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Housing Guaranty Program

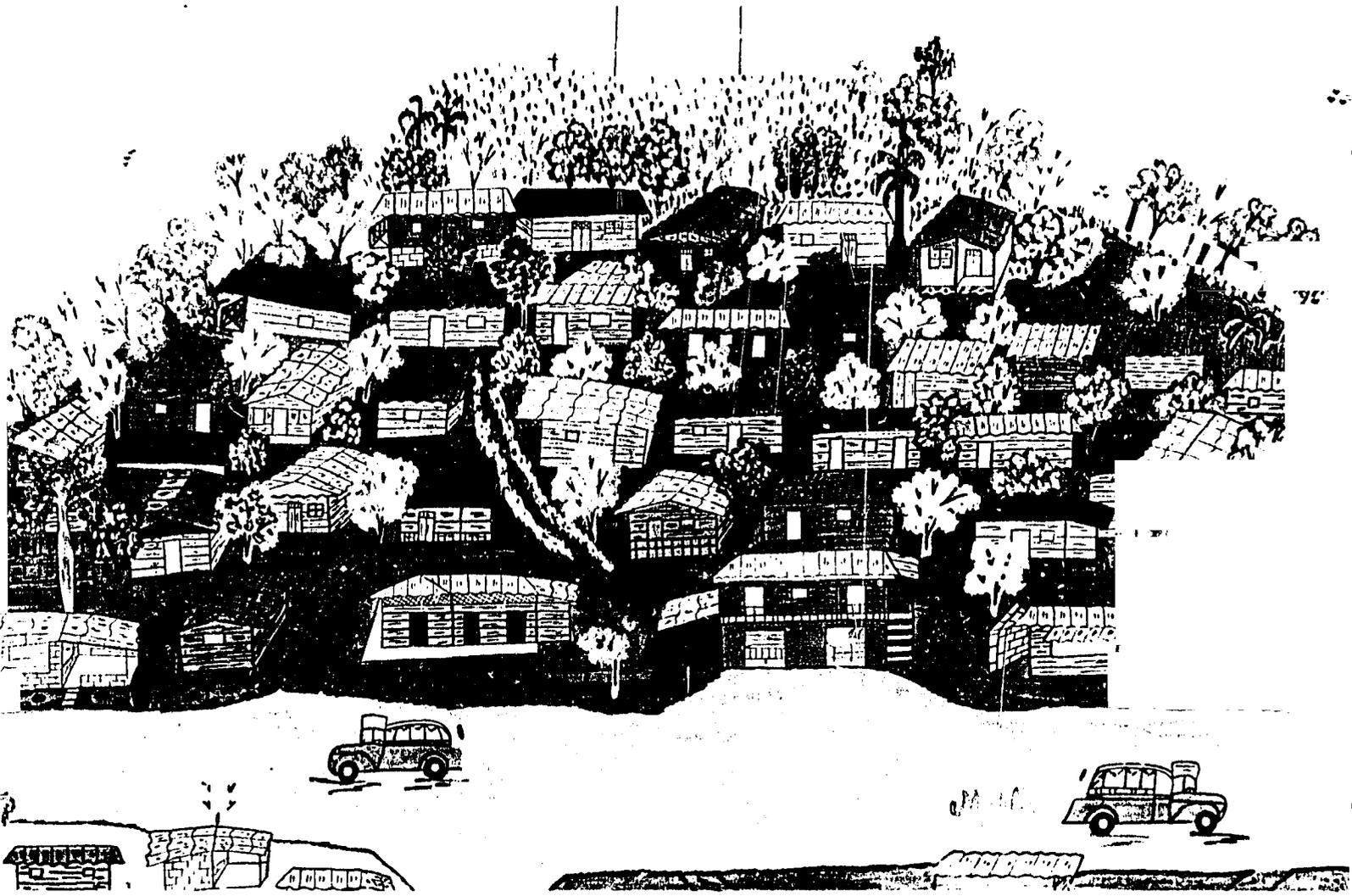
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Annual Report
Fiscal Year 1979

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OFFICE OF HOUSING

AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

The Office of Housing is pleased to present its FY 1979 Annual Report. We are especially gratified to be able to issue this final report of the decade with the notation that the Office has housing programs in 50 countries, most of them financed by the Housing Guaranty Program.

A.I.D.'s Office of Housing is committed to the proposition that it should be possible for all to have a roof overhead, a clean place to live, and access to potable water and other services in this century. The key direction is one which features realistic solutions for everyone, rather than unrealistic ones for the few. Obviously, it is not possible to finance the world's housing from abroad and most resources will have to be raised locally. However, the United States is committed to provide continuing assistance to those countries with a clear commitment to resolve the shelter problems of poor families.

It is in this spirit of cooperation that this Annual Report is issued.

Sincerely,



Peter M. Kimm
Director
Office of Housing

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Cover art: "Turkey Hill," a squatter settlement in Panama City, was painted by the 16 year old Panamanian student Montilla in 1967.



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 worldwide 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 \$1.2 billion in Housing Guaranty loans have been authorized for 137 projects in 36 nations and to three regional institutions.

This is a unique A.I.D. activity in which U.S. private sector 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. lenders for losses. Maximum interest rates to lenders 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.

In 1978, with the increasing recognition that shelter development and community development are interdependent, the authorizing legislation was amended to allow the financing of community facilities and services with Housing Guaranty loans. Such facilities could include, for example, schools, health clinics and community centers, job skill training centers, employment offices, markets, small industry centers, and post offices.

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 or Embassy 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 shelter 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
1979
PROGRAMS

In the past fiscal year, from October 1, 1978 to September 30, 1979, A.I.D. continued to focus its resources on the problems of lower income families.

The Housing Guaranty Program finances the following kinds of projects:

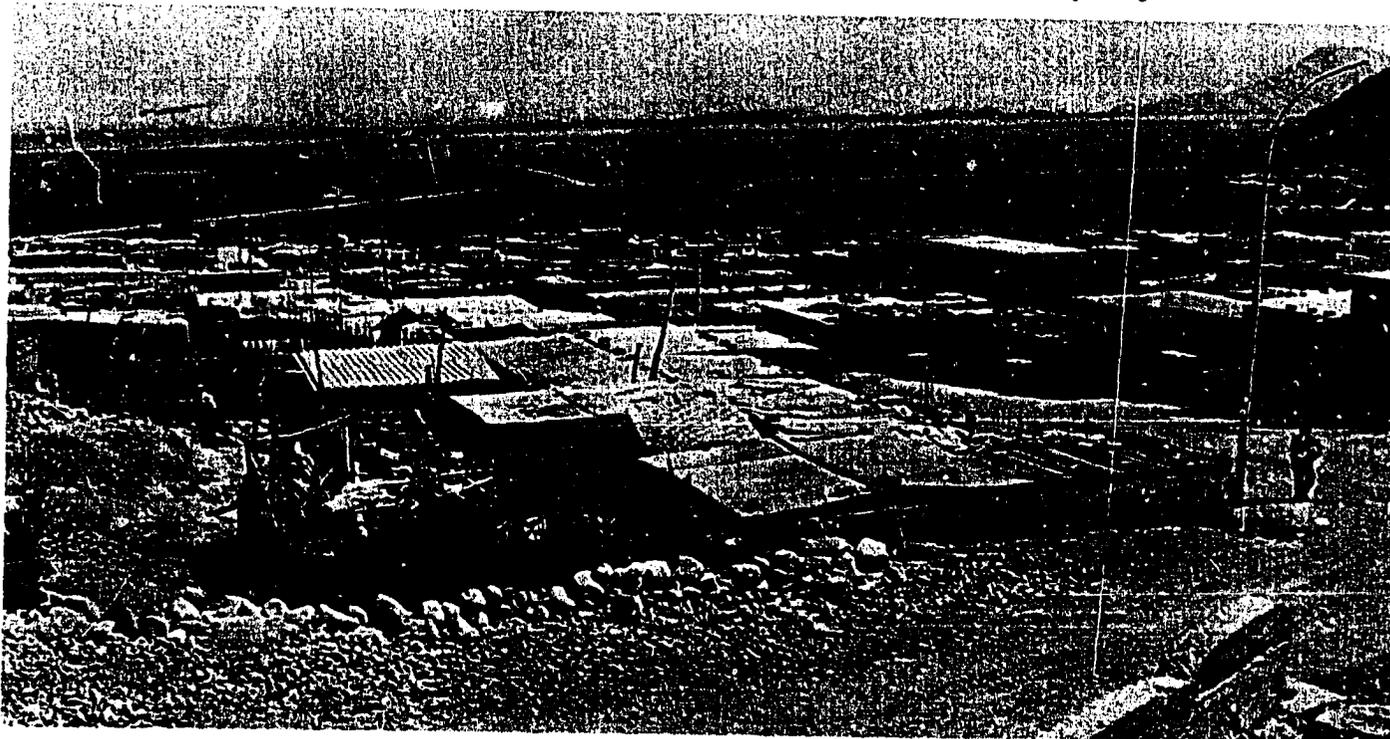
Slum and squatter settlement upgrading, including provision of potable water, sewage disposal systems, electricity, roads, and drainage to be complemented by home improvement loans to slum dwellers.

Sites and services, including preparation of vacant land for productive shelter use through lot division and installation of water lines, sewage disposal systems, roads, and drainage. This will be followed by self help home construction by low income buyers of the lots. This type of program may include training programs and building materials loans for self help builders and small scale contractors.

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. Building materials loans may be provided.

Low cost housing units for sale or rental.

Community facilities and services (schools, health clinics, markets, job skill training centers, etc.) in support of each type of project can also be financed by the Housing Guaranty Program.



Water lines, sewage disposal systems, and electricity are being installed in this pueblo joven, or legalized squatter settlement, as part of a Housing Guaranty project in Peru.

Best Available Document

Each project is designed to assist the participating institutions to define and clarify national housing policies, and to strengthen their capacity to plan, finance, and implement housing projects for the poor.

Nine new Housing Guaranty loans totaling \$145 million were authorized for guaranty by A.I.D. this year. U.S. lenders signed \$68.4 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 the U.S. Government should the borrower default.

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

Bolivia - \$8 million was authorized to be loaned to the National Housing Bank and the Central Savings and Loan System, with \$4 million going to each institution. The purpose of the loans is to provide low cost shelter solutions (principally home improvements and core housing units) in Bolivia's urban and rural areas for approximately 5,000 families. In addition, a \$320,000 A.I.D. grant provides technical assistance in project implementation and housing policy formulation to these institutions. A total of \$2,810,000 will be provided by the Bolivian institutions as counterpart to the Housing Guaranty project and grant.

Central American Bank for Economic Integration (CABEI) - \$25 million was authorized to be loaned to CABEI for low cost and core housing. CABEI will contribute \$50 million for the provision of low and moderate cost housing. Low cost housing solutions will be provided to approximately 7,800 families in Costa Rica, El Salvador, Guatemala, and Honduras. The project will help CABEI establish a viable secondary mortgage market capable of supporting housing finance institutions and housing projects for the poor in Central America.

Kenya - \$17 million, the first part of an approved \$25 million program, was authorized to be loaned to the Nairobi City Council for a low income shelter project. The loan will finance serviced sites, core houses, building material loans, community facilities, and small business assistance in Nairobi for approximately 34,000 people. The project includes a \$175,000 grant to improve social services in conjunction with the Housing Guaranty. An estimated 82,000 people will use the community facilities, including schools, health clinics, markets, small industries, etc., which should generate about 1,000 jobs.

Liberia - \$10 million, in conjunction with a \$5 million Economic Support Fund grant, was authorized to be loaned to the National Housing and Savings Bank for a program that includes more than 1,100 sites and serviced plots; loans for construction materials or home improvements for about 2,000 low income families; and infrastructure for about 5,000 families in low income neighborhoods, all in Monrovia. A secondary city pilot project is also planned.

Morocco - \$15 million, the first part of an approved \$25 million program, was authorized to be loaned to the Government of Morocco for upgrading the Ben M'Sick squatter area of Casablanca. The project aims to improve the living conditions of the more than 79,000 residents of Ben M'Sick. It includes the upgrading of about 9,900 homes (provision of secure land tenure, sewerage, water, and electricity); construction of about 1,200 core houses; and \$5 million for home improvement loans. The project will promote economic activity and employment with the financing of community facilities - training centers, an employment bureau, and two markets - and small loans for commercial construction. The Moroccan Government will contribute \$7.666 million to the program.

Panama - \$25 million, the first part of a planned \$75 million program, was authorized to be loaned to the National Mortgage Bank. The loan will finance community upgrading and renewal in downtown Panama City and Colon - low cost shelter, installation of utilities, streets, and community facilities. It will also finance home improvement loans in peripheral growth areas in these cities and additional shelter and related community services in secondary cities and rural growth centers. This project will ultimately benefit approximately 19,800 families. The Government of Panama will contribute \$20.4 million to the program, which includes technical assistance.

Peru - \$15 million was authorized to be loaned to the National Housing Bank of Peru for the financing of water, sewerage, drainage, and electricity to residents of pueblos jóvenes (legalized squatter settlements) in Lima and other cities. Approximately 11,500 electrical, 9,900 water, and 8,600 sewerage connections will be provided. The funds will be channeled through the National Housing Bank to the savings and loan system, which will contribute \$1.67 million to the program.

Thailand - \$15 million, the first part of an approved \$50 million program, was authorized to be loaned to the National Housing Authority. This loan will support a program that will, when completed, provide over 32,000 core houses in site and service communities and the upgrading of slums with approximately 26,000 homes. A.I.D. will provide technical assistance in project design and housing policy development. Additional funding for some projects will come from the Asian Development Bank and the World Bank.

Tunisia - \$15 million, the first phase of an approved \$50 million program, was authorized to be loaned to the Caisse National d'Epargne-Logement (a national savings and loan institution). This loan will support a program that will ultimately include approximately 3,500 core housing units, 1,700 sites and services plots, 900 construction loans, 300 home improvement loans, and the upgrading of 8,700 slum homes in towns in Tunisia, reaching a total of 16,100 households. The Tunisian contribution to the program will be \$37.9 million.

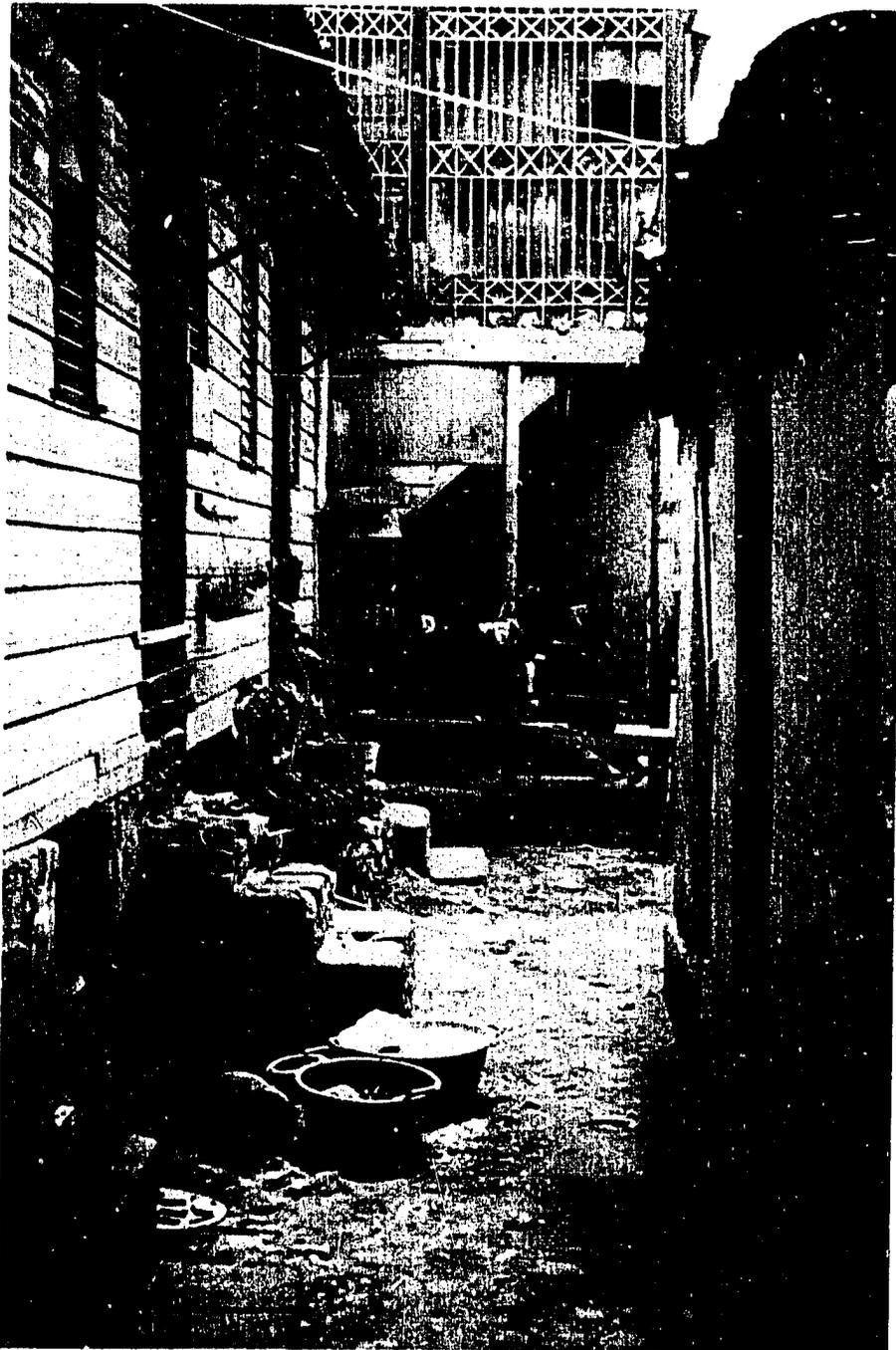
In summary, FY 1979 activity and cumulative totals are as follows:

	(Millions)	
	FY 79	Total
Authorizations	\$145	\$1,242.3
Contracts Signed	68.4	904.6
Disbursements	96.2	864.9

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.



A Kingston, Jamaica community that will receive home improvement loans and infrastructure improvements as part of a Housing Guaranty project

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 to 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

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.

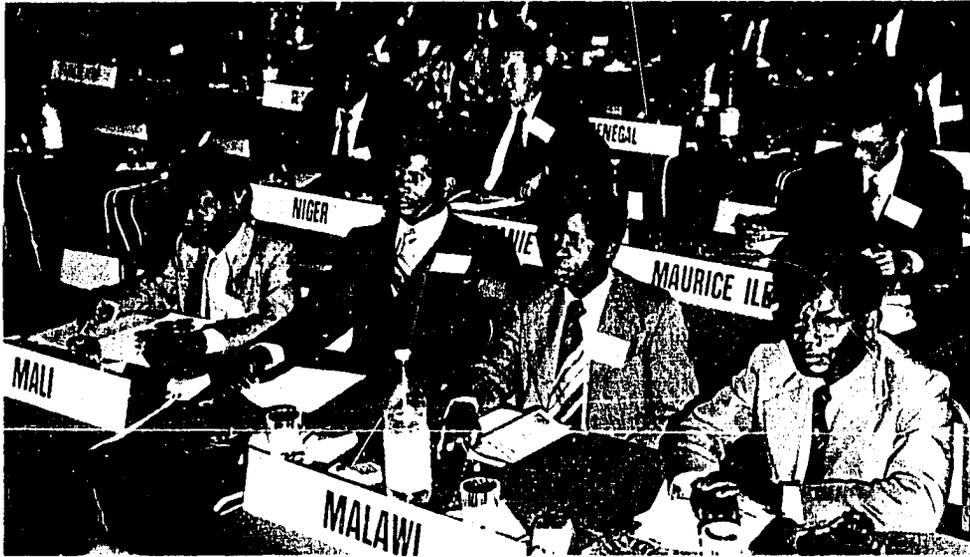
The Office of Housing conducts an Initial Environmental Examination (IEE) prior to the development of all Housing Guaranty projects. The IEE defines the critical areas of concern which must be addressed as specific projects are developed. These are addressed continually during project design and implementation.

New Program Directions

A major new emphasis of the Housing Guaranty Program is the financing of community facilities (such as job training centers, health and community centers, markets, schools, credit facilities, etc.), in addition to shelter, with Housing Guaranty loans and accompanying A.I.D. grants. This generates a more comprehensive range of development and facilitates integration of Housing Guaranty projects with other development programs. This initiative results from the growing recognition of the interdependence of the many development sectors.

The Costa Rican Urban Employment and Community Improvement Program, which was authorized in 1978, is an example of such an integrated approach to urban development and housing. The project includes an \$11.4 million Housing Guaranty loan and a \$5.5 million development loan for employment generation and policy development activities. The Housing Guaranty loan is projected to benefit low income families in San Jose, Costa Rica by financing: loans for purchasing legal titles to lots occupied by squatter families; home improvement loans for homes owned or rented by low income families; mortgages in sites and services projects; and revolving community funds for upgrading infrastructure and facilities in low income areas.

Employment opportunities for these low income residents will be created through training and placement of the unemployed and underemployed in positions as mechanics, seamstresses, tailors, salespersons, construction workers, machine operators, etc., and through investments in small businesses that utilize unskilled and semi-skilled manpower. This development loan will also finance urban planning and policy and program coordination for the project, with the principle objectives of insuring the replicability of this project and the development of national policies in housing and employment generation that meet the needs of the urban poor.



Sixth Conference on Housing in Africa, Rabat, Morocco - 1979

Additionally, through A.I.D.'s Productive Credit Guaranty Program, access to credit for poor farmers and small businessmen who have been unable to obtain loans through normal banking channels will be made possible. The Costa Rican government is contributing \$11.39 million to the project and will be providing social services and educational facilities.

In several of the Housing Guaranty projects authorized this year, e.g., the Panama, Kenya, and Morocco programs, community facilities and services will be funded in addition to shelter.

Other new emphases of the Housing Guaranty Program are:

1) Benefits and opportunities for women, including access to home financing and other forms of credit, job skill training, health care, and public services.

2) Incorporation of Housing Guaranty activities in A.I.D.'s policy and action plan in support of the United Nations "Water Decade." It is estimated that at least 23% of Housing Guaranty project costs are spent on provision or improvement of sanitary water and sewage disposal systems, and this proportion is steadily increasing.

3) Exploring applications of solar energy, energy conservation technologies, and alternative energy sources to low cost shelter.

4) Greater collaboration with other donors, such as the World Bank, the Asian Development Bank, and the Interamerican Development Bank.

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 Seventeenth Inter-American Savings and Loan Conference,* of which the Office of Housing was a co-sponsor, was held in Rio De Janeiro, Brazil in May, 1979. Over 500 delegates from most of the western hemisphere nations attended. The housing finance institutions in Latin America that they represent are among the strongest in the developing world; combined mortgage loans of these systems exceeded \$20 billion at the end of 1978.

*This conference was sponsored by the Inter-American Savings and Loan Union and co-sponsored by A.I.D., the National Savings and Loan League, the U.S. League of Savings Associations, the Interamerican Savings and Loan Bank, the National Housing Bank of Brazil, the Brazilian Association of Real Estate Credit and Savings Agencies, the Productivity and Expansion Center, and the Brazilian Savings and Loan System.

In FY 1979 the Office of Housing co-sponsored a series of meetings on "Human Settlements Finance and Management" with the United Nations Habitat and Human Settlements Foundation. The meetings were held in Nairobi, Kenya in October; in Mexico City, Mexico in November; and in Manila, Philippines in June.

The Office of Housing was also a co-sponsor of the Seventh Central American Housing and Urban Development (COPVIDU) Conference held in Panama City in September, 1979 and the Sixth COPVIDU Conference held in San Jose, Costa Rica in October, 1978.

The Office was represented on the U.S. delegation to the U.N. Commission on Human Settlements meeting in Nairobi in March-April, 1979. The Office also participated in the meeting of the Inter-Agency Committee on Human Settlements at the Organization of American States in Washington, D.C. in July, 1979 and in the A.I.D.-sponsored Colloquium on Development Needs and Opportunities for Cooperation in Southern Africa in Washington, D.C. in January.

During the year, preparations were made for the Sixth Conference on Housing in Africa, to be co-sponsored by the Office of Housing in Rabat, Morocco in October, 1979. 180 delegates from 28 countries in Africa and the Near East were expected to attend the conference, which was to focus on the economics of shelter for low income households.

A shelter training workshop for senior professionals from developing countries, to be held in Washington, D.C. in November, 1979, was designed and developed by the Office. More than 30 candidates from 18 countries were accepted by the Office to attend the first offering of this workshop, entitled "Preparing Shelter Policies, Programs, and Projects for Urban Settlements."

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

Botswana - Development of self help shelter construction techniques and training programs, and assistance in planning and implementation of sites and services projects. Preparation of a shelter sector assessment update.

Cameroon - Continued long term resident technical assistance in the development of an institutional framework to plan and implement shelter projects.

--Assistance to the Credit Foncier in formulating a financial plan for applying its resources to government housing programs.

Ivory Coast - Assistance to the Ministry of Construction and Urbanism in planning low income shelter projects and programs.

--Assistance to the National Savings and Loan Bank in staff development and training for public fund management and financial intermediary roles.

Kenya - Design and environmental work in preparation for Kenya shelter projects.

--Technical assistance in the development of a national cooperative housing agency.

Lesotho - Continued assistance in developing a building materials production system.

Liberia - Provision of long term resident team to assist the National Housing Authority in institutional development and assistance in housing policy development.

Malawi - Assistance in preparation of urban program proposals.

Mauritania - Preparation of a shelter sector assessment.

Mauritius - Pilot project to determine the acceptability of low cost, expandable core housing that is affordable by low income families.

Niger - Resident technical assistance to assist the Government in the development of low cost housing delivery systems.

Somalia - Continued assistance in planning a settlement area for displaced Somalian nomads.

Sudan - Preparation of a shelter sector assessment.

Togo - Provision of a long term resident team to assist the Government in the design and implementation of sites and services and upgrading projects targeted to very low income families.

Asia Region

Korea - Review of area development plans for upgrading projects and assistance in project design.

--Assistance in the development of evaluation systems.

--Study of credit unions in Korea and analysis of the Korea Housing Bank.

Thailand - Analysis of the National Housing Authority's sites and services and slum upgrading programs.

Latin America and Caribbean Region

Bolivia - Provision of a long term resident advisor to assist in the implementation of Housing Guaranty projects in Bolivia.

Central American Bank for Economic Integration (CABEI) - Case study/evaluation of CABEI to assess the impact of the Housing Guaranty Program on CABEI and the success of shelter programs financed by CABEI.



Self help construction

Costa Rica - Assistance in the establishment of a national mortgage bank and in national housing policy formulation.

--Design for an intensive evaluation of the current Housing Guaranty project.

El Salvador - Work with housing finance institutions on the creation of a secondary mortgage market.

Guatemala - Analysis of a proposed savings and loan law to determine if it would effectively mobilize capital for financing low cost shelter.

--Preparation of an urban poverty study.

--Administrative survey of the National Housing Bank.

--Sewage treatment systems study for the National Housing Bank.

Honduras - Work with INVA, the National Housing Institute, on environmental design, architectural planning, and socio-economic assessment of potential program beneficiaries.

--Urban study to identify community development activities and social services that should accompany a Housing Guaranty project.

--Assistance to FEHCOVIL (a cooperative housing federation) in the development of pilot employment generation projects to complement construction activity.

Interamerican Savings and Loan Bank (BIAPE) - Technical assistance on the development of a secondary mortgage market and marketing to attract and place funds destined to finance low cost shelter.

Jamaica - Plans for employment generating activities to be integrated with urban upgrading projects in the current Housing Guaranty project.

--Assistance to the Jamaica Cooperative Credit Union League in promotion of its rural home improvement loans.

Panama - Provision of a long term resident advisor to assist in the implementation of the Housing Guaranty project authorized this year.

--Provision of a financial analyst to Panama's National Mortgage Bank and the Nuevo Chorrillo Housing Cooperative to help strengthen management and financial reporting capabilities.

Paraguay - Assistance to housing organizations in institutional development.

Peru - Preparation of a shelter sector assessment update and assistance in improving project review and delivery systems.

Near East and North Africa Region

Egypt - Continued backstopping assistance in implementing a large scale program in urban upgrading, sites and services, and core housing.

Israel - Training in the U.S. and in Tel Aviv for forty managers of low income rental housing.

Jordan - Provision of a socio-economic consultant to the Mission to assist the Greater Amman Regional Planning effort.

--Assistance in assessing feasibility of installing electronic data processing systems (EDP) similar to those used by U.S. savings and loans.

--Assistance in the mortgage marketing operation of the Jordan Valley development program.

Lebanon - Provision of a resident advisor to help plan and implement a home repair and improvement program.

--Training seminars in the U.S. for Lebanese policy-makers and managers in the housing industry.

--Recruitment of short term advisors for the new Lebanese housing bank.

Morocco - Census, socio-economic survey, and technical studies to assist planners working in the Ben M'Sick urban upgrading project in Casablanca.

Tunisia - Assistance in planning the large low cost shelter project authorized this year.

Technical Services Paid All or in Part by Requesting Countries Were Provided As Follows:

Bahrain - Provision of a long term technical advisor.

Dominican Republic - Technical assistance to the National Savings and Loan Bank.

Venezuela - Preliminary study on mobilization of additional housing funds for the Venezuelan National Savings and Loan Bank.

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. lender 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 about two years and is repaid during a period of up to 30 years with a ten year grace period on the repayment of the principal. When a mutually agreeable program has been developed, A.I.D. offers to guaranty repayment to any eligible U.S. lender who makes a loan for this program.



Public meeting to discuss plans for community development

ADMINISTRATION AND ORGANIZATION

In FY 1979 the Office of Housing continued 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, under the direction of Peter Kimm, is within A.I.D.'s Development Support Bureau. The central office is in Washington, D.C., with six regional offices in Africa, Asia, and Central America. The Washington office is divided into two functional areas.

The Operations Division provides support to the Regional Housing Offices in the field in the design and implementation of shelter projects and in the development of shelter policies for developing countries. It also coordinates technical assistance for specific country program activities.

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 Regional Housing Offices continue to have the main responsibility for providing assistance to A.I.D. Missions for planning, design, and implementation of Housing Guaranty projects in the following areas:

Office Location - Region

Nairobi, Kenya - East and Southern Africa

Abidjan, Ivory Coast - West Africa

Tunis, Tunisia - Near East and North Africa

Tegucigalpa, Honduras - Central America

Panama City, Panama - Panama and South America

Bangkok, Thailand - Asia (In FY 1979 the Asia Regional Office was moved from Seoul, Korea to Bangkok, Thailand.)

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 administrative expenses of the program. During FY 1979 as in prior years virtually all fee income was expended for operations, program development, and monitoring, and the provision of related technical assistance.

Fee income for FY 1979 was \$5,103,543, which exceeded administrative expenses by \$425,572. However, non-recoverable claims of \$1,864,505 were incurred. The net decrease to net worth for the fiscal year amounted to \$1,091,364.

In accordance with A.I.D. policy, the Office of Housing utilizes the services of private industry on a consulting basis. The following organizations have been under contract and have 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, Haeckel and Silverblatt/Boone, Young, and Associates

Louis Berger International

Clapp and Mayne

DeVoy Collaborative

Mathematica Policy Research

Robert R. Nathan Associates

Planning and Development Collaborative International (PADCO)

Richard T. Pratt Associates

Rivkin Associates

Latin American Development Corporation

Multi-Family Housing Services

LENDERS

Lenders, sometimes called investors, in 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 lenders 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 lenders selected, the procedures to be used for lender selection, and the terms of loan agreements to be contracted by lenders and borrowers. The following guidelines and policies are normally followed in exercising A.I.D.'s approval rights.

A. Procedure for Lender Selection

In general, A.I.D. requires that prospective borrowers solicit proposals from the widest practicable number of eligible lenders and give fair consideration to proposals received. 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.



Water standpipe serving 2,500 people in a Botswana community

In order to assist a borrower in solicitation efforts, A.I.D. will publish a notice of each prospective A.I.D. guaranteed 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 Lenders

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 (investors). A.I.D. is authorized by statute to make a final determination of eligibility at the time the guaranty is issued if an eligible lender or its nominee (in case the lender is a nominee) is willing to give a representation to the effect that it is acquiring the A.I.D. guaranteed notes for the purposes of investment only and not with a view towards 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 guaranteed 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 guaranteed promissory note.

(4) Commitment Fees or Service Charges - Prospective lenders 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 lenders 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 lenders. In the event lenders propose to sell guaranteed notes to multiple assignees, lenders 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.

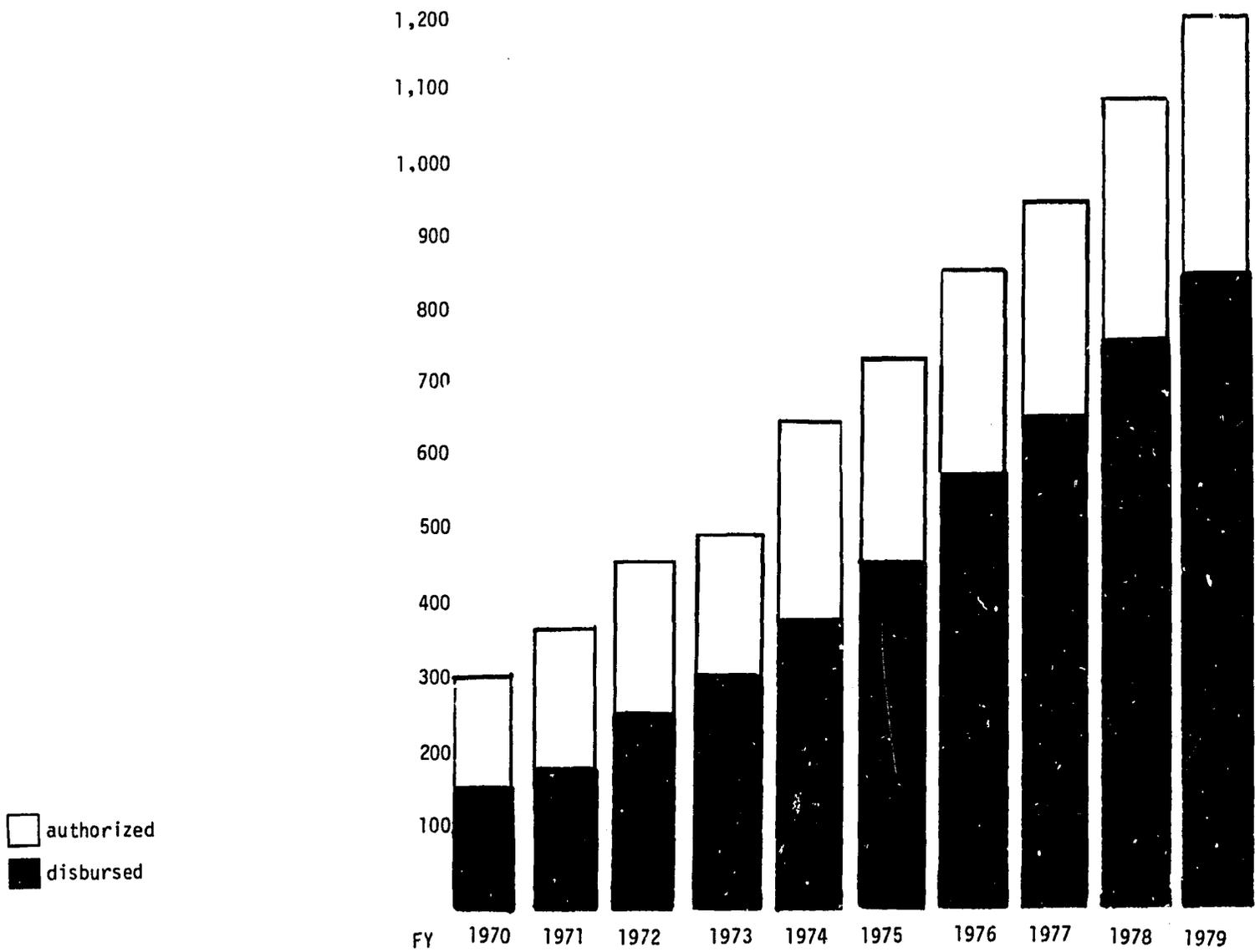
(7) Prepayment - A.I.D. requires that loan agreements permit A.I.D. to cause a prepayment without penalty in the event that a borrower materially breaches the underlying project agreement between borrower and A.I.D.

(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 lenders and access to records of lenders. The A.I.D. Contract of Guaranty will specify the lenders' obligations with respect to this matter.

STATUS
OF
GUARANTY
PROGRAMS

Millions of Dollars



FINANCIAL REPORT

Statement of Financial Condition as of September 30, 1979

Assets

Funds with U.S. Treasury		\$39,335,062.41
Accrued Fees Receivable		1,200,469.28
Penalty Interest Receivable		413,983.13
Accounts Receivable		56,238.18
Advances:		
Advances to Contractors	\$323,425.79	
Travel Advances	<u>11,456.50</u>	334,882.29
Subrogated Claims		4,991,387.73
Furniture and Equipment	\$114,393.79	
Less: Allowances for Depreciation	<u>17,810.00</u>	<u>96,583.79</u>
TOTAL ASSETS		<u>\$46,428,606.81</u>

Liabilities and Net Worth

Liabilities		
Accounts Payable		\$ 218,092.47
Accrued Expenses Payable		915,239.13
Accrued Annual Leave		<u>140,266.24</u>
TOTAL LIABILITIES		<u>\$ 1,273,597.84</u>

Net Worth

Housing Guaranty Program:

Capital		\$47,042,916.00
Cumulative Loss - Beginning of Fiscal Year		(3,491,707.51)
Net Loss - Fiscal Year Ended		<u>(1,091,363.62)</u>

Subtotal

\$42,459,844.87

Other Credit Guaranty Program:

Credit Guaranty Reserve [Sect. 222A(e)]		<u>2,835,430.34</u>
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TOTAL NET WORTH

\$45,295,275.21

Unfunded Activity

Unfunded Accrued Annual Leave		<u>\$ (140,266.24)</u>
-------------------------------	--	------------------------

Total Liabilities and Net Worth

\$46,428,606.81

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

Statement of Income and Expenses for Fiscal Year 1979

Income		
Fees		\$ 5,103,542.95
Penalty Interest		<u>185,200.51</u>
Total Income		\$ 5,288,743.46
Expenses		
Administrative:		
Personnel Compensation		\$ 1,590,998.93
Travel		357,720.28
Miscellaneous		435,884.06
Agency Support Costs		<u>10,000.00</u>
Total Administrative Expenses		\$ 2,394,603.27
Contractual Services		<u>2,468,568.20</u>
Total Expenses Before Claim Losses		\$ 4,863,171.47
Net Income Before Claim Losses		\$ 425,571.99
Claim Losses		
Payments to U.S. Investors	\$1,741,803.25	
Unrealized Exchange Rate		
Loss on Subrogated Claims	<u>122,701.33</u>	
Total Claim Losses		\$(1,864,504.58)
Recoveries of Prior Year Claim Payments		107,339.80
Net Loss for the Current FY		<u>\$(1,331,592.79)</u>
Prior FY Adjustments		<u>240,229.17</u>
Net Loss		<u>\$(1,091,363.62)</u>

Statement of Contract Issuing Authority as of September 30, 1979

	No. of Projects	Dollar Amount	Dollar Amount
I. Congressional Authority			
Worldwide Housing Guaranties FAA 1969 (Sections 221 and 222) ¹			\$1,180,000,000
Prior Authority (Section 223)			<u>25,100,000</u>
TOTAL CONGRESSIONAL AUTHORITY ¹			\$1,205,100,000
II. Less: Projects Authorized			
Contracts Issued	111	\$904,555,964	
Not yet under Contract	<u>26</u>	<u>322,900,000</u>	
TOTAL	<u>137</u>		\$1,227,455,964
III. Add: Repayments			
Projects Authorized and fully repaid	4	10,079,451	
Repayments under active projects	<u>107</u>	<u>95,121,840</u>	
TOTAL REPAYMENTS	<u>111</u>		\$105,201,291
IV. Balance available for new projects ¹			<u>82,845,327</u>

¹Additional Congressional Authority in the amount of \$375 million became available effective October 1, 1979

NOTES TO FINANCIAL STATEMENTS

as of September 30, 1979

1. Accrued Fees Receivable

Accrued Fees Receivable include \$168,361 relating to subrogated claims.

2. Fee Income

Total Fee Income excludes \$31,213 and \$63,763 for the current and prior period respectively, representing guaranty fee which was offset against payment deficiencies on four housing projects in Peru.

3. Non-recoverable Claims

Total Non-recoverable claims exclude \$31,213 and \$63,763 for the current and prior period respectively, representing the portion of the claim which was offset by 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 which would be reduced by available program reserves established by borrowers and host government and other guaranties applicable to certain of the loans.

Maximum contingent liability		\$759,692,358
Project reserve funds	\$ 6,996,113	
Prepayments on hand	<u>212,903</u>	<u>7,209,016</u>
Balance		\$752,483,342
Host country guaranties	706,351,286	
Other guaranties	<u>24,882,063</u>	<u>731,233,349</u>
Balance		<u>\$ 21,249,993</u>

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 \$21.2 million.

DS/H has projected estimated claim losses and the effects on program reserves as shown in the following schedule:

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

	FY 80	FY 81	FY 82	FY 83	FY 84	FY 85	FY 86	FY 87	FY 88	FY 89
Program Reserves, beg. of period	\$42,460	\$40,981	\$39,803	\$38,835	\$38,135	\$37,874	\$37,845	\$38,187	\$38,980	\$40,226
Fee Income	5,536	6,164	6,623	7,144	7,908	8,512	9,306	9,925	10,699	11,609
Operating expenses	(5,106)	(5,465)	(5,845)	(6,255)	(6,695)	(7,160)	(7,665)	(8,200)	(8,775)	(9,390)
Claim Losses	<u>(1,909)</u>	<u>(1,877)</u>	<u>(1,746)</u>	<u>(1,589)</u>	<u>(1,474)</u>	<u>(1,381)</u>	<u>(1,299)</u>	<u>(932)</u>	<u>(678)</u>	<u>(655)</u>
Program Reserves, end of period	<u>\$40,981</u>	<u>\$39,803</u>	<u>\$38,835</u>	<u>\$38,135</u>	<u>\$37,874</u>	<u>\$37,845</u>	<u>\$38,187</u>	<u>\$38,980</u>	<u>\$40,226</u>	<u>\$41,790</u>

6. Project Reserve Funds

As of September 30, 1979, project reserve funds were held by various agents in the amount shown below:

	Total Amount of Reserve	Restricted	Fungible
A.I.D. Central Fiscal Agent (American Security Bank)	\$1,431,631	\$ 276,417	\$1,155,214
U.S. Lenders and/or their Agents	4,157,816	4,157,816	-0-
Project Administrators	<u>1,406,666</u>	<u>1,406,666</u>	<u>-0-</u>
TOTALS	<u>\$6,996,113</u>	<u>\$5,840,899</u>	<u>\$1,155,214</u>

These funds are used to cover delinquencies and protect against activitating 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.

7. As of September 30, 1979 the following payments have been made from fungible reserves held by the Central Fiscal Agent, to cover deficiencies:

Project No.	Country	Amount	Project No.	Country	Amount
633-HG-001	Botswana	\$ 1,521	504-HG-002	Guyana	\$ 8,572
663-HG-001	Ethiopia	15,755	532-HG-001/II	Jamaica	837
681-HG-002	Ivory Coast	20	532-HG-002	Jamaica	45,942
489-HG-001	Korea	244	532-HG-008	Jamaica	29,801
489-HG-004	Korea	522	524-HG-003	Nicaragua	1,575
596-HG-003/II	C.A.B.E.I.	1,823	525-HG-004	Panama	60,041
513-HG-003	Chile	1	525-HG-005	Panama	267,423
513-HG-004	Chile	5	525-HG-009	Panama	878
517-HG-007	Dom. Rep.	10	526-HG-001	Paraguay	693
518-HG-003	Ecuador	21,571	664-HG-002	Tunisia	141
					<u>\$457,375</u>

8. 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.

9. Project No. 685-HG-001 - Senegal

Under a settlement agreement dated September 28, 1979, between the Government of Senegal (GOS) and the United States of America, acting through A.I.D., the GOS has agreed to reimburse A.I.D. for the payments made to the U.S. lenders totalling \$1,845,555 as of September 30, 1979, in ten equal semi-annual payments.

PROJECTS
AUTHORIZED
AND UNDER
CONTRACT

as of September 30, 1979

Country	Number of Projects	Amount Authorized	Amount Disbursed	Outstanding Balance	Reserve Fund Balance in	
					U.S.A.	Overseas
AFRICA						
Botswana	1	\$ 2,400,000	\$ 1,490,000	\$ 1,490,000	\$ 1,521	\$
Ethiopia	1	1,541,202	1,541,202	1,278,653	(15,755)	
Ivory Coast	3	20,432,792	20,432,792	18,823,551	15,361	
Kenya	3	16,993,073	16,993,073	16,448,879	86,913	
Senegal	1	4,999,997	4,999,997	3,506,123	308	
Zaire	1	<u>10,000,000</u>	<u>10,000,000</u>	<u>9,260,616</u>		
Totals	<u>10</u>	<u>\$ 56,367,064</u>	<u>\$ 55,457,064</u>	<u>\$ 50,807,822</u>	<u>\$ 88,348</u>	
ASIA						
Republic of China	1	\$ 4,793,417	\$ 4,793,417	\$ 2,104,670	\$ 1,032,937	
Korea	7	95,000,000	95,000,000	94,483,272	919	
Thailand	1	<u>4,960,149</u>	<u>4,960,149</u>	<u>2,787,662</u>	<u>221,271</u>	<u>364,458</u>
Totals	<u>9</u>	<u>\$ 104,753,566</u>	<u>\$ 104,753,566</u>	<u>\$ 99,375,604</u>	<u>\$ 1,255,127</u>	<u>\$ 364,458</u>
NEAR EAST						
Iran	1	\$ 7,500,000	\$ 7,500,000	\$ 7,125,806	\$	
Israel	6	175,000,000	175,000,000	172,373,788		
Lebanon	1	15,000,000	4,000,000	4,000,000		
Portugal	2	40,000,000	40,000,000	40,000,000		
Tunisia	4	<u>34,992,798</u>	<u>29,992,798</u>	<u>27,252,083</u>	<u>81,506</u>	
Totals	<u>14</u>	<u>\$ 272,492,798</u>	<u>\$ 256,492,798</u>	<u>\$ 250,751,677</u>	<u>\$ 81,506</u>	

PROJECTS
AUTHORIZED
AND UNDER
CONTRACT

as of September 30, 1979

Country	Number of Projects	Amount Authorized	Amount Disbursed	Outstanding Balance	Reserve Fund Balance in	
					U.S.A.	Overseas
LATIN AMERICA & CARIBBEAN						
Argentina	5	\$ 39,721,394	\$ 39,721,394	\$ 32,169,911	\$ 17,146	\$
BIAPE ¹	1	6,000,000	3,000,000	3,000,000		
Bolivia	2	9,600,000	9,600,000	9,016,634	9	
CABEI ²	4	44,000,000	44,000,000	42,347,640	509,252	
Chile	5	59,690,000	59,690,000	58,346,583	(5)	
Colombia	3	26,866,084	26,866,084	11,703,051		
Costa Rica	3	6,598,011	6,598,011	5,048,438	229,258	
Dominican Republic	5	18,949,726	16,309,726	11,331,479	605,835	
Ecuador	2	7,396,726	7,396,726	6,751,060	8,579 ³	
El Salvador	3	10,900,550	10,900,550	4,630,002	5,987	
Guatemala	1	1,500,000	1,500,000	1,283,471	384,116	
Guyana	2	1,603,480	1,603,480	914,231	27,060 ³	
Honduras	4	7,364,785	7,364,785	4,061,260	193,059	
Jamaica	6	40,445,861	30,333,546	25,117,967	7,839 ³	(48,833)
Mexico	2	10,760,032	10,760,032	4,538,678	8,572	117,681
Nicaragua	3	15,924,915	15,924,915	12,057,775	659,291	
Panama	9	41,172,213	34,172,213	30,768,144	(76,580)	
Paraguay	1	4,000,000	4,000,000	4,000,000	4,251	
Peru	8	67,098,100	67,098,100	58,342,887	251,978	35,000
Venezuela	9	51,350,659	51,350,659	33,328,044	18,194 ³	
					24,677	
					(693)	
					611,023	8,411
					2,534 ³	
					2,155,133	929,949
					20,774 ³	
Subtotals	78	\$470,942,536	\$448,190,221	\$358,757,255	\$5,582,309	\$1,042,208
					84,980 ³	
Totals	78	\$470,942,536	\$448,190,221	\$358,757,255	\$5,667,289	\$1,042,208

¹Interamerican Savings and Loan Bank

²Central American Bank for Economic Integration

³Interest Guaranty Deposits

TOTAL PROJECTS
AUTHORIZED AND
UNDER CONTRACT

as of September 30, 1979

	Number of Projects	Amount Authorized	Amount Disbursed	Outstanding Balance	Reserve Fund Balance in	
					U.S.A.	Overseas
AFRICA	10	\$ 56,367,064	\$ 55,457,064	\$ 50,807,822	\$ 88,348	\$
ASIA	9	104,753,566	104,753,566	99,375,604	1,255,127	364,458
NEAR EAST	14	272,492,798	256,492,798	250,751,677	81,506	
LATIN AMERICA	78	470,942,536	448,190,221	358,757,255	5,582,309 84,980 ¹	1,042,208
SUB-TOTALS	111	\$ 904,555,964	\$ 864,893,649	\$ 759,692,358	\$ 7,092,270	\$ 1,406,666
Interest					192,797	
TOTALS	111	\$ 904,555,964	\$ 864,893,649	\$ 759,692,358	\$ 7,285,067	\$ 1,406,666

¹Interest Guaranty Deposits

PROJECTS AUTHORIZED
AND FULLY REPAID

as of September 30, 1979

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

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 lenders for a few projects. These lenders 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 lender on one loan.

Some of these claims are deemed to be fully recoverable by virtue of host country guaranties 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 lender, 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 9/30/79
Peru Jardines Viru ¹	527-HG-002	\$ 311,374
Senegal Patte d'Oie ²	685-HG-001	1,845,554
Zaire CNECI ²	660-HG-001	2,296,855
Nicaragua B.N.V. ²	524-HG-002	106,092
B.N.V. ²	524-HG-003	249,920
Ethiopia Continental Homes ²	663-HG-001	112,678
Guyana Brezina ²	504-HG-002	57,593
El Salvador Financiera Roble	519-HG-001	<u>11,322</u>
TOTAL RECOVERABLE CLAIMS		<u>\$4,991,388</u>

¹Projected recoveries on this project, converted to U.S. dollars at the Treasury September 30, 1979 rate of exchange, amount to \$311,374.

²These 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.

NON-RECOVERABLE CLAIMS

Country/Project	Project Number	Cumulative Claims Incurred (less reimbursements) to 9/30/79
Argentina Field Argentina	510-HG-001	\$ 3,073,999
Costa Rica Desarrollo Urbana	515-HG-003	160,314
Dominican Republic COINFO	517-HG-005	650,000
Peru Apollo	527-HG-001/I	356,698
Apollo	527-HG-001/II	324,252
Jardines Viru	527-HG-002	2,067,620
Salamanca	527-HG-004	380,203
Jamaica Independence City	532-HG-001/I	622,080
Independence City	532-HG-001/II	114,140
Ensom City	532-HG-002	761,275
Montego	532-HG-008	312,241
Mexico Matamoros	523-HG-006	<u>114,988</u>
TOTAL NON-RECOVERABLE CLAIMS		<u>\$ 8,937,810</u>
TOTAL ALL CLAIMS		<u><u>\$13,929,198</u></u>

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



Inauguration of Housing Guaranty-financed homes in the Zapote Norte Housing Cooperatives, Tegucigalpa, Honduras - 1979

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 shelter 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.

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.

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.



Community market center

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 demonstrations 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 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).

URBANIZATION AND THE URBAN POOR

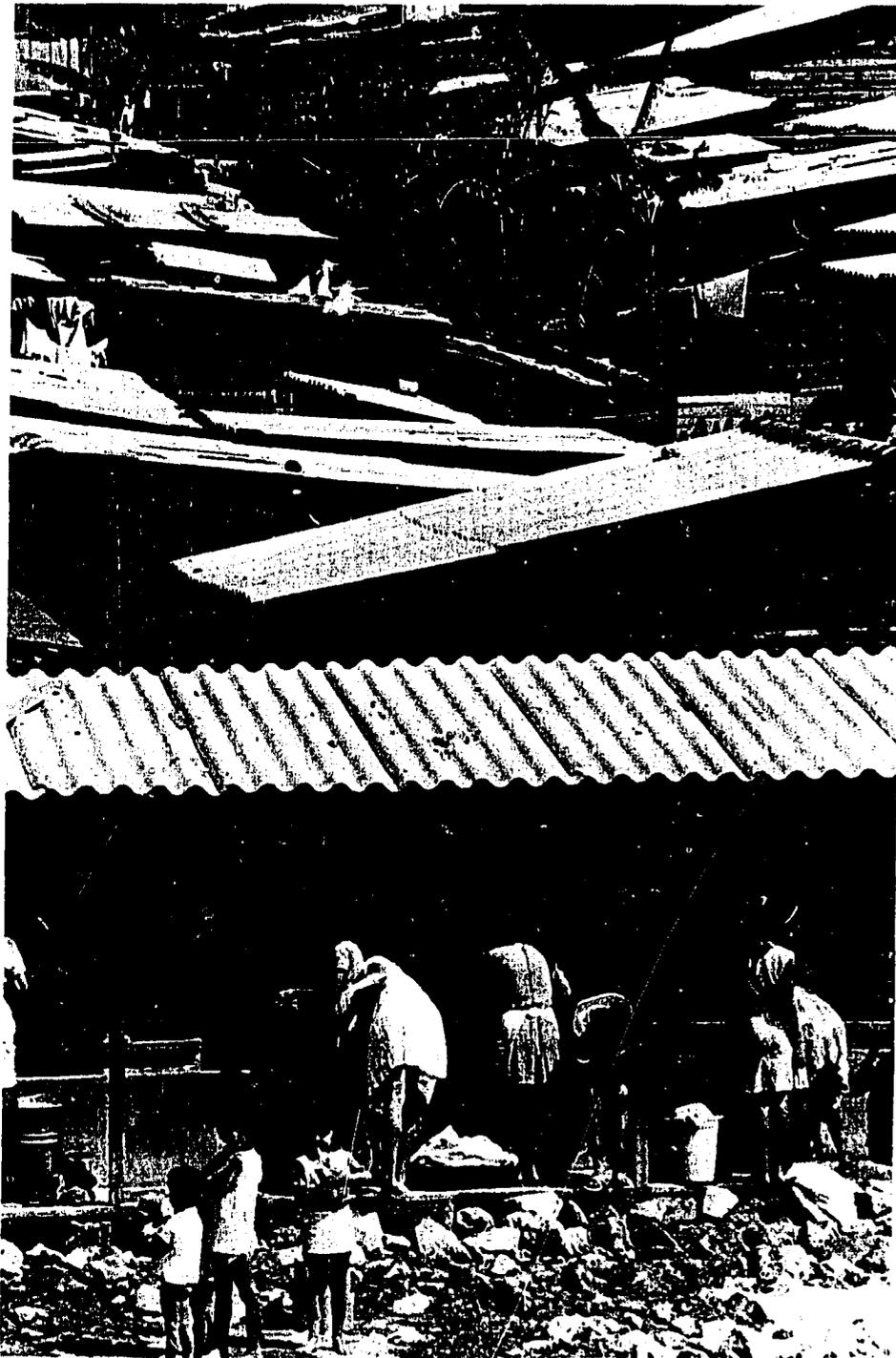
A.I.D. Policy Determination 67
May 27, 1976

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.



Community laundry

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.

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.



Installation of street drainage in Okso area of Seoul, Korea

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.

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 exists, and the primary focus of the program on the rural areas and their associated urban linkage 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 re-emphasize 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.



Installation of utilities in Jamaican squatter settlement.

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 1979

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 \$1,555,000,000. The authority of this section shall continue until September 30, 1982. 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).

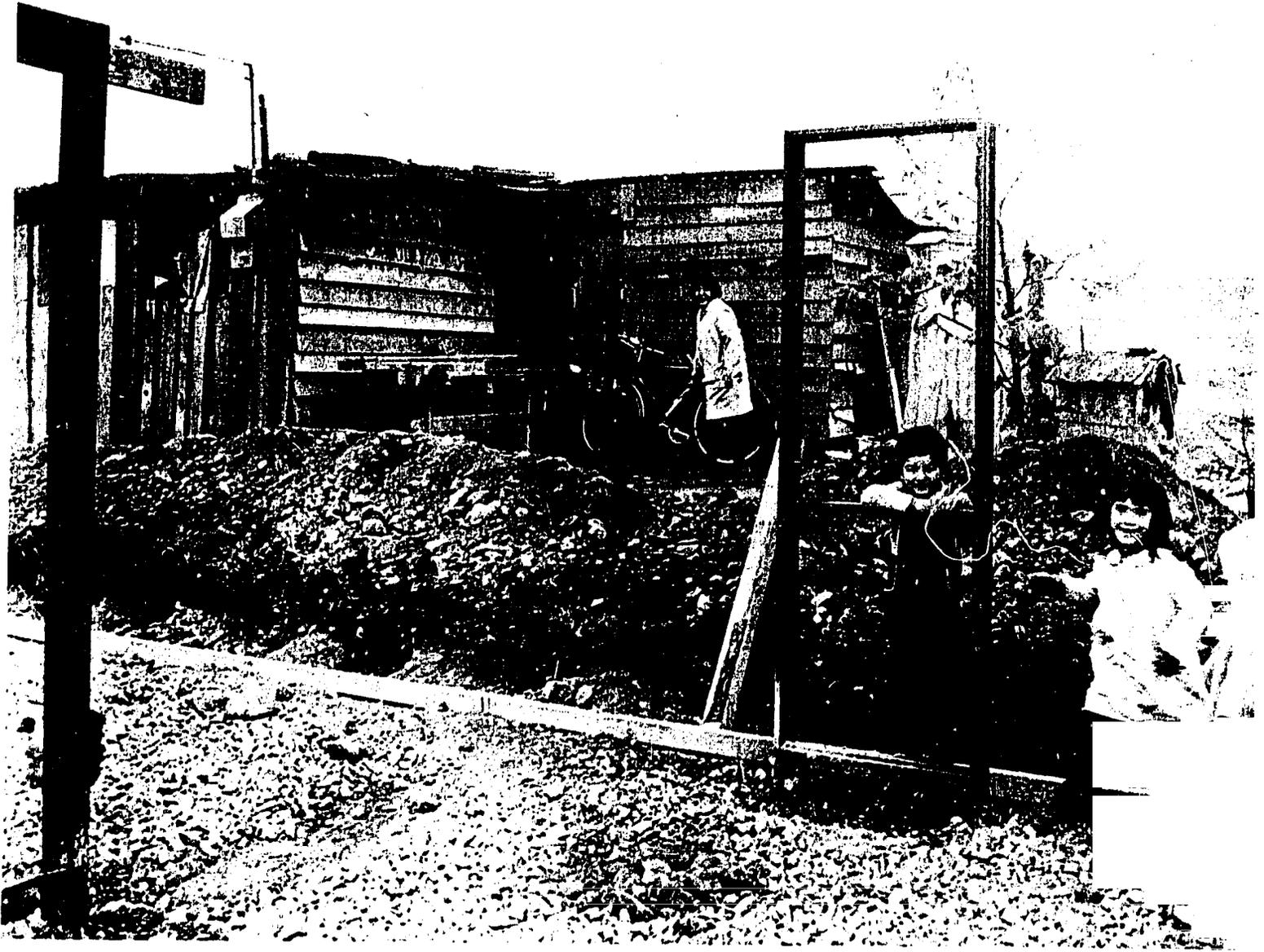
(d) All guaranties issued under section 222 or 222A or previously under section 240 of this Act or heretofore under this title or under prior Latin American or other housing guaranty authority repealed by the Foreign Assistance Act of 1969 shall constitute obligations, in accordance with the terms of 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 1 shall prescribe the maximum rate of interest allowable to the eligible investor, which maximum rate shall not exceed by more than 1 per centum the then current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development. 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.



Family has constructed temporary shelter on site before building permanent addition.

(i) * * * (Repealed - 1978).

(j) Guaranties shall be issued under section 222 only for housing projects which are coordinated and complementary to any development assistance being furnished under chapter 1 of this part and which 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. Of the total amount of housing guaranties authorized to be issued under section 222 through September 30, 1982, not less than a face amount of \$25,000,000 shall be issued for projects in Israel and not less than a face amount of \$25,000,000 shall be issued for projects in Egypt.

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 non-profit 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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