housing Guaranty Program involves collaboration with a local housing institution, such as a national housing authority, a central savings and loan system, a national cooperative organization or similar public or non-profit private institution acting as borrower.

Following a request from the country, A.I.D. working with host country officials will prepare a shelter sector assessment to better understand the existing situation. Within the context of this analysis, A.I.D. reviews with the borrower the type of housing program to be financed and the institutional context within which it will be undertaken. A.I.D.'s concerns at this stage include: (a) the progress which has been made towards the development of a national housing policy; (b) the contribution which the program will make towards the creation or strengthening of institutions needed to meet national housing needs; (c) the capacity of the construction industry to supply housing over a given period; (d) the effective demand for housing at the agreed-upon price level; and (e) the ability of the beneficiaries to repay their loans and the ability of the economy to make the dollar repayment.

The borrower then seeks the most favorable terms available in the U.S. capital market for a U.S. Government guaranteed loan. The U.S. investor and the borrower agree on the terms of the long-term financing (within interest rate ceilings set by A.I.D. in accordance with the law, which reflect the prevailing interest rate for long-term mortgages in the United States) and sign agreements incorporating these terms. At the same time, A.I.D. and the borrower enter into agreements defining the use of the loan. A typical Housing Guaranty loan is disbursed over a period of two years and is repaid during a period of up to 30 years. When a mutually agreeable program has been developed, A.I.D. offers to guaranty repayment to any eligible U.S. investor who makes a loan for this program.

Administration and Organization

In FY 1978 the Office of Housing initiated selective recruitment of Housing Officers to meet the needs of its expanding worldwide responsibilities in the administration of over one billion dollars of Housing Guaranty authority.

The Office of Housing is under the direction of Peter Kimm within A.I.D.'s Development Support Bureau. The central office is in Washington, D.C. with six regional offices in Africa, Asia, Central and South America. The Washington office is divided into three functional areas.

The **Operations Division** provides and coordinates support to the regional housing offices in the field in the design and implementation of shelter projects and the development of shelter policies for developing countries.

The **Technical Division** coordinates and supplies technical assistance for specific country program activities as well as within Office of Housing program development and implementation.

The **Support Division** has responsibility for budget, personnel, contracts, and general administrative activities. It also provides financial management and monitoring of the Housing Guaranty portfolio.

The overseas offices continue to have responsibility for providing assistance to A.I.D. missions for initial planning, design, and project implementation for programs in the following areas:

Office Location — Region

Nairobi, Kenya — East and Southern Africa

Abidjan, Ivory Coast — West Africa

Tunis, Tunisia — North Africa and Near East

Tegucigalpa, Honduras — Central America

Panama City, Panama — South America and Panama

Seoul, Korea — Asia

The Caribbean region has been served by the Office of Housing from Washington, D.C.

A.I.D. charges a fee for its guaranty, which covers the direct operating expenses of the program. During FY 1978 as in prior years virtually all fee income was expanded for operations, program development and monitoring, and in the provision of related technical assistance.

Fee income for FY 1978 was $4,941,010.63 which exceeded operating expenses by $472,093.91. However, non-recoverable claims of $3,673,999.90 were incurred. The net decrease to net worth for the fiscal year amounted to $3,088,157.04.

In accordance with A.I.D. policy, the Office of Housing utilizes the services of private industry on a consulting basis. The following contractors made substantial contributions to the year's achievements.

The National Savings and Loan League

The Foundation for Cooperative Housing

The Institute of Financial Education

The American Security Bank

The Inter-American Savings and Loan Union

Abeles, Schwartz and Associates/ Boone, Young and Associates

Louis Berger International, Inc.

Clapp and Mayne, Inc.

DeVoy Collaborative

Robert R. Nathan Associates, Inc.

Planning and Development Collaborative International

Richard T. Pratt Associates, Inc.

Rivkin Associates, Inc.

Peat, Marwick, Mitchell & Co.

Investors

Investors, or lenders, recent years have been commercial banks, savings and loan institutions, life insurance companies, pension funds and other participants in the U.S. capital market.

Borrowers, not A.I.D., select investors to finance the projects which have been authorized as eligible to receive the benefits of an A.I.D. guaranty under Section 222 of the Foreign Assistance Act of 1961 as amended ("The Act"). However, the A.I.D. Office of Housing reserves certain approval rights over investors selected, the procedures to be used for investor selection, and the terms of loan agreements to be contracted by investors and borrowers. The following guidelines and policies are normally followed in exercising A.I.D.'s approval rights.

A. Procedure for Investor Selection

In general, A.I.D. requires that prospective borrowers solicit proposals from the widest practicable number of eligible investors and give fair consideration to proposals received from all investors who submit proposals. A.I.D. will not substitute its own judgement for that of the borrower in exercising approval rights over a particular selection. However, A.I.D. does require that a borrower's selection meet reasonable and prudent standards.

In order to assist a borrower in solicitation efforts, A.I.D. will publish a notice of each prospective A.I.D. guarantied investment opportunity in the Federal Register and directly mail such notices to interested firms or individuals who appear on the Office of Housing's mailing list designated for this purpose. The public is invited to send a request to A.I.D. asking that their names be inserted on this mailing list.

B. Eligibility of Investors

Reference is made to the Act, Section 238(c) reprinted in full at the end of this report. This Section defines eligibility in terms of the nationality of the lenders. A.I.D. is authorized by statute to make a final determination of eligibility at the time the guaranty is issued if an eligible investor or its assignee (in case the investor is a nominee) is willing to give a representation to the effect that it is acquiring the A.I.D. guarantied notes for purposes of investment only and not with a view toward reselling.

C. Terms of Loan Agreements

A.I.D. also approves the terms and conditions of the loan agreements where repayment is subject to the A.I.D. Contract of Guaranty. Factors used by A.I.D. in this approval function include but are not limited to:

(1) Interest rate — the Act, Section 223(f) requires A.I.D. to set a maximum interest rate on loans to be guarantied by A.I.D. Currently the maximum rate set by A.I.D. is a floating rate which is 1% above the interest rate permitted by the Department of Housing and Urban Development for domestic loans of a similar nature.

(2) Amortization and Grace Period — While A.I.D. requires the amortization of principal over the life of the loan, A.I.D. permits the parties to contract for a grace period on the repayment of principal that does not exceed ten years.

(3) Terms — A.I.D. will approve extended repayment periods so long as any one period does not exceed thirty years from the date of any guarantied promissory note.

(4) Commitment Fees or Service Charges — Prospective investors may wish to charge borrowers commitment fees or a service charge in addition to an interest rate. Historically, A.I.D. has been willing to view one-time fees or charges of up to one percent (1%) of the principal amount of the loan as being within the category of genuine service fees which would not affect the maximum interest rate calculation.

(5) Payment Procedures — A.I.D. has established a Fiscal Agent for purposes of facilitating A.I.D.'s discharge of its guaranty obligations. Borrowers are requested to remit their payments to investors through the A.I.D. Fiscal Agent and loan agreements should contain an appropriate clause to provide for this.

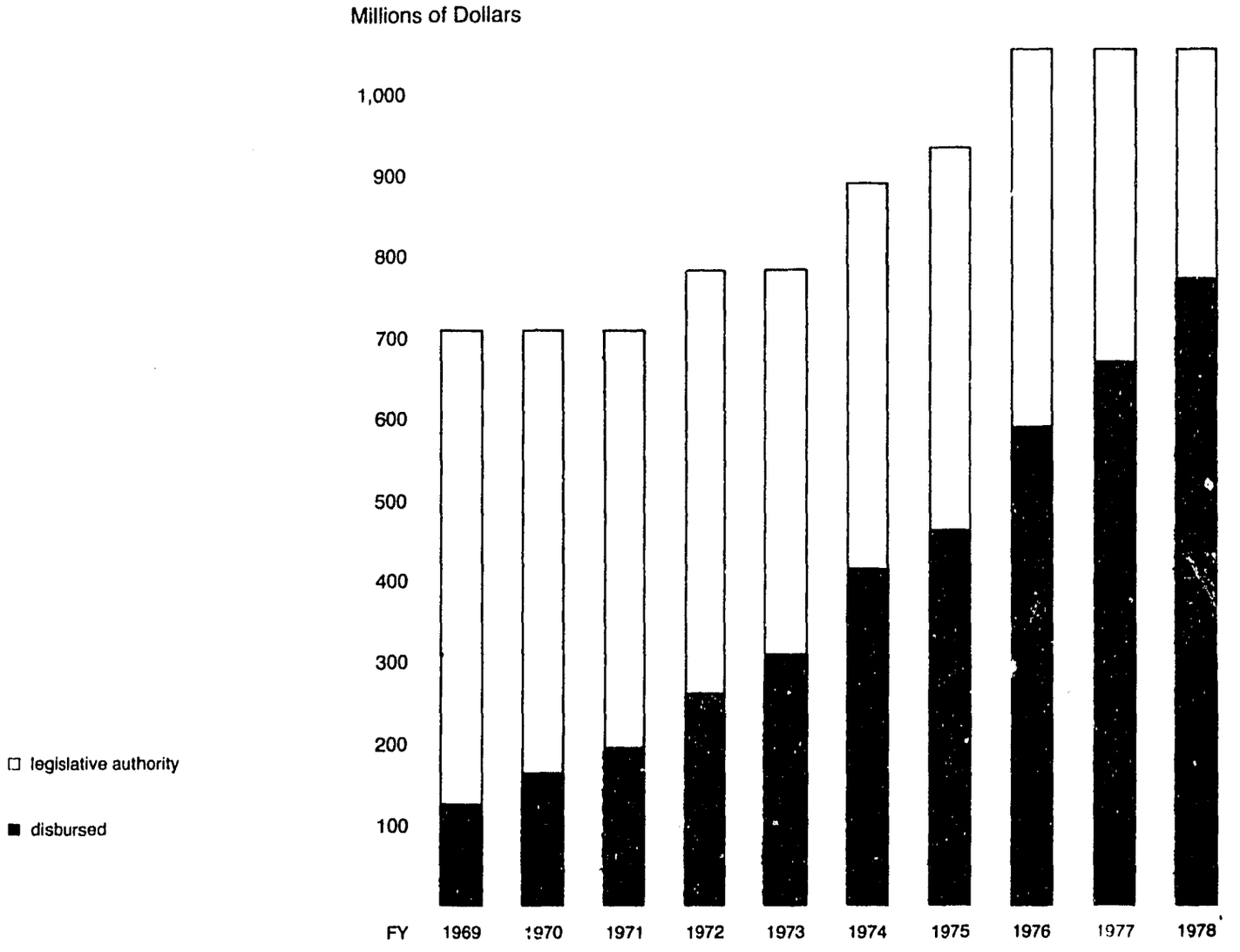
(6) Registrar, Transfer Agent, and Paying Agent Functions — The A.I.D. Fiscal Agent and A.I.D. do not perform a function of acting as paying agent for various assignees of notes held by investors. In the event investors propose to sell guarantied notes to multiple assignees, investors are required to establish their own mechanism for distributing payments, recording the names of noteholders, and facilitating assignment or transfer of notes to new parties.

(7) Prepayment — A.I.D. requires that loan agreements permit A.I.D. to cause a prepayment without penalty in the event that a borrower materially breaches the underlying project agreement between borrower and A.I.D.

(8) Partial Payment — A.I.D. requires the ability to prevent an event of default by intervening on a borrower's behalf and making installment payments.

(9) Records and Reporting — A.I.D. requires certain reporting by investors and access to records of investors. The A.I.D. contract of guaranty will specify the investors' obligations with respect to this subject matter.

Status Of Guaranty Programs



Financial Report

Statement of Financial Condition as of September 30, 1978

Assets		
Funds with U.S. Treasury		$42,122,528.07
Advances to Contractors		266,760.47
Accrued Fees Receivable		1,045,912.79
Penalty Interest Receivable		230,149.51
Accounts Receivable		49,344.20
Travel Advances		6,211.05
Subrogated Claims		3,998,945.68
Furniture and Equipment	$39,748.01	
Less: Allowances for Depreciation	3,437.00	36,311.01
TOTAL ASSETS		$47,756,162.78
Liabilities and Net Worth		
Liabilities		
Accounts Payable		$ 326,898.96
Due to U.S. Treasury — Penalty Interest		230,149.51
Accrued Expenses Payable		791,218.00
Accrued Annual Leave		125,656.51
TOTAL LIABILITIES		$ 1,473,922.98
Net Worth		
Housing Guaranty Program:		
Capital		$47,042,916.00
Cumulative Loss (Beginning of Fiscal Year)		(403,550.47)
Net Loss (Fiscal Year Ended)		(3,088,157.04)
TOTAL NET WORTH — HOUSING GUARANTY PROGRAM		$43,551,208.49
Other Credit Guaranty Program:		
Credit Guaranty Reserve [Sect. 222A(e)]		2,856,687.82
TOTAL NET WORTH — HOUSING AND OTHER CREDIT GUARANTY PROGRAMS		$46,407,896.31
Unfunded Activity		
Unfunded Accrued Annual Leave		$ (125,656.51)
Total Liabilities and Net Worth		$47,756,162.78

The Notes to the Financial Statements are an integral part of this statement.

Statement of Income and Expenses for Fiscal Year 1978

Fee Income	
Latin America	$ 2,631,918.90
Other Regions	2,302,812.73
Total Fee Income	$ 4,934,731.63
Miscellaneous Income	6,279.00
Total Gross Income	$ 4,941,010.63
Operating Expenses	
Personnel Compensation	$ 1,366,576.20
Contractual Services	2,332,925.51
Travel and Related Costs	246,168.21
Miscellaneous Administrative Costs	273,246.80
Agency Support Costs	250,000.00
Total Operating Expenses	$ 4,468,916.72
Net Results of Current FY Operations	472,093.91
Non-operating Expenses: Non-recoverable claims	(3,673,999.90)
Net Income or (Loss) for the Current FY	$(3,201,905.99)
Prior FY Adjustments	113,748.95
Net Loss	$(3,088,157.04)

Statement of Contract Issuing Authority as of September 30, 1978

	No. of Projects	Dollar Amount	Dollar Amount
I. Congressional Authority			
A. Worldwide Housing Guaranties FAA 1969 (Sections 221 and 222)			$1,030,000,000
B. Prior Authority (Section 223)			25,100,000
TOTAL CONGRESSIONAL AUTHORITY			$1,055,100,000
II. Less: Projects Authorized			
Contracts Issued	109	$846,298,740	
Not yet under Contract	23	261,100,000	
TOTAL	132		$1,107,398,740
III. Add: Projects Authorized and fully repaid	4	$10,142,776	
Repayments under active projects	105	89,074,708	
TOTAL REPAYMENTS	109		99,217,484
IV. Balance available for new projects			$ 46,918,744

Notes to Financial Statements

As of September 30, 1978

1. Accrued Fees Receivable

Accrued Fees Receivable include $121,615 relating to subrogated claims.

2. Fee Income

Total Fee Income excludes $63,763 and $91,107 for the current and prior period respectively, representing fee income waived on four housing projects in Peru.

3. Non-recoverable Claims

Total Non-recoverable claims exclude $63,763 and $91,107 for the current and prior period respectively, representing the portion of the claim which was offset by the waiver of the guaranty fee.

4. Contingent Liability

The contingent liability of the U.S. Government under the Housing Guaranty Program is defined as the net amounts of guaranteed loans outstanding. Such amount represents the maximum liability; however, the liability would be offset by available program reserves established by borrowers and host government and other guaranties applicable to certain of the loans as shown below:

Maximum contingent liability		$679,641,441
Project reserve funds	$ 6,079,812	
Prepayments on hand	446,814	6,526,626
Balance		$673,114,815
Host country guaranties	620,433,033	
Other guaranties	27,118,797	647,551,830
Balance		$ 25,562,985

5. Projection of Estimated Losses

The highest risk of loss portion of the loan portfolio relates to guaranties which do not have a host country or other guaranty. That part of the portfolio amounts to $25.6 million.

The projected estimated claim losses and the effects on program reserves which amount to $43.6 million at September 30, 1978, are shown in the following schedule:

PROJECTED EFFECTS ON PROGRAM RESERVES
(Amount in thousands of dollars)

	FY 79	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88
Program Reserves, beg. of period	$43,551	$42,483	$41,593	$40,801	$40,221	$40,091	$40,264	$40,715	$41,404	$42,826
Fee Income	6,081	7,206	8,208	9,200	10,440	11,622	12,824	14,037	15,467	16,934
Operating Expenses	(5,716)	(6,664)	(7,531)	(8,325)	(9,158)	(10,037)	(10,961)	(11,936)	(12,962)	(14,051)
Non-recoverable Claims	(1,433)	(1,432)	(1,469)	(1,455)	(1,412)	(1,412)	(1,412)	(1,412)	(1,083)	(807)
Program Reserves, end of period	$42,483	$41,593	$40,801	$40,221	$40,091	$40,264	$40,715	$41,404	$42,826	$44,902

6. Project Reserve Funds

As of September 30,1978, project reserve funds were held by various agents in the amount shown below:

	Number of Projects	Total Amount of Reserve	Returnable for benefit of Homeowners	Revertible to A.I.D.
A.I.D. Central Fiscal Agent (American Security Bank)	68	$ 60,944	$ 0	$60,944
U.S. Investors and/or their Agents	21	4,024,208	4,024,208	0
Project Administrators	12	1,994,660	1,994,660	0
TOTAL	101	$6,079,812	$6,018,868	$60,944

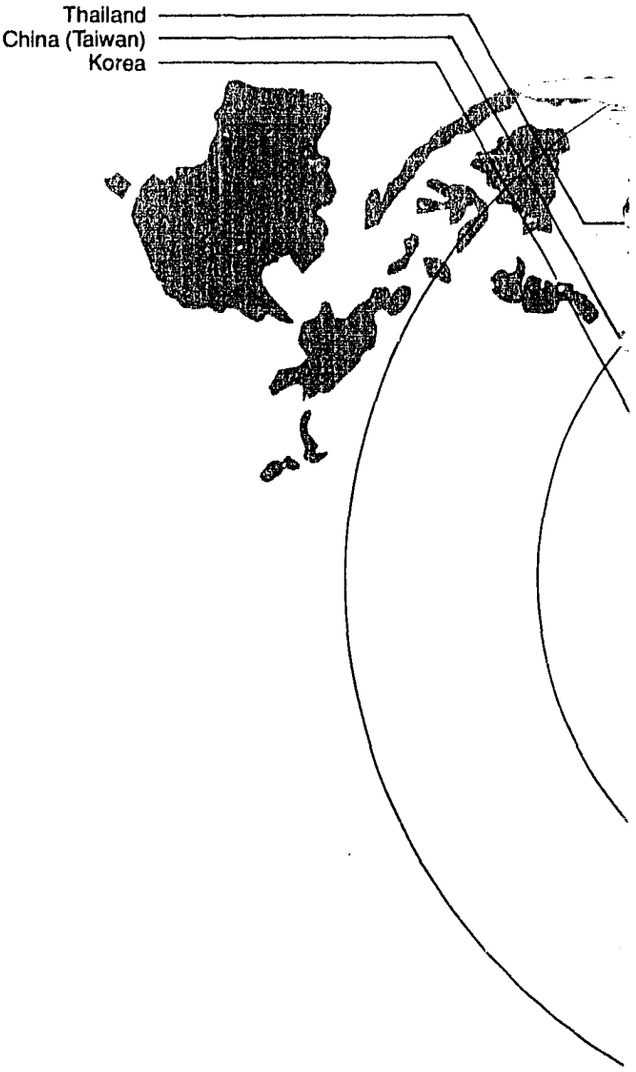
These funds are used to cover delinquencies and protect against activating the A.I.D. guaranty. Deposits made into the reserve fund by various projects are either fungible or restricted, depending on the provisions contained in the Guaranty Agreements. Similarly, upon the repayment of investor's loan, any remaining funds will either return to the homeowners or revert to A.I.D.

7. Pending Litigation

On March 16, 1976, an arbitral award was issued against A.I.D. in favor of a construction corporation formed under the laws of Senegal. The award calls for the payment by A.I.D. of $495,898.45 plus 75 percent of the costs of arbitration. The award is presently the subject of litigation in the United States Court of Claims. The source of funds to be used to pay all or part of the award is currently under consideration. The source of such funds will be either funds provided for regular operations of the A.I.D. Housing Guaranty Program or funds made available to the Department of Justice for the payment of judgments against the United States.

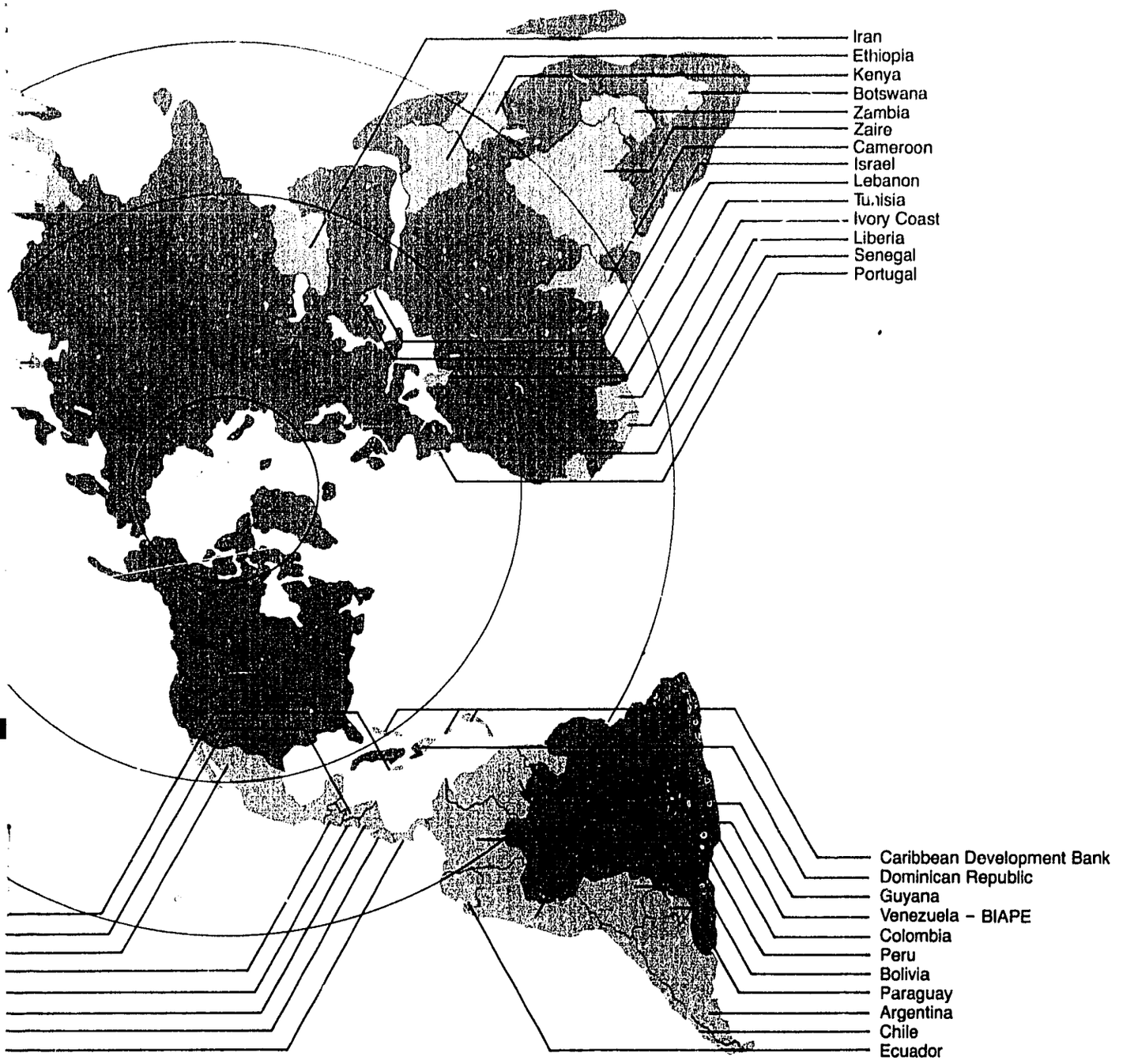
8. FAA Section 223 (b) provides for a reserve which together with accumulated fee income shall be available to discharge liabilities under guaranties. Should the foregoing be insufficient at any time to permit A.I.D. to discharge its obligations, Congress would have to appropriate funds to fulfill the pledge of full faith and credit to which guaranties are entitled. Standing authority for such appropriations is contained in FAA Section 223(e).

Countries in which A.I.D. Guaranties have been authorized



A.I.D. has authorized housing guaranty programs in 35 countries and to three regional institutions as shown on the map on these pages.

Jamaica
CABEI - Honduras
Mexico
Guatemala
El Salvador
Nicaragua
Costa Rica
Panama


Iran
Ethiopia
Kenya
Botswana
Zambia
Zaire
Cameroon
Israel
Lebanon
Tunisia
Ivory Coast
Liberia
Senegal
Portugal
Caribbean Development Bank
Dominican Republic
Guyana
Venezuela - BIAPE
Colombia
Peru
Bolivia
Paraguay
Argentina
Chile
Ecuador

Projects Authorized and Under Contract

Africa

as of September 30, 1978

Country	Number of Projects	Amount Authorized	Amount Disbursed	Outstanding Balance	Reserve Fund Balance In U.S.A.	Reserve Fund Balance In Overseas
Ethiopia	1	1,541,202	1,541,202	1,327,699	(79,862)	
Ivory Coast	3	20,432,792	14,332,792	13,068,245	14,040	
Kenya	3	16,993,073	16,993,073	16,586,440	(35)	
Senegal	1	4,999,997	4,999,997	3,732,834		
Zaire	1	10,000,000	10,000,000	9,492,837		
Totals	9	53,967,064	47,867,064	44,208,055	(65,857)	

Asia

as of September 30, 1978

Country	Number of Projects	Amount Authorized	Amount Disbursed	Outstanding Balance	Reserve Fund Balance in U.S.A.	Reserve Fund Balance in Overseas
Republic of China	1	4,793,417	4,793,417	2,492,296	963,954	
Korea	7	95,000,000	88,500,000	88,202,193	919	
Thailand	1	4,960,149	4,960,149	3,067,691	206,351	314,241
Totals	9	104,753,566	98,253,566	93,762,180	1,171,224	314,241

Latin America

as of September 30, 1978

Country	Number of Projects	Amount Authorized	Amount Disbursed	Outstanding Balance	Reserve Fund Balance in U.S.A.	Reserve Fund Balance in Overseas
Argentina	5	39,721,394	39,721,394	33,285,527	(544,594)	
Bolivia	2	9,600,000	8,200,000	7,811,239		
CABEI[1]	4	44,000,000	44,000,000	42,766,144	(1,417)	
Chile	5	59,690,000	59,690,000	58,527,845	(35,999)	
Colombia	3	26,866,084	26,866,084	13,775,170		
Costa Rica	3	6,598,011	6,598,011	5,396,610	145,671	
Dominican Republic	5	18,949,726	16,309,726	12,032,093	628,679 8,579*	
Ecuador	2	7,396,726	7,396,726	6,913,607	(142,546)	
El Salvador	3	10,900,550	10,900,550	5,479,275	424,635 27,060*	
Guatemala	1	1,500,000	1,500,000	1,321,595	126,221 7,839*	
Guyana	2	1,603,480	1,603,480	983,216	(36,938)	(24,180)
Honduras	4	7,364,785	7,364,785	4,409,865	596,983	105,711
Jamaica	6	40,445,861	24,333,546	20,056,304	(219,272)	
Mexico	2	10,760,032	10,760,032	5,147,089	(32,269)	
Nicaragua	3	15,924,915	15,924,915	12,530,258	389,529 18,194*	50,000
Panama	9	41,172,213	29,772,213	26,938,440	40,821	25,688
Paraguay	1	4,000,000	2,000,000	2,000,000	358	
Peru	7	57,098,100	47,098,100	39,640,655	44,657 2,534*	490,418
Venezuela	9	51,350,659	51,350,659	35,372,653	1,303,641 20,774*	1,032,782
Totals	76	454,942,536	411,390,221	334,387,585	2,688,160 84,980* 53,762[2]	1,680,419

*Interest Guaranty Deposits
[1]Central American Bank for Economic Integration
[2]Interest Guaranty Deposit for Projects fully Repaid

Near East

as of September 30, 1978

Country	Number of Projects	Amount Authorized	Amount Disbursed	Outstanding Balance	Reserve Fund Balance In U.S.A.	Reserve Fund Balance In Overseas
Iran	1	7,500,000	7,500,000	7,260,439		
Israel	5	150,000,000	150,000,000	148,616,376		
Portugal	2	40,000,000	30,000,000	30,000,000	(3,293)	
Tunisia	3	24,992,798	23,705,298	21,406,806	57,307	
Totals	11	222,492,798	211,205,298	207,283,621	54,014	

Total Projects Authorized and Under Contract

as of September 30, 1978

	Number of Projects	Amount Authorized	Amount Disbursed	Outstanding Balance	Reserve Fund Balance In U.S.A.	Reserve Fund Balance In Overseas
Africa	9	53,967,064	47,867,064	44,208,055	(65,857)	
Asia	9	104,753,566	98,253,566	93,762,180	1,171,224	314,241
Latin America	76	454,942,536	411,390,221	334,387,585	2,688,160	1,680,419
					84,980*	
					53,762[2]	
Near East	11	222,492,798	211,205,298	207,283,621	54,014	
Subtotal					3,986,283	1,994,660
Interest on CD's					98,869	
Totals	105	836,155,964	768,716,149	679,641,441	4,085,152	1,994,660

*Interest Guaranty Deposits
[2]Interest Guaranty Deposit for Projects fully Repaid

Projects Authorized And Fully Repaid

Latin America

Country/Project	Project Number	Amount Authorized	Amount Disbursed	Paid by Borrower	Paid by A.I.D.
Guatemala					
Capital City	520-HG-001/I	$ 1,500,000	$ 1,500,000	$1,500,000	—
Capital City	520-HG-001/II	1,817,000	1,816,213	1,816,213	—
Banco Granai & Towson	520-HG-002	3,000,000	2,937,462	2,937,462	—
Peru					
Jardines Viru	527-HG-002	3,825,776	3,825,776	1,711,247	2,114,529
Totals		$10,142,776	$10,079,451	$7,964,922	$2,114,529

Claims Against Guaranty

The devaluation of the currency of some countries and other reasons have resulted in shortages in payments received from the Administrators or Borrowers by the Investors for a few projects. These Investors have made claims to A.I.D. to make payment for the amounts of the deficiencies. In addition A.I.D. made full payment of the outstanding loan balance to the Investor on one loan.

Some of these claims are deemed to be fully recoverable by virtue of host country guarantees to reimburse A.I.D. for any payments it makes. In the instance where A.I.D. made full payment of the outstanding loan balance to the Investor, a portion of the loan is recoverable from the remaining payments due from the individual homeowners.

Recoverable Claims

Country/Project	Project Number	Cumulative Claims Incurred (less reimbursements) to 9/30/78
Peru		
Jardines Viru[1]	527-HG-002	$ 503,939
Senegal		
Patte d'Oie[2]	685-HG-001	1,609,498
Zaire		
CNECI[2]	660-HG-001	1,885,509
Total Recoverable Claims		$ 3,998,946

Non-Recoverable Claims

Argentina		
Field Argentina	510-HG-001	$ 2,728,700
Costa Rica		
Desarrollo Urbana	515-HG-003	136,888
Dominican Republic		
COINFO	517-HG-005	650,000
Peru		
Apollo	527-HG-001/I	256,203
Apollo	527-HG-001/II	220,626
Jardines Viru	527-HG-002	1,914,919
Salamanca	527-HG-004	219,874
Jamaica		
Independence City	532-HG-001/I	262,560
Independence City	532-HG-001/II	33,422
Ensom City	532-HG-002	490,594
Montego	532-HG-008	146,393
Mexico		
Matamoros	523-HG-006	88,836
Total Non-Recoverable Claims		$ 7,179,105
Total All Claims		$11,178,051

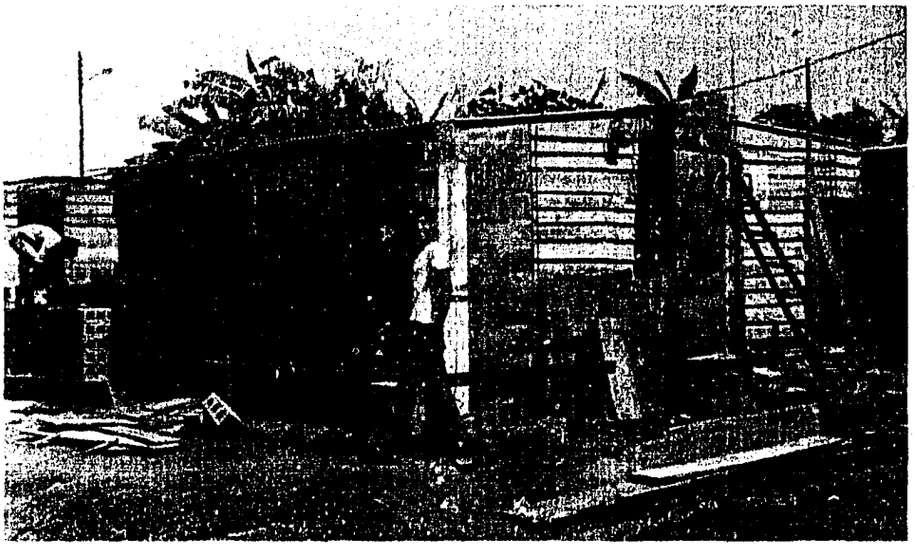
[1] Projected recoveries on this project, converted to U.S. Dollars at the Treasury September 30, 1978, rate of exchange, amount to $503,939.

[2] These claim payments are subject to reimbursement by the Host Government under the Host Government Guaranty Agreements. They do not include penalty interest receivable from the respective Governments.

Shelter
Program Objectives

A.I.D. Policy Determination 55
October 22, 1974

A.I.D.'s goal in the shelter sector is to assist LDCs develop the institutional, technological, and financial capacity to provide shelter under reasonable conditions for all levels of society, with emphasis on government actions to meet the needs of the poor. The Housing Guaranty Authority provides for substantial resource transfers to developing nations. The magnitude of the resources made available through the world's largest international housing program calls for its full integration and coordination with other A.I.D. development objectives and programs. Reasonable shelter is an essential element in the improvement of the quality of life for the poorest majority.



Given the unique characteristics of A.I.D.'s Housing Guaranty Authority, it should be the preferred resource used to assist LDCs meet their housing needs; however, development loan and development grant resources may and should be utilized selectively when they will contribute to A.I.D.'s shelter objectives. All shelter projects, irrespective of the source of financing, should be programmed as an integral element of A.I.D. annual country programming. A.I.D.'s shelter activities will give the highest priority to undertakings submitted by host governments which clearly lead to the improvement in the lives of the poorest of their people. To the extent possible, A.I.D. shelter resources—grant, loans and guaranties—will be invested in projects either directly benefitting low income groups (i.e., the poorer half of a given country or city urban population), or indirectly benefitting such groups through the development of national housing policy and housing institutions. Because of policy and practical constraints within some developing countries, it is not feasible to shift all housing guaranty investment resources immediately into direct financing of projects for poor families. However, an increased proportion of housing guaranty financing will be used for projects that directly benefit low income groups.

A priority objective of A.I.D. shelter strategy is to help the LDCs develop their capabilities for analyzing their housing requirements and developing plans and policies that meet these requirements. By assisting LDCs formulate a rational housing policy which addresses the needs of all citizens, A.I.D. will encourage increased attention to the needs of the poor. As an integral part of negotiation for A.I.D. assistance, the Agency will discuss with the LDC its general housing strategy and alternative means of improving the living conditions of poor people.

A.I.D. programs will also assist developing countries in creating and strengthening the necessary institutional framework to implement their shelter policies. Given the magnitude of the need and the relatively small amount of resources available, A.I.D. assistance should have a strong multiplier effect. By building shelter finance institutions capable of replication on a large scale and encouraging technical and financial innovations, the effect of small resource allocations will be substantial.

A.I.D. shelter assistance will be used to encourage maximum use of unutilized resources (e.g., institutions which mobilize idle savings, encourage self-help housing, and optimize the use of unemployed labor), while minimizing the drain on scarce resources (e.g., existing savings or imports).

A.I.D. will help the developing countries examine alternative interest rate policies. Artificially low interest rates may reduce the flow of private capital into home financing, and exacerbate the scarcity of housing investment funds for lower income groups; whereas, rent payments may reflect returns on capital far in excess of prevailing interest rates (e.g., from 30% to 100% per annum). Public resources are generally inadequate to provide interest subsidies to a substantial number of poor people, and for such families, at non-subsidized rates, their monthly outlays for a home would be less than their current rental payments. Although charged with political sensitivities, interest rate policy is an important subject for an LDC/A.I.D.. dialogue.

A.I.D. will assist LDCs in meeting the minimum shelter requirements of poor families with the limited resources available by:

Advising on the establishment of housing standards that assure the minimum requirements of health and safety and enable the construction of shelters that the poor can afford.

Supporting the "sites and services" approach, which provides poor families with homesites in new tracts of urbanized land with basic supporting infrastructure services on which to build a shelter with their own labor.

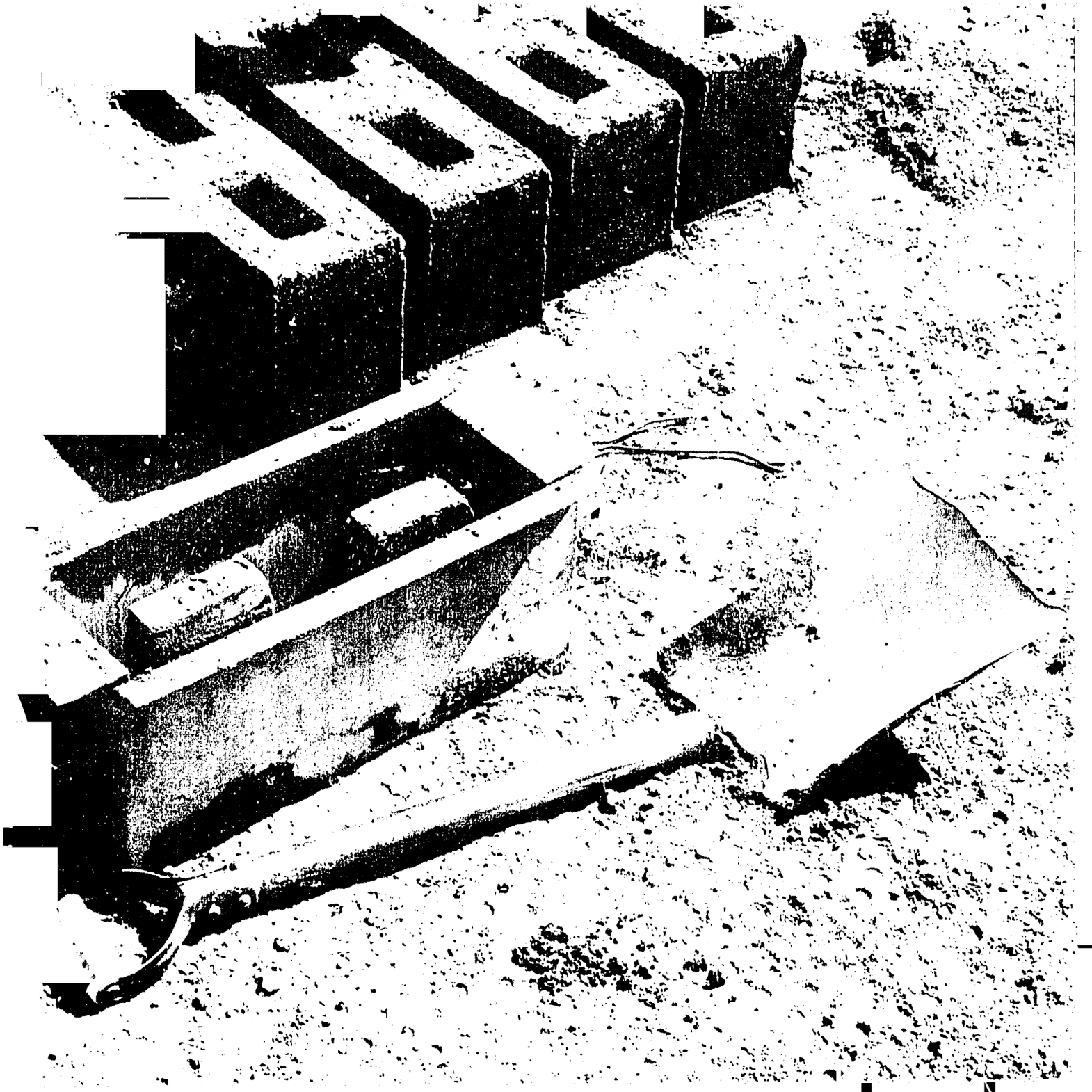
Providing technical assistance in order to develop viable institutions to mobilize savings and provide small credits to families for financing acquisition of their homesites, purchase of building materials, or construction of a core house.

Assisting the developing countries to adapt new housing materials and construction technology to reduce costs or improve the performance of low-cost housing, using United States research and technical capacity that is applicable to LDCs.

In discussions with LDCs, A.I.D. will give careful attention to the effect of home finance institutions on aggregate savings. A.I.D. will encourage projects that provide incentives for families to save more than they otherwise would, and that contribute to the development of capital markets and monetization of household savings.

These criteria will apply to projects for reconstruction of housing destroyed in a national disaster to the extent possible, and wind or earthquake resistant features will be incorporated into replacement housing, whenever feasible.

Subject to competing research needs, A.I.D. may fund from grant, loan, or guaranty fee income, research on shelter sector policy and technological problems of current concern to developing countries. Priority will be accorded to research with worldwide application.



Cooperation With Other Organizations

A.I.D. will encourage an interchange of experience and information among those domestic and international organizations concerned with the shelter sector in LDCs, with particular emphasis on housing policy, institutional development, and the problems of meeting low income shelter requirements.

A.I.D. is prepared to consider supplementing the housing activities of the World Bank or other donors with its own resources when requested by the host country.

Programming Shelter Activities

A.I.D. assistance to developing countries in the shelter sector will respond to the social and developmental priorities of individual applicants.

The identification of shelter needs, the design of projects and programs will be fully integrated with A.I.D.'s country programming. The Housing Guaranty Program will be fully incorporated into the A.I.D. budget review process, the justifications to the Office of Management and Budget (OMB), and the Congressional Presentation.

Development grant and loan funds available under Section 106 of the Foreign Assistance Act of 1973 may be used in support of direct financing of housing for low income families. The Office of Housing will work closely with the Central and Regional Bureaus and Missions to identify opportunities for the use of development loans and grants and to assist in the design of projects. The Bureaus will allocate a portion of Section 106 funds and propose projects where one or more of the following criteria are satisfied. The grant or loan will:

Enhance the effectiveness of housing guaranty funds in reaching low income families.

Enable technical advisory services to help LDC governments formulate national housing policies that respond to the needs of low income families.

Assist in the design of projects that will directly finance low-cost housing.

Facilitate the acceptance by borrowers of the concept of non-subsidized low-cost housing.

Develop models and demonstration of low-cost housing and financial institution-building responsive to the needs of low income groups.

Country Eligibility for Housing Guaranty Loans

Housing guaranty investments are a useful means of transferring private U.S. resources to developing countries which are able to service an increasing volume of foreign loans at prevailing market interest rates, but are experiencing difficulty gaining access as newcomers to the long-term private capital markets. The housing guaranty loan is especially well-suited to the needs of countries in which concessional loans are being phased out.

A prerequisite for authority to begin negotiation of a housing guaranty loan is a determination by the country Mission (or Embassy) and the region concerned that the housing guaranty loan will contribute to social and developmental objectives of the borrower. This determination should be obtained at the "Approval-in-Principle" or IRR stage. High income developing countries which are rapidly accumulating reserves and already have ready access to long-term private capital markets are generally not eligible for housing guaranty loans, except when the Regional Bureau determines that special considerations otherwise justify a guaranty. Very low per capita income countries (including the least developed countries) which will continue to require concessional aid for an indeterminate period are generally not suited for housing guaranty loans, unless compelling circumstances justify.

The eligibility of countries for housing investment guaranty loans will be determined on a case-by-case basis at the time a request for Housing Guaranty assistance is received and will be based upon an analysis of the country balance of payments prospects, debt servicing capability, and development investment needs.

As in the past, A.I.D. will, in the future, consider sympathetically requests for assistance for shelter reconstruction following national disasters (i.e., an earthquake or flood).

Community center and clinic

Urbanization and the Urban Poor

A.I.D. Policy Determination 67
May 27, 1976

Introduction

This policy determination provides guidance for program development to address the problems of the urban poor under current foreign aid legislation. The determination recognizes the need to deal with some of the critical problems of the urban poor which constrain development and to understand better the process of urbanization as it relates to development. It emphasizes the opportunities for use of existing legislative authorities and program tools to work in this field. It assumes project development and implementation in close collaboration with developing country institutions.

Background

A.I.D.'s resources have been devoted increasingly to the needs of the poor majority in developing countries. The needs of the poor majority are enormous, and A.I.D.'s resources are limited. Programs are focussed on the rural poor, the most numerous and generally the least advantaged of the poor majority. Because increased food production is basic to improving the quality of life for the poor in general, the small farmers, as food producers, are a major concern. A.I.D. has recognized the need to support food production efforts with related administrative, economic, and social institutions and services and with complementary employment and productive opportunities off the farm. This recognition has broadened A.I.D.'s concern to include rural development which embraces market towns and small cities as well as farms and villages.

Rapid urbanization effects rural areas, too, and there is increasing awareness of the interrelatedness of "rural" and "urban" places and functions in the development process. At the same time there has been a growing recognition in A.I.D. and outside of the problems of the urban poor per se. They are increasing rapidly in number — in the cities of many developing countries more than 50% of the population is reported to be living in squatter settlements and slums — and are straining existing urban facilities, services, and other resources, as well as the ability of the national economy to be responsive. Some of the worst poverty can be found in large cities. Effective access of segments of the urban poor to employment and services may be as bad as for the rural poor.

A.I.D.'s early recognition of these factors was contained in the rationale for the current urban development program. (See "Guidance Statement on Urban Development," PD-54, June 15, 1973.) Relevant U.S. expertise is substantial and is sought increasingly by developing countries and other donors as they work on this wide range of matters.

These considerations led to the recent policy development exercise in the Agency, which included also an inquiry into current agency programs and projects for the direct and indirect benefits gained by the urban poor. This study concluded that many of A.I.D. sectoral activities in population planning, health and selected development problems, as well as in Housing Guaranty and PL 480 programs, affect significantly the urban poor.

The Foreign Assistance Act was changed last year to add language to Section 103 (food, nutrition, and rural development) to focus on important off-farm and town-centered activities and to Section 105 (education and human resources) to include attention to the urban poor. Section 106 (selected development problems) was spelled out more clearly to indicate program emphases, and a new Section 107 (intermediate technology) was added. The relevant sub-section of Section 106 is as follows:

(6) programs of urban development, with particular emphasis on small, labor intensive enterprises, marketing systems for small producers, and financial and other institutions which enable the urban poor to participate in the economic and social development of their country.

The Housing Guaranty program and PL 480 authorities were amended to ensure these programs address the development problems of poor people. (See also "Shelter Program Objectives," PD-55, revised October 22, 1974.) Both programs — especially Housing Guaranty — have been urban-oriented. In addition, the private and voluntary organizations (PVOs) have been involved heavily in the PL 480 program.

Policy Guidelines

1. The primary focus of A.I.D. programs and projects will continue to be on rural areas and on the rural poor. Included are those among the poor majority who live and work in villages, market towns, and those small cities which are centers of rural regions. Effective rural development requires the development and integration of these places to provide markets, services, employment and balanced growth. A.I.D. needs to and will step up this aspect of its rural development efforts.

2. A.I.D. will continue to be interested in broad developmental issues; among them, the process of rapid urbanization, regional development, and the problems of the urban poor.

3. The problems of the urban poor will be addressed in the light of national development goals and policies through specific analysis of host country circumstances, particularly the relative well being of urban and rural populations and any urban bias in the allocation of national resources.

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4. Many of A.I.D.'s present programs (especially Housing Guaranty, PL 480, health, population and PVOs) benefit the urban poor. These programs and that of the Office of Urban Development will be continued. Missions are encouraged to analyze and to take account in their programming of how and how much urban populations benefit directly and indirectly from existing and planned projects.

5. New activities designed to benefit the urban poor will consist of R&D and pilot demonstration projects in three areas. In order of priority they are:

a) problems and prospects for employment generation, especially in the formal sector of big cities.

b) improved urban planning (analysis, methodologies, and techniques) and

c) the impact of social welfare programs on big city urbanization and of the relative cost and distribution of current social welfare between rural areas and big cities.

Emphasis will be on projects which seek to demonstrate successful methods and approaches, thus increasing knowledge of how to help the poor majority. Projects which promote active participation of the urban poor in planning as well as implementation will be encouraged.

Roadside market

6. Country program, regional, and central resources will be available for activities which meet the guidelines above (paras. 1-5). With the exception of the Housing Guaranty Program, A.I.D. does not expect to have sufficient resources to make significant capital investments in major cities.

7. The collaborative style with host countries is assumed. Collaboration with other donors in project identification, development, and implementation for the urban poor will be sought.

8. A.I.D. will be responsive also to requests for country-funded technical assistance (Section 607 and 661 of the FAA) to address the problems of the urban poor and to requests for help to urban areas which have experienced natural disasters.

Program Implications

The urban poor are to be included in Agency programming to the extent that analysis of specific country situations indicates that this should be done as part of the overall strategy of helping the poor majority, that opportunities and support for effective projects in urban areas exist, and the primary focus of the program on the rural areas and their associated urban linkages permits.

Recognition that the urban poor are a legitimate target population requires enhancement of our understanding of the similarities, differences, and relationships of urban poverty and rural poverty and of ways of dealing with them.

The inclusion of the urban poor as an Agency concern calls for greater awareness in all project design and implementation of the impact of Agency programs, in order to insure that the designated target population, whether rural, urban, or both, actually does benefit.

Research and development and pilot demonstration projects should increase developing country and Agency understanding of the practical significance for policy and program of such things as the different poverty problems in cities, towns, and villages; the degrees of access to productive employment and to services and resources among poor people in different locations; the dynamics of migration to and from cities and towns; and conflicting interests of different groups among the poor majority. Replicability will be a key criterion in selecting and undertaking these projects.

Revisions in the Foreign Assistance Act and Agency policy determinations reemphasize the need to use Housing Guaranty and PL 480 authorities to address problems of the poor majority. These special authorities can be combined with A.I.D. resources. The leverage from both of these special authorities can help influence policy and program development in developing countries. More attention needs to be given to their use in market towns and small cities in rural areas. The focus should be on investment and productive activities which increase employment opportunities, basic facilities and services as well as the poor majority's access to them.

By itself, the Housing Guaranty authority can be used for housing and related community facilities such as power, water, and sewer lines within a community or housing project area; basic slum and squatter upgrading; and sites and services. Current squatter upgrading and sites and services projects in several countries are examples.

Under the PL 480 authority, there are already food-for-work programs which are used to help develop food transport and storage facilities for small farmers and urban infrastructures; nutrition programs in conjunction with health and family planning clinics; and feeding center programs — programs to "directly improve the lives of the poorest... people and their capacity to participate in the development of their countries."

Where a decision has been made to do something, the expertise and other capabilities of private and voluntary organizations and of the private business sector should be enlisted to help with the problems of the urban poor. They can be especially helpful in assisting developing countries innovatively with the small producer sector, appropriate technology, delivery of services, technical and skills training, and participatory organizations.

The initiative for programming for urbanization and the urban poor may be taken by an A.I.D. field mission or by a regional or central bureau in A.I.D./Washington.

Foreign Assistance Act of 1961, as amended 1978

TITLE III — Housing and Other Credit Guaranty Programs

SEC. 221. HOUSING GUARANTIES. — The Congress recognizes that shelter requirements are among the most fundamental of human needs. Shelter for most people in the developing countries consists largely of domestic materials assembled by local labor. While recognizing that most financing for such housing must come from domestic resources, the Congress finds that carefully designed programs involving United States capital and expertise can increase the availability of domestic financing for improved housing and related services for low-income people by demonstrating to local entrepreneurs and institutions that providing low-cost housing can be financially viable. The Congress reaffirms, therefore, that the United States should continue to assist developing countries in marshalling resources for low-cost housing. Particular attention should be given to programs which will support pilot projects for low-cost shelter or which will have a maximum demonstration impact on local institutions and national policy. The Congress declares that the long run goal of all such programs should be to develop domestic construction capabilities and to stimulate local credit institutions to make available domestic capital and other management and technological resources required for effective low-cost shelter programs and policies.

SEC. 222. AUTHORIZATION. — (a) To carry out the policy of section 221, the President is authorized to issue guaranties to eligible investors (as defined in section 238 (c)) assuring against losses incurred in connection with loans made for projects meeting the criteria set forth in section 221. The total principal amount of guaranties issued under this title or heretofore issued under prior housing guaranty authorities, which are outstanding at any one time, shall not exceed $1,180,000,000. The authority of this section shall continue until September 30, 1980. The President may issue regulations from time to time with regard to the terms and conditions upon which such guaranties shall be issued and the eligibility of lenders.

(b) Activities carried out under this section shall emphasize —

(1) projects which provide improved home sites to poor families on which to build shelter, and related services;

(2) projects comprised of expandable core shelter units on serviced sites;

(3) slum upgrading projects designed to conserve and improve existing shelter;

(4) shelter projects for low income people designed for demonstration or institution building purposes; and

(5) community facilities and services in support of projects authorized under this section to improve the shelter occupied by the poor.

(c) In issuing guaranties under this section with respect to projects in a country which requires the use or conservation of energy, the President shall give consideration to the use of solar energy technologies, where such technologies are economically and technically feasible. Technologies which may be used include solar hot water systems, solar heating and cooling, passive solar heating, biomass conversion, photovoltaic and wind applications, and community-scale solar thermal applications.

SEC. 223. GENERAL PROVISIONS. — (a) A fee shall be charged for each guaranty issued under section 222 or 222A in an amount to be determined by the President. In the event the fee to be charged for such type guaranty is reduced, fees to be paid under existing contracts for the same type of guaranty may be similarly reduced.

(b) The amount of $50,000,000 of fees accumulated under prior investment guaranty provisions repealed by the Foreign Assistance Act of 1969, together with all fees collected in connection with guaranties issued under section 222 or under prior housing guaranty authorities, shall be available for meeting necessary administrative and operating expenses of carrying out the provisions of section 222 and administering housing guaranties heretofore authorized under this title and under prior housing guaranty provisions repealed by the Foreign Assistance Act of 1969 (including, but not limited to expenses pertaining to personnel, supplies, and printing), subject to such limitations as may be imposed in annual appropriation Acts; for meeting management and custodial costs incurred with respect to currencies or other assets acquired under guaranties made pursuant to section 222 or heretofore pursuant to this title prior Latin American and other housing guaranty authorities repealed by the Foreign Assistance Act of 1969; and to pay the cost of investigating and adjusting (including costs of arbitration) claims under such guaranties; and shall be available for expenditure in discharge of liabilities under such guaranties until such time as all such property has been disposed of and all such liabilities have been discharged or have expired, or until all such fees have been expended in accordance with the provisions of this subsection. Fees collected in connection with guaranties issued under section 222A shall likewise be available to meet similar expenses, costs, or liabilities incurred in connection with the programs authorized by that section.

(c) Any payments made to discharge liabilities under guaranties issued under section 222 or heretofore under this title or under prior Latin American or other housing guaranty authorities repealed by the Foreign Assistance Act of 1969, shall be paid first out of fees referred to in subsection (b) (excluding amounts required for purposes other than the discharge of liabilities under guaranties) as long as such fees are available, and thereafter shall be paid out of funds, if any, realized from the sale of currencies or other assets acquired in connection with any payment made to discharge liabilities under such guaranties as long as funds are available, and finally out of funds hereafter made available pursuant to subsection (e).

(d) All guaranties issued under section 222 or 222A or previously under section 240 of this Act or heretofore under this title or under prior Latin American or other housing guaranty authority repealed by the Foreign Assistance Act of 1969 shall constitute obligations, in accordance with the terms of such guaranties, of the United States of America and the full faith and credit of the United States of America is hereby pledged for the full payment and performance of such obligations.

(e) There is hereby authorized to be appropriated to the President such amounts, to remain available until expended, as may be necessary from time to time to carry out the purposes of this title.

(f) In the case of any loan investment guaranteed under section 222, the agency primarily responsible for administering part I shall prescribe the maximum rate of interest allowable to the eligible investor, which maximum rate shall not be less than one-half of 1 per centum above the then current rate of interest applicable to housing mortages insured by the Department of Housing and Urban Development. In no event shall the agency prescribe a maximum allowable rate of interest which exceeds by more than 1 per centum the then current rate of interest applicable to housing mortgages insured by such Department. The maximum allowable rate of interest under this subsection shall be prescribed by the agency as of the date the project covered by the investment is officially authorized and, prior to the execution of the contract, the agency may amend such rate at its discretion, consistent with the provisions of subsection (f).

(g) Housing guaranties committed, authorized, or outstanding heretofore under this title or under prior housing guaranty authorities repealed by the Foreign Assistance Act of 1969 shall continue subject to provisions of law originally applicable thereto and fees collected hereafter with respect to such guaranties shall be available for the purposes specified in subsection (b).

(h) No payment may be made under any guaranty issued pursuant to this title for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible.

(i) * * * [Repealed—1978].

(j) Guaranties shall be issued under section 222 only for housing projects which (1) except for regional projects are in countries which are receiving, or which in the previous two fiscal years have received, development assistance under chapter 1 of part I of this Act, (2) are coordinated with and complementary to such assistance, and (3) are specifically designed to demonstrate the feasibility and suitability of particular kinds of housing or of financial or other institutional arrangements. Of the aggregate face value of housing guaranties hereafter issued under this title, not less than 90 per centum shall be issued for housing suitable for families with income below the median income (below the median urban income for housing in urban areas) in the country in which the housing is located. The face value of guaranties issued with respect to housing in any country shall not exceed $25,000,000 in any fiscal year, and the average face value of guaranties issued in any fiscal year shall not exceed $15,000,000. Notwithstanding the provisions of the first sentence of this subsection, the President is authorized to issue housing guaranties until September 30, 1978, as follows: In Israel, not exceeding a face amount of $75,000,000, in Portugal, not exceeding a face amount of $30,000,000, and in Lebanon, not exceeding a face amount of $30,000,000.

SECTION 238. DEFINITIONS.—As used in this title—

(c) The term "eligible investor" means: (1) United States citizens; (2) corporations, partnerships, or other associations including nonprofit associations, created under the laws of the United States or any State or territory thereof and substantially beneficially owned by United States citizens; and (3) foreign corporations, partnerships, or other associations wholly owned by one or more such United States citizens, corporations, partnerships, or other associations: Provided however, That the eligibility of such foreign corporation shall be determined without regard to any shares, in aggregate less than 5 per centum of the total issued and subscribed share capital, held by other than the United States owners: Provided further, That in the case of any loan investment a final determination of eligibility may be made at the time the insurance or guaranty is issued; in all other cases, the investor must be eligible at the time a claim arises as well as the time the insurance or guaranty is issued.

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