EL SALVADOR

SHELTER SECTOR ASSESSMENT

MARCH 1985

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SHELTER SECTOR ASSESSMENT

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PREFACE

The authors are grateful to many people in El Salvador who provided information and assistance. Most of these individuals are named in the List of Persons Contacted. Special thanks are due to Charles Brady, Director of the AID Mission's General Development Office, and his staff for their advice and support.

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GLOSSARY OF ACRONYMS

AAP	Asociaciones de Ahorro y Préstamo (Savings and Loan Associations)
ANDA	Administración Nacional de Acueductos y Alcantarillados (National Water and Sewer Administration)
BCIE	Banco Centroamericano de Integración Economica (Central American Bank for Economic Integration)
BCR	Banco Central de Reserva (Central Reserve Bank)
CASALCO	Camara Salvadoreña de la Industria de la Construcción (Salvadoran Chamber of Construction)
CONADES	Comisión Nacional de Asistencia a la Población Desplazada (National Comission for Assistance to the Displaced Population)
DIDECO	Dirección de Desarrollo de la Comunidad (Community Development Directorate)
DIGESTYC	Dirección General de Estadística y Censos (General Directorate for Statistics and Censuses)
DUA	Dirección General de Urbanismo y Arquitectura (General Directorate for Urbanism and Architecture)
EDURES	Estudio de Desarrollo Urbano y Regional de El Salvador (Urban and Regional Development Study of El Salvador)
FEDECACES	Federacion de Asociaciones de Cooperatives de Ahorro y Crédito de El Salvador (Federation of Cooperative Credit Unions of El Salvador)
FEDECCREDITO	Federación de Cajas de Crédito (Federation of Credit Unions)
FINATA	Financiera Nacional de Tierras Agrícolas (National Finance Organization for Phase III Agrarian Reform Lands)
FNV	Financiera Nacional de la Vivienda (National Finance Organization for Savings and Loan Associations)
FSDVM	Fundación Salvadoreña de Desarrollo y Vivienda Mínima (Salvadoran Foundation for Development and Low-Cost Housing)
FSV	Fondo Social para la Vivienda (Social Housing Fund)
FUNDASAL	Fundación Salvadoreña de Desarrollo y Vivienda Mínima (Salvadoran Foundation for Development and Low-Cost Housing)
GOES	Government of El Salvador
INPEP	Instituto Nacional de Pensiones de los Empleados Públicos (National Public Employee Pension Institute)
ISSS	Instituto Salvadoreño de Seguro Social (Salvadoran Social Security Institute)
ISTA	Instituto Salvadoreño de Transformación Agraria (Salvadoran Institute for Agrarian Transformation)
IVU	Instituto de Vivienda Urbana (Urban Housing Institute)
MIPLAN	Ministerio de Planificación y Coordinación del Desarrollo Económico y Social (Ministry of Planning and Coordination of Social and Economic Development)
MOP	Ministerio de Obras Publicas (Ministry of Public Works)
SINAP	Sistema Nacional de Ahorro y Préstamo (National Savings and Loan System)
SSMA	San Salvador Metropolitan Area
VMOP	Vice Ministerio de Obras Públicas (Vice Ministry of Public Works)
VMVDU	Vice Ministerio de Vivienda y Desarrollo Urbano (Vice Ministry of Housing and Urban Development)

CHAPTER I

OVERVIEW AND CONCLUSIONS

A. DEMOGRAPHIC TRENDS

El Salvador's very high population growth rate puts a tremendous amount of pressure on its limited land area and resources. Population density in El Salvador is the highest in the Western Hemisphere, at approximately 220 persons per square kilometer in 1983. The country's physical limitations have contributed to high rates of urban expansion; since as far back as 1950, the rate of growth of the urban population has exceeded the overall population growth rate.

National population growth averaged slightly over three percent per year over the 1960s and early 1970s (see Table I.1). The urban population, fueled by rural-urban migration, grew at 3.7 percent per year during the same period. The bulk of this urban expansion was absorbed by the San Salvador Metropolitan Area, which grew at an astounding five percent per year, doubling in size between 1964 and 1978.

The armed conflict has spurred a huge exodus of population to other countries. Gross population growth rates remain high, but since 1978 well over one million people have left El Salvador, according to DIGESTYC. As a result, net national population growth has slowed in the last six years to little more than one percent per annum. Underlying this overall slowdown is a dramatic decline in rural population. MIPLAN estimates that total rural population actually dropped, as a result of the armed conflict, by more than 200,000 people over 1978-83. These displaced people have flocked to the cities and towns, causing an abrupt shift in the urban-rural balance. In the last six years, the proportion of people living in urban areas increased from 41 percent to 49 percent.

Almost half the national urban population is located in the San Salvador Metropolitan Area, which crossed the one million threshold in 1983. The SSMA accounts for almost one quarter of the country's total population and produces the vast majority of its nonagricultural value added.

MIPLAN forecasts that once the armed conflict ends, net population growth will return to pre-1978 levels and remain high well into the next century (see Table II.4). National population is expected to reach about 7.1 million by the year 2000. The proportion of urban population in that year is projected to be about 55 percent, and the San Salvador Metropolitan Area should reach two million between 2000 and 2005.

B. GENERAL ECONOMIC SITUATION

1. Evolution of the Economy

During the period from 1978 to 1983, total GNP fell 21 percent in constant values, with every sector declining with the exception of mining and government. The latter, in fact, showed considerable growth (Appendix Table A.1).

TABLE I.1

URBAN AND RURAL POPULATION 1950 - 1983
(Thousands)

	Total	(AAGR	All Urban	(AAGR)	San Salvador Metropolitan Area	(AAGR)	Other Urban	(AAGR)	Rural	(AAGR)
1950	1,856		677		213		464		1,179	
%	<100.0>	2.79	<36.5>	3.29	<11.5>	4.67	<25.0>	2.59	<63.5>	2.48
1961	2,511		967		352		615		1,544	
%	<100.0>	3.54	<38.5>	3.81	<14.0>	4.85	<24.5>	3.18	<61.5>	3.36
1971	3,555		1,406		565		841		2,149	
%	<100.0>	3.00	<39.5>	3.67	<15.9>	5.09	<23.6>	2.65	<60.5>	2.54
1978	4,372		1,810		800		1,010		2,562	
%	<100.0>	1.14	<41.4>	4.72	<18.3>	5.59	<23.1>	4.02	<58.6>	1.74
1983	4,627		2,280		1,050		1,230		2,347	
%	<100.0>		<49.3>		<22.7>		<26.6>		<50.7>	

AAGR = Averege Annual Growth Rate

NOTE: "Urban" is defined as the settlement area in which the municipal authority is located; the limits of this area are determined by the same authority.

Sources: DIGESTYC, 1950, 1961, and 1971 Censuses.
MIPLAN, Department of Population, 1978 and 1983 urban and rural population estimates.
PADCO analysis, 1978 and 1983 SSMA - Other Urban breakdown.

Setting aside the agricultural sector, whose performance is determined by the level of external prices and which is now subject to agrarian reform witn effects that are still hard to determine, the areas of typical private enterprise activity are manufacturing industry, construction, and commerce, whose percentage share in the GNP shows the following development:

	1978	1979	1981	1983
I + C + C*	45.3	43.8	38.1	36.1
Government	8.7	9.3	11.5	12.8
Others	46.0	46.9	50.4	51.1

*Manufacturing Industry, Construction and Commerce.

This is why the programs aimed at strengthening and providing incentives to the private sector should be given special attention. The measures to be taken should be ranked according to their reactivating impact on production, thus providing incentive for investment.

In 1983, GNP stopped falling in real terms, possibly indicating gradual recovery. The future rate of recovery is related to the capacity for capitalizing the economy through growth in investment. The consumption/investment ratio (Table I.2) indicates how the country is using the goods and services produced and available. Although the weight of consumption increased gradually during the last three years (reflecting a drop in the capacity and willingness to invest), the value of consumption dropped 28 percent (reflecting the decline of real GDP). This seems to indicate that families are gradually "tightening their belts" in order to tend to their basic needs. One consequence of this is that effective demand--i.e. ability to pay--for housing is declining, as evidenced in Chapter II. Private investment dropped 66 percent, and the public sector has not managed to counteract or mitigate this drop.

With such an unpromising situation as that described above, massive shelter financing gains importance, given its triple component of:

- Boosting consumption through its high remuneration content
- Reactivating the construction industry through its strong demand for local input
- Improving the quality of life for families

2. Evolution of Prices

The aforementioned recession has not been accompanied by high inflation. From among the various indices available, Table I.3 shows those with the most generalized use, i.e., the Index of Wholesale Prices (IWP), the Index of Construction Materials Prices (ICMP), and the Index of Consumer Prices (ICP). The construction materials price index, although its behavior is rather erratic, has grown at a similar rate as the ICP, far above the IWP. The general evolution reflects a tendency to keep the inflationary process under control.

3. External Sector

During the five-year period from 1978 to 1983, exports were down 39.7 percent, which raises questions about the real potential of exports for general economic reactivation. The performance of this sector is shown in Table I.4. The external economic system, which until 1979 was supported mainly by exports, in 1983 was dependent on incoming capital, whose weight rose from 8.8 percent in 1979 to 30.6 percent in 1983.

This situation must now be weighed in relation to the country's debt, which has grown 104.7 percent since 1979 and which in 1983 exceeded total exports. The additional debt required to relaunch the economy should be measured according to the time frame involved, and how foreign currency is used to facilitate the activity of the production sector.

TABLE I.2

RELATION BETWEEN CONSUMPTION AND INVESTMENT
(Millions of 1962 Colones)

	1978	%	1979	%	1981	%	1983	%
Consumption	3,384.2	81.4	3,146.3	82.6	2,716.0	87.3	2,466.0	87.9
Private Capital Formation	481.0	11.6	410.4	10.8	161.3	5.2	164.2	5.9
Public Capital Formation	246.3	5.9	248.7	6.5	215.4	6.9	154.0	5.5
Variation of Stock	48.1	1.1	1.9	0.1	19.5	0.6	19.7	0.7
Total	4,159.6	100.0	3,807.3	100.0	3,112.2	100.0	2,783.9	100.0

Source: BCR

TABLE I.3

PRICE INDEXES 1978-83

	IWP	CHANGE	ICMP	CHANGE	CPI	CHANGE
1978	100.0	-	100.0	-	100.0	-
1979	113.3	13.3%	113.2	13.2%	114.8	14.8%
1980	116.3	2.6%	136.1	20.2%	136.2	18.6%
1981	123.1	5.8%	153.0	12.4%	152.0	11.6%
1982	132.9	8.0%	165.4	8.1%	172.4	13.4%
1983	141.7	6.6%	187.7	13.5%	193.3	12.1%

IWP = Index of Wholesale Prices
ICMP = Index of Construction Materials Prices
CPI = Consumer Price Index

Source: BCR

TABLE I.4

BALANCE OF PAYMENTS
(Millions of Current Colones)

	1979	1981	1983	% 1979	% 1981	% 1983
Exports	3,058.0	1,995.0	1,843.6	87.5	66.4	53.4
Imports	(2,553.7)	(2,461.6)	(2,175.0)	(73.1)	(81.8)	(63.0)
Services (net)	(303.8)	(310.5)	(378.0)	(8.7)	(10.3)	(10.9)
Transfers (net)	128.5	150.9	554.	3.7	5.0	16.0
Capital inflow	309.2	861.6	1,054.8	8.8	28.6	30.6
Capital outflow	(50.9)	(205.0)	(379.0)	(1.5)	(6.8)	(11.0)
Other inflow/outflow (net)	(857.5)	(228.2)	(19.7)	(24.5)	(7.5)	(0.6)
Total inflow	3,495.7	3,007.5	3,452.7	100.0	100.0	100.0
Total outflow	(3,765.9)	(3,205.3)	(2,951.7)	(107.8)	(106.5)	(85.5)
Variation in reserves	(270.2)	(197.8)	501.0			
External public debt	996.4	1,632.0	2,039.5			
External public debt as percent of exports	32.6%	81.8%	110.6%			

Source: BCR

Table I.4 also shows two interesting phenomena:

- Growth of transfers (+331 percent), largely as a result of funds sent by Salvadorans abroad to their families.
- Reduction in "other inflow/outflow" (-98 percent) which reflects, among other things, a reduction in outgoing private capital, massive in 1979 but nearly nonexistent in 1983.

This double phenomenon of trust in the country can have great significance in the future.

4. **National Government and Public Finance**
Control of the budget deficit and the method of financing it are central to any overview of Salvadoran economic life. From the data on central government finances (Appendix Table A.2), two facts stand out:

- The reduction of the deficit in 1983, in absolute and relative terms, through control of expenditures and increase in revenues, both positive aspects.
- Internal financing of the deficit: The budget deficit is financed almost completely with domestic resources. The point to be concerned with is how this may affect availability of resources for other financial intermediaries.

5. **Monetary Market**
In the previous points, we saw the strong dependency of today's Salvadoran economy on financing from abroad and the high domestic tendency toward consumption. The possibility of keeping a sector operating, in this special case the shelter finance sector, depends upon available resources and the competitive conditions to obtain them.

The monetary market trends appear in Appendix Table A.3. During the period from 1978 to 1983, the following items stand out:

- Control of monetary expansion: the money supply maintained its ratio with the GNP, with no significant variations.
- Tendency toward liquidity: During the years from 1978 to 1980, savings fell, and the tendency was to keep the resources readily available, a result of uncertainty about the country's development as well as low interest rates.
- Tendency toward income return: The period from 1981 to 1983 marks an expansion in the volume of resources, with a growth in savings that passes the 1978 percentage share of the money supply.
- In terms of constant purchasing power, in 1983 savings deflated by the IPC are near the 1978 levels.

Savings: A breakdown of the concept of "savings" into its various components and among the different financial intermediaries reveals the characteristics of this specialized market (Table I.5). This information shows the following results:

- The growth of time deposits and other securities was greater than the growth of regular savings.
- The growth of time deposits occurs in the last three-year period, particularly in the 1983 fiscal year, which suggests greater trust in the financial system and a direct response to the interest rates.
- The possibility of further significant growth in the savings market seems to be viable only if sustained growth in GNP is achieved for the following reasons: 1) Under current conditions, no additional transfers of money to quasi-money appear feasible, and 2) if GNP does not grow, the only way to increase the money supply would be through "artificial" currency emissions, which would have negative consequences and which are incompatible with the present monetary discipline.
- If the savings market is not expanded and the current trend continues, the cost of capturing savings will increase as additional funds are transferred to fixed term deposits.

As for the housing sector, it is interesting to examine the penetration of the Savings and Loans Associations in their natural market (Table I.6). The figures show that the Associations lost a share of the market to the banks. Furthermore, the banks have successfully penetrated the free savings market, thus reducing the average cost of their resources, while the Associations have compensated for their loss of funds by promoting time deposits, thus raising the cost of their resources. This trend, typifying a progressively weaker savings and loan system with more costly resources, should serve as a warning that the task of financing housing is becoming even more difficult.

Interest rate structure: The Junta Monetaria sets the interest rates for the entire financial intermediary sector. During the period from 1978 to 1983, three rate structures were in force (Appendix Table A.4.) The first two (September 1978 and February 1982) increased the financial returns as an inducement for savings, in response to the domestic inflationary process and the tendency to make savings in dollars. The modification in February 1984 reduces the passive rates somewhat and sets a limit (13 percent) for returns on money. Consequently, the "active" rates show the same behavior, with the expectation that the current decrease in interest rates will be an incentive for use of credit.

Comparing the interest rate policies of banks and Associations, two points arise for consideration:

- Loss of competitiveness of savings: Between 1978 and 1982, regular savings were competitive in earning power with time deposits of up to 180 days. Starting in 1982, savings were not even competitive with 60-day deposits.

TABLE I.5

DISTRIBUTION OF SAVINGS

Millions of Current Colones

	1978	1979	1980	1981	1982	1983	% Change
Savings	1,300	1,323	1,345	1,583	1,860	2,256	73.5
Regular Savings	576	593	643	787	893	904	57.0
Time Deposits	575	530	490	605	722	1,089	89.4
"Cedulas Hipotecarias"	121	169	182	163	218	235	94.2
"Titulos de Capitalizacion"	28	31	29	28	27	28	-
	Percentage Distribution						
Savings	100.0	100.0	100.0	100.0	100.0	100.0	
Regular Savings	44.3	44.8	47.8	49.7	48.0	40.1	
Time Deposits	44.2	40.1	36.5	38.2	38.8	48.3	
"Cedulas Hipotecarias"	9.3	12.8	13.5	10.3	11.7	10.4	
"Titulos de Capitalizacion"	2.2	2.3	2.2	1.8	1.5	1.2	

Source: BCR

TABLE I.6

PARTICIPATION IN FINANCIAL SAVINGS
(Millions of Current Colones)

	BANKS					SAVINGS AND LOANS			
	Regular Savings	Time Deposits	Cedulas Hipotec.	Titulos de Capital.	Total	Regular Savings	Time Deposits	Total	S&L as % of Banks
1978	23	575	121	28	747	553	-	553	74.0
1979	126	530	169	31	856	467	-	467	54.6
1980	129	475	182	29	815	514	16	530	65.0
1981	175	587	163	26	953	612	18	630	66.1
1982	322	577	218	27	1,144	571	145	716	62.6
1983	338	841	235	28	1,442	566	248	814	56.4
% Change	369.6	46.3	94.2	-	930	2.3	1450.0	47.	(23.8)

Source: BCR

- Change in interest rates for housing: Between 1978 and 1982, the short- and long-term interest rates for housing remained lower than bank rates, but this situation changed as of 1983. The rates equalized, which had the effect of raising the cost of shelter credit.

All of this seems to point toward a balancing between the banks and S&Ls, which may be suitable, provided that proper compensation is made for the operational limits of the System. If this is not done, the possibilities for mixing the various active rates will be reduced and, as a result, the increase of financial costs will proportionally affect the lower-income sectors more.

Use of bank credit: The structural changes faced by El Salvador in the five-year period analyzed are reflected in the orientation of credit, which shows completely atypical growth in the participation of the public sector. During the years from 1980 to 1982, the Government absorbed nearly half of the total credit, compared to 25 percent previously (Table I.7). Out of this 50 percent, the majority went to the Central Government, which contributed to the slowing down of directly productive activity. In 1983, public sector participation in credit appeared to decline, and it is important that this should continue in order to allow private sector activity to recover.

The changes in the financial structure are also reflected in the use of credit by the Banco Central, through which a good portion of bank credit is promoted and directed (Table I.8). Given a stable supply of resources during this period, it is alarming that refinancing, i.e. credit that could not be paid off on time, absorbs nearly 60 percent of the total. Considering the effect this situation has on the appropriate or profitable use of the credit, it is necessary to give special attention to solving the problem in order to provide momentum to the various sectors.

With respect to the participation of the construction sector, after reaching a significant level (12 percent) in 1980, construction's share of Central Bank credit dropped to only 2.2 percent of the total in 1983.

C. ROLE OF THE CONSTRUCTION SECTOR IN THE ECONOMY

The evolution of the share of construction in GNP (Appendix Table A.1) clearly shows that this was the first sector to reflect the impact of the economic crisis. Between 1978 and 1983, the share dropped by 42 percent, a decline exceeded only by the drop in commerce, 44 percent. This can be seen more clearly by comparing the drop in GNP with that of output in the construction sector in the five-year period:

TABLE I.7

BANKING SYSTEM CREDIT
(Millions of Current Colones)

					PUBLIC SECTOR					
	Total	%	Private Sector	%	Total Public Sector	%	Central Govt.	%	Autonomous Agencies	%
1978	2,713	100.0	2,006	73.9	707	26.1	47	1.7	660	24.4
1979	3,284	100.0	2,222	67.7	1,062	32.3	134	4.1	928	28.2
1980	4,160	100.0	2,177	52.3	1,983	47.7	571	13.8	1,412	33.9
1981	4,628	100.0	2,436	52.6	2,192	47.4	1,209	26.1	983	21.2
1982	5,287	100.0	2,751	52.0	2,536	48.0	1,670	31.6	866	16.4
1983	5,224	100.0	3,017	57.8	2,207	42.2	1,372	26.3	835	16.0

Source: BCR

TABLE I.8

UTILIZATION OF CENTRAL BANK CREDIT
(Millions of Current Colones)

SECTORS	1979	%	1980	%	1982	%	1983	%	% Change
Agriculture	593.0	32.5	757.5	19.0	406.7	20.5	350.9	18.3	(41.0)
Manufacturing	79.5	4.4	191.9	4.8	108.5	5.5	199.3	10.4	151.0
Construction	105.3	5.8	478.8	12.0	60.9	3.1	41.3	2.2	(61.0)
Commerce	777.7	42.6	1706.6	42.8	143.0	7.2	172.2	9.0	(78.0)
Other	12.0	0.7	198.4	5.0	29.1	1.5	31.6	1.7	163.3
Refinancing	259.5	14.0	654.1	16.4	1236.4	62.3	1119.1	58.4	(331.25)
Total	1827.0	100.0	3987.3	100.0	1984.6	100.0	1914.4	100.0	4.76

Source: BCR

GNP-CONSTRUCTION EVOLUTION (1978=100)

	1978	1979	1980	1981	1982	1983
G N P	100.0	98.4	89.8	84.4	79.2	79.2
Construction	100.0	89.5	76.0	57.0	55.9	58.4

The sensitivity of construction to changes in the economy is considerable, and likewise the slight positive trend between 1982 and 1983 can be presumed to be a sign of progressive growth. In any event, the relative depression in the sector is critical and the disparity must be reduced.

There is a direct connection between growth of GNP and total investment, and a consequent interdependency between investment in construction and GNP growth. The ratio between the variables involved in this process appears in Table I.9. The drop in both total and construction investment is double that of GNP; and when it is related to the population, there is an even more critical trend per capita. The imperative need to reverse this trend in the investment rate is mentioned elsewhere in this report.

It should be pointed out that construction investment now accounts for a majority (57.3 percent) of total investment and, as a result, is a critical factor in economic behavior.

The study, "La Industria de la Construcción y la Recuperación Económica Nacional" ("The Construction Industry and National Economic Recovery"), done by the Marcable firm for the Salvadoran Chamber of Construction, shows how a 10 percent variation in construction investment leads to a 3.5 percent change in GNP. Even though other sectors can have greater multiplier effects, the social productivity of investment in construction, as well as the rapidity of its impact on overall expenditures and wages, should be determining criteria in any strategy for recovery.

The actions to be taken in this area should take into account the strong and weak points of construction, given the need to maximize economic output. By relating construction activity and construction prices, one can learn how additional allotments of funds affect the costs or the elasticity of the resource structure (Table I.10).

The data show that the growing underutilization of the industry (IVAC) affects the cost (IPC) thus financing inefficiency, with actual construction costs exceeding the general costs in the economy (IRCC). This distortion of costs has a bearing on affordability of construction products, which has dropped more than 30 percent (IVA).

It can be concluded from these data that increases in investment can and must lead to cost savings to improve affordability.

TABLE I.9

INVESTMENT IN CONSTRUCTION
(Constant 1962 Colones)

Año	GDP	Investment (Millions)		VAC	Investment Per Capita (Thousands)		CI/GDP (%)	VAC/GDP (%)	CI/TI (%)
		Total	Construct.		Total	Construct.			
1978	3579.3	775.2	323.0	147.0	181.1	75.5	9.0	4.1	41.7
1979	3521.2	661.0	283.0	143.	150.2	64.0	8.0	4.1	42.8
1980	3215.3	490.8	200.0	111.	108.0	44.0	6.2	3.5	40.7
1981	3016.8	396.2	204.0	94.	84.8	43.7	6.8	3.1	51.5
1982	2835.1	336.7	190.0	92.	70.0	39.5	6.7	3.3	56.4
1983	2833.9	337.9	193.6e	96.	68.2	39.1	6.8	3.4	57.3
% Change	<21>	<56>	<40>	<34>	<62>	<48>	<24>	<17>	37

e) Estimate
VAC = Value Added in Construction
CI = Construction Investment
TI = Total Investment

Sources: BCR, MIPLAN, and CASALCO

TABLE I.10

RELATION OF CONSTRUCTION PRICES WITH
OTHER ECONOMIC INDICATORS

	IVAC	IPC	IGP	IRCC	IRFI	IVA
1978	100.0	100.0	100.0	100.0	100.0	100.0
1979	100.6	112.4	113.9	98.7	95.7	97.0
1980	78.1	131.8	129.2	102.0	84.7	83.0
1981	65.6	144.6	137.6	105.1	77.2	73.4
1982	62.0	156.1	150.6	103.6	71.6	69.1

IVAC = Index of value added in construction
IPC = Index of prices in construction implicit in GDP
IGP = Index of general prices implicit in GDP
IRCC = Index of real construction costs
IRFI = Index of real family income (equal to GDP/capita)
IVA = Index of variation in family affordability with respect to construction

Sources: BCR, MIPLAN, and CASALCO

Within overall imports, construction represents a modest share, plus or minus six percent according to statistics of the Banco Central de Reserva. In recent years, the value of intermediate construction goods has remained relatively stable, while the value of capital goods imported for the sector has declined considerably. The small impact of the construction sector on the balance of payments is especially true for the housing subsector, given that only 10 percent of its inputs are imported, and these represent only seven percent of the value of the average house.

The minimal foreign exchange component in housing indicates that any external borrowing for housing results in making foreign exchange available for other uses. Regarding domestic credit demand on commercial and mortgage banks, the impact of the construction sector is irregular. In 1980, 15 percent of credit went to construction; in 1981, the share dropped to 10 percent; in 1982, it climbed back up to 15 percent; and in 1983 was 12 percent. In absolute terms, these shares were ¢76.8 million, ¢57.6 million, ¢114.6 million, and ¢89 million, respectively.

Two complementary issues to consider in concluding this sectoral evaluation are employment and productivity. A natural consequence of the economic decline is unemployment, which in the three-year period from 1978 to 1980 climbed from 3.7 percent to 16.1 percent, with estimates of over 30 percent for 1983. This makes the promotion of labor-intensive activities critical. Construction, with about 70,000 workers, accounts for almost five percent of the economically active population. This level of employment in construction has remained stable over the last three years. Thirty percent of construction workers are unskilled. Regarding indirect generation of employment, the sector influences other sectors such as finance, building materials manufacturing and distribution, and transport. It is estimated that, for 1983, indirect employment from construction amounted to about 21,400 workers boosting total direct and indirect employment to over six percent of the labor force.

To examine productivity, Appendix Table A.5 relates total and sectoral value added to population employed. The figures show that the economy is progressively less productive, but the most alarming features are the drops of 32 percent and 19 percent in the productivity of manufacturing and construction respectively, with coefficients lower than average. The decline is more serious in construction, since it has always had low productivity, and causes one to question its real virtues as a reactivating component if these conditions are not changed.

D. HOUSING DEMAND AND AFFORDABILITY

1. Existing Housing Situation

El Salvador's housing stock currently consists of between 900,000 and 950,000 units. Around one quarter of these units are in the San Salvador Metropolitan Area (SSMA); about 30 percent are in other urban areas; and around 45 percent are in rural areas. These figures represent occupied units only. There are also many thousands of unoccupied units which fall into two categories: the urban stock of "unsold assets" (see Chapter IV) and the abandoned units in rural areas that have been affected by the armed conflict.

It is estimated that the average number of persons per unit is currently around 4.4 for the SSMA, 4.6 for other urban areas, and 5.7 for rural areas.

The most recent data on the quality of the housing stock nationally are from a 1978 household survey. The overall quality of the housing stock has certainly not improved since 1978, though we cannot tell how much it has declined.

There is a large disparity between urban and rural housing quality. For example, in 1978 86 percent of all rural units were one-room dwellings, while only 56 percent of urban units were. Over one quarter of rural units had walls made of non-permanent materials, compared with less than one-tenth of urban units. In 1978 over 80 percent of rural dwellings lacked electricity, while only 14 percent of urban units were not electrified.

Housing quality is higher in the San Salvador Metropolitan Area than in other urban places. In the SSMA one-room units accounted for 44 percent of the housing stock in 1978, but in other urban areas they made up two-thirds of the stock. Over half the SSMA's dwellings in 1978 were made of masonry, while only about one quarter of those in other urban areas were. Electricity reached 96 percent of the SSMA's dwellings but only 78 percent of units in other urban areas.

In 1978, around two-thirds of urban housing units had access to individual or communal piped water (the latter refers to shared taps within multi-family buildings). Only six percent of rural dwellings, on the other hand, had direct access to piped water. While wells, rivers, and springs served about 15 percent of urban units, these "natural" sources supplied over 80 percent of rural houses. Sewer systems reached about half the urban units in 1978, while in rural areas sewerage systems are virtually nonexistent. Most striking is the fact that in 1978 63 percent of rural houses reported no sanitary facilities whatsoever. By contrast, only eight percent of urban units lacked at least basic sanitary facilities.

More recent data on water and sanitation coverage for the population (not dwelling units) suggest that, with one exception, water supply and sanitation conditions in relative terms remained about the same between 1978 and 1982. The exception is an apparent decline in the the coverage of standpipes, septic tanks, and latrines in urban areas.

Regarding tenancy, the 1978 Household Survey showed that, among urban dwelling units, 45 percent were owned, 42 percent were rented, and 13 percent were neither (occupied by squatters or usufructuaries). In rural areas, 64 percent of units were counted as owned, five percent as rented, and 31 percent usufruct.

Three types of housing solutions have evolved to meet the needs of the lower-income urban population in El Salvador. These are **mesones** (rooming houses), **tugurios** (squatter settlements), and **colonias ilegales** (extra-legal subdivisions). These housing types occur primarily in the largest cities and are most numerous in San Salvador. The only one of the three for which national-level data exist are the mesones. The 1978 Household Survey found that about 23 percent of urban housing units are rooms in mesones. The proportion of tugurios and colonias ilegales nationally is not known, but there are figures for the SSMA. According to EDURES, a 1976-78 World Bank study, tugurios housed about five percent and colonias ilegales about 19 percent of the SSMA population in 1977.

In rural areas, housing conditions of the beneficiaries of the Agrarian Reform's Phase I and Phase III programs are not significantly different from those of the rural population as a whole: dwellings are mainly adobe, mud and wattle, or improvised materials, and services, if they exist at all, are primitive.

2. Housing Needs 1985-2005

The housing needs analysis takes into account five categories of needs:

- Accommodating future population growtn;
- Replacing adequate units that become obsolete;
- Upgrading salvageable substandard units;
- Replacing non-upgradable substandard units; and
- Reducing overcrowding

Meeting the annual need for new housing in 1990 would require building a total of about 18,000 units in the SSMA, 13,000 units in other urban areas, and 14,000 units in rural areas, for a 1990 annual total of around 45,000 new units. By 2005, the annual requirement for new housing construction may reach 32,000 in the SSMA, 27,000 in other urban areas, and 30,000 in rural areas. Total annual upgrading requirements are steady between 1990 and 2005 at around 6,000 for the SSMA, 9,000 for other urban areas, and 16,000 for rural areas.

Recent "formal sector" housing production levels have been far below the annual volume needed to satisfy housing needs in 1990. According to CASALCO, total licensed production between 1979 and 1983 was 55,640 units (of which 53,560 were urban). This represents an annual output of around 11,000 units. By contrast, housing needs for 1990 in urban areas only (SSMA and other) amount to about 31,000 per year. Thus formal sector output would nearly have to triple by 1990 in order to meet urban needs only. If current formal output remains constant, two-thirds of 1990 housing needs in urban areas will have to be met through extra-legal construction.

3. **Housing Affordability**

At the moment, the minimum basic urban house (¢14,900) is not affordable to the bottom 40 percent of the income distribution in the SSMA or to the bottom 60 percent in other urban areas. Currently, the average household in the next-to-lowest quintile of the SSMA cannot even afford a party-walls unit (¢10,000). This household can purchase a floor-roof unit on a serviced lot, however (¢8,500). In other urban areas, the next-to-lowest quintile can afford up to a serviced lot (¢5,000), and the middle quintile can afford a floor-roof unit. The bottom 20 percent of urban households (SSMA or other cities) cannot at this point afford any of the solutions evaluated unless they are already tugurio owners, in which case they can afford an upgrading loan.

Shelter affordability for rural households below the middle income level is quite limited. At the present time the average rural household in the bottom 20 percent of the income distribution cannot afford even the cheapest shelter solution. The next-to-lowest rural quintile can afford a floor-roof unit (¢1,600) provided the household already owns land. The middle quintile of the rural income distribution is able to pay for a communal infrastructure package or a minimum house with a latrine (¢3,000). Rural affordability may improve in the future if real GDP starts growing again and rural incomes gradually become a bit better distributed. However, even the least costly shelter solution in our analysis is likely to remain beyond the reach of the poorest 20 percent of rural households for the rest of this century. It appears that this group will require subsidies in order to obtain minimal shelter.

All households not able to afford a minimum basic house with services are identified as belonging to a "target group" for public housing policy. The target group may be thought of as eligible for a range or publicly supported housing programs and/or as potential beneficiaries of new policies to increase the affordability of private housing. Nationally, over three quarters of all households needing new housing in 1990 are in the target group. The proportion of households in the target group declines in future years because of rising real incomes (as we have assumed throughout this analysis), but remains over 50 percent through 2005. The SSMA has the smallest proportion of households in the target group because of its high average income levels relative to the rest of the country. About two-thirds of SSMA households needing housing in 1990 cannot afford a minimum basic house with services, but this fraction drops to around 40 percent in succeeding years. The great majority of households needing housing in other urban areas will fall into the target group (84 percent in 1990). The target group will remain a majority for other urban areas over the next 20 years. Over 80 percent of rural households needing housing in 1990 are in the target group, and about two-thirds will remain unable to afford a minimum basic house with services by the year 2005.

4. Costs of Meeting Housing Needs

The total investment requirement for meeting minimum urban and rural housing needs is about ¢717 million in 1990 and increases rapidly to ¢1,897 million by 2005 (1983 constant prices). Investment in the SSMA consistently remains over half of total investment over the 20 year forecast period, owing mainly to the high proportion of higher-income households there which constitutes high effective demand. Housing investment for other urban areas is about one quarter of the national total in 1990 and increases its share slightly over the next 20 years. Rural housing investment requirements are less than one fifth of the total in 1990 and about 17 percent in 2005.

With appropriate standards and rigorous cost recovery, housing needs in El Salvador can be met with minimal subsidies. The housing affordability and investment estimates presented in this report are all based, it should be remembered, on "market" interest rates. Households will invest substantial portions of their incomes and also draw down on savings if they are given the opportunity to obtain adequate shelter with secure tenure.

The "formal sector" of the Salvadoran housing industry invested an average of ¢323.5 million per year (in 1983 prices) over the 1978-82 period. This is about 55 percent of the investment required to meet minimum **urban** housing needs in 1990. Considering that a large portion of annual housing construction is unlicensed or financed outside of the formal sector, these figures suggest that the total amount being invested currently in housing (formal and informal) is not far from what is required to meet housing needs, at least in urban areas. The main problem then, does not appear to be the total cost of meeting housing needs. Rather, the principal challenges are enabling the formal finance system to capture a greater amount of savings and to direct these funds toward more affordable shelter solutions through mechanisms that reach lower-income groups.

On the whole, the formal housing sector in El Salvador has not produced low-cost shelter solutions of the kind used in this analysis. Output and financing focus on finished dwelling units costing a minimum of around ¢20,000 through the private sector and ¢15,000 through the public sector. If average unit price could be lowered substantially, especially for shelter solutions produced and financed through public institutions like FSV and IVU, available investment resources could reach a far greater number of households.

Two **caveats** should be kept in mind. First, even if the shelter finance system is reoriented and strengthened, standards are lowered, and real cost recovery is implemented, it is unclear whether enough infrastructure capacity exists or can be built to support a massive program to meet housing needs.

that approach those contemplated in the upgrading scheme. There has been some discussion of transferring the staff of the interagency task force to IVU to carry out the long-term program.

At the time of the field work for this report, only preliminary plans and budgets for the initial upgrading projects had been drafted. The first two projects, La Isla II and Comersan, included topographical improvements (leveling and in some cases retaining walls), individual water connections, enclosures over streams ("bovedas"), and community facilities (schools, clinics, community centers). In addition, residents were to be granted legal tenure to their plots by the **Alcaldia** on a "rental with promise of sale" basis.

The financial aspects of these initial projects had not been clearly defined. The scope of each project, in terms of physical works, was being established without reference to either funds available or potential cost recovery. Preliminary cost estimates indicated an average cost per household of around ¢11,000. However, initial discussions about cost recovery had considered monthly payments as low as ¢20. Although higher monthly payments are now seen as necessary, it will not be possible to have full cost recovery in the first set of upgrading projects if per household costs remain at the levels initially estimated.

It is recognized that there are legitimate political considerations involved in carrying out very quickly a number of high-visibility **tugurio** upgrading efforts with high levels of subsidy. In any case, it is too late to reformulate the design of the initial high-impact program. The issue to be addressed is the formulation of sound criteria for the extension of the program. It is important that the first few "demonstration" projects not set a precedent for an non-viable long-term upgrading approach. In particular, the practice of not recovering the cost of "large-scale" improvements should be discontinued. All works, whether they are site improvements, stream channeling or covering, or community facilities, should be fully reflected in monthly payments charged to beneficiaries. If the payments are too high to be affordable, then the scale of the project should be reduced. This is the only way an upgrading program can be sustained over the long term and be extended to benefit massive numbers of people. Otherwise, limited investment resources will be expended to give large benefits to only a small fraction of the low-income population.

Successful consolidation of the upgrading program also depends on an appropriate institutional framework. While in principle IVU is the logical "home" for the program, it is clear that IVU is **not** at this time an efficient or effective institution. For the upgrading program (or any other low-income shelter program) to succeed it is absolutely necessary to put together a high-quality, motivated staff that has at its disposal an agile set of procedures for program planning and execution. A serious, thorough, and bold effort to create within IVU this type of management framework is absolutely essential.

At the moment, there is a large gap between the cost of fulfilling water and sanitation requirements and actual investment levels in the water/sanitation sector. It is imperative to examine the capacity of the infrastructure delivery system to meet future needs for potable water, electricity, sanitation, solid waste disposal, and community services. Improvements in infrastructure delivery must go hand-in-hand with changes in the housing sector.

Second, there is no reason why the majority of future housing construction should be carried out by public institutions. Private sector builders should be encouraged, through a combination of incentives and regulations, to participate in the provision of minimum basic houses and even "progressive" solutions such as floor-roof units, sites and services, or infrastructure packages. Considering the track record of IVU in direct construction, it is doubtful that housing needs can be met without the participation of the private sector.

E. THE GOVERNMENT'S RECENT HOUSING INITIATIVE

During the second half of 1984, the government initiated a new housing program focused on **tugurio** upgrading. The immediate priority is to demonstrate the government's commitment to dealing with the problems of the low-income urban population. A program is now underway to upgrade six **tugurios** in the San Salvador Metropolitan area by March 1985. Beyond this immediate-impact effort, the program aims to upgrade at least 13 other **tugurios** over the remainder of 1985. An $11 million proposal has been prepared for AID financing of about 2,500 units under this program. Ultimately, the government would like to see a large-scale upgrading program in operation.

The immediate-impact program is being carried out by an interagency committee headed by the Minister of Public Works and the Mayor of San Salvador. The committee includes representatives of MOP, the Mayor's Office, IVU, ANDA, DUA, the Ministries of Interior, Education, and Health, and MIPLAN. Interagency working groups have been formed to deal with finance, construction, social promotion, and other aspects. Day-to-day implementation is being directed by a project management unit in the Mayor's Office.

Because of the scarcity of investment funds, the immediate-impact program was launched on the assumption that the six initial upgrading projects could be carried out using material and financial resources currently on hand in the various agencies. An effort is underway to locate construction materials in storage that are not committed to other uses as well as funds that could be assigned or diverted to the program.

Once the first six projects are implemented, the intention is to transfer responsibility for the longer-term follow-on upgrading program to IVU. This is consistent with the government's stated objective of orienting IVU entirely toward low-cost shelter solutions including upgrading, sites and services, and the like. IVU's ABC ("Acceso al Bienestar Comunitario") is the only existing government housing program with norms would be to achieve more affordable standards, recognize the legitimacy of progressive development, support effective land planning, and permit an increase the supply of serviced land in appropriate locations. AID could provide technical assistance.

e. A parallel legal study should be initiated to draft a proposal containing criteria and mechanisms for legal "regularization" of tenure in informal settlements.

*f. The GOES should adopt a clear policy on rural housing along the following lines:

- Housing should not be free unless it is emergency or disaster relief. Donating housing under normal conditions, even to low-income groups, sets a bad precedent because ultimately, only a small fraction of housing needs can be met without cost recovery. It is inequitable to use limited resources to provide free shelter to a few while the majority obtain nothing. International experience indicates that most low-income households can afford to pay for some type of shelter solution, be it a lot with communal services or a core unit. The only other circumstance under which shelter may be donated is to provide minimal living conditions for newly-arrived settlers on Phase I coops. For this purpose, temporary shelter and communal services may be constructed with no cost recovery.
- Housing programs are carried out where 1) people have a productive base, assuring income and 2) people have some type of property rights, assuring a willingness to make long-term financial commitments.
- On Phase I coops, there should be no housing programs until 1) productive support mechanisms are in place (credit, technical assistance, equipment, etc.) and 2) the coop organization has shown itself to be capable and/or members have shown themselves to be producers.

g. A public-private committee should be formed to begin a study on the feasibility of setting up a private rural housing finance institution. AID could supply technical assistance.

2. Housing Programming

*a. In all institutions a major effort should be undertaken to deal with two pervasive operational problems:

- Collections in arrears
- Lack of market analysis capacity

Specifics on these problems for each institution appear in Chapter III. AID could assist in setting up training programs and facilitating technical support to improve procedures.

Technical assistance should be provided to the coordinating committee of the upgrading program on several subjects:

- Financial and affordability analysis of upgrading projects;
- Criteria for selecting areas to be upgraded;
- Design and operation of cost recovery mechanisms;
- Institutionalization of a permanent upgrading program within IVU.

F. SHORT-TERM SHELTER AGENDA

NOTE: Asterisk (*) indicates an immediate-priority item.

1. Shelter Policy

*a. A policy group should be created at the level of the Presidency of the Republic to begin outlining a housing policy and plan. This should focus on four areas:

- Clarifying the roles of the institutions involved in the housing sector (see Section G below);
- Setting appropriate fiscal and monetary policies to enable the institutions to carry out their functions;
- Allocating budgetary resources for housing;
- Setting quantitative and qualitative targets for housing production and financing.

b. A major study should be initiated of the infrastructure sector to determine its capacity to support the shelter sector. This study should examine infrastructure deficits, institutional capacity, resources available and financing, and the costs of meeting infrastructure needs. Technical assistance could be provided by AID.

*c. A commitment should be made to restore stability and public confidence in the Savings and Loan System, which has yet to find willing buyers for its 49 percent nongovernment stock. Given that mixed government-employee-private ownership does not appear viable, the options of completely nationalizing or reprivatizing the System (perhaps as a mutual) should be studied. This would help achieve clarification of the role of FNV, which was intended to guide a private system but which has had to yield authority to BCR and has presided over the emergence of the unsold inventories crisis and the recent financial deterioration of the System as a whole (see Chapters III and IV). A comprehensive revitalization of SINAP must also include the formation of more accountable and dynamic boards of directors in the individual Associations. A study to develop proposals should be carried out with high-level political support. AID technical assistance could be made available.

d. A legal study should be carried out to prepare a proposal to reform the Law of Urbanism and Construction and related regulations. The objective *b. The GOES should initiate an immediate frontal attack on the problem of the unsold housing inventories. An independent high-level authority with power to dictate political solutions should be appointed. This authority should have a fixed time frame for issuing its directives and be able to draw technical support from BCR, SINAP, CASALCO, FSV, and IVU. These institutions, in turn, should have fixed time frames for carrying out the agreed-on measures.

*c. The recently-initiated **tugurio** upgrading program should be put on a sound financial and institutional basis by:

- Adopting the principle of full-cost recovery from beneficiaries;
- Designing projects to affordable standards;
- Reflecting all investments in charges to beneficiaries;
- A serious, thorough, and bold effort to create within IVU a high-quality, motivated staff and a set of agile procedures to carry out a long-term, large-scale program.

AID-supported technical assistance and training would be appropriate.

*d. Regarding the displaced population, a study should be made of alternatives to the current wood frame and plastic sheet shelters that are being provided in displaced persons' settlements. These shelters are unpopular because they do not give adequate protection or security. Least-cost reasonable temporary shelter can be donated to meet the immediate needs of the displaced, but permanent housing should not be a priority for assistance to this group.

3. **Institutions**

*a. **IVU**

- The interagency group currently working on the immediate **tugurio** upgrading program must be integrated into a special unit within IVU to take over low-cost shelter programs. This unit must be given sufficient authority and flexibility to work without becoming bogged down by IVU's ineffective structure.
- Technical assistance should be provided to IVU on the design and analysis of low-cost shelter solutions, financial analysis, improving cost recovery and conducting market studies.
- IVU should initiate studies leading to decisions on 1) disposition of the land it owns, 2) getting out of the rental business, 3) reducing arrears, and 4) liquidating its unsold inventory.
- All interest rates should be raised to the 12 percent ceiling.

- A commitment should be made at the highest political level to completely overhaul the structure and personnel of IVU. A study should then be undertaken outside of IVU to determine new criteria for performance and a mechanism for streamlining personnel and operations.

b. **FSV**

*• FSV should initiate a plan for for selling off its unsold inventory and absorbing the loss either from current capital or long-term financing.

• FSV should obtain technical assistance to 1) carry out a general financial reform centered on raising interest rates and improving contributions and recuperation, 2) restructure itself to effectively provide long-term financing to individuals, and 3) raise FSV's capability to deal with low-cost shelter solutions (sites and services, core units, and even upgrading).

c. **SINAP**

*• FNV and the Associations should immediately develop a plan for dealing with the unsold inventory (see Chapter IV).

*• SINAP should obtain technical assistance to 1) identify new funding sources, 2) improve technical and management capacity, 3) develop a market analysis capability (within both FNV and the individual Associations), and 4) study the feasibility of issuing mortgage-backed bonds or similar instruments.

d. **FUNDASAL**

*• FUNDASAL should consider initiating a dialogue with AID on the possibility of funding new projects and the timing, terms, and mechanisms under which this could be done.

*• FUNDASAL should undertake a study on how to change its financial structure to cover operating costs out of income rather than grants.

• The feasibility of financing upgrading projects should be studied and, if the results are positive, a pilot project should be initiated.

e. **FEDECCREDITO**

*• FEDECCREDITO has no experience in housing and should not be considered a potentially significant housing finance institution. However, an immediate opportunity exists to reach a low-income urban and rural clientele with small shelter loans through FEDECCREDITO. The focus should be on upgrading and basic rural housing. A feasibility study should be carried out.

• A new unit must be set up within FEDECCREDITO to administer and supervise shelter loans. Technical assistance and training should be provided to help do this.

f. FINATA

- FINATA is not and should not be a housing finance institution either, but it also offers the immediate possibility to channel small shelter loans to a large number of rural households. The focus should be on building materials loans. A study should be carried out to assess the extent to which a shelter loan program can be integrated into FINATA's operations and the resources required to establish such a program.
- Technical assistance would then be required to assist FINATA in setting up a shelter loan program from scratch; topics include loan appraisal and supervision and cost recovery.

G. MEDIUM/LONG-TERM SHELTER AGENDA

1. Shelter Policy and Plan

a. A permanent high-level housing policy group should be established. The criteria for this body are:

- It should have the political authority to set binding policies for housing sector institutions and to enforce these policies;
- It should set production and financing goals for housing institutions;
- It should have direct participation in decisions concerning the allocation of resources to the housing sector;
- It should not necessarily be a ministry; it should be more like a Housing Board;
- It should have direct links to the Junta Monetaria and the BCR.

b. A three- or four-year Housing Action Plan should be drawn up and implemented. This should draw on the work of the policy group established as part of the Short-Term Shelter Agenda. The Plan should cover:

- A clear statement of the roles of the various housing sector institutions, in terms of the markets they should serve and the types of operations they should be involved in (e.g. long- vs short-term financing, client groups, etc.).
- An agenda of fiscal and monetary policies needed to enable the institutions to carry out their functions (especially regarding interest rates).
- Yearly quantitative and qualitative (i.e. how many and what kind) targets for housing production and financing. These targets must be based on realistic estimates of resources available in the savings market and the public budget.

- A plan and investment program for complementary infrastructure (water, sanitation, drainage, electricity, roads, and community facilities).
- Complementary measures in the areas of 1) reform of urban development and housing regulations, 2) streamlining project approval and permit procedures, and 3) stimulation of the building materials industry.

The GOES should make it clear that improved efficiency and effectiveness on the part of housing institutions is a condition for increased resource allocations. The Plan should give every institution targets for improvement in key financial indicators such as the ratio of operating expenses to productive assets and the proportion of the portfolio in arrears.

2. Roles of Institutions

a. FSV

- FSV's new policy of financing only "demand", that is, long-term financing to individuals, is correct.
- It should finance a range of housing types, including low-cost solutions.
- FSV should 1) raise interest rates on loans to give a reasonable return to contributors and enable FSV to afford to mix its own funds with higher-cost outside funds, and 2) reduce operating expenses.
- It should also carry out an organizational restructuring consistent with its orientation toward long-term financing: the existing Operations and Technical Sections lose most of their functions, and the units dealing with loan recovery and contributions must be strengthened.

b. IVU

- IVU should focus entirely on low-cost shelter solutions including upgrading, sites and services, and the like.
- A total overhaul of IVU's structure and personnel should be implemented. This reform should focus on creating a more streamlined organization with a structure of incentives and sanctions for performance by personnel.
- IVU should get out of the business of direct construction and contract out all construction to the private sector (as does the Instituto de Credito Territorial in Colombia).
- It should eliminate all rental properties.

- The ceiling on interest rates should be raised to reach real market levels.
- IVU should limit itself to working in urban areas.

c. **SINAP**

- In line with a strategy of market segmentation, the Savings and Loan System should finance housing units of approximately ¢15,000 and above and provide home improvement loans.
- A decision should be made according to the recommendations of the study outlined in the Short-Term Shelter Agenda on the means to create a stable and effective management framework for the S&L System. The main objective is to restore confidence in the System so that it can build up its share of the savings market.
- Within the framework of the above, a decision should be made on the role of FNV: Can it have a significant function under a nationalized System, or can it return to its original role of leader of a private System?
- Whether future ownership is public or private, genuine and accountable Boards of Directors should be established for the Associations.
- SINAP should provide a mixture of short- and long-term financing based on an improved market analysis capability. Each Association should have an individual strategy in response to the market.

d. **FUNDASAL**

- The Foundation should essentially maintain its role as an innovator in the fields of low-cost shelter and community development.
- For its own long-term financial benefit, FUNDASAL should cover its operational costs with income from loans and abandon the current practice of pursuing separate grants for operations.

e. **Vice-Ministry of Housing and Urban Development (VMVDU)**
The role of this institution needs to be recast in relation to the higher-level housing policy and planning body whose establishment is recommended above. One option is for the VMVDU to serve as a technical secretariat to the policy group.

3. **Rural Housing Finance Entity**
If the feasibility study recommended in the Short-Term Agenda yields positive results, the GOES should assist the private sector in establishing a private rural housing finance institution. The basic criteria for this entity should be:

a. Decentralized operations.

b. A combination of 1) long-term small-scale financing to individuals, and 2) short-term financing to private construction firms for low-cost shelter and communal infrastructure projects in rural areas.

c. Financial self-sufficiency (apart from initial seed capital).

4. **Legal and Regulatory Framework**
Legislation should be introduced, based on the legal studies suggested in the Short-Term Agenda, reforming the Law of Urbanism and Construction and related regulations to streamline the regulatory process, allow affordable housing and serviced land to be produced legally on a massive scale, and permit the prompt regularization of tenure in informal settlements.

5. **Infrastructure Sector**
Based on the study recommended in the Short-Term Agenda, a reform of the infrastructure sector should be carried out. This should include:

a. Placing institutions like ANDA on a sounder financial base.

b. Adoption of affordable standards.

c. Establishment of procedures for project analysis and medium-term planning and budgeting.

H. FOLLOWUP ON PROPOSED SHELTER AGENDA

1. A workshop or seminar should be conducted to discuss the short-term and medium/long-term shelter agendas outlined above. The purposes of the workshop would be to:

- Promote greater awareness of key shelter sector issues;
- Promote the establishment of a high-level shelter policy group to be named by the President;
- Identify the key issues and approaches to be taken up by the shelter policy group.

In order to provide as broadbased a forum as possible, it would be desirable for the workshop to be sponsored by organizations that deal with the "big picture": AID and the Banco Central de Reserva, for example, as cosponsors.

The workshop should be organized carefully. It should consist of one or two general sessions and various sessions on specific topics. The general sessions should be devoted to the issue of overall leadership of the sector and the feasibility of setting up a high-level housing policy group. Individual sessions may be held on the following topics:

MAIN PARTICIPANTS

	BCR	IVU	FNV	S&Ls	FSV	VMVDU	CA-SALCO	PRESI-DENCY	ISTA	FI-NATA	FEDEC-CREDITO	FUNDA-SAL	DUA
Unsold Inventories	X	X	X	X	X		X	X					
Role of SINAP	X		X	X	X		X	X					
Legal/Regulatory Framework		X	X	X	X	X	X	X				X	X
Rural Housing								X	X	X	X		
Role of IVU		X				X	X	X					
Role of FSV	X		X	X	X	X	X	X					

It would be most desirable to have the highest-level participation in the workshop. Ideally heads of organizations and key policymakers should attend. However, the main presentations at each session should be made by "outside" experts or observers who can present objective analyses and pertinent criticisms.

2. The workshop/seminar is not a substitute for informal discussions and individual initiatives toward implementation of the shelter agenda. The workshop can highlight issues and solutions, but its brevity and public nature limit the depth of discussion. Much detailed followup work will be needed.

CHAPTER II

HOUSING DEMAND AND AFFORDABILITY

This chapter presents: 1) a rough profile of the existing housing situation in El Salvador, 2) forecasts of the number of dwelling units needed to provide all Salvadoran households with minimally adequate housing by the year 2005, 3) an estimate of "effective demand" for housing, involving the degree to which various types of housing solutions are affordable to different urban and rural income groups, and 4) estimates of the costs of meeting basic housing needs.

The housing needs and affordability analysis presented here was carried out using a "Housing Needs Assessment Model" developed for AID[1]. This model, which operates on a micro-computer, uses data on macroeconomic trends, population trends, household incomes, the housing stock, and housing costs to estimate future housing needs, housing affordability, and the costs of meeting needs for various income groups.

A. EXISTING HOUSING SITUATION

1. Overview

The lack of recent data makes it difficult to paint a reliable picture of current housing conditions in El Salvador. The last housing census was carried out in 1971, along with the last population census. Several national household surveys that included housing data were carried out between 1975 and 1980, but the most recent tabulations available are from a 1978 survey. Since 1980 the armed conflict has prevented further attempts to perform national-level surveys.

While there are no official housing data less than six years old, there are official urban and rural population estimates through 1983 from MIPLAN. In addition, ANDA has maintained fairly up-to-date estimates of water supply and sanitation coverage.

Based on 1983 population estimates (see Table I.1) and approximations of average household size, we calculate that El Salvador's housing stock currently consists of between 900,000 and 950,000 units. Around one quarter of these units are in the San Salvador Metropolitan Area (SSMA); about 30 percent are in other urban areas; and around 45 percent are in rural areas. These figures represent occupied units only. There are also many thousands of unoccupied units which fall into two categories: the urban stock of

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[1]See Robert R. Nathan Associates and Urban Institute, Preparing a National Housing Needs Assessment, AID Office of Housing and Urban Programs, March 1984; and (same authors), AID Housing Needs Assessment Model: User's Manual, AID Office of Housing and Urban Programs, June 1984.

"unsold assets" (see Chapter IV) and the abandoned units in rural areas that have been affected by the armed conflict.

The reason that a majority of the housing stock is in urban areas while only half the population is urban is that urban areas have considerably lower occupancy rates. Salvadoran statistics do not differentiate between "family", "household", and "persons per unit". The census and survey tabulations assume that there is a 1:1 ratio between families (households) and housing units. Thus it is not possible to estimate the degree to which there is shared housing (more than one household per unit). Using information from several sources, including household surveys from 1976-77 and 1978, the 1976 **Vivienda Popular Urbana** study[2], the 1971 Census, and recent information from MIPLAN, we reckon that the average number of persons per unit is currently around 4.4 for the SSMA, 4.6 for other urban areas, and 5.7 for rural areas.

The most recent data on the quality of the housing stock nationally are from the 1978 "Encuesta de Hogares de Propositos Multiples" (Multi-Purpose Household Survey). While this source is outdated, it remains a useful benchmark. The overall quality of the housing stock has certainly not improved since 1978, though we cannot tell how much it has declined.

Table II.1 presents data on housing characteristics in 1971 and 1978. Clearly evident is the disparity between urban and rural housing quality. For example, in 1978 86 percent of all rural units were one-room dwellings, while only 56 percent of urban units were. Over one quarter of rural units had walls made of non-permanent materials, compared with less than one-tenth of urban units. Interestingly, **bahareque** (mud and wattle) and adobe, which are considered "permanent" materials in El Salvador, are used in a majority of both urban and rural dwellings. In 1978 over 80 percent of rural dwellings lacked electricity, while only 14 percent of urban units were not electrified.

The data in Table II.1 also indicate that housing quality is higher in the San Salvador Metropolitan Area than in other urban places. In the SSMA one-room units accounted for 44 percent of the housing stock in 1978, but in other urban areas they made up two-thirds of the stock. Over half the SSMA's dwellings in 1978 were made of masonry, while only about one quarter of those in other urban areas were. Electricity reached 96 percent of the SSMA's dwellings but only 78 percent of units in other urban areas.

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[2]Alberto Harth Deneke et al, La Vivienda Popular Urbana en El Salvador, April 1976 (four volumes).

TABLE II.1

HOUSING CHARACTERISTICS 1971 & 1978
(Percentages of Units)

	Urban 1971	Urban 1978	Rural 1971	Rural 1978	1978 SSMA	1978 Other Urban
Housing Units (000)	271	390	384	460	163	227
Type of Unit						
House	67.8	56.7	100.0	59.6	52.2	60.0
Apt.	4.1	6.4	-	0.2	8.6	4.8
Room in Meson	28.1	23.3	-	1.1	23.9	23.9
Slum house*	N/A	13.6	N/A	39.1	15.3	12.3
One-Room Units	52.4	56.4	66.9	85.6	44.2	65.2
Tenure						
Owner	36.2	44.9	56.5	63.9	38.0	49.8
Rent/Buy	8.9	N/A	1.6	N/A	N/A	N/A
Renter	43.5	42.0	4.9	4.6	46.6	38.8
Other	11.4	13.1	37.0	31.5	15.4	11.4
Walls						
Concrete/Masonry	26.2	36.9	4.9	11.3	52.8	22.5
Mud-Wattle/Adobe	60.9	54.6	57.6	61.3	38.6	66.1
Non-Permanent**	12.9	8.5	37.5	27.4	8.6	8.4
Roofs						
Permanent	86.7	88.5	65.1	77.4	82.8	92.5
Metal Sheet	9.6	10.5	5.7	8.3	16.6	6.2
Straw/Palm	3.7	1.0	29.2	14.3	0.6	1.3
Lighting						
Electricity	72.3	85.9	6.8	17.6	96.3	78.4
Kerosene	24.0	12.3	89.8	72.6	1.2	20.3
Other/none	3.7	1.8	3.4	9.8	2.5	1.3

*"Rancho," "choza," "tugurio."
**Wood, metal sheets, straw, palm.
N/A = Not Available

Sources: 1971 Housing Census
1978 Multi-Purpose Household Survey

The coverage of water and sanitation services appears in Table II.2. In 1978 around two-thirds of urban housing units had access to individual or communal piped water (the latter refers to shared taps within multi-family buildings). Only six percent of rural dwellings, on the other hand, had direct access to piped water. While wells, rivers, and springs served about 15 percent of urban units, these "natural" sources supplied over 80 percent of rural houses. Sewer systems reached about half the urban units in 1978, while in rural areas sewerage systems are virtually nonexistent. Most striking is the fact that in 1978, 63 percent of rural houses reported no sanitary facilities whatsoever. By contrast, only eight percent of urban units lacked at least basic sanitary facilities.

The data in Tables II.1 and II.2 indicate that housing conditions improved moderately during the 1970s in both urban and rural areas. For example, the proportion of dwellings built of non-permanent materials went from 13 percent to 8.5 percent in urban areas and from 37.5 percent to 27.4 percent in rural areas. The fraction of urban units with access to piped water increased from 59 percent to 69 percent in the seven-year period. Also, the proportion of rural units with no sanitation facilities at all fell from 88 percent to 63 percent.

More recent data on water and sanitation coverage for the population (not dwelling units) are given in Table II.3. These figures suggest that, with one exception, water supply and sanitation conditions in relative terms remained about the same between 1978 and 1982. The exception is an apparent decline in the the coverage of standpipes, septic tanks, and latrines in urban areas. The fact that other categories of coverage remained constant during the worst recent years of civil unrest and economic decline reflects favorably on ANDA and the Ministry of Health, which are responsible for water and sanitation in urban and rural areas, respectively. The absolute improvements in rural water and sanitation are mainly due to the Ministry of Health's PLANSABAR program (National Plan for Basic Rural Sanitation).

Regarding tenancy, the 1978 Household Survey showed that, among urban dwelling units, 45 percent were owned, 42 percent were rented, and 13 percent were neither (occupied by squatters or usufructuaries). In rural areas, 64 percent of units were counted as owned, five percent as rented, and 31 percent usufruct. As will be explained below and in Chapter IV, the tenure status of much of El Salvador's housing does not conform to "formal" legal norms.

TABLE II.2

COVERAGE OF WATER AND SANITATION 1971 & 1978
(Percentages of Units)

	Urban 1971	Urban 1978	Rural 1971	Rural 1978
Water				
Piped Private	36	45	2	5
Piped Communal	23	24	1	1
Standpipe	29	16	16	12
Well	6	3	20	26
Other	6	12	60	57
Total	100	100	100	100
Sanitation				
Private Toilet	26	34	-	1
Common Toilet	13	15	-	-
Septic Tank	12	14	2	3
Latrine	30	30	10	34
None	18	8	88	63
Total	100	100	100	100

Sources: 1971 Housing Census
1978 Multi-Purpose Household Survey

TABLE II.3

COVERAGE OF WATER AND SANITATION 1982
(Percentages of Population)

	Urban Dwelling Connection	Urban Public Standpipe	Rural Dwelling Connection	Rural Public Standpipe
Water				
ANDA	61	5	1	*
Min. Health	-	-	8	38
Total	61	5	9	38
	Dwelling Connection	Latrine or Septic Tank	Dwelling Connection	Latrine or Septic Tank
Sanitation				
ANDA	47	-	-	-
Min. Health	-	29	-	30
Total	47	29	-	30

*Less than 0.1%.

Source: ANDA

2. Low-Income Urban Housing

Three types of housing solutions have evolved to meet the needs of the lower-income urban population in El Salvador. These are **mesones** (rooming houses), **tugurios** (squatter settlements), and **colonias ilegales** (extra-legal subdivisions). These housing types occur primarily in the largest cities and are most numerous in San Salvador. The only one of the three for which national-level data exist are the **mesones**. The 1978 Household Survey found that about 23 percent of urban housing units are rooms in **mesones**. The proportion of **mesones** to total stock is about the same for the SSMA as it is for other urban areas.

The proportion of **tugurios** and **colonias ilegales** nationally is not known, but there are figures for the SSMA. According to EDURES, a 1976-78 World Bank study[3], **tugurios** housed about five percent and **colonias ilegales** about 19 percent of the SSMA population in 1977. **Mesones** covered about 21 percent. In addition, EDURES found that around three percent of the 1977 SSMA population was living in **campamentos**, temporary collective structures erected to house persons displaced by the 1965 earthquake. Some of these **campamentos** still exist today. Together, these extra-legal housing solutions sheltered close to half the population of the SSMA in the late 1970s. The EDURES figures are consistent with the findings of the 1976 **Vivienda Popular Urbana** Study.

The **mesones** are principally large, centrally-located old houses that have been subdivided into one-room rental units. Water and sanitation are communal, with piped water and sewer predominating. Charges for water and electricity are included in rent. Densities in **meson** districts are high; the **Vivienda Popular** study estimated it at 658 persons per hectare. Family size tends to be smaller than average--3.8 according to **Vivienda Popular**--which reflects the fact that the **meson**, with its limited space and low rent, is appropriate for younger families and recent migrants. In the SSMA a majority of **mesones** are constructed of mud and wattle, while in other principal cities the predominant building material is adobe. The stock of **mesones** grew between 1971 and 1978 by about 15,000 units, but it is unclear how much more growth there has been or can be, given the finite supply of existing subdividable houses. According to some observers, a number of new rooming house buildings have been constructed in recent years. There are no figures on the magnitude of "new meson" construction.

Tugurios are squatter settlements found mainly in the SSMA but which also occur in other cities. **Tugurios** develop piecemeal on public lands that are generally unsuitable for regular construction: ravines, public rights-of-way, and the like. **Tugurio** settlements tend to obtain electricity relatively

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[3]EDURES, A Program for the Integrated Improvement of Critical Metropolitan Areas in El Salvador (Programa para el Mejoramiento Integrado de las Areas Criticas Metropolitanas), MIPLAN/UNDP/IBRD/PADCO Inc., May 1978.

rapidly, but piped water in the form of standpipes can take years to arrive. In the interim, water is often obtained by the barrel from venders or through rooftop collection during the rainy season. Housing construction is progressive with a heavy component of self-help and family labor. Construction materials are primarily mud and wattle in the SSMA and a variety of permanent and temporary materials in other cities. Lots tend to be small, and densities are on the order of 350 persons per hectare, according to **Vivienda Popular**. Average family size was found in that study to be 4.7 persons, suggesting that **tugurios** are especially suitable for families that are too large to fit into a **meson** room but too poor to afford monthly payments for a lot in a **colonia ilegal**. Anecdotal evidence suggests that **tugurios** have been expanding in the last six years, especially as a result of the influx of rural people displaced by the armed conflict. It is likely that the proportion of the urban population living in **tugurios** has increased by several percentage points since the late 1970s.

Colonias ilegales were identified in the mid-1970s as the fastest-growing type of urban settlement. It is important to note that **colonias ilegales** are illegal in the sense that they violate DUA's physical standards. However, the property rights of a lot owner in a **colonia ilegal** can in some cases be perfectly legal. Essentially a **colonia ilegal** begins with the subdivision of a tract of land into modest-sized lots (80 to 150 m2 according to EDURES). Tracts tend to be located on the periphery of the city. Lots are sold without services, usually on a "rent with promise of sale" (**arrendamiento con promesa de venta**) basis. This means that the seller/landlord retains ownership until payments are completed. The **Vivienda Popular** study found that down payments were around five to ten percent and terms between five and ten years. Housing construction is progressive, with the pace of construction and materials used varying with income. Newly-established **colonias ilegales** consist mainly of dwellings made of "improvised" materials or mud and wattle. Older **colonias ilegales** in the SSMA and other cities have high proportions of masonry houses. Subdividers normally make no investments in services. Electricity is usually the first to arrive; water can take years. According to **Vivienda Popular**, in the late 1970s average family size in **colonias ilegales** was 5.8, and incomes were higher than in **mesones** or **tugurios**. This indicates that **colonias ilegales** are appropriate for families that are "later in the life cycle"; that is, those that are larger, with more income, and with an interest in more secure tenure. It is quite likely that the share of the urban population living in **colonias ilegales** has risen above the levels of the late 1970s.

3. Housing Conditions of Agrarian Reform Beneficiaries and the Displaced

Phase I Beneficiaries

It is unclear how large the population of Phase I beneficiaries is. A 1981 study by Ohio State University estimated that Phase I could benefit approximately five percent of the agricultural work force, or around 30,000 workers in 1983[4]. There are no housing data for the entire range of Phase I cooperatives, but information is available from a series of studies of 54 coops carried out under AID sponsorship in 1981-82. These "Diagnosticos Agro-Socio-Economicos" indicate that housing conditions of the Phase I population are not significantly different from those of the rural population overall. Most of the "Diagnosticos" included data on housing, yielding a non-random sample of slightly over 2,000 dwelling units on about 40 coops. Regarding building materials, approximately one third of the units were constructed of non-permanent or improvised materials (palm, straw, plastic, discarded wood or metal). Around 40 percent were built of mud and wattle. The remainder were split about evenly between adobe and masonry. Infrastructure coverage was poor. Less than 10 percent had piped water (individual or communal), about one quarter used wells, and the rest--around two thirds--depended on "natural" sources such as rivers, rainfall, or springs. Approximately two-thirds of the units claimed no sanitation facilities whatsoever, and about 30 percent had latrines. Electricity reached about one third of the units; the majority relied on kerosene for lighting.

On some cooperatives, housing is clustered in small settlements; on others, it is mainly dispersed. Where settlements exist within the coops, they vary in size from a handful of families up to several hundred. Further complicating the picture are that not all families residing on coops are members and that many coop members have their houses outside the boundaries of the coops. It is also worth noting that there is a significant amount of collective housing on the coops in the form of "galeras" and "mesones". These structures vary in quality from flimsy "temporary" construction to relatively solid materials.

Phase III Beneficiaries

As of mid-1984, FINATA had emitted over 8,000 definitive titles to small farmers. It had also emitted over 62,000 provisional titles to a total of almost 53,000 beneficiaries. Phase III beneficiaries tend to be poor, with unstable incomes. Their literacy level is around 50 percent. A study carried out for the World Food Program in late 1983 found that the average parcel size for Phase III farmers is around 2.4 **manzanas**, about 1.67 hectares[5]. The same study contains a very rough profile of Phase III beneficiary housing: Dwellings are generally dispersed in the rural area; units are quite small (16-24 m2); walls are built of locally-available materials (palm, straw, bamboo, mud and wattle), and floors are earth.

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[4]Linda K. Wright-Romero et al., Analysis of Workers and Families Potentially Affected by the Agrarian Reform, Phase I, Ohio State University, September 1981 (draft).

[5]World Food Program, Informe al PMA de la Mision de Apreciacion de la Solicitud del Proyecto El Salvador 2725, "Reasentamiento Humano y Promocion de Actividades Productivas", November 1983.

The Displaced

It is generally estimated that around one million people have been displaced by the armed conflict since 1980. As of July 31 1984, there were 353,869 people registered as displaced with CONADES. Twenty percent of these people were located in the Department of San Salvador, 36 percent in the Departments of Usulutan, Morazan, and San Vicente, and the remaining 44 percent are in the other 10 Departments. As of May 1984, 21,052 persons were living in 36 officially-designated "settlements of displaced people". Three-quarters of this official settlement population was located in Morazan, Usulutan, and San Vicente. AID estimates that about half of the total number of displaced persons are not registered with CONADES.

The great majority of displaced persons are of rural origin. Most have stayed within their Department of original residence. According to an AID study, about 15 percent of the displaced population--around 150,000 people--lives in separate settlements, with the rest taken in by relatives or absorbed into existing urban areas[6]. There are five types of settlements of the displaced: 1) the above-mentioned designated settlements, 2) "ad hoc" settlements, 3) extensions of existing squatter areas, 4) occupied buildings, and 5) sanctuaries (churches). The people living in these settlements suffer from serious deficiencies in nutrition, health, and education. AID is currently sponsoring a project to provide health services and jobs for the displaced population.

A CONADES survey done in 1982 of displaced persons settlements found the following housing conditions: 41 percent of dwelling walls were made of improvised materials; 63 percent of floors were of earth; 70 percent used kerosene for light; for water, 33 percent depended on rainfall or rivers and 50 percent on standpipes or venders; 44 percent had access to latrines, and 37 percent had no sanitary facilities at all[7].

CONADES has provided materials for the construction of temporary communal shelter for displaced persons. These are essentially wooden frames with plastic sheets for walls and roofed with "lamina". These structures are designed to house 12 families. They are unpopular because they do not provide adequate shelter or security. Through its "Health and Jobs" project, AID has generated temporary employment for displaced people in construction of basic infrastructure for settlements.

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[6] AID, Displaced Persons in El Salvador: An Assessment, Bureau for Latin America and the Caribbean, March 1984.

[7] CONADES, Diagnostico de la Situacion Social de la Poblacion Desplazada, January 1984, pp. 22-23.

B. HOUSING NEEDS 1985-2005

1. Data and Assumptions

The housing needs analysis takes into account five categories of needs:

- Accommodating future population growth;
- Replacing adequate units that become obsolete;
- Upgrading salvageable substandard units;
- Replacing non-upgradable substandard units; and
- Reducing overcrowding.

For El Salvador we have assumed a housing program under which all households will be living in adequate units by the year 2005. An important corollary to this scenario is the assumption that investments in infrastructure to support housing (major water, sanitation, electricity, drainage, and street projects) will be made in a timely manner. As suggested elsewhere in this report, this assumption may be unrealistic.

Our estimates of housing needs are based on two main types of data: 1) demographic projections and 2) characteristics of the current housing stock and assumptions about the 20-year housing program.

The population projections used in this analysis are based on forecasts made by MIPLAN's Department of Population. The MIPLAN figures are for the entire national population[8]. They assume a moderately optimistic scenario in which the armed conflict largely abates by 1985, the fertility rate declines from the current 5.4 to 3.19 by the end of the first quarter of the 21st century, the gross mortality rate drops from 12.1 percent to 4.9 percent in the same period, and the high net international emigration rate is reduced from the current 20 percent to 1.2 percent.

Neither MIPLAN or any other sources have made recent population forecasts for urban or rural areas. Therefore we used the national MIPLAN projections as a benchmark for making our own rough estimates of future population growth in three geographic zones for which we wished to assess housing needs and demand: the San Salvador Metropolitan Area (SSMA), other urban areas, and rural areas. Table II.4 presents the geographically disaggregated population projections used in this analysis. The urban-rural split is based on assumptions about future rural population growth rates; namely, that they would remain substantially below the national average and not rise above 2.5 percent per year over the next 20 years. The split between SSMA and other urban growth assumes that the SSMA will grow faster than the overall urban average, peaking at 4.0 percent per year in the 1990-1995 period. The very high future population growth rates for urban areas are consistent with MIPLAN's projections of total national population growth as well as with historical trends.

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[8]MIPLAN, Departamento de Poblacion, Proyecciones de Poblacion, Periodo 1980-2025, Datos Preliminares, September 1984, Table 2.

Our housing needs analysis also assumes a very gradual decline over the next 20 years in average household size, consistent with a slight projected narrowing of the age pyramid for El Salvador. We reckon that current average household sizes of SSMA, 4.4; other urban, 4.6; and rural, 5.7 will decline to 4.2, 4.4, and 5.5, respectively.

To estimate the base year (1985) housing stock, we applied the above figures for average household size plus an assumption of one household per unit to the base year population (see Table II.4). This yielded a 1985 housing stock of 941,000 units, divided between 257,000 in the SSMA, 280,000 in other urban areas, and 404,000 in rural areas. As noted earlier, these figures represent occupied units only. At the moment, rural areas are likely to contain many thousands of abandoned dwellings.

The housing needs analysis requires that the existing housing stock be broken down into permanent, upgradable, and non-upgradable units. To do this, we relied on a categorization of the housing stock that was created and applied by MIPLAN to the results of the 1978 Multi-Purpose Household Survey[9]. Six categories of housing quality were used, as shown in Table II.5. MIPLAN defined permanent dwellings as those built primarily of masonry, adobe, bahareque, or wood. Non-permanent included palm, mud and wattle, and discarded materials. On the basis of this, we classified the first of the six categories as "permanent" and the last two as "non-upgradable" for the purposes of the present analysis. The remaining three categories made up the "upgradable" group. The 1978 percentage distribution of these categories was applied to the base year housing stock. In reality the stock has deteriorated since 1978, but more recent data on housing quality are not available. Thus our housing needs calculations probably underestimate the amount of upgrading and replacement of substandard units that will be required.

[9] MIPLAN, IPROS: Subsistema Monitor de la Vivienda en El Salvador, SIECA/ECID/IPROS14-3114-3.81, September 20, 1983.

TABLE II.4

POPULATION FORECASTS
(Thousands)

	Total	(AAGR)	All Urban	(AAGR)	SSMA	(AAGR)	Other Urban	(AAGR)	Rural	(AAGR)
1983	4,627		2,280		1,050		1,230		2,347	
%	<100.0>	0.96	<49.3>	2.94	<22.7>	3.70	<26.6>	2.29	<50.7>	-1.00
1985	4,716		2,416		1,129		1,287		2,300	
%	<100.0>	2.47	<51.2>	2.91	<23.9>	3.70	<27.3>	2.20	<48.8>	2.00
1990	5,328		2,789		1,354		1,435		2,539	
%	<100.0>	2.88	<52.3>	3.44	<25.4>	4.00	<26.9>	2.91	<47.7>	2.25
1995	6,141		3,303		1,647		1,656		2,838	
%	<100.0>	2.91	<53.8>	3.47	<26.8>	3.70	<27.0>	3.24	<46.2>	2.25
2000	7,089		3,917		1,975		1,942		3,172	
%	<100.0>	2.71	<55.2>	3.20	<27.8>	3.50	<27.4>	2.89	<44.8>	2.10
2005	8,104		4,585		2,346		2,239		3,519	
%	<100.0>		<56.6>		<29.0>		<27.6>		<43.4>	

AAGR = Average Annual Growth Rate

Sources: Total national population forecasts, MIPLAN.
Other forecasts, PADCO analysis.

TABLE II.5

CATEGORIES OF HOUSING STOCK QUALITY 1978
(Percentages)

	SSMA	Other Urban	Rural
Permanent			
1. Permanent Materials, Private Services	52.1	36.6	3.0
Upgradable			
2. Permanent Materials, Communal Services	23.9	20.3	0.6
3. Permanent Materials, Some Services	17.2	24.7	15.2
4. Permanent Materials, No Services	2.5	14.9	61.2
Non-Upgradable			
5. Non-Permanent Materials, Some Services	3.7	0.9	0.9
6. Non-Permanent Materials, No Services	0.6	2.6	19.1
Total	100.0	100.0	100.0

NOTE: "Permanent" materials include masonry, mud and wattle, adobe, and wood.

Source: 1978 Multi-Purpose Household Survey

The remaining assumptions have to do with rates of housing stock replacement and upgrading. We have used two percent per year as the rate of replacement of the permanent housing stock. We have also assumed that, between 1986 and 2005, 100 percent of base year non-upgradable units are replaced and 100 percent of base year upgradable units are upgraded. These two programs are spread out evenly over the 20-year-period (at a rate of five percent per year). Finally, we have defined the reduction of overcrowding as follows:

- For urban areas, provide new units for 80 percent of households currently living in **mesones**.
- For urban and rural areas, assume that 15 percent of units classified as **ranchos**, **chozas**, or **tugurios** in the 1978 household survey contain more than one household, so that a corresponding number of new units are needed to achieve one household per unit.

It should be noted that our calculations assume that all new households acquire units of "acceptable" quality, though these are not in many cases "finished" units (e.g. sites and services, upgrading loans, core units). Our estimates do **not** include upgrading of units other than those in the base year housing stock. This means that upgrading or progressive development of future units does not appear in the housing needs forecasts.

2. **Projected Needs**

Table II.6 presents the number of units needed per year to fulfill the housing program described above. Note that the figures in Table II.6 are **annual numbers of units**, not cumulative totals. In other words, Table II.6 presents "snapshots" of annual housing needs at five-year intervals.

The Housing Needs Assessment Model allocates one unit to each new future household. Table II.6 shows that for the nation as a whole the annual number of new households requiring shelter rises from about 25,000 in 1990 to 50,000 in 2005. The distribution of household growth among the three regions remains fairly constant over the 20-year period. Declining average household size means that the number of households will grow faster than the overall population. If household size were to remain constant over the next 20 years, there would be by 2005 about 16 percent fewer **new** households being created per year and about four percent fewer households in total.

For the **SSMA**, new construction to accommodate household growth represents the largest portion of housing needs. New households will be appearing at the rate of about 10,000 per year by 1990 and 20,000 per year by 2005. These figures represent 44 percent and 53 percent of total SSMA housing needs, respectively. In 1990 the second-largest category of housing needs for the SSMA will be upgrading, which is estimated to involve 5,600 units per year or 24 percent of total needs. Since we have assumed a constant volume of upgrading over the 20-year period, the share of upgrading to total housing needs drops to 15 percent by 2005. The volume of new construction for replacement due to obsolescence increases substantially from less than 3,000 units annually in 1990 to almost 10,000 units by 2005.

TABLE II.6

HOUSING STOCK AND REPLACEMENT 1990-2005
(Thousands of Units)

	1990	1995	2000	2005
SSMA				
New Households per Year	10.23	15.06	15.26	19.85
Replacement of Permanent Units (2% per year)	2.68	4.74	7.09	9.45
Replacement of Non-Upgradable Units*	2.00	-	-	-
Construction to Relieve Overcrowding**	2.80	2.80	2.80	2.80
Subtotal: New Construction per Year	17.71	22.60	25.14	32.11
Annual Upgrading***	5.60	5.60	5.60	5.60
Total Construction per Year (New Units Plus Upgrading)	23.31	28.20	30.74	37.71
Total SSMA Housing Stock	322.14	411.43	501.71	614.98
Other Urban				
New Households per Year	6.43	11.21	12.71	15.46
Replacement of Permanent Units (2% per year)	2.08	4.00	6.24	8.64
Replacement of Non-Upgradable Units*	1.60	-	-	-
Construction to Relieve Overcrowding**	2.80	2.80	2.80	2.80
Subtotal: New Construction per Year	12.91	18.01	21.76	26.90
Annual Upgrading***	8.40	8.40	8.40	8.40
Total Construction per Year (New Units Plus Upgrading)	21.31	26.41	30.16	35.30
Total Other Urban Housing Stock	326.17	396.22	473.77	565.08
Rural				
New Households per Year	8.39	12.27	11.93	14.68
Replacement of Permanent Units (2% per year)	0.24	3.15	6.45	9.71
Replacement of Non-Upgradable Units*	4.00	4.00	4.00	4.00
Construction to Relieve Overcrowding**	1.20	1.20	1.20	1.20
Subtotal: New Construction per Year	13.83	20.62	23.57	29.59
Annual Upgrading***	15.50	15.50	15.50	15.50
Total Construction per Year (New Units Plus Upgrading)	29.33	36.12	39.07	45.09
Total Rural Housing Stock	451.93	519.28	584.92	664.31
Total Country				
New Construction per Year	44.45	61.23	70.47	88.59
Annual Upgrading	29.50	29.50	29.50	29.50
Total Construction per Year	73.95	90.73	99.97	118.09
Total Housing Stock	1,100.24	1,326.93	1,560.40	1,844.37

* 100 percent of base-year (1985) non-upgradeable units are replaced.

** For urban areas, provide new units for 80 percent of households curently living in mesones; for both urban and rural areas, assume that 15 percent of units classified as ranchos, chozas, or tugurios in 1978 survey contain more than one household so that a correponding number of new units are needed to achieve one household per unit. Program assumes 100 percent of base year (1985) overcrowding is eliminated over 20-year period.

*** Upgrading of base year (1985) upgradable units is spread out evenly over 20-year period.

Source: PADCO Analysis

In **other urban areas** new households will require around 6,400 units per year in 1990, about 30 percent of total housing needs. This category grows rapidly to over 15,000 units--44 percent of total needs--by 2005. Upgrading accounts for the largest share of housing needs in 1990 with 8,400 per year. By 2005, however, new construction for replacement due to obsolescence will equal upgrading in terms of annual volume of housing requirements.

Rural areas present a somewhat different picture of housing needs than the two urban zones. In rural areas upgrading represents the majority of housing needs in 1990 (53 percent) and remains the largest category throughout the 20-year period. New construction to accommodate household growth accounts for about 29 percent of rural housing needs in 1990 and increases to 33 percent by 2005. The rapid increase in permanent housing projected for rural areas--due to the large upgrading program--means that replacement for obsolescence grows from practically zero in 1990 to almost 10,000 units per year by 2005.

Meeting the need for new housing in 1990 would require building a total of about 18,000 units in the SSMA, 13,000 units in other urban areas, and 14,000 units in rural areas, for a 1990 annual total of around 45,000 new units. By 2005, the annual requirement for new housing construction may reach 32,000 in the SSMA, 27,000 in other urban areas, and 30,000 in rural areas. Total annual upgrading requirements are steady at around 6,000 for the SSMA, 9,000 for other urban areas, and 16,000 for rural areas.

The estimates of new construction needs may be slightly low because the calculations are based on a 1978 housing stock quality distribution (see above). If the actual housing stock is in worse condition, the requirement for replacement of non-upgradable units will be a little higher. This underestimate is offset, however, by the assumption of declining household size. Slower rates of new household formation, perhaps due to continuing economic constraints, may reduce the need for new dwelling units.

On the other hand, the projected upgrading needs are conservative. As noted above, they take into account only the upgrading of base year (1985) substandard housing which is salvageable. They do not include potential needs for progressive "upgrading" of post-1985 units.

Recent "formal sector" housing production levels have been far below the annual volume needed to satisfy housing needs in 1990. According to CASALCO, total licensed production between 1979 and 1983 was 55,640 units (of which 53,560 were urban)[10]. This represents an annual output of around 11,000 units. By contrast, housing needs for 1990 in urban areas only (SSMA and other) amount to about 31,000 per year. Thus formal sector

[10]Marcable Consultora Economica, S.A., La Industria de la Construccion y la Recuperacion Economica Nacional, (no date), Tables I-23, I-24, I-25.

output would nearly have to triple by 1990 in order to meet urban needs only. If current formal output remains constant, two-thirds of 1990 housing needs in urban areas will have to be met through extra-legal construction.

C. HOUSING AFFORDABILITY

Having reviewed estimates of El Salvador's housing needs over the next 20 years, we turn now to an analysis of the capacity of Salvadoran families to afford different types of shelter solutions. This section will first review the data used for the affordability analysis, then present results for urban and rural populations by income quintile, and, finally, give some affordability estimates for specific potential target groups.

1. Data

The main ingredients needed for a housing affordability analysis are household income data and dwelling unit costs, including financing terms. The exercise essentially involves comparing the capital value of the unit that households can afford, based on households' monthly payments for housing "capital", with the design costs of several different shelter solutions. All income and costs figures in this chapter are in constant 1983 values.

The most recent household income estimates for the population at large that are available are from the 1976-77 Multi-Purpose Household Survey. MIPLAN has made tabulations from this survey of average household incomes and household income distributions for the SSMA, other urban areas, and rural areas. For this analysis we took the 1976-77 average household incomes from this source and converted them to 1985 (base year) levels at 1983 values. This yielded average monthly household incomes of ¢1,344 for the SSMA, ¢746 for other urban areas, and ¢487 for rural areas. Note that these are average, not median incomes. Medians are considerably lower because income distributions are skewed.

The Housing Needs Assessment Model uses average household income nationally to calculate future mean incomes for each quintile of the population. The income projections are based on national GDP growth for the urban and rural sectors. We have used optimistic assumptions about future GDP growth for this analysis. Taking into account that real GDP stopped declining in 1983, we have assumed that GDP will grow by 2.5 percent in real terms over the 1984-85 two-year period (i.e. annual compound growth of 1.24 percent). Thereafter, we assume 3.0 percent per annum real GDP growth in 1986-1990, 4.0 percent in 1991-1995, and 5.0 percent in 1996-2005. The latter growth rate is consistent with El Salvador's pre-1978 economic performance.

To determine whether housing prices will escalate faster than general inflation, we reviewed past price indexes. We found that that over the 1975-83 period the DIGESTYC indexes for consumer prices and housing prices increased at about the same rate. Our analysis assumes, therefore, that over the next 20 years real capacity to pay for housing will neither be eroded nor improved by differential inflation rates.

The Housing Needs methodology calculates housing affordability for each quintile of the income distribution. We based our calculations on the income distribution data from the 1976-77 Household Survey. However, we also took into account a recent study by MIPLAN which states, among other things, that the income distribution worsened considerably between 1970 and 1980, owing mainly to the huge increase in unemployment[11]. Accordingly, we modified the income distribution figures for 1985 and 1990 to reflect a greater degree of inequality than that which appears in the 1976-77 data. As of 1995, our calculations assume a return to the 1976-77 distribution. The percentage income distribution by five year period used in our analysis appears in Table II.7.

TABLE II.7

HOUSEHOLD INCOME DISTRIBUTION
(Percentage Shares by Quintile)

		1985	1990	1995	2000	2005
				SSMA		
Quintiles						
lowest	1	3	4	6	6	6
	2	7	9	12	12	12
	3	11	14	16	16	16
	4	24	23	21	21	21
highest	5	55	50	45	45	45
				OTHER URBAN		
lowest	1	3	5	7	7	7
	2	7	9	11	11	11
	3	11	14	17	17	17
	4	29	27	25	25	25
highest	5	50	45	40	40	40
				RURAL		
lowest	1	3	5	7	7	7
	2	7	9	12	12	12
	3	11	14	17	17	17
	4	29	26	22	22	22
highest	5	50	46	42	42	42

Sources: 1985 & 1990: PADCO estimates based on information from MIPLAN
1995-2005: Income distribution from 1976-77 Multi-Purpose Household Survey

[11]MIPLAN, Diagnostico Economico y Social 1978-1984, Primera Parte: Aspectos Globales (Documento Preliminar para Discusion), May 1984, pp. 89-90.

A recent study of housing demand by lower-income urban residents found that for the household income range below ¢1,000/month, the fraction of income spent on housing varied from around 25 percent at the lowest levels to less than five percent for the better-off families[12]. The EDURES study of 1976 found that families living in **tugurios** spent around five percent of their incomes on housing (to be expected, as **tugurios** are squatter settlements); families living in **mesones** spent about 15 percent; and families living in **colonias ilegales** spent about 25 percent[13]. At the same time, there is reason to believe that, given the opportunity to obtain a decent dwelling and secure tenure, families in El Salvador are willing to spend considerably more on housing. An in-depth evaluation of the World Bank-sponsored low-income housing projects carried out by the Fundacion Salvadorena de Desarrollo y Vivienda Minima (FSDVM) found that payments to the FSDVM represented less than 40 percent of total housing investment by beneficiaries. Families were also investing heavily on their own on materials and labor for home improvements. The evaluation found that "families were willing to invest significantly more than 20 percent of their income", which was made possible in many cases by "financial support from relatives in the form of regular income transfers"[14].

Taking into account the above evidence, plus the fact that our affordability assessment deals mainly with unfinished shelter solutions (upgrading, sites and services, core units), we based our analysis on the following shares of household income for housing "capital":

PERCENTAGE OF INCOME SPENT ON HOUSING "CAPITAL"

Income Dist. Quintiles		SSMA	Other Urban	Rural
lowest	1	20	20	10
	2	25	25	15
	3	30	30	20
	4	30	30	25
highest	5	30	30	30

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[12] Farra-Meyers Asociados, Inc., Demanda Efectiva para Vivienda de Bajo Costo en el Area Metropolitana de San Salvador y Tres Ciudades Secundarias, April 1984.

[13] EDURES, op cit.

[14] Michael Bamberger et al, Evaluation of Sites and Services Projects: The Evidence from El Salvador, World Bank Staff Working Paper No. 549, 1982, p. 15.

We selected five "urban" and four "rural" shelter solutions for the affordability analysis (all costs in 1983 values):

Urban

- Upgrading Loan: A loan of ¢1,700 including ¢1,500 worth of materials and ¢200 of technical assistance. The value of materials is our estimate of the basic amount needed to upgrade a 20 m2 house. In addition to the loan, the affordability analysis must take into account the value of the existing dwelling being upgraded. We have estimated this to be about ¢1,200, which is the 1983 value of a typical tugurio unit according to the 1976 Vivienda Popular study. The total cost of this solution is therefore ¢2,900.

- Serviced Lot: A lot of 50 m2 with individual connections to the water supply and sewerage systems, but with no structure of any kind. Other services include surface drainage and compacted but unpaved streets. Electricity is not included. The cost is estimated at ¢5,000.

- Floor and Roof Unit ("Piso-Techo"): A serviced lot like the previous one with a 12 m2 unit consisting of a floor of cement tiles, reinforced concrete columns, and an asbestos-cement roof. A toilet and a utility sink are included. The cost is ¢8,500.

- Party Walls Unit: Same as the floor and roof unit with the addition of lateral (shared) walls made of fired clay brick and mortar. The estimated cost is ¢10,000.

- Minimum Basic House: A 60 m2 lot with a 24 m2 house of concrete posts and brick walls. All services including electricity are provided. The house comes with a sanitary core and doors and windows. The cost is estimated at ¢14,900. For an additional ¢1,000, this solution could be provided with a concrete slab roof designed to permit construction of a second story.

Rural

- Upgrading Loan: A loan of ¢1,000 including ¢800 worth of materials and ¢200 of technical assistance. The ¢800 assumes use of local materials and "vernacular" construction methods (adobe or mud and wattle). We assume also that the value of the existing unit to be upgraded is the same as in urban areas, ¢1,200. The total cost of this solution is thus ¢2,200.

- Floor and Roof Unit ("Piso-Techo") with Latrine: A 27 m2 unit consisting of a soil cement floor, wooden columns, and a roof made of zinc sheets or clay tile. No walls are provided. The solution includes a pit latrine covered by a concrete slab topped by a toilet seat and sheltered by a roof. The total estimated cost is ¢1,600, which does not include land (we assume that in rural areas the land is already available to beneficiaries).

- Communal Infrastructure Package: This consists of a pit latrine shared by two families, a utility sink shared by two families, and a water supply system with capacity for 50 families consisting of a well, a storage tank, a pump, and a pipe distribution system. The total estimated cost per family is ¢2,900.

- Minimum Basic House: A 30 m2 unit made of adobe or mud and wattle walls, a soil cement floor, and galvanized zinc or clay tile roof. The only services included are a pit latrine. The cost is estimated to be ¢3,000. If the communal infrastructure package is included (without double-counting the pit latrine), the cost of the house with communal services is ¢5,500.

For the calculation of the capital value that households can afford, we have assumed the following terms, which apply to all of the above solutions:

- 15 percent interest rate: This is based on current BCR rates for the savings and loan system. It was important to base the affordability analysis on a positive real interest rate to reflect a financially sound housing policy.

- 20-year amortization pe\ l, which is more or less standard in El Salvador for low-cost housing.

- 5 percent downpayment, also standard.

2. **Affordability in General**

Table II.8 presents affordable capital costs and monthly payments for housing for 1985. The figures are broken down for households in the SSMA, other urban areas, and rural areas and, within each of these, by income quintile. Households in the middle quintile of the income distribution of the SSMA can afford a unit costing a maximum of ¢17,730 in 1983 prices. SSMA households in the next-to-lowest quintile of the income distribution can afford shelter solutions costing no more than ¢9,400 on the average. The bottom 20 percent of SSMA households are able to afford a unit costing an average of ¢3,220. Households in other urban areas, because of lower incomes overall, have a substantially lower capacity to pay than SSMA residents. The middle quintile of other urban households can afford units costing an average of ¢9,840, about what SSMA households in the next lowest quintile can afford. Households in the bottom 20 percent of the other urban income distribution can only afford a unit costing an average of ¢1,790, while households in the quintile above have access to one costing ¢5,220.

Rural capacity to pay for housing is very limited. Middle-quintile rural households can afford a unit costing a maximum of ¢4,280 on the average, less than half of what comparably situated non-SSMA urban households can afford. The bottom 20 percent of rural households can pay an average of only ¢580 for housing, while the next highest quintile of rural households can afford ¢2,040.

TABLE II.8

1985 AVERAGE AFFORDABLE CAPITAL COSTS AND MONTHLY PAYMENTS
(1983 Constant Colones)

Income Quintiles		Average Affordable Capital Cost 1985 SSMA	Other Urban	Rural
lowest	1	3,220	1,790	580
	2	9,400	5,220	2,050
	3	17,730	9,840	4,280
	4	38,360	25,940	14,100
highest	5	88,650	44,720	29,180

Income Quintiles		Average Affordable Monthly Payment 1985 SSMA	Other Urban	Rural
lowest	1	40	22	7
	2	118	65	26
	3	222	123	54
	4	480	324	176
highest	5	1,109	559	365

Note: Figures are based on 15 percent interest, 20 year amortization period, and 5 percent down payment. See Chapter II, Section C for percentages of income spent on housing.

Source: PADCO Analysis

The heart of the affordability analysis appears in Table II.9. Here we present the maximum shelter design levels that are within the capacity to pay of average households in each income quintile. The results are shown for the three geographic regions.

In Table II.9 it is evident that at the moment, the minimum basic urban house (¢14,900) is not affordable to the bottom 40 percent of the income distribution in the SSMA or to the bottom 60 percent in other urban areas. Currently, the average household in the next-to-lowest quintile of the SSMA cannot even afford a party-walls unit (¢10,000). This household can purchase a floor-roof unit on a serviced lot, however. In other urban areas, the next-to-lowest quintile can afford up to a serviced lot (¢5,000), and the middle quintile can afford a floor-roof unit (¢8,500). The bottom 20 percent of urban households (SSMA or other cities) cannot at this point afford any of the design levels we are evaluating unless they are already **tugurio** dwellers, in which case they can afford an upgrading loan.

Housing affordability may improve in the future if the national economy begins growing again in real terms. Assuming the rates of growth and improvements in income distribution described in Section C.1 above, households in the lower 40 percent of the SSMA and lower 60 percent of other urban income curves will be able to afford higher design levels starting as of 1990.

TABLE II.9

AFFORDABILITY OF SHELTER DESIGN LEVELS

Household Income Quintiles		Shelter Design Levels Affordable Per Year[1] 1985	1990	1995	2000	2005
SSMA						
lowest	1	-	1	2	2	2
	2	3	4	5	5	5
	3	5	5	5	5	5
	4	5	5	5	5	5
highest	5	5	5	5	5	5
Other Urban						
lowest	1	-	1	1	2	2
	2	2	2	3	3	4
	3	3	4	5	5	5
	4	5	5	5	5	5
highest	5	5	5	5	5	5
Rural						
lowest	1	-	-	-	1	1
	2	1	2	3	3	3
	3	3	4	4	4	4
	4	4	4	4	4	4
highest	5	4	4	4	4	4

1 The numbers in the body of the table refer to the maximum design level affordable to households earning the average income for each quintile of the income distribution. The average affordable capital costs that correspond to this table appear in Table II.8. The design levels are as follows (all costs in 1983 constant prices):

Urban

1. Upgrading loan plus value of existing minimal unit: ¢2,900.
2. Serviced lot, no structure: ¢5,000.
3. Floor-roof ("piso-techo") unit on serviced lot: ¢8,500.
4. Party walls unit (same as No.3 with lateral shared walls): ¢10,000.
5. Minimum basic house: ¢14,900.

Rural

1. Floor-roof ("piso-techo") unit with latrine, not including land: ¢1,600.
2. Upgrading loan plus value of existing minimal unit: ¢2,200.
3. Communal infrastructure package or minimum basic house with latrine: ¢3,000.
4. Minimum basic house with communal infrastructure: ¢5,500.

Source: PADCO Analysis

By 1995, the minimum basic house could be affordable to average households in all but the bottom quintile of the SSMA and to the middle quintile of other urban areas. In 10 years the floor-roof unit could become affordable to the next-to-lowest quintile of other urban areas, and the serviced lot could be within the reach of the bottom 20 percent in the SSMA.

Shelter affordability for rural households below the middle income level is quite limited. At the present time the average rural household in the bottom 20 percent of the income distribution cannot afford even the cheapest shelter solution (see Table II.8). The next-to-lowest rural quintile can afford a floor-roof unit (¢1,600) provided the household already owns land. The middle quintile of the rural income distribution is able to pay for a communal infrastructure package or a minimum house with a latrine (¢3,000). Rural affordability may also improve in the future if real GDP starts growing again and rural incomes gradually become a bit better distributed. However, even the least costly shelter solution in our analysis is likely to remain beyond the reach of the poorest 20 percent of rural households for the rest of this century. It appears that this group will require subsidies in order to obtain minimal shelter.

The principal conclusion of the preceding analysis is that, even with market interest rates, adequate shelter is affordable to lower-income groups if appropriate standards are applied. This means that housing programs can be made financially self-supporting and replicable on a mass scale without subsidies.

3. Affordability of Particular Groups

Low-Income Urban Dwellers

Table II.10 presents affordability data for residents of **tugurios, mesones,** and **colonias ilegales.** The income figures are taken from the recent low-cost housing demand study carried out for the Vice-Ministry of Housing and Urban Development[15]. The figures indicate that the median household residing in a **tugurio** or a **meson** in the SSMA can afford monthly payments for housing of over ¢110 per month. This means that half of these households can pay for a floor-roof ("piso-techo") unit costing ¢8,500. Most of the other half can probably afford a serviced lot or an upgrading loan. The incomes of **tugurio** and **meson** households in other principal urban centers enable median monthly payments of ¢70 to ¢110, allowing about half to afford serviced lots and most of the rest to afford an upgrading loan. Households living in **colonias ilegales** in the SSMA earn slightly higher incomes than residents of the other two housing types. About half of this group can afford a party walls unit (¢10,000); a majority of the rest can pay for a serviced lot or a floor-roof unit. **Colonia ilegal** dwellers in the other

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[15]Parra-Meyers Asociados, Inc., op cit. The household income estimates in this study are consistent with those obtained by the Vivienda Popular Urbana study of 1976.

principal cities appear to have about the same median incomes as residents of **mesones**.

Agrarian Reform Beneficiaries

Median incomes and affordable housing payments for rural families who are affected by the agrarian reform also appear in Table II.10. The income data for Phase I beneficiaries are taken from the Ohio State University study mentioned earlier[16]. Households potentially affected by Phase I are estimated to have 1985 median incomes (in 1983 prices) of around ¢4,000 per year. In principle, this would enable half the households to afford monthly housing payments of at least ¢68, enough to purchase a minimum basic rural house with communal services. Most of the other half of Phase I households could probably afford a partial shelter solution of some sort (a minimal house with a latrine, a floor-roof unit, or an infrastructure package) or an upgrading loan.

Phase III beneficiaries are considerably poorer, on average, than Phase I families. Median Phase III household income in 1985 (1983 value) is estimated to be between ¢1,700 and ¢1,900 per year. This would enable about half the households to afford either a communal infrastructure package or a minimum rural house with a latrine. Most of the other half could probably afford a floor-roof unit or an upgrading loan.

The affordability estimates for rural families must be interpreted cautiously. While total income over the whole year may be high enough to indicate capacity to pay for housing, monthly income may vary so much that regular monthly payments are impossible. Most rural families in El Salvador do not earn steady incomes because they are subject to the harvest cycle, either as small cultivators or as laborers, or both. It is estimated, in fact, that between one-quarter and one-third of agricultural workers migrate every year, often with their families, in search of harvest-time employment (mainly on coffee farms).

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[16]Linda K. Wright-Romero et al., op cit.

TABLE II.10

HOUSING AFFORDABILITY OF PARTICULAR LOW-INCOME GROUPS
(1983 Colones)

	1985 Median Annual Household Income	Affordable[1] Capital Cost	Median Monthly Payment
Tugurian Households[2]			
SSMA	5,326	8,773	111
Santa Ana	910	1,519	19
Sonsonate	3,518	5,794	73
San Miguel	3,346	5,511	70
Meson Households[2]			
SSMA	5,904	9,725	123
Santa Ana	5,400	8,894	112
Sonsonate	4,305	7,091	90
San Miguel	5,277	8,692	110
Colonia Ilegal Households[2]			
SSMA	7,036	11,589	147
Santa Ana	4,182	6,889	87
Sonsonate	5,818	9,583	121
San Miguel	5,018	8,266	105
Phase I Agarian Reform Beneficiaries[3]			
Potential Beneficiaries	4,096	6,747	68
Other Farm Families	1,920	3,163	32
Farm Families with Off-Farm Employment	5,774	9,511	96
Phase III Agrarian Reform Beneficiaries[3]	1,721	2,835	36

1 At 5 percent down, 15 percent interest, and 20-year amortization.

Sources:

2 Parra-Meyers Asociados, Demanda Efectiva para Vivienda de Bajo Costo... April 1985.

3 Wright-Romero, et al., Ohio State University, 1981.

D. COSTS OF MEETING HOUSING NEEDS

The final step in this analysis is the estimation of the cost of meeting the housing needs outlined in Table II.6. Total housing investment is based on providing each household with a minimally adequate unit. In our calculations, households are assigned the following shelter solutions based on their ability to pay: for urban areas, the minimum basic house (¢14,900), the serviced lot (¢5,000), or the upgrade (¢2,900 including the existing dwelling); for rural areas, the minimum basic house with communal services (¢5,500), the basic house with latrine or communal infrastructure package (¢3,000), or the floor-roof unit with latrine (¢1,600)[17]. The highest-cost of the three urban and rural units is considered to be the minimum unit that could be supplied by the private sector.

The Housing Needs Assessment Model calculates two components of total housing investment:

- The aggregate amount households can afford to pay for the design level units allocated to them.
- The gap between total investment by households based on their ability to pay and the total value of units allocated. This gap is considered the "subsidy" component.

All households not able to afford a minimum basic house with services are identified as belonging to a "target group" for public housing policy. The target group may be thought of as eligible for a range or publicly supported housing programs and/or as potential beneficiaries of new policies to increase the affordability of private housing.

Table II.11 presents the number of households obtaining new housing at each five-year interval and the proportion falling into the target group and requiring subsidies. Nationally, over three quarters of all households needing new housing in 1990 are in the target group. The proportion of households in the target group declines in future years because of rising real incomes (as we have assumed throughout this analysis), but remains over 50 percent through 2005. In 1990 about one third of all households need subsidies in order to obtain a minimally acceptable shelter solution; however, the number of subsidized households declines rapidly both in absolute terms and as a fraction of the total.

The SSMA has the smallest proportion of households in the target group because of its high average income levels relative to the rest of the country. About two-thirds of SSMA households needing housing in 1990 cannot afford a minimum basic house with services, but this fraction drops to around 40 percent in succeeding years. Only about 5,000 households in the SSMA require subsidies in 1990; none require subsidies after that.

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[17]See Reference No. 1 at the end of this chapter.

TABLE II.11

HOUSEHOLDS REQUIRING NEW HOUSING
AND PORTION IN PUBLIC POLICY TARGET GROUP
(Thousands of Households)

	1990	1995	2000	2005
NATIONAL				
Total households	73.95	90.73	99.96	118.10
Number in target group[1]	57.62	56.51	59.70	65.55
(Percent of total)	<77.9>	<62.3>	<59.7>	<55.5>
Number needing subsidy	24.55	17.88	6.27	7.48
(Percent of total)	<33.2>	<19.7>	<6.3>	<6.3>
SSMA				
Total households	23.31	28.20	30.74	37.71
Number in target group[1]	15.56	12.36	12.87	14.26
(Percent of total)	<66.8>	<43.8>	<41.9>	<37.8>
Number needing subsidy	4.98	-	-	-
(Percent of total)	<21.4>	-	-	-
OTHER URBAN				
Total households	21.31	26.41	30.15	35.30
Number in target group[1]	17.91	17.28	18.78	20.84
(Percent of total)	<84.0>	<65.4>	<62.3>	<59.0>
Number needing subsidy	3.17	4.44	-	-
(Percent of total)	<14.9>	<16.8>	-	-
RURAL				
Total households	29.33	36.12	39.07	45.09
Number in target group[1]	24.15	26.87	28.05	30.45
(Percent of total)	<82.3>	<74.4>	<71.8>	<67.5>
Number needing subsidy	16.40	13.43	6.27	7.48
(Percent of total)	<55.9>	<37.2>	<16.0>	<16.6>

1 The target group consists of households that cannot afford a minimum basic house (¢14,900 urban and ¢5,500 rural). These households may be considered (1) candidates for a range of publicly-supported housing programs and/or (2) beneficiaries of new housing policies to increase private housing affordability.

Source: PADCO Analysis

The great majority of households needing housing in other urban areas will fall into the target group (84 percent in 1990). The target group will remain a majority for other urban areas over the next 20 years. On the other hand, if incomes rise in real terms, subsidy requirements will be minimal.

Over 80 percent of rural households needing housing in 1990 are in the target group, and about two-thirds will remain unable to afford a minimum basic house with services by the year 2005. Subsidy requirements will decline as incomes rise, but some subsidy will be required to enable all rural housing needs to be met over the next 20 years.

Total investment requirements for meeting minimum urban and rural housing needs appear in Table II.12. Total national investment is about ¢717 million in 1990 and increases rapidly to ¢1,897 million by 2005 (1983 constant prices). Investment in the SSMA consistently remains over half of total investment over the 20-year-forecast period, owing mainly to the high proportion of non-target group households there with high effective demand. Housing investment for other urban areas is about one quarter of the national total in 1990 and increases its share slightly over the next 20 years. Rural housing investment requirements are less than one-fifth of the total in 1990 and about 17 percent in 2005.

Table II.12 reinforces the conclusion that with appropriate standards and rigorous cost recovery, housing needs in El Salvador can be met with minimal subsidies. The housing affordability and investment estimates presented here are all based, it should be remembered, on "market" interest rates. Households will invest substantial portions of their incomes and also draw down on savings if they are given the opportunity to obtain adequate shelter with secure tenure.

The "formal" sector of the Salvadoran housing industry invested an average of ¢323.5 million per year (in 1983 prices) over the 1978-82 period[18]. This is about 55 percent of the investment required to meet minimum **urban** housing needs in 1990 according to Table II.12. Considering that a large portion of annual housing construction is unlicensed or financed outside of the formal sector, these figures suggest that the total amount being invested currently in housing (formal and informal) is not far from what is required to meet housing needs, at least in urban areas. The main problem then, does not appear to be the total cost of meeting housing needs. Rather, the principal challenges are enabling the formal finance system to capture a greater amount of savings and to direct these funds toward more affordable shelter solutions through mechanisms that reach lower-income groups.

Growth in overall savings depends on a) growth of GDP, for which prospects are limited in the short run, and b) increase in the propensity to save, which is a function of society's confidence in the finance system. The data in Appendix Table A.3 suggest that the trend of the latter is positive.

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[18] The "formal" housing sector includes the savings and loan system, IVU, FSV, and INPEP.

TABLE II.12

INVESTMENT REQUIRED TO MEET MINIMUM HOUSING NEEDS
(Millions of 1983 Colones)

	1990	1995	2000	2005
NATIONAL				
Non-target group[1]	545.32	951.99	1,203.11	1,697.82
Target Group Investment[2]	147.58	148.88	165.90	189.32
Subsidy Required for Target Group	24.32	12.04	8.60	65
Total Housing Investment	717.22	1,112.91	1,377.61	1,896.79
SSMA				
Non-target group[1]	349.90	570.73	685.44	969.73
Target Group Investment[2]	55.12	43.32	45.86	52.83
Subsidy Required for Target Group	4.21	-	-	-
Total Housing Investment	409.23	614.05	731.30	1,022.56
OTHER URBAN				
Non-target group[1]	114.01	246.09	333.73	471.95
Target Group Investment[2]	55.80	56.94	66.19	76.47
Subsidy Required for Target Group	6.02	1.76	-	-
Total Housing Investment	175.83	304.79	399.92	548.42
RURAL				
Non-target group[1]	81.41	135.17	183.94	256.14
Target Group Investment[2]	36.66	48.62	53.85	60.02
Subsidy Required for Target Group	14.09	10.28	8.60	9.65
Total Housing Investment	132.16	194.07	246.39	325.81

1 Investment by households that can afford minimum basic houses (¢14,900 for urban areas and ¢5,500 for rural areas). Non-target group investment includes investment beyond the cost of a minimum basic house by households that can afford more than this cost.

2 See Table II.11 for the definition of the target group. Target group investment is investment by households up to the design level they have been allocated. It does not include investment beyond this level by target group households that can afford more than the design cost.

Source: PADCO Analysis

Capturing a greater amount of savings for housing essentially means strengthening the Savings and Loan System, which is the only housing institution in El Salvador that competes for savings in the financial market. As shown in Chapter I, the S&Ls have, in the last six years, lost a significant share of the savings market to the commercial banks. The banks have successfully penetrated the regular savings market, which was once almost the exclusive province of the S&Ls. Part of the reason is that the slight interest rate advantage enjoyed in 1978 by S&L savings deposits disappeared by 1982. At the same time, the public image of SINAP suffered due to the failure since the 1980 nationalization to find buyers for its nongovernment stock (see Chapter III), and the worsening of the crisis of the unsold housing inventory (see Chapters III and IV). This has led savers, given equal interest rates, to choose the banks over the S&Ls, with the number of savers in SINAP actually declining in 1983. A comprehensive approach to improving the S&Ls' competitiveness would include steps to resolve their legal, managerial, and financial problems along with a precise market study to determine SINAP's comparative advantage in terms of savers. There is no reason to believe that direction of greater numbers of S&L loans toward lower-income groups would create resistance from medium- or upper-income depositors, as long as the latter obtain adequate financial returns, inasmuch as the principal motivating factor for saving is not obtaining a loan.

The Social Housing Fund (FSV) does not capture savings; rather, it depends mainly on obligatory contributions from employers and employees. However, to the extent that FSV does not depend on direct public treasury transfers (as does IVU), it is worth considering its potential for mobilizing more resources for housing. Contributions have stagnated in recent years due to the general economic crisis; thus FSV's potential for growth will be limited for the time being. However, FSV has much potential for borrowing and mixing these market funds with its own resources, if only it would moderately increase its lending rates (see Chapter III).

Two caveats should be considered in relation to fulfilling housing needs. First, even if the shelter finance system is reoriented and strengthened, lending and production rates are increased, standards are lowered, and real cost recovery is implemented, it is unclear whether enough infrastructure capacity exists or can be built to support a massive program to meet housing needs. Simply as a benchmark for gauging the magnitude of the infrastructure challenge, we have made very crude estimates of the annual investment required to meet water and sanitation needs in 1990. Using deficit estimates from the data in Table II.3 plus the projections of future new households in Table II.6, it is estimated that meeting needs for water supply will mean serving approximately 26,000 urban households and 20,000 rural households in 1990 (annual contribution to eliminating the 1985 deficit plus new households in that year). Similarly, meeting needs for sanitation will mean serving about 23,000 urban and 22,000 rural households in 1990. By contrast, annual ANDA water connections averaged around 9,600 over the 1975-82 period, and average annual sewer connections were about 7,600 (Source: ANDA Statistical Bulletin 1982).

Cost estimates are based on very rough international standards taken from World Bank documents.[19] In the case of water supply in urban areas, we have used US$540 per household for individual dwelling connections and US$180 per household for public standpipes. The figures for rural areas are US$855 per household for individual dwelling connections and US$228 per household for standpipes. Sanitation is marked by the high cost of conventional water-borne sewerage or conventional septic tanks, which is roughly US$1,500 per household. Low-cost septic tanks or composting toilets cost around US$300 per household.

The above data yield the following annual investment costs for meeting El Salvador's water supply and sanitation needs in 1990:

ANNUAL COST OF MEETING WATER SUPPLY
AND SANITATION NEEDS IN 1990
(Millions of 1983 Colones)

	Urban	Rural	Total
Water Supply			
Individual House Connections	35.0	42.8	77.8
Standpipes	11.8	11.5	23.3
Sanitation			
Conventional Sewerage/Septic Tanks	86.2	--	102.7*
Low-Cost Septic Tanks/Composting Toilets	17.2	16.5	33.7

* High-standard sanitation was not applied to rural areas (¢102.7 = 86.2 + 16.5)

Source: PADCO estimates

The above estimates should be compared with annual physical investment by ANDA in the last five years:

	1979	1980	1981	1982	1983
ANDA Physical Investment (millions of current colones)	43.7	31.6	25.2	25.0	13.4

Source: MIPLAN

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19 World Bank, Water Supply and Waste Disposal, Poverty and Basic Needs Series, September 1980, p.16; and John M.Kalbermatten et.al., Appropriate Technology for Water Supply and Sanitation, A Summary of Technical and Economic Options, World Bank, December 1980, p.15.

Even at its peak in 1979, ANDA investment was insufficient to cover 1990 urban water and sanitation needs at high conventional standards. The 1983 investment level of ¢13.4 million barely covers the estimated cost of supplying urban water needs exclusively through standpipes (not to mention urban sanitation needs). Even allowing for wide margins of error in the cost estimates, there is clearly a substantial investment gap in the water and sanitation sector. Moreover, the gap could widen substantially beyond 1990, since larger numbers of new households are projected in future years (see Table II.6). Future choice of standards for delivery of urban services will have a strong impact on the degree to which needs are met.

It is imperative to examine the capacity of the infrastructure delivery system to meet future needs for potable water, electricity, sanitation, solid waste disposal, and community services. Improvements in infrastructure delivery must go hand-in-hand with changes in the housing sector.

As for the second caveat, there is no reason why the majority of future housing construction should be carried out by public institutions. Private sector builders should be encouraged to participate in the provision of minimum basic houses and even "progressive" solutions such as floor-roof units, sites and services, or infrastructure packages. Considering the track record of IVU in direct construction, it is doubtful that housing needs can be met without the participation of the private sector. Among the measures for promoting greater private sector involvement in housing are:

- Have IVU contract out construction of its projects to private builders;
- Reduce regulatory bottlenecks for building permit approval (see Chapter IV). Provide accelerated approvals for low-cost shelter projects;
- Strengthen public confidence in and competitiveness of SINAP so it can channel more resources to private construction;
- Adequately balance SINAP's supply and demand financing, not allowing the latter to lag (as in recent years). Require SINAP to finance demand of more low-cost units (see Chapter III);
- Implement "regularization" of tenure and provide infrastructure improvements in informal settlements to encourage private investment in housing upgrading.

On the whole, the formal housing sector in El Salvador has not produced low-cost shelter solutions of the kind used in this analysis. Output and financing focus on finished dwelling units costing a minimum of around ¢20,000 through the private sector and ¢15,000 through the public sector. If average unit price could be lowered substantially, especially for shelter solutions produced and financed through public institutions like FSV and IVU, available investment resources could reach a far greater number of households.

Even with a housing program that emphasizes low-cost "shelter solutions" (as opposed to "houses") the total investment requirements are considerably above what is being financed currently through housing institutions. What would housing investment requirements be if only finished dwellings continued to be offered? Table II.13 presents estimates of housing investment assuming that the lowest-priced urban unit available costs ¢14,900 and the lowest-priced rural unit ¢5,500; that is, that every household is to be supplied with one of these units. Total investment requirements for 1990 would be ¢1,145 million, 60 percent higher than the baseline case, or an additional ¢428 million per year. This increment alone exceeds current formal sector annual housing investment. In addition, the subsidy requirements for this housing program are enormous. Because so many households in El Salvador simply cannot afford minimum basic houses of ¢14,900 (urban) or ¢5,500 (rural), it would be necessary for the government to pay around ¢280 million in outright subsidies every year from 1990 to 2005 in order to provide this level of housing to all households.

TABLE II.13

COMPARISON OF TOTAL HOUSING INVESTMENT
AND SUBSIDY REQUIREMENTS UNDER DIFFERENT ASSUMPTIONS
(Millions of 1983 Colones)

	Total Annual Investment Required to Meet Minimum Housing Needs			
	1990		2005	
	Amount	Index	Amount	Index
Baseline Scenario	717.22	100	1,896.79	100
Lowest-Priced Solution = ¢14,900	1,144.61	160	2,353.87	124
	Annual Subsidy Requirements			
	1990		2005	
	Amount	Index	Amount	Index
Baseline Scenario	24.32	100	9.65	100
Lowest-Priced Solution = ¢14,900	279.81	1,150	278.44	2,885

Source: PADCO Analysis

REFERENCE

1. The Housing Needs Assessment Model employs a number of assumptions to allocate units to households as a basis for estimating housing investment costs. The first is that new households and households occupying units scheduled for replacement due to obsolescence are distributed evenly among income quintiles. Second, the Model identifies a "target group" of households unable to afford a minimum basic house with services (more or less the minimum house that the private sector could supply). These households could be considered 1) candidates for a range of publicly supported housing programs and/or 2) potential beneficiaries of new housing policies to increase private housing affordability. Units in the base year housing stock that are overcrowded or not built of permanent materials are assumed to be evenly distributed among the income quintiles making up the "target group". Third, the Model allocates the lower-cost units (e.g. the serviced lot, the floor-roof unit, etc.) evenly among income quintiles in the target group. Thus Also, some urban households able to afford a serviced lot are assigned an upgrade, some households unable to afford any solution are assigned an upgrade or a serviced lot. Finally, all households not in the target group are assigned a minimum basic house with services.

45.

CHAPTER III

INSTITUTIONAL STRUCTURE, FINANCES AND CAPACITY

The framework of institutions operating in the housing sector in El Salvador as it exists today has been in place for over ten years. With the exception of the 1980 nationalization of the Financiera Nacional de la Vivienda (FNV) and the savings and loan system (SINAP), that framework has remained basically the same during the last decade.

Largely in connection with various projects supported by international organizations, considerable analysis of both public and private sector institutions involved in housing has taken place in recent years. A review of these analyses shows that the following issues have been consistently raised:

- The fundamental lack of sectoral planning at the national and local levels, and the corresponding failure to coordinate the efforts of those institutions active in housing;
- Severe inadequacies within the institutions themselves, hindering production and resulting in an inefficient use of scarce financial resources.

Institutionally, the housing sector is dominated by the public sector (with private sector participation limited to building contractors and the FUNDASAL). Because of their difficulties, the public sector housing institutions do not enjoy a good public image and, in general, the morale of their employees tends to be low.

Table III.1 presents the number of housing units financed by the sector's major institutions during the period of 1950 through 1983.

The existing institutional infrastructure, despite its difficulties, and aside from the serious economic constraints posed by the armed conflict, has the capacity to produce a considerably greater number of housing units than it has in recent years. The institutional constraints to achieving greater housing output are discussed herein.

A. MINISTRY OF PUBLIC WORKS

The Ministry of Public Works (MOP) consists of two branches, the Vice-Ministry of Housing and Urban Development (VMVDU) and the Vice-Ministry of Public Works (VMOP). The organizational structure of the MOP implies that these two vice-ministries control important institutional, material and human resources. In reality, the VMOP is easily the stronger of the two branches.

TABLE III.1

HOUSING UNITS FINANCED BY INSTITUTION

INSTITUTION	CONSTRUCTION FINANCING No. of Units	CONSTRUCTION FINANCING Percent	PURCHASE FINANCING No. of Units	PURCHASE FINANCING Percent
IVU (1950-1983)	29,817*	22.6	29,817*	22.6
SINAP (1965-1983)	73,317	55.6	19,782	15.0
FUNDASAL (1969-1983)**	5,465*	4.1	5,465*	4.1
FSV (1973-1983)	1,395	1.1	31,470	23.9
INPEP (1978-1983)	0		4,020	3.1
BCO. HIPOTECARIO (1954-1983)		16.6	21,839	16.5
SINAP's unsold units			19,440	14.8
TOTAL	131,833	100.0	131,833	100.0

* Institutions provide both the construction and long term financing on these units, thus figures are identical.

** FUNDASAL's own data give the total as 7,400; see Section E of this chapter.

Source: CASALCO

1. **Vice-Ministry of Housing and Urban Development**
Responsibility for the overall management and coordination of a group of housing sector institutions is officially vested in the Vice-Ministry of Housing and Urban Development (VMVDU). It was established in 1979 as a dependency of the Ministry of Public Works. The Ministry of Planning (MIPLAN) provides the VMVDU with guidelines for inter-ministerial coordination and macroeconomic considerations.

The responsibilities attributed to the VMVDU under the decrees that establish it include the following:

- Plan and coordinate the activities of the housing and urban development sectors through the country
- As administrative entity for housing and urban development, direct national policy in these areas, while managing the activities of those state entities involved in execution of this policy, as well as private sector actors in these sectors
- Facilitate both public and private sector planning and inter-institutional coordination
- Define objectives and provide basic lines of action corresponding to the magnitude and social repercussions of the problem
- Outline decisionmaking criteria for both public and private sector action in housing and urban development

Specific functions assigned to the VMVDU include the following:

- Establish short-, medium-, and long-term planning and programming processes for the housing and urban development sectors in accordance with the global guidelines of MIPLAN
- Identify potential or unexecuted programs and projects for public sector institutions (MOP, FSV, IVU, DUA, ANDA, ANTEL, DIDECO, etc.)
- Identify potential or unexecuted programs and projects among private sector institutions such as CASALCO, savings and loan associations, and trade unions
- Identify the obstacles (financial, legal, fiscal, labor, etc.) to carrying out the referenced programs and projects
- Identify and obtain sources of financing appropriate to sectoral needs
- Implement projects and allocate resources in accordance with defined priorities
- Outline, articulate and execute the overall plan for housing and urban development

In short, this Vice-Ministry's basic functions include everything related to the orientation, regulation, and coordination of housing and urban development in El Salvador, in order to deal with short-, medium-, and long-term needs.

In practice, the Vice-Ministry's role bears little resemblance to the seemingly far-reaching responsibilities assigned to it. As a dependency of MOP, the VMVDU has no independent budget. Its real ability to direct or influence the activities of institutions operating within the sector is negligible since the Vice-Ministry has no direct say in the selection of those institutions' administrative personnel, or in their operations.

a. **Personnel and Functions**

Since June 1979 the organizational structure of the Vice-Ministry has been changed several times. Presently there are about thirty persons employed by the VMVDU. The personnel functions are in the process of being restructured. Consequently, there is no organizational chart at this time. The employees are assigned as follows:

- **Habitat Project--United Nations Development Programme (UNDP):** Eight persons are involved in the preparation of a three-year project through which the Vice-Ministry would receive technical support for conducting a national study of housing and urban development; preparation of a national development plan for these sectors; application of technological innovations in the areas of housing and urban development; a review of existing laws affecting these sectors; and a study of the Vice-Ministry's personnel.

The project was apparently on the verge of approval when a review of the proposed agreement was ordered following the May elections. At the time of this study, representatives of the Vice-Ministry appeared confident that an agreement would be signed in the near future with UNDP.

- **Urban Housing:** This section has six employees who have been involved in development of the program to upgrade marginal communities.

- **Rural Housing:** Theoretically, one person is assigned to this section. Actually the VMVDU is not involved in rural housing, and this employee is also working with the Urban Housing section on the community upgrading projects.

- **Financial Management:** With no budget of its own to manage, this section's five employees are involved in monitoring and coordinating the activities of public sector institutions functioning in the sectors of housing and urban development.

- **Special Projects:** The four persons in this section are generally involved in executing emergency housing projects (e.g., cases of natural disaster requiring relocation). Presently they are also involved in preparation of the projects for upgrading of marginal communities.

- **Support Staff:** Six persons are employed in this capacity.

b. Contemplated Changes

The new organizational structure contemplated for the VMVDU would consist of two basic sections, one for Housing and the other for Urban Development. Within the Housing Section there would be both an Urban and Rural division. Additionally, within the VMVDU there would be an office for support of the Habitat project, as well as a Financial Office.

The fundamental problem confronting the VMVDU has little to do with its own personnel chart, but rather, its place in the structure of the GOES. The VMVDU lacks the power to carry out its mandate, as stated previously, for lack of budgetary influence or administrative control. It has little ability to enforce policy in the very sectors it theoretically oversees.

The VMVDU's policymaking authority appears to be weakened by the presence of the Housing Sector Office in the Ministry of Planning. While this unit has no direct official responsibilities within the housing sector, its existence within the MIPLAN further dilutes the VMVDU's effectiveness. Because of MIPLAN's importance in overall GOES policymaking, a number of the institutions acting in the housing sector communicate primarily with that office on policy matters, rather than with the VMVDU.

This is a clear example of the lack of overall planning and coordination of efforts that has been affecting El Salvador's shelter sector for some time. In order to eliminate this overlap of responsibilities, the possibility of merging the VMVDU with MIPLAN's Housing Sector Office should be considered. At the very least, this would allow the new unit to be the only voice on policy matters concerning housing and urban development.

The policymaking and institutional coordination functions for the housing and urban development sectors must be clarified. Since the VMVDU theoretically has these responsibilities but has been unable to effectively execute them, it is recommended that its assigned role in the MOP and GOES overall be reevaluated. The planned UNDP technical assistance project within the VMVDU appears to offer the opportunity for just such an evaluation. The goals of the project appear to support USAID's overall efforts in the shelter sector. Given the level of USAID commitment to housing and urban development in El Salvador, it would be advisable for the Mission to achieve a high a level of cooperation with UNDP in working with VMVDU.

2. **Vice-Ministry of Public Works**
   In contrast to the VMVDU, the other branch of the MOP, the Vice-Ministry of Public Works (VMOP), serves as the real project execution arm of the Ministry. The fact that it employs about 97 percent of the MOP's entire personnel is clearly indicative of its importance within the Ministry's overall operations compared to the VMVDU. The distinction in the relative importance of the two Vice-Ministries is further reflected by the most recent organizational chart of the MOP, dated June 1982. The Planning Department of the MOP, which is listed as a direct dependency of the Minister's office, shows a direct connection to the office of the Vice-Minister of Public Works, but no such connection with the office of the Vice-Minister of Housing and Urban Development.

   The principal departments of the VMOP and their respective staffing levels are shown in Appendix Table A.17.

B. SAVINGS AND LOAN SYSTEM

El Salvador's Savings and Loan System (SINAP) was authorized in 1963 and today has grown to include eight member savings and loan associations (S&Ls) and a central agency, the Financiera Nacional de la Vivienda (FNV). In 1980, the SINAP was nationalized, making the BCR the principal shareholder in the System.

1. **Financiera Nacional de la Vivienda**
   The FNV was established in 1963 as the regulatory agency for the Savings and Loan System. The FNV establishes lending terms and conditions for the eight S&Ls, insures savings and mortgages, and performs audits of these institutions. The FNV reviews all requests for project financing received by the S&Ls and, if approved, monitors the progress of construction to ensure

that work keeps pace with loan disbursements. The FNV serves as the intermediary for any foreign loans to the SINAP.

The Financiera's founding decree states that its purpose is "to contribute to resolution of the housing problem for the greatest possible number of low- and middle-income families". Toward this end, the FNV is to channel resources through the S&Ls for home purchase, construction, repair, or improvement, and development and renovation of urban areas for the purpose of executing housing projects.

Sources of funds for the Financiera include allocations from the GOES, sales of National Housing Bonds, deposits by the S&Ls, and foreign and domestic loans.

a. **Personnel and Functions**

The Financiera is in the process of producing a new organizational chart; Figure III.1 is an approximation of the FNV's current structure. The FNV employs approximately 110 persons in the following capacities:

- Board of Directors: The FNV Board has a total of 12 members plus the President of the Financiera. Two persons from each of the following institutions serve on the Board: MIPLAN, MOP, Ministry of Economy, SINAP, Association of Architects and Engineers, and CASALCO. Presently, the FNV's External Auditor is responsible directly to the Board of Directors.

  The Board determines the FNV's credit policy vis-a-vis the S&Ls. It has the authority to issue National Housing Bonds (approximately ¢61 million worth of bonds has been bought by ISSS and BCR out of ¢100 million issued in 1981; marketing has been suspended due to the lack of demand for the instrument); to make recommendations to the Junta Monetaria regarding reserve requirements, fees, and depository and lending rates to be charged by the S&Ls; and to make recommendations to the appropriate GOES representatives concerning legislative changes affecting the SINAP.

- FNV Presidency: The President of the Financiera is appointed by the President of the Republic. The President is the legal representative of the FNV and presides over meetings of the Board of Directors. Attached to the office of the President are three advisory units: Financial Advisory (four employees), Legal Advisory (four employees), and a Technical Advisory (three employees). These advisories operate in coordination with the FNV's various departments with whom their activities most directly correspond.

- Manager: The office of the manager consists of the Manager himself and a secretary. Attached to this office is an accountant who serves as internal auditor.

- Assistant Manager: Below the Office of the Manager is that of the Assistant Manager, as well as six departments through which operations are administered.

- Administrative Department: The Assistant Manager also administers this, the FNV's largest department. Forty-five persons are employed in carrying out various support functions.

- Marketing Department: The three persons employed in this area review the sales and promotional methods proposed in housing projects submitted to the S&Ls for construction financing. This department maintains information on the location, quantity, and type of housing units coming on the market so as to coordinate the efforts of the S&Ls among themselves, while balancing the production of the entire SINAP with other actors in the shelter sector. A thorough analysis of the capabilities and methods of this unit was not possible due to time limitations. However, its function is clearly a critical one, given the importance of the SINAP in the overall housing market and the role of the S&Ls in the problem of "unsold inventories" (see Chapter IV).

- Project Analysis Department: This unit with ten employees handles the key function of evaluating the technical and cost feasibility of projects submitted to the S&Ls by developers. Per unit values are appraised according to the building specifications, budget, and input from the Marketing Department.

- Work Supervision Department: If both Marketing and Project Analysis deem a project feasible, and the Board of Directors authorizes funding by the S&L, it becomes the responsibility of this department (with eight employees) to supervise construction progress. Their basic responsibility is to verify that the level of funds disbursed does not exceed the value of work completed and materials stored.

- Accounting Department: This department, with five employees, is subdivided into two units: Budgetary Accounting and Capital Accounting.

- Technical/Financial Department: This department, with seven employees, has a technical section that compiles and presents all statistical data to FNV management, along with a Financial section responsible for FNV cash management and loans to S&Ls.

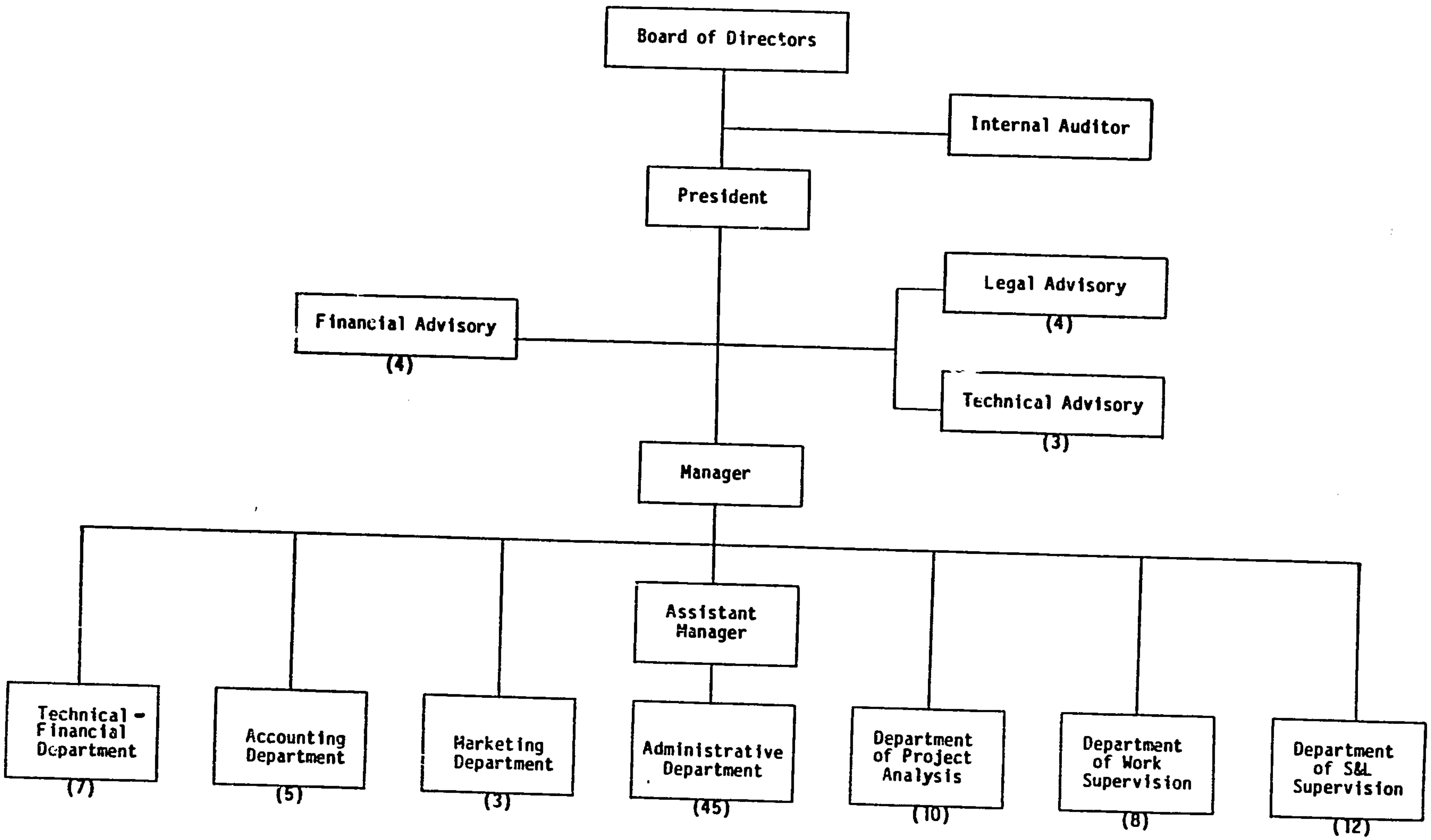
- S&L Supervision Department: This unit has 12 employees, eight of whom are assigned to each one of the S&L associations. Those eight employees spend nearly all their time in the offices of the association to which they are assigned, reporting back to the FNV several times weekly. The FNV's supervisory responsibilities include annual audits of the S&Ls as well as day-to-day supervision of their activities.

FIGURE III.1

F N V

ORGANIZATIONAL CHART

(as of October 1984)



In the case of the actual insolvency of an association, the Financiera would assume immediate control and management of that institution, until its activities could be transferred to one or more of the other S&Ls. This has not been necessary in the SINAP's 20-year history.

In the event of violation of a law or SINAP regulation, the FNV advises the institution in question of the infraction in writing, specifying the period of time during which the infraction must be rectified. If the S&L fails or refuses to act, the FNV has a number of punitive powers including imposition of fines, suspension or replacement of personnel, and dissolution of the association.

b. **FNV services to the S&Ls**

The Financiera insures all savings accounts of the SINAP's eight-member institutions up to a limit of ¢12,000 ($4,800) in return for a premium. The FNV provides short-term loans to S&Ls experiencing temporary liquidity shortages. The Financiera also insures mortgage loans on behalf of the lending S&L in return for a premium. This same service is available to other financial institutions operating under the supervision of the Superintendent of Banks.

The Financiera has the capacity to purchase and resell these insured mortgages as a means of generating additional resources for investment in housing. There has been no direct, open trading of mortgage instruments by the FNV in El Salvador due to the absence of a resale or secondary market. The FNV has sold National Housing Bonds (Bonos Nacionales de Vivienda), backed by insured mortgages originated in the SINAP, to the Salvadoran Social Security Fund (CSSS). Another domestic source of funds channeled to the S&Ls via the FNV has been the Central Reserve Bank (BCR). The BCR has provided funds to the FNV on a short-term basis (up to one year) via a Contingency Line of Credit.

External funding sources for the FNV and SINAP have included the BCIE (Central American Bank for Economic Integration), the FIV (Venezuelan Investment Fund), and AID.

2. **Savings and Loan Associations**

In addition to the FNV, the SINAP has eight member savings and loan associations (S&Ls). The associations were nationalized in 1980 along with the Financiera, at which time the BCR became the majority shareholder in these institutions.

The S&Ls operate in the traditional manner of such institutions throughout Latin America. Their depository services include savings and term accounts (not checking). Credit activities are specialized in loans for the construction, acquisition, or improvement of homes. S&Ls may also refinance mortgage credit received from other institutions. All loans must be secured by a first mortgage. These institutions are authorized to finance multi-unit projects of both the single family or attached type.

The associations may borrow from one another as well as from the FNV, and have the authority to assign or transfer their mortgages. Despite the economic difficulties experienced by El Salvador in recent years, the S&Ls have experienced a net inflow of savings since 1980.

In the overall framework of institutions acting in El Salvador's shelter sector, the Savings and Loan System has financed more housing than all the other institutions combined. Table III.1 indicates that in the period 1950 through 1983, SINAP financed 73,317 houses produced by the formal construction sector, or 55.6 percent of total output. Despite the significance of the SINAP's contribution to housing, today the System is experiencing serious difficulties. As previously shown in Table III.1, 19,440 units financed by the SINAP remain unsold. A large portion of these "activos inmovilizados" have been completed for several years. By tying up a large portion of the S&Ls' resources, this situation has significantly restricted the System's ability to expand and finance new projects (see Chapter IV for further discussion of this issue).

From 1980 through 1983 the SINAP financed the construction of 40,624 housing units, broken down by year and size as shown in Table III.2.

TABLE III.2

SINAP FINANCING 1980-1983

	M2 Construction	Number of Units	Average M2 Size per Unit
1980	280,339	6,831	41.0
1981	387,713	9,881	39.2
1982	493,145	12,758	38.6
1983	455,122	11,154	40.8

Source: CASALCO

The relatively small physical size of these units is indicative of a considerable reorientation of the S&Ls' activities. Whereas, prior to 1980, the majority of S&L-financed units were affordable to middle- and upper-middle-income households, production in recent years has been targeted mainly towards lower-middle-income households. However, concentration on this segment of the market, in a period during which these households have been particularly hard hit by high interest rates and El Salvador's severe economic downturn, has contributed to the problem of "activos inmovilizados".

3. Financial Situation of FNV

The position of the FNV from the financial point of view has been stable since 1979 and, in absolute and relative terms, the growth was steady (Appendix Table A.6). Productive assets (banks, investments, loans and advances) have maintained their share of 95 percent of total assets throughout almost the entire period, which is a major achievement. Financial support to the Associations has remained steady. The provision of funds to the System has been achieved not only by loans and advances, but also through savings or time deposits. As of June 30, 1984, 85 percent of the resources in banks corresponded to this type of activity.

Regarding attraction of resources, for a long time the most important source was internal credit, particularly the special lines of the Banco Central; however, the support by the FNV of the Associations was never majority support, and today it represents only 11 percent of all SINAP liabilities. Each source of funds has had a different evolution:

- **Internal credit:** Basically composed of lines from the BCR, it provided a basic liquidity function during the years 1979 and 1980, allowing SINAP to continue normal operation. Now, it has decreased to the point that it represents only eight percent of liabilities compared to 65 percent in 1980.

- **External credit:** This has increased gradually while remaining at moderate levels (27 percent). The principal external sources have been AID, BCIE, and now the Fondo de Inversiones de Venezuela. External credit still has a large margin of application, but its use has not been widespread.

- **Housing bonds:** Since the law empowers the FNV to issue bonds and to develop a secondary mortgage market, it issued ¢100 million in housing bonds in 1981. Only ¢61 million worth of these were absorbed by the market: ¢50 million by the Salvadoran Social Security Institute and ¢11 million by BCR. The operation was an interesting experience, but it did not have great practical scope, since it was used as repayment of the Banco Central's line of credit and did not meet the requirements for open promotion of the secondary market.

During the years from 1979 to 1984, the FNV maintained healthy rates of return, so that its capitalization ratio did not decrease, thus preserving overall financial soundness.

The behavior of revenues and expenditures (Appendix Table A.7) is indicative of this capacity to operate with an adequate margin. The FNV has maintained its operational and financial equilibrium at all times, which shows intermediation with sufficient margins. Likewise, FNV's operating costs, although with a tendency to increase (1984), have remained at reasonable levels.

The operational situation reveals an individually sound FNV. In order to evaluate its performance more precisely, it is necessary to learn whether its capacity for providing support and direction to the Savings and Loan System is satisfactory, since the FNV operates as a function of the SINAP.

4. **Financial Situation of the Savings and Loan Associations**

a. **Attraction of Resources**

The previous exclusive source of funds, regular savings, began in 1980 to share its position with fixed term deposits, as discussed in the section on the monetary market. Two negative points appear in Table III.3: the decrease in the number of savers between 1982 and 1983 (five percent), principally due to the loss of "image" by the S&Ls, and the increased cost of resources, due to substitution of term deposits for regular savings. Both problems should be studied for their impact on operation.

Another important aspect in the attraction of resources is the composition of the savings portfolio. The responsibility for the flight of savings from the System during 1978 to 1980 was attributed to the large concentration of savings in few accounts. Table III.4 gives the size distribution of S&L accounts for 1979, 1981, and 1984. The process of concentration has been advanced, though the fact that the majority of large accounts are term accounts is logical and facilitates financial planning. The price of this advantage is the increase in the cost of the resource. In any event, it is clear that naturally volatile large deposits cannot be invested as long-term credits.

TABLE III.3

SAVINGS AND LOAN SYSTEM: ATTRACTION OF RESOURCES
(Millions of Current Colones)

	Savers Number	Savers Index	Regular Savings Amount	Regular Savings Index	Term Savings Amount	Term Savings Index	FNV Credits Amount	FNV Credits Index	Percentage Distribution of Resources		
1978	260,452	100.0	553	100.0	-	-	15	100.0	97	-	3
1979	321,483	123.4	467	84.4	-	-	104	693.3	82	-	18
1980	349,480	134.2	514	92.9	16	00.0	93	620.0	82	3	15
1981	398,862	153.1	612	10.7	18	12.5	118	786.7	82	2	16
1982	452,619	173.8	571	03.3	145	06.3	107	713.3	69	18	13
1983	438,087	168.2	566	02.4	248	1,50.0	96	640.0	62	27	11
Percent Change 1978-83	68.2		2.4		1,450		540			-	-

Source: FNV

TABLE III.4

DISTRIBUTION OF S&L ACCOUNTS BY SIZE
(Percentages)

	Dec. 31, 1979		Dec. 31, 1981		June 30, 1984	
	Accounts	Savings	Accounts	Savings	Accounts	Savings
Up to ¢12,000	98.0	32	98.1	31	97.6	29
¢12,000 - ¢25,000	1.1	13	1.1	12	1.3	12
¢25,000 - ¢50,000	0.5	11	0.5	11	0.6	11
¢50,000 - ¢100,000	0.2	11	0.2	10	0.3	9
¢100,000+	0.2	33	0.1	36	0.2	39
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: PADCO Analysis

b. Investment of Resources

SINAP plays a dual role as financer of supply (construction loans) and demand (long-term loans). In both activities, the level of performance has been considerable (Table III.5). The points to be highlighted with respect to short-term financing are:

- The increase in the number of housing units financed on the supply side each year, which grew 207 percent between 1978 and 1983.
- The reduction in the average price of housing financed, which dropped from ¢39,500 in 1978 to ¢22,400 in 1983, revealing a tendency to reach lower-income sectors.
- The wide range of prices incorporated into the construction financing activity of SINAP; while SINAP has been preeminent in short-term shelter financing, the same cannot be said of its long-term intermediation activity.

Regarding long-term financing:

- The number of housing units financed in 1983 exceeds those in 1978 by only 14 percent.
- The average price dropped only 15 percent, a much lower reduction than that of the supply activity.

Some further comparisons between financing supply and financing demand appear in Table III.6. These data reveal the following:

- Number of housing units: From a situation in 1978 where 59 percent of housing units passed through the System as long-term credit, the participation fell to a symbolic 6.4 percent in 1980 and recovered to a modest 22 percent in 1983. What is disturbing is that this behavior does not indicate a definite long-term policy.

- Value of housing: In relation to the previous figures, the value of long-term commitments decreased from a maximum 71 percent in 1979 to a minimum of 18 percent in 1980, recovering to 36 percent in 1983.
- Long-term financing: During the period in question, the Associations incorporated the highest-cost housing into their long-term portfolio. This fact is shown clearly in the differences between the average loan value of supply and demand financed (Table III.6). This difference was greatest in 1980, and 1978 appears to be the only year with a reasonable balance.

c. **Financial Soundness**

The financial strength of the Associations has been seriously affected not only by the aforementioned problems of attraction of funds, but also by the deterioration of basic financial indicators. The balance sheet of the Associations appears in Appendix Table A.8. The following should be noted with regard to the balance:

- Growth: It is less than 50 percent of that recorded for the FNV and, in real terms, the 1983 figures are scarcely 90 percent of the 1979 figures.
- Areas of greatest activity: The non-productive items showed the most growth.
- Fixed assets: These grew by 144 percent between 1978 and 1983.
- Special assets: These grew by 7,471 percent. This includes loans that became the property of the Association due to default by the debtor, thus ceasing to bear interest. This non-productive portfolio is part of the total of the Associations' immobilized assets, which will be discussed later and which constitute one of the most critical current issues for the System.
- Other assets: At 527 percent, their growth is 10 times the average. This item records interest receivable and, consequently, defaults. This important category does not appear in the System's financial reports, but its seriousness is shown in the following indicators:

Ratio of Interest Receivable and Loan Portfolio
(Millions)

	Interest Receivable	Loans	% I/L
1979	9.3	564.9	1.6
1980	22.3	597.9	3.7
1981	32.8	608.2	5.4
1982	46.3	641.3	7.2
1983	56.2	723.0	7.8
% Change 79-83	504.3	28.0	

TABLE III.5

SAVINGS AND LOAN SYSTEM: LONG- AND SHORT-TERM FINANCING
(Current Colones)

FINANCING OF SUPPLY (SHORT-TERM)

	Number of Units	Total Value of Units (000)	Total Value of Loans (000)	Loan/Value Percent	Average Price of Units	Minimum Value Financed	Maximum Value Financed
1978	3,885	153,470	110,388	72%	39,500	13,700	120,000
1979	3,407	89,456	54,754	61%	26,300	12,000	120,000
1980	7,782	146,607	89,317	61%	18,800	10,000	71,400
1981	9,566	202,137	139,325	69%	21,100	10,000	75,000
1982	13,345	277,137	206,888	75%	20,800	10,500	69,900
1983	11,919	266,707	183,187	69%	22,400	11,900	120,000

FINANCING OF DEMAND (LONG-TERM)

	Number of Units	Total Value of Units (000)	Total Value of Loans (000)	Loan/Value Percent	Average Price of Units
1978	2,312	98,284	79,311	80.7%	42,500
1979	1,352	63,195	50,075	79.2%	46,700
1980	501	26,665	21,623	81.0%	53,200
1981	1,120	46,804	39,068	83.4%	41,800
1982	1,581	57,466	47,254	83.0%	36,300
1983	2,639	95,146	78,752	82.5%	36,100

Source: FNV

TABLE III.6

SAVINGS AND LOAN SYSTEM: COMPARISON OF LONG- AND
SHORT-TERM FINANCING INDICATORS

	Number of Units			Value Financed (000)			Average Prices		
	Supply	Demand	D/S (%)	Supply	Demand	D/S (%)	Supply	Demand	D/S (%)
1978	3,885	2,312	59.5%	153,470	98,284	64.0%	39,500	42,500	107.6%
1979	3,407	1,352	40.0%	89,456	63,195	70.6%	26,300	46,700	177.6%
1980	7,782	501	6.4%	146,607	26,665	18.2%	18,800	53,200	283.0%
1981	9,566	1,120	11.7%	202,132	46,804	23.2%	21,100	41,800	198.1%
1982	13,345	1,581	11.8%	277,137	57,466	20.7%	20,800	36,300	174.5%
1983	11,919	2,639	22.1%	266,707	95,146	35.7%	22,400	36,100	161.2%

Source: FNV

Even assuming that part of the interest receivable corresponds to banking operations, the growth trend allows no room for doubt that the default problem is serious, and that a good portion of the revenue accounted for was not produced operationally.

In the loan portfolio under the heading "other loans" are the expired credits that remain in the name of the original borrower and, therefore, legally earn interest for the Association. These cases also increased more than proportionally, as shown below:

	1979	1980	1981	1982	1983	% Change 79-83
Other loans (Millions)	18	25	58	67	78	333

The combination of the preceding results in a serious deterioration in the quality of the portfolio.

The System's level of capitalization has been maintained during the period, mainly due to increased capital from the shareholders.

The weaknesses mentioned manifest themselves in the behavior of the three basic balance indicators (Table III.7). The decrease in the ratio of productive assets to total assets and to deposits--going from adequate ratios in 1979 to clearly deficit ratios in 1983--shows a System which is progressively more inefficient and therefore more expensive to operate.

With regard to income, with the exception of the first half of 1984, the System has not reached the financial equilibrium point (Table III.8). The financial margin has remained stable, and there appears to be an operating cost control policy, judging from the performance of the last two years.

The basic cost-return ratios appear in Table III.9. The gross cost of deposits (ratio 3) scarcely varied by one point, while returns (ratio 1) increased almost four points. It should be assumed that there was a large increase in profits, but the aforementioned inefficiency caused little variation in the net financial margin (ratios 1 and 2). The result was to raise the cost of the product and, to make general operations more inelastic, to the detriment of potential housing consumers. General expenditures, although they had a tendency to decrease, increased their share over productive assets by 18.5 percent.

From the above observations, it appears that SINAP has not responded to the country's difficult situation by improving systems, productivity and revenue but, on the contrary, by losing competitive capacity.

TABLE III.7

SINAP: BASIC FINANCIAL BALANCE INDICATORS
(Thousands of Current Colones)

1. APA/ATA (Average Productive Assets/Average Total Assets)

		1979	1980	1981	1982	1983	1984
A. ATA		676,397	701,642	771,393	845,465	941,250	1,038,304
B. APA		658,064	668,712	709,038	754,998	833,997	908,140
	B/A	0.974	0.953	0.919	0.893	0.886	0.875

2. APA/AD (Average Productive Assets/Average Deposits)

		1979	1980	1981	1982	1983	1984
A. AD		569,860	597,415	681,916	777,466	868,669	960,301
B. APA		658,064	668,712	709,038	754,998	833,997	908,140
	B/A	1.155	1.119	1.04	0.971	0.960	0.946

3. OR/MR (Own Resources/Market Resources)*

		1979	1980	1981	1982	1983	1984
A. MR		510,233	498,500	580,110	673,080	764,790	850,554
B. OR		38,776	41,855	45,885	53,743	56,102	58,691
	B/A	0.076	0.084	0.079	0.08	0.073	0.069

* Market Resources are those captured by SINAP from the financial market; Own Resources are SINAP's capital and reserves.

Source: FNV

TABLE III.8

SINAP: FINANCIAL RESULTS
(Thousands of Current Colones)

	1979	1980	1981	1982	1983	1984*
Total Income	82,918	81,056	95,924	111,842	138,689	76,558
Financial Income	74,346	73,803	84,170	102,270	129,093	68,776
Financial Expenditures	<57,482>	<57,873>	<65,784>	<78,320>	<105,339>	<53,683>
Financial Results	16,864	15,930	18,386	23,950	23,754	15,093
Operating Expenditures	<17,449)	<20,329>	<24,001>	<25,452>	<27,953>	<14,687>
Other Income	8,572	7,253	11,754	9,572	9,596	7,782
Other Expenditures	<553>	<2,899>	<1,335>	<847>	<3,153>	<676>
Result	7,434	45	4,804	7,223	2,244	7.512
	PERCENTAGES					
Total Income	100	100	100	100	100	100
Financial Income	90	91	88	91	93	90
Financial Expenditures	70	71	69	70	76	70
Financial Results	20	20	19	21	17	10
Operating Expenditures	21	25	25	23	20	19
Other Income	10	9	12	9	7	10
Other Expenditures	1	4	1	1	2	1
Result	8	-	5	6	2	10

* June

Source: FNV

TABLE III.9

SINAP: COST/RETURN INDICATORS

	1979	1980	1981	1982	1983	1984*
1. Financial Returns/Average Productive Assets						
A. APA	658,064	668,712	709,038	754,998	833,997	908,140
B. Interest Earned	74,346	73,803	84,170	102,270	129,093	137,552
% B/A	11.3	11.0	11.9	13.5	15.5	15.1
2. Financial Cost/Average Productive Assets						
A. APA	658,064	668,712	709,038	754,998	833,997	908,140
B. Interest Paid	57,482	57,873	65,784	78,320	105,339	107,366
% B/A	8.7	8.7	9.3	10.4	12.6	11.8
3. Cost of Deposits						
A. Average Deposits	569,860	597,415	681,916	777,466	868,669	960,301
B. Interest Paid	57,482	57,873	65,784	78,320	105,339	107,366
% B/A	10.1	9.7	9.6	10.1	12.1	11.2
4. Operating Costs/Average Productive Assets						
A. APA	658,064	668,712	709,038	754,998	833,997	908,140
B. Operating Expenditures	17,449	20,329	24,001	25,452	27,953	29,374
% B/A	2.7	3.0	3.4	3.4	3.4	3.2

*June

Source: FNV

5. Effects of Nationalization and Other Issues

As a result of Decree No. 158 of March 1980, ownership of 100 percent of the shares in the Savings and Loan Associations was temporarily transferred to the government. These have remained in the possession of the Banco Central, which heads the entire financial sector. The ultimate goal was to have a mixed group of shareholders, composed of the State, S&L employees, and private investors, with an absolute majority to the State. The goals of this action were threefold:

- To ensure participation of the financial system in carrying out the State's economic policy.
- To channel internal savings toward investments which encourage economic and social development.
- To contribute to a more equitable distribution of the national income, through participation of a greater number of citizens in the shareholding capital and through democratization of credit.

The goal for participation in policy has been met completely, since the State owns the institutions. Furthermore, the allocation of savings with an economic and social criterion has required no change in the savings and loan system, since by its nature this is its basic purpose. The possibilities for directing funds toward lower-income sectors may have improved, although this has not been fully proven. In relation to democratization of credit--since savings, popular par excellence, were not democratized--it is possible that certain previous barriers related to the closed nature of some shareholder groups were overcome.

With regard to the mixed shareholder structure, despite the fact by now the sale of non-State shares should have been completed, on December 31, 1983, according to data in the Banco Central's Annual Report, only Credisa had sold 40 shares to its employees. The remaining capital from the eight Associations remains entirely in the possession of the BCR. This circumstance has major adverse effects.

It cannot yet be affirmed that the nationalization of the System has had significant positive effects, especially considering the financial deterioration. However, the nationalization cannot be judged by normal criteria, removed from the reality of the country. In the economic circumstances of 1980, the need to execute an emergency economic policy may have been sufficient and reasonable grounds for it.

However, for the majority of the shares to remain unsold after four years creates a risk of converting a temporary situation into a permanent one, which itself entails additional risks, particularly for the FNV.

The FNV was created to manage a private savings and loan system. It designed the financial and credit policies according to the highest interests of the government. Today the maximum governmental authority on monetary action and policy is the owner of the Associations, the BCR. At present there is no conflict of interest, as both the FNV and SINAP must follow instructions from the BCR.

An additional important function of the FNV was to provide financial assistance to SINAP by obtaining lines of credit from the BCR. If the present shareholder system remains, this function of FNV seems to be completely superfluous.

The manner in which the upper management of the Associations was organized after nationalization of the System is of great importance. Currently, the Boards of Directors are composed of three persons: the President, who at the same time is the Chief Executive Officer (appointed by the BCR); one Vice-President; and one Secretary (appointed by the BCR and the employees). Technically this is not a Board of Directors but an Executive Committee which is connected hierarchically to the BCR, its final authority. This special situation makes it difficult to carry out a sound, smooth dialogue with the FNV.

To date, considering the temporary nature of the above-mentioned structure, the relationship between the Associations and the FNV has remained reasonably normal, and the formal structure in force has been kept; however, it does seem that it will not remain indefinitely. The Associations cannot continue without a Board of Directors that is diverse in composition and responsible as such for its actions and for the achievements of the Association, to which the Board should impart its own independent character.

Therefore, it is a matter of major concern that the public has not responded to the sale of shares by SINAP. If this continues, new means of privatization must be considered, not to exclude conversion of the Salvadoran savings and loan system to a mutual system, as is common in many other countries in Latin America, in which case the central organization/Associations structure would return in essence. Alternatively, if the government does not consider privatization desirable, means must be sought to create a permanent legal structure for the Associations under government control which gives them a management system consistent with their role as competitors in an open savings market. This means having Boards of Directors and managers who are accountable for the financial health of the Associations.

In addition to the 1980 nationalization and the problem of unsold inventories (see Chapter IV), a third factor significantly affecting the S&L system is the recent policy change by the Social Housing Fund (FSV) to terminate the purchase of S&L-financed projects. Because the FSV has been unable to sell a large number of these units, it has accumulated its own inventory of unsold assets which jeopardizes its financial integrity. The FSV has stated that henceforth it will finance only the purchase of individual units as selected by its own qualified affiliates. Since the FSV has purchased about 65 percent of all units produced in SINAP-financed projects, this will clearly affect the S&L system's liquidity, putting even greater pressure on it to reduce its stock of unsold homes.

FNV had elaborated an Operating Plan for SINAP for the period 1981-1983. The focus of the Plan was on a redirection of S&L resources towards lower-income households, as well as on obtaining external resources to support this effort and resolving the existing problem of unsold units. With regard to the first two priorities of the Plan, considerable progress was made, at least to the extent that smaller and theoretically more affordable units were being built and partly financed by foreign resources. However, the Junta Monetaria raised both short- and long-term interest rates in February 1982, jeopardizing the affordability of the newest units for lower-income households, while making the sale of the existing inventory of homes even more difficult.

The FNV has been sharply criticized for its failure to reassess the overall housing market and the changing conditions affecting it. Specifically the Financiera did not update its 1981-1983 Operating Plan and continued to approve projects throughout that period. Most recently, as the crisis situation confronted by the SINAP has worsened, the FNV has not produced a new Plan despite the fact that the period to which the old Plan was applicable has elapsed. In other words, the Financiera does not appear to be providing leadership to the S&L Associations, but strictly executing its regulatory functions. Individually the Associations can and are working to restore and maintain their financial health. But a general Plan for the entire system is required to deal with problems that are beyond the capacity of any S&L to resolve alone, including the inventory of unsold homes and tapping alternative funding sources.

6. **Capacity of S&L System**

Provided the problems mentioned above are solved, the FNV has the full potential to support a growing S&L System, but it needs to strengthen:

- Its capacity for internal savings attraction (secondary market).
- Allocation of external resources by preparing and designing viable policies and programs to be used by the System.
- Technical training, in order to be able to properly play the role of governing body.
- The promotional function of mortgage insurance.
- Evaluation and selection of projects, particularly market analysis.

The capacity of the Savings and Loan Associations to attract and easily allocate resources is more than proven. The risks now affecting the future of the Associations are:

- Loss of economic and social efficiency and productivity, due to a lack of defined criteria and policies, both individually and collectively. This is the only explanation for the phenomenon of unsold assets and the non-use of available resources (e.g. HG).
- Lack of Boards of Directors, in the strict and proper sense of the word, as mentioned in the preceding section. This can generate a process of induced bureaucratization and loss of identity.

- Greater dependency on the monetary criteria of the BCR (owner of the Associations) than on the shelter criteria of the System.

Until now the Associations, with a very diverse level of performance, have maintained their earning power. However, two circumstances cannot escape analysis. First, the earning power shown by the Associations is not financial but only in accounting terms, because it includes "income", from immobilized assets, whose recovery is doubtful, thus hiding structural weaknesses. Secondly, it is hard to measure a good or bad performance if all the Associations follow a single management criterion (BCR).

C. SOCIAL HOUSING FUND (FSV)

1. Overview

El Salvador's Fondo Social para la Vivienda (Social Housing Fund) was established in 1973 as a response to the view that the existing housing finance institutions were largely neglecting the country's private sector working class. The GOES reviewed the experiences of other countries in dealing with similar issues, relying especially on the work of Mexico in the area of mandatory savings programs for investment in housing. The FSV was established by Legislative Decree No. 328, June 6, 1973 as a public credit corporation operating as an autonomous agency under the Ministry of Public Works.

Based on the concept of mandatory savings, the FSV receives the majority of its funds through direct payments by employers, equivalent to five percent of their employees' monthly earnings. This is supplemented by a 0.5 percent monthly contribution from the workers themselves. The payments are collected by the Social Security Institute. Employees of public institutions, agricultural workers, and the self-employed are not affiliated with the Fund.

The FSV has also borrowed from such sources as the Venezuelan Investment Fund (FIV) and the Central American Bank for Economic Integration (BCIE). It has sold portions of its mortgage portfolio to Salvadoran S&Ls to mobilize additional resources.

The basic objective of the FSV is to serve workers' housing needs by maintaining a continuous flow of resources for this purpose via the mandatory savings mechanism. In this manner, the cyclical tendencies of the construction sector could be reduced, while broadening workers' access to "comfortable, sanitary and safe shelter." The GOES paid in a sum of $10 million to serve as a non-reimbursable capital base for the Fund.

In the past, the FSV has purchased entire projects, in many cases built with construction financing from the SINAP. Typically the S&Ls would finance construction of housing projects, with the FSV committing to purchase some or all of the units in a given project for eventual resale to workers with FSV accounts. Developers were able to obtain construction financing from the S&Ls after obtaining a "purchase feasibility certificate", indicating the Fund's approval of the project and the contractor's role. In recent years, approximately 65 percent of the units built with SINAP financing were purchased with FSV resources.

Like the SINAP, the FSV is now burdened with its own inventory of houses which it is unable to sell. Presently, the FSV has approximately 2,000 such unsold units with a market value between of $30 and $35 million. Principally Principally as a consequence of this problem, FSV management has reversed its policy of purchasing entire developments. Rather, in the future, it intends to finance the acquisition of homes which creditworthy affiliates have selected for purchase on an individual basis. This change in FSV policy will clearly have a strong impact on the Savings and Loan System, especially in its efforts to reduce its own inventory of unsold units.

It is risky to try to compare achievements or deficiencies among housing funds in different countries, since there is no standard basis of comparison.

The Latin American housing funds differ among themselves in:

- The objective
  - -- Social insurance, where investment in housing is merely the mechanism for using the funds.
  - -- Shelter-oriented, where housing is the main purpose and is complemented with social insurance effects.
- The parties affected
  - -- Total: all employees from the public and private sector.
  - -- Partial: only one sector and under specific conditions.
- Function
  - -- General shelter policy.
  - -- Specific benefit.

If we consider in addition the differing ages of the funds and the variety of institutions involved in handling them, then a prior comparison becomes impossible. A study of the achievements of the funds and their impact on various areas of social benefit, shelter productivity, and macroeconomic growth would be of great interest. In regard to the FSV in El Salvador, it can only be stated that it has allocated massive resources to housing, ignoring the social insurance function and the provision of financial returns to contributors. Establishment of an integral plan and policy to balance the various aspects is becoming crucial for FSV.

2. FSV Operation

Administration of the Fondo breaks down as follows (see Figure III.2):

- Assembly of Governors: This is the chief authority of the institution comprised of one representative from each of the following ministries: MOP, MIPLAN, Ministry of Labor, Ministry of the Economy, and Ministry of the Treasury. Additionally, there are two elected representatives of the business sector and two from the labor sector. The Assembly meets twice a year to formulate the FSV's policy and operating goals in general terms.
- Board of Directors: This five-member body is presided over by a President appointed by the President of the Republic. The Assembly of Governors names the other four directors, one each representing the business and labor sectors, plus two representatives of the public sector. The Board meets weekly.
- President: The President is the FSV's legal representative and responsible for supervision and coordination of all activities.
- General Manager: The general manager is responsible for financial management, including the production of all financial reports, as well as administration of personnel. Attached to the General Manager's office, with its six employees, are five advisory and support units: Technical Advisory (3 employees), Planning Unit (12 employees), Public Relations (2 employees), Legal Advisory (5 employees), and Administrative Advisory (6 employees).
- Supervisory Council: This four-member body supervises the relationship of the FSV's operations to the laws and regulations governing the institution.

Approval of the FSV's budget is handled by the National Accounting Office.

The FSV's principal function is providing credit for home ownership. In pursuit of the goal, the Fund offers four categories of loans: home purchase, land purchase, home construction, and home improvement. The FSV may refinance mortgage credit obtained elsewhere by workers, but has done little of this. Eighty percent of lending is for home purchase, followed by land acquisition and construction financing. FSV activities have benefited over 24,000 families to date.

The Fondo has a total of about 425 employees. Of these, 375 are employed in the four operational sections under direct control of the General Manager. These four sections are Administration, Finance, Operations and Technical:

- Administrative Section: This section is the FSV's largest, with 154 employees, and is responsible for a wide variety of functions that can be broadly categorized under the term "support" (security, personnel, general services, and maintenance).

- Finance Section: This section employs 86 persons, divided as follows:
  - -- Financial Programming Department (5 persons): handles general planning for the Section as well as remittances;
  - -- Loan Department (35 persons): Handles booking of newly originated loans and maintenance of data on loan portfolio;
  - -- Treasury (11 persons): Controls FSV receipts and expenditures in conjunction with the budget;
  - -- Accounting Department (13 persons);
  - -- Insurance Department (3 persons): Verifies that all FSV-mortgaged properties are properly insured;
  - -- Contributions Department (16 persons): Verifies that payments are made in a timely fashion by employers and employees registered with the FSV. Works closely with CSSS for this information.
- Operations Section: This is the second largest section with 88 employees. In general, its functions relate principally to review of credit applications; however, since in the past the Fondo acquired entire housing projects for resale, a good part of the efforts of this section have been dedicated to marketing and sales of units, along with community development. If the FSV follows through with its new policy of eliminating "turn-key" purchases and financing only individual long-term house purchases, the structure and functions of this section will have to be radically changed. Currently there are four departments:
  - -- Production and Marketing: This unit's three employees are responsible for tracking general work progress on projects that the FSV has committed to buy, in anticipation of what the institution's inventory of units and corresponding marketing needs will be.
  - -- Community Development (9 employees): This unit has been responsible for the social considerations associated with occupancy of recently completed project sites by FSV-affiliated families.
  - -- Credit Department (35 employees). This unit is responsible for processing loan applications.
  - -- Contracts Department (30 employees). This unit handles the follow-up work on credits approved for funding, including preparation of the loan documentation.

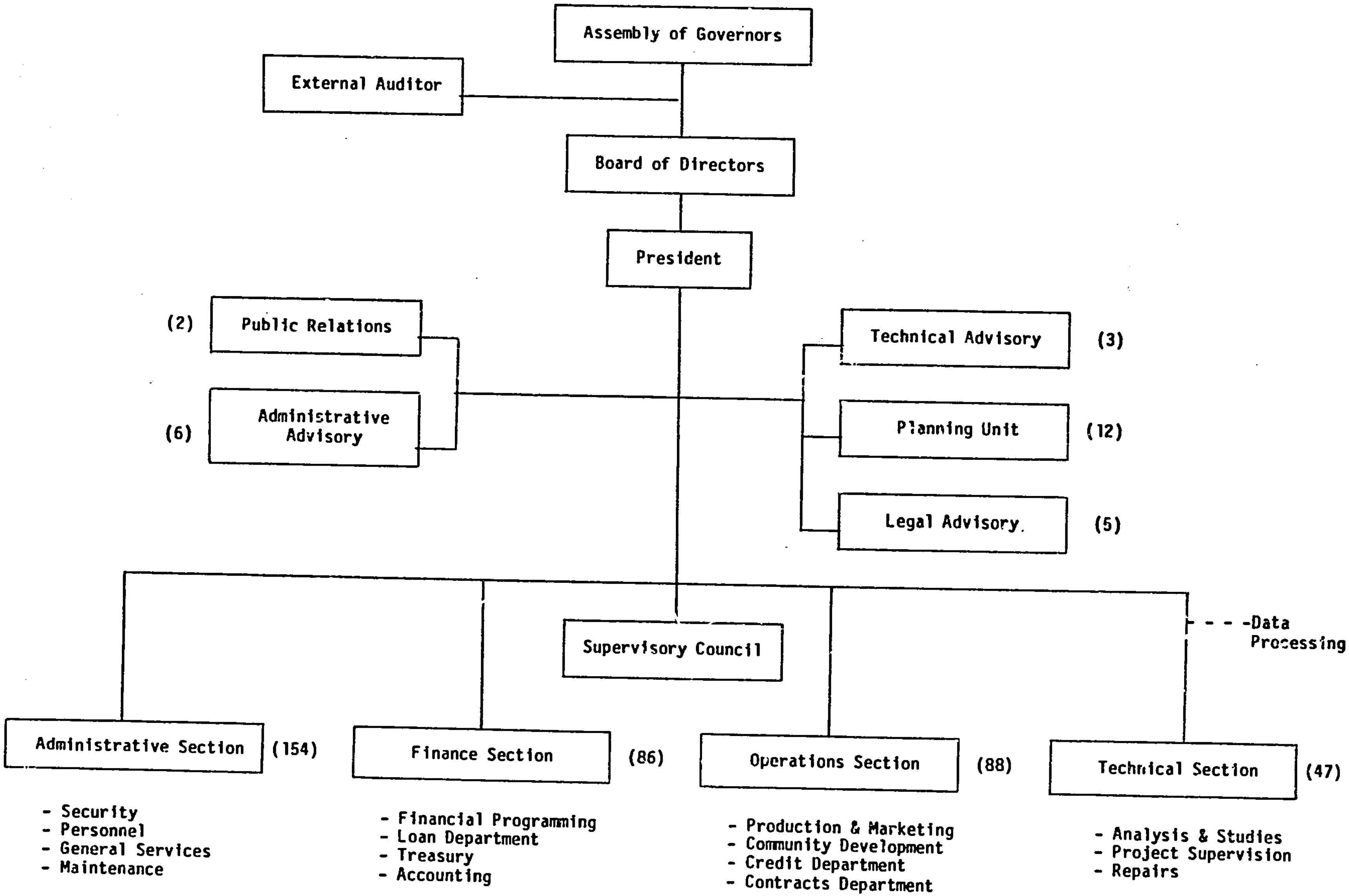
  The FSV maintains two regional offices in San Miguel (3 persons) and Santa Ana (5 persons) that principally process loan applications.
- Technical Section (47 employees): This section's functions relate to the selection, review, approval and supervision of housing projects to be purchased by the FSV. Because of the Fund's new policy of financing only the individual acquisition of houses by affiliated workers, the importance of this unit should diminish over time as projects are completed. This point is recognized by FSV management. However, no clear indication has been given by management as to what will eventually happen to this unit and its staff.

FIGURE III.2

F·S·V

ORGANIZATIONAL CHART

(as of October 1984)



The Technical Section is made up of three departments plus an indirect attachment:

- Department of Analysis and Studies (5 employees): This unit does the technical evaluation of housing projects submitted to the FSV (prior to construction) for a purchase commitment. If the project is deemed technically sound and affordable by an adequate number of FSV affiliates who have been approved for financing, the Fondo in the past has committed to purchase completed units. The difficulty with this practice has proven to be that credit-worthy affiliates found units in some of the projects purchased by the FSV to be unacceptable and consequently, chose not to borrow.
- Department of Supervision (12 employees): This unit is responsible for verification of construction progress on approved projects. This involves frequent inspection of project sites to verify that work is being completed according to plans and specifications.
- Repairs Department (7 employees): This department handles the maintenance and repairs of FSV property and equipment.
- Data Processing (21 employees): This unit is attached to Technical Operations, but is responsible for compilation and presentation of data to serve the needs of all four of the FSV's sections.

3. Financial Situation of FSV

a. Attraction of Resources

The attraction of resources through employee contributions has decreased as a result of the country's economic crisis (Table III.10). The clients, understood to be employers and workers, decreased by 10 percent and 18 percent respectively between 1978 and 1982. The amount of contributions grew by 25 percent over the four-year period, but only three percent between 1981 and 1982. Since the increase is shown in current values, the real values are negative.

Resources captured from contributions are in principle expensive liabilities, and the law provides for their return with interest. However, the conditions of return and the interest have not been established in final regulations. For the moment, therefore, a symbolic 0.5 percent is paid to contributors. This means that the FSV operates at the margin of any financial criteria.

The decline in real resources and certain structural weaknesses have caused FSV to enter into direct debt. For 1983, it registered ¢36.1 million as loans from foreign institutions (BCIE and Fondo de Inversiones de Venezuela).

b. Allocation of Resources

The basic purpose of FSV is to form a stable, inexpensive financial fund to facilitate the purchase of housing at favorable conditions by workers. In implementing this goal, the FSV has developed various policies.

For its contributors, the FSV grants credit for 100 percent of the value of the housing for up to 25 years at rates that vary according to the wage level at the time the credit is applied for:

Monthly Wages	Interest	Monthly Wages	Interest
¢200 - 250	4%	¢500 - 600	7%
¢250 - 400	5%	¢600 - 700	8%
¢400 - 500	6%	¢700 - 800	9%
		¢800 and above	10%

The maximum loan is ¢30,000.

This special circumstance resulted in portfolios with very low returns (Table III.11), which limits the possible growth of the institution by making it difficult for it to use (mix) more costly resources. The biggest financial distortion in the FSV results from the interest rate structure in its various classes of portfolios, the weighted average of which barely reaches seven percent for 1983. This difference between this and market rates is FSV's main barrier to borrowing, despite the extraordinary gross financial margin with which it operates and which is up to six points.

The FSV offers a diverse range of shelter credits. Historically, FSV was aimed at direct purchase of projects, distributing them afterwards among its contributors. The magnitude of this sort of purchase is seen by comparing the number of housing units acquired from builders with the number of loans granted (Table III.12). The volume of both types of operations nearly coincide in the medium term. However, the massive purchase of projects without sales commitments has encouraged:

- Inefficiency among contractors, since they did not have to worry about marketing.
- Dissatisfaction among consumers upon receiving a house "imposed" by the Fund, with the resulting propensity to default on loans.
- Slowness in allocating the projects to beneficiaries and financial loss between the purchase and the allocation.

TABLE III.10

FSV: RESOURCES CAPTURED
(Thousands of Current Colones)

	1978	1979	1980	1981	1982	% Change
Number of Employers	11,169	11,220	10,551	9,977	10,063	<10>
Number of Employees	216,551	220,237	192,509	174,730	177,699	<18>
Contributions	46,289	52,775	51,177	56,499	57,735	25
Disbursements*	556	642	1,260	2,130	1,889	240

* Payments FSV makes by law to contributors or their families for retirement, death, etc.

Source: FSV

TABLE III.11

FSV: DISTRIBUTION OF PORTFOLIO

	Percent of Portfolio		
	1978	1980	1982
Interest Rate			
4%	4	5	3
5%	23	26	28
6%	13	15	18
7%	43	25	20
8%	6	9	9
9%	6	7	6
10%	5	13	16
Weighted Average	6.62	6.8	6.86

Source: FSV

TABLE III.12

FSV: UNITS ACQUIRED AND CREDITS PLACED

Year	UNITS ACQUIRED Number	Value (000)	CREDITS PLACED Number	Value (000)
1978	3,236	52,613	1,876	25,371
1979	2,867	56,281	3,583	62,722
1980	2,030	39,426	2,870	53,860
1981	4,050	68,975	2,766	49,551
1982	5,917	105,099	7,019	127,479
TOTAL	18,100	340,494	18,114	318,983

Source: FSV

c. Financial Situation

Familiarity with the above issues facilitates evaluation of the balance sheet data. Since the FSV does not have to operate in the open monetary market, data for the years 1979, 1981, and 1983 were considered sufficiently representative (Appendix Table A.9). The figures reveal a satisfactory level of performance:

- Productive Assets: Liquidity dropped to a critical level in 1983, as the result of an overreaching of commitments. On the other hand, loans and discounts show excellent growth. Without considering the quality of the portfolio, this aspect is the most positive.
- Non-productive Assets: There is a reduction in the category "immobilized projects" from 33 percent to 15 percent in this period, a positive development. Anything that can be done to minimize this category is beneficial. This account also registers the value of land purchased for future projects, housing units acquired for sale, and projects in progress.
- Other Assets: With a growth of 307 percent and a share of 12 percent, this is the most negative item on the balance sheet. Two accounts are responsible for 67 percent of this category: 1) Overvaluation (loss) of rural land (¢30.3 million) and 2) Interest receivable (default) (¢13.6 million). Both accounts project a contingent loss which is greater than the reserves.
- Attraction of Resources: The most important point here is that the Fund has initiated operations to mix external resources with its traditional ones.
- Capitalization: Although there is a slight decrease during this period, it remained at reasonable levels.

The problem of default is critical, and the present Fund administration is carrying out a detailed study of the triple phenomenon now affecting debt servicing: 1) lack of adequate mechanisms and policy for collection; 2) loss of ability to pay on the part of families due to the economic situation; and 3) abandonment of housing by its users, especially in conflict areas, with the resulting risk of loss of the economic value of the guarantee. Each of these aspects should be handled separately.

The growth in defaults is clearly shown by measuring the evolution of the interest receivable account. The rate of growth of the amount in the default is almost triple that of the portfolio:

	1979	1981	1983
Interest Receivable (thousands)	1,696	4,869	13,643
Growth Index (1979=100)	100	287	804
Portfolio Growth Index (1979=100)	100	178	319

The characteristics described above are reflected in the three basic financial ratios:

1) APA/ATA (Average Productive Assets/Average Total Assets)

	1979	1981	1983
A. ATA (000)	245,022	372,530	542,665
B. APA (000)	148,381	252,066	395,508
B/A	0.606	0.677	0.729

The 20 percent increase in the share of productive assets is highly positive and reflects greater ease in transforming housing resources. The key factor in this improvement has been the decrease in immobilized assets, mitigated by the increase in the "other assets" account, a reflection of increasing defaults. The index reached in 1983, 0.729, is still relatively low, leaving the hope that with FSV's policy change in the direction of only financing demand, a normal level of around 9.0 can be reached.

2) APA/AD (Average Productive Assets/Average Deposits)

	1979	1981	1983
A. AD (000)	204,470	315,677	451,899
B. APA (000)	148,381	252,066	395,508
% B/A	0.7	0.8	0.9

In a similar manner to that mentioned above, this index reflects a considerable growth, 26 percent, approaching a minimum ratio of 1.0, the goal to be reached on a medium-term basis, so that all contributions have their corresponding backing in productive investment.

3) OR/AD (Own Resources-Capital/Average Deposits)

	1979	1981	1983
A. AD (000)	204,470	315,677	451,899
B. OR (000)	33,649	46,200	65,220
B/A	0.16	0.15	0.14

The first two ratios, which are the most critical operationally, have shown excellent behavior, increasing noticeably. What is contradictory is that the improvement in these indices should have produced a greater than proportional increase in income and in capitalization. Instead, FSV is being decapitalized, with a 12 percent drop in the share of capital. It must be assumed, therefore, that there is inefficiency in the production of financial surplus.

A comparison of income and the balance sheet information shows certain trends related to financial returns:

1) Returns on APA

	1979	1981	1983
A. APA (000)	148,381	252,066	395,508
B. Interest Earned (000)	10,605	18,656	32,000
% B/A	7.1	7.4	8.1

The increase in financial return barely exceeds 14 percent over the three years and remains entirely on the fringes of the monetary market.

2) Financial Cost of APA

	1979	1981	1983
A. APA (000)	148,381	252,066	395,508
B. Interest Paid (000)	1,049	2,693	8,918
% B/A	0.7	1.1	2.3

Despite the insignificance of a 2.3 percent rate as financial cost, the percentage increase during the period is large, which implies that in the future there will have to be greater control over spreads.

3) Cost of AD

	1979	1981	1983
A. AD (000)	204,470	315,587	426,475
B. Interest Paid (000)	1,049	2,693	8,918
% B/A	0.5	0.9	2.1

4) Operating Expenses as Percentage of APA

	1979	1981	1983
A. APA (000)	148,381	252,066	395,508
B. Operating Expenses (000)	5,821	7,543	10,033
% B/A	3.9	3.0	2.5

Note the considerable improvement in this important indicator of institutional management which compensated during the period for the increase in financial costs.

The current position of returns generates positive results due to the absence of financial costs. At some point, however, the conditions of return and remuneration of employee contributions must be established and, at that point, the current returns cannot continue. FSV at its current level of operation cannot tolerate a financial cost of greater than 5.2 percent as shown in the following calculation:

APA return	8.1%
Operating Expenses/APM	(2.5%)
Surplus to remunerate resources	5.6% on APA
Conversion factor to cost of resources	0.927
Maximum rate payable (5.6% x 0.927)	5.19%

4. FSV's Relationship With the Financial Savings Market

FSV is facing three limitations in its access to the monetary market for savings attraction:

- It is not a typical financial intermediary, and therefore neither its laws nor its structure qualify it to attract free savings (which, on the other hand, would not necessarily be appropriate in the present economy).
- The capacity for access to the large-scale financial market other than through direct debt) is centered on issuance of bonds and securities, and on portfolio sales. This direct emission of certificates has not been developed by the FSV, because of internal as well as market limitations.
- The limited financial return to productive assets makes the FSV uncompetitive for operating in the savings attraction market.

A realistic focus on the scope of the Fund should take into account the fact that, despite the general nature of its name, the FSV of El Salvador belongs to a limited production sector, with characteristics of a personal labor benefit. Therefore, it is not a national fund similar in terms of the source and use of its funds to an indirect tax, nor is it accessible to all the sectors which potentially need housing. Its potential to support a general housing policy is limited by its origin and nature.

In order that the Fund may more rapidly meet its goals of serving all contributors and providing an incentive for shelter investment, it should consider which strategy for attraction of resources is the most effective:

- Direct internal or external debt.
- Mobilization of portfolio, through secondary markets, combined with bonds or other mortgage paper.
- Promotion of savings for housing among the contributors.

Of the three strategies, the first two are impractical because of the present cost/return structure as reflected below on the basis of 1983 data:

Return on Productive Assets	8.1%
Costs of the Resources on Assets	(2.3%)
Operating Cost	(2.5%)
Financial Surplus	3.3%

The FSV would have 3.3 percent surplus to be mixed with resources from another source, sacrificing capitalization and other factors. By using as a market cost the average paid by the SINAP for 1983, the following situation would result:

Cost of resources on the market	12.1%
FSV handling cost	2.5%
Total cost to be covered	14.6%
Financial surplus	(3.3%)
Interest to cover with the portfolio	11.3%
Average FSV return	(8.1%)
Financial deficit	(3.2%)

It is obviously not viable to have an operation of this sort. If we add to this the burden of defaults now affecting the institution, which would exert pressure on the new portfolio, it is perfectly understandable that there is resistance to entering a market of real costs.

The basic barrier to be overcome is the interest rate structure, together with achieving greater internal efficiency. Otherwise, the FSV is able to operate only with soft resources.

It is to be hoped that an increase in lending rates will cause pressures for higher "passive" rates, which is logical and which would lead to an overall financial restructuring of FSV operations.

Considering the above, and given that the ratio of contributors to those who have been benefitted with housing is still low, there is justification for requiring prior savings from beneficiaries so that, with these payments, the number of contributors served could be expanded and the available guarantee improved.

5. **Capacity of FSV**
The potential of FSV for allocating credits is enormous, since between 1973 and 1983 it issued more than 30,000 loans on a volume of contributors of 180,000, i.e., barely 17 percent. The issue lies in determining the potential for mixing resources, and there are two aspects to be considered on this topic:

   a. **Optimization of Internal Resources**
   The FSV has a stable source, contributions, but even these are insufficient to meet its needs. Any increase in contributions will be the result of an increase in the labor supply and, therefore, an increase in potential needs. The optimization measures to be implemented are:

- Use of the resources for highly marketable projects. This is done through financing upon demand, as is the new policy of the Fund.
- Elimination of the immobilized assets and their resulting cost.
- Full and timely recovery of the mortgage portfolio, making effective use of the direct payroll deduction and eliminating arrears.
- Down payment: It is a good idea to stimulate participation of the contributors in shelter credit, giving priority to those applicants who are not using 100 percent financing, but who contribute something from their own savings. This provides access to financing for a greater number of families and improves the credit guarantee, as mentioned above.
- Interest rates: The minimum and maximum rates applied today are far from any financial reality. The interest rates paid by the borrowers should be reviewed periodically (for example, every two years) and adjusted according to current family wages. The average income from the portfolio should be restructured according to an adequate remuneration of resources captured from contributions.
- Minimization of operating expenditures: With the FSV financing demand and making collections through direct payroll deduction or through third parties (SINAP), it can operate at a very low cost, thus leaving more resources for financing.

b. **Attraction of External Resources**

Due to the nature of its resources, the FSV brings together unique conditions for making effective use of large-scale borrowing. Given the needs of the sector, this is a must. Therefore, it is necessary to overcome the general prejudice that the funds to be obtained must have a lower cost than FSV's credits. A mixing of resources of different costs, in order to work with an average income, is what is needed; numerous alternatives can be worked out.

In this way, the FSV can again become the major stimulus for long-term financing and stimulate short-term financing as a prime market for the Savings and Loan Associations.

The current crisis in construction due to FSV's elimination of direct purchase of projects cannot be sustained on a long-term basis, so the most logical thing to do is to have the builder be responsible for the sale and the risk of non-sale. This would force builders to put greater care into design and programming of projects. As long as the Fund does not alter its interest rate policy, there will always be a great discrepancy between the monthly installment paid by a contributor and that paid by a borrower from the financial sector, but this is inevitable and in no way detracts from the timeliness of the FSV policy to finance demand. Operating with distinct rates indexed to income and catering to demand will allow FSV to move smoothly and intensely into non-traditional shelter solutions, such as serviced lots, urban upgrading, etc.

D. URBAN HOUSING INSTITUTE (IVU)

1. Overview

The Urban Housing Institute (IVU) is El Salvador's oldest existing housing agency, having been established by legislative decree in 1950. The objective of the Institute is to facilitate home ownership, with priority given to assistance of lower-income citizens. Until approximately 1981, IVU operated with funds allocated from the government's budget and several low-interest loans from the Inter-American Development Bank (IDB). Prior to this decade, most of the recipients of IVU housing were, despite the Institute's mandate, moderate- to middle-income households. In addition, IVU's lending rates were low enough to effectively subsidize home acquisition for its borrowers. As El Salvador's economic difficulties worsened, IVU's budget and production declined. In the mid-1970s, the Institute began to produce a limited amount of lower-cost housing, including sites and services. Since that time, IVU has had to turn to higher-cost sources of financing, making more difficult its efforts to assist truly low-income households. Presently, IVU is undergoing an organizational restructuring. One result of this program will be a complete reorientation of its production efforts on low-cost housing solutions, including core units, sites and services and community upgrading programs. IVU will no longer build "traditional housing" in the form of finished one- and two-bedroom units.

IVU's overall performance must be rated as poor. It has registered operational losses for many years and has a relatively low production record. During 1978-79, the number of employees was reduced from 1,600 to 750 as part of an institutional shake-up. New management was brought in and policy changes instituted. Though some improvements in operations could be noted (e.g. reduced mortgage delinquencies), the Institute has not progressed as was hoped.

Since 1979, IVU has served as the implementing agency on one IBRD-financed project and on another financed by AID. Considerable difficulties were encountered by these institutions in project implementation. To date, IVU has built just over 30,000 units with production having taken place as indicated in Table III.13.

TABLE III.13

IVU HOUSING OUTPUT

PERIOD	NUMBER OF UNITS	AVERAGE/YEAR
1950-1963	9,330	666
1964-1968	6,090	1,218
1969-1973	4,390	878
1974-1978	4,075	815
1978-1983	5,932	1,186
Total	29,817	904

Source: IVU

IVU has been the subject of study by several AID consultants in recent years. Almost all pointed to the fact that IVU had become a complex bureaucracy with inordinately high administrative costs. Given the level of staffing maintained by the Institute over the years, its actual output of housing is quite low. Some obvious constraints such as low salary levels and the absence of funds from the GOES cannot be resolved in the short term.

A number of the problems previously identified have related to IVU's production efforts. While progress has been made in certain areas, a number of issues continue to be relevant:

- Use of internal manpower resources: IVU has continued to contract out work that could be performed by its own personnel, consequently leaving its own employees underutilized. This problem requires particularly close attention as the agency reorients its production to low-cost shelter solutions. Personnel should be evaluated to make optimal use of their skills, avoid duplication of responsibilities and inappropriate assignment of functions.

- Realistic pricing of units: The basic concept of recovering the cost of off site services in the individual pricing of units and the corresponding mortgage loan has not yet become an integrated part of IVU's cost analysis.

- ¢5,000 procurement restriction: IVU is still handicapped by a regulation requiring that all goods and services valued in excess of ¢5,000 be contracted for through a public bidding process which can take up to two months. Thorough project planning should allow for the timely acquisition of needed materials or services. However, unanticipated material or labor items, especially in a large project, can easily exceed the ¢5,000 level. The inability of IVU to obtain these items quickly has caused costly hold-ups in work progress in the past.

- Inter-institutional coordination: The problems associated with obtaining approvals from the appropriate institutions controlling the provision of services such as water and electricity continue to constitute a major stumbling block in project execution. The difficulties can be attributed to at least three areas: 1) IVU's own lack of vigor and thoroughness in pushing for the approvals and conforming to the requirements of other institutions; 2) slowness of other institutions in providing the needed services; 3) lack of clear guidance from the VMVDU in establishing development guidelines for the housing and urban development sectors and facilitating inter-institutional coordination.

IVU cannot set standards or make policy for the entire sector, but it can establish clear internal methods for pursuing its own mandate. Given the difficulty that IVU has had in resolving some of these basic problems, and the resulting effect on the recent AID-financed projects, a new Project Implementation Unit has been established within the Institute to expedite work execution on HG and PL-480-funded projects. The unit consists of about 10 persons transferred to it from other IVU departments. It will function independently of the rest of the Institute, with its own set of procedures for project implementation. These procedures include the ability to make project-related purchases of up to ¢100,000 without going through a bidding process. Free of this and other restrictions, it is anticipated that the Implementation Unit--by performing in a more dynamic manner--will ultimately set the standards by which IVU's entire Production Division will operate.

The policy decision to focus all project development efforts on the ABC (Acceso al Bienestar Comunal) Program for low-cost housing solutions and community upgrading is clearly one which, by benefiting greater numbers of low-income households, will make for a more effective use of IVU's limited resources.

The overall organizational restructuring of IVU (described below) reflects some other appropriate policy initiatives. Examples of this are the newly organized Marketing Division with its priorities of selling IVU's inventory of completed homes and conversion of IVU houses presently occupied on a rental basis to a lease/purchase status. Selling of the houses in its inventory will free up badly needed funds for reinvestment in new projects. The principal benefit of getting rid of the rental properties is for IVU to free itself of the major burden that maintenance of such properties constitutes.

In the Administrative Division, the strengthening of the Human Resources Department holds some potential for enhancing employee productivity and morale. However, the real key to overcoming the morale problem (aside from salary increases) lies in sound management and leadership. IVU employees need to identify with the general orientation of the organization, while working to achieve the specific goals of their various departments and divisions. There has been little evidence of such identification or goal orientation in the past. The fact that IVU is carrying out a restructuring along with the preparation of an employee manual of responsibilities offers an important opportunity to improve IVU's overall efficiency.

However, conversations with division and departmental managers reflect that they themselves do not well understand the anticipated outcome of these organizational changes. They were unable to explain the proposed functions of several of the departments for which they would be responsible. Since the managerial personnel are the key to successful implementation of the restructuring, this bodes poorly for the chances of the program to really enhance the productivity of the organization.

2. **IVU Operations**

The Board of Directors constitutes IVU's chief governing body, with the power to select managers and department heads for the Institute. The Board is made up of nine members including an Executive Director (who also serves as President of IVU) and two representatives from each of the following: Ministry of Economy, Ministry of Public Works, Ministry of the Treasury, and Ministry of Health.

Below the Board of Directors is the Office of the Presidency with a staff of four assisting the President of the Institute. Attached to this Office is the Planning Unit with a chief and a staff of seven, as well as an Advisory Unit with three employees.

Following the President's office is that of the General Manager, with a two-person staff. Additionally, five auxiliary units are attached to this office: Public Relations (6 persons), Data Processing (11 persons), Internal Audit (8 persons), Administrative Advisory (4 persons), and Secretarial Support (13 persons).

Because IVU is in the process of restructuring itself, the actual institutional framework at the time of this analysis was somewhere in between its "old" organizational chart and the new proposed one (see Figure III.3). The following is basically a description of the institutional framework that should result from the IVU restructuring.

At the operational level, IVU will be divided into three divisions, Administrative, Marketing and Production.

a. **Administrative Division**
As before, the Administrative Division will be composed of four departments: Finance, Supplies, Human Resources and General Services. The last three of these departments reflect name changes from the previous organizational chart, but only Human Resources appears to be undergoing serious change.

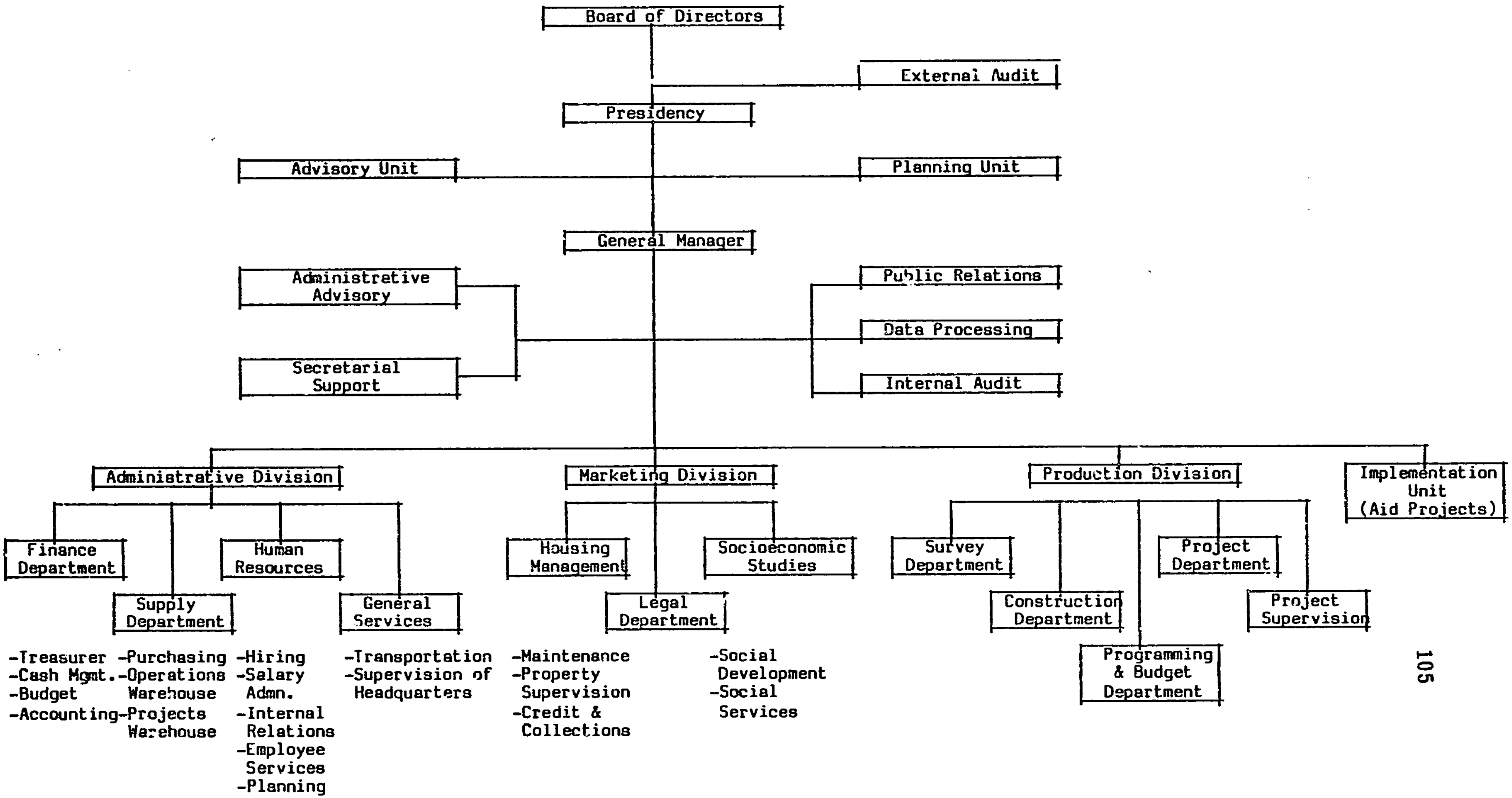
The Finance Department will remain structurally unchanged, consisting of four units: Treasurer, Cash Management, Budget Supervision, and Accounting. Despite the fact that no organizational changes are being made in this department, its functions and personnel are being thoroughly evaluated. The Finance Department has been strongly criticized for failing to provide IVU management with organized and timely information, as well as for irresponsible cash management. For example, during 1983 sums as high as $1.6 million were kept in checking accounts rather than in interest-paying accounts.

The Department of Human Resources, formerly known as Personnel, will be significantly strengthened as IVU attempts to deal with problems of poor morale and low productivity. Five units are planned: Hiring, Salary Administration, Internal Relations, Employee Services, and Planning. A priority of this department will be to review the individual performance and capabilities of all IVU employees and study the needs of all departments.

FIGURE III.3

I V U

PROPOSED ORGANIZATIONAL CHART



b. Marketing Division

This division will be organized under three departments covering a broad range of responsibilities. The Department of Housing Management is responsible for management of IVU's portfolio of rental properties, as well as any real estate owned by the Institute for purposes of its own operations and project development. This department consists of three units: Maintenance, Property, Supervision, and Credit and Collection:

- Maintenance: Though rental properties amount to only about one percent of IVU's total assets, it is responsible for maintenance of these units, which has proven to be a serious resource drain.
- Property Supervision: IVU owns a number of undeveloped sites as well as sites under construction, whose maintenance and protection is the responsibility of this unit.
- Credit and Collections: This will be a newly organized unit merging the responsibilities of processing credit applications with handling payment collections. The collections aspect of this unit's responsibilities could not be clearly explained by IVU management, especially concerning coordination of this unit's work with that of the legal department. Given IVU's large volume of accumulated credit applications (about 65,000) and its serious loan delinquency problem, improved procedures and performance will have to accompany the merger of functions.

The Department of Socio-Economic Studies will be responsible for the reduction of IVU's inventory of unsold houses (over 800 units). In general, this department is responsible for analysis of the consumer market for proposed IVU projects, as well as the area in which the projects are to be developed, so as to assure their socio-economic feasibility. Once a project is underway and home purchasers have been identified, the Social Development unit works to prepare the families for assimilation into the new development. Problems of a community nature that may arise once a project is completed are dealt with by the Social Services unit.

The Legal Department is responsible for the preparation of legal documents for the purchase, sale, or lease of IVU properties. Additionally, all cases of seriously delinquent borrowers or renters are passed on to the Legal Department. It handles foreclosures and evictions when necessary.

c. Production Division

Whereas the housing production end of IVU operations formerly included separate divisions for "traditional housing" (fully completed units with one or more bedrooms) and the ABC program (low-cost housing solutions and community upgrading), henceforth the Production Division will work exclusively on ABC projects. In terms of personnel, the ABC division was the smaller of the two divisions. Now, all production personnel will be combined to work only on ABC projects. The personnel will be assigned to five different departments: Survey, Construction, Programming and Budget, Project, and Project Supervision. The merger of these two production units into one appears to pose several problems for IVU. First, unless IVU enters into a period of high productive activity, a large part of these employees will be idle or under utilized. That is, though overstaffing is characteristic of practically all IVU departments, it appears that the Production Department will not only be overstaffed, but will have a majority of employees who have worked in the design and production of "traditional housing." It is possible that IVU may experience some difficulty in getting these employees to dedicate their efforts to projects of a considerably different nature than those to which they are accustomed. In order to mitigate these difficulties, maximum advantage should be taken of the opportunity to educate and re-orient the staff towards the new housing solutions as part of IVU's restructuring.

3. **Financial Situation of IVU**

The Instituto de Vivienda Urbana is a fiscal institution par excellence, as 80 percent of its funding consist of contributions from the government's budget. Its use of resources from other sources has been minimal. In allocations, IVU has adapted its activity to the political programs of the moment, seeking in general to develop traditional housing units. At present, IVU maintains over 600 unsold houses with prices above ¢24,000, thus immobilizing more than ¢15 million. The operational criterion has been to subsidize and, even now, IVU has a maximum interest ceiling of 12 percent.

a. **Analysis of the Balance Sheet (Last Three-Year Period)**

IVU's balances are summarized in Appendix Tables A.10 and A.11. Among the productive assets, long-term credit is the item that has shown the most growth, but its level of participation is still minimal for an exclusively shelter-oriented institution. Readily available assets have declined to levels which could cause situations of non-liquidity. Non-productive assets, although high, tended to decrease during the three-year period, a positive trend. The only two exceptions to this decrease are land (+5%) and other assets (+5%).

The problem of arrears, which is part of these accounts, is of severe magnitude in IVU, and it is tending to increase. Tne loans in arrears between December 31, 1981 and December 31, 1983 are compared in Table III.14. The most alarming aspect of these figures is not that 67 percent are in some level of arrears, but that critical delinquency, more than four months, has gone from 9.7 percent of the portfolio to 18 percent, i.e., it has almost doubled. With such poor recuperation, the possibilities for sound growth are minimal.

IVU has made little use of market resources, whether internal or external, relying for its operations instead on soft capital resources. The current higher growth of internal debt as compared with external debt is due to the fact AID's Housing Guaranty funds arrive through FNV and consequently are recorded as local credit.

Capitalization represents 80 percent of liabilities (Appendix Table A.12). Given the size of this share, it is necessary to include capital in calculating financial ratios, since otherwise the indices would be extremely distorted. As a whole, growth has been nil in current terms and negative in real terms. Given the lack of propensity or ability to make use of market borrowing, growth depends on increased fiscal contributions, which are difficult to obtain and justify in the current economy.

TABLE III.14

IVU: LOANS IN ARREARS

	1981 Number	1981 Percent	1983 Number	1983 Percent
Total Loans	17,185	100.0	16,731	100.0
Loans In Arrears	9,158	53.3	11,201	66.9
1-3 Months	7,492	43.6	8,203	49.0
4-6 Months	970	5.6	1,907	11.4
7+ Months	696	4.1	1,091	6.6
Value of Loans in Arrears (000)	¢1,263		¢2,137	

Source: IVU

The basic balance sheet ratios provide additional performance indicators:

1) Average Productive Assets (APA)/Average Total Assets (ATA)

	1981	1982	1983
A. ATA (000)	174,982	185,064	190,904
B. APA (000)	99,477	117,315	128,381
B/A	0.568	0.634	0.672

2) Average Productive Assets (APA)/Average Total Resources (ATR)

	1981	1982	1983
A. ATR (000)	171,901	182,037	189,034
B. APA (000)	99,477	117,315	128,381
B/A	0.579	0.644	0.679

Both ratios show a tendency to greater efficiency, but the results are extremely poor. The first indicator should exceed 0.9, and the second should be equal to or greater than 1.0.

On the income statement (Appendix Table A.13), three facts stand out:

- Wide financial margin due to almost no remuneration of resources.
- Excessive general expenditures absorbing 2/3 of total income.
- The high percentage and absolute level of other income/expenditures.

These circumstances are amplified when the financial return ratios are examined:

1) Yield of Productive Assets

	1981	1982	1983
APA (000)	99,477	117,315	128,381
Financial Income (000)	6,076	6,252	7,046
Percent	6.1	5.2	5.5

2) Financial Cost of Productive Assets

	1981	1982	1983
APA (000)	99,477	117,315	128,381
Financial Expenditures (000)	675	1,906	1,086
Percent	0.7	1.6	0.8

3) General Expenditures/Productive Assets

	1981	1982	1983
APA (000)	99,477	117,315	128,381
General Expenditures (000)	4,993	5,103	5,594
Percent	5.0	4.3	4.4

4) Cost of Market Resources

	1981	1982	1983
MR (000)	27,859	33,725	36,596
Financial Expenditures (000)	675	1,906	1,086
Percent	2.4	5.7	3.0

The decrease in return from productive assets is consistent with the increase in arrears and contradicts all acceptable financial trends. The level of financial burden imposed by general expenditures is untenable and unjustified.

4. **Capacity of IVU**
Due to its physical structure, dimensions, and work performed, IVU is an institution that is capable of acting in various spheres of shelter activity. However, according to its income performance, IVU now is unable to operate efficiently.

Institutional policy: IVU, within a (currently nonexistent) national housing policy should have a specific role to play and should define its programs on the basis of that role. The existing policy decision to use the IVU exclusively to provide minimum and emergency solutions throughout the country seems to be correct. For an efficient level of performance, the following should be considered:

- Limitation of the sphere of activity: IVU is urban by vocation and highly centralized. Try as it may, it cannot operate in the rural area at the present time.
- Restructuring productivity: IVU's present cost levels cannot be transferred to any project, and even less when dealing with lower-income sectors. The solution cannot come by subsidizing the inefficiency of IVU but through a complete organizational restructuring, an unavoidable factor for future projections.

Financial policy: In the financial sphere, the ultimate objective must be to enable the IVU to grow on the basis of the extraordinary potential for mixture which its high capitalization enables. Therefore, there must be simultaneous activity in various areas:

- Soundness of assets: IVU must evaluate its assets and liquidate the non-productive ones in order to attain minimum levels of return. This task includes 1) reduction of arrears; 2) liquidation of immobilized projects, by measuring their actual sales potential, allocating the necessary loss immediately, and then beginning to receive financial returns; and 3) analysis of its land portfolio in relation to the actual market cost of the lands and their use for projects aimed at lower-income sectors (the land can also be converted into a good source of revenue through liquidation, thus avoiding its misuse).
- Reduction of operating costs: In this area, the key points are reducing the bureaucracy to a functional minimum and the effective transfer of pertinent costs to the projects, avoiding indirect subsidies and unreal costs.
- Realistic pricing: Reflect real costs of labor, capital, and materials in prices of units; include costs of off-site services.

- Interest policy: As long as the ceiling of 12 percent for loans remains, IVU must attempt to transform all its operations to credits at this rate, thus potentially facilitating the mixture of resources in greater magnitudes.

Today, the possibilities for IVU to undertake large-scale borrowing are limited by the low financial margin caused by non-recovery of the portfolio, by the numerous non-productive assets, and by the high operating costs. Once these issues are overcome, IVU can and must be a flexible instrument of shelter policy, absorbing a high volume of external funds.

Management and administration: Short of a wholesale overhaul, there are numerous managerial and administrative measures that need to be taken to improve IVU's operations. These were discussed above and are summarized as follows:

- Provide all possible support to and facilitate functioning of the new Implementation Unit (in charge of AID projects).
- Provide IVU with dynamic leadership capable of breaking through bureaucratic bottlenecks, working effectively with other institutions, and raising morale in IVU.
- Making maximum use of internal manpower resources; contract out only when there is a clear, significant benefit.
- Substantially raise the ceiling for non-competitive procurement (now ¢5,000) and streamline bidding process.
- Develop a strategy for insuring an acceptable level of productivity from the new Production Division, which will be low unless significant new project activity is undertaken and which will require reorientation of personnel who formerly worked only on traditional housing.
- Marketing Division
  - -- Liquidate IVU's unsold inventory (about 800 units)
  - -- Convert rental properties to lease/purchase
  - -- Prepare plan for use or liquidation of IVU's land holdings
  - -- Improve performance and procedures of Credit and Collections Unit
- Administrative Division
  - -- Institute system of special and selective incentives and rewards for employee performance
  - -- Insure that Finance Department is reformed to provide sound financial management and proper, up-to-date information
  - -- Phase in higher salary scale to attract and motivate high-quality staff

E. SALVADORAN FOUNDATION FOR DEVELOPMENT AND MINIMUM HOUSING (FUNDASAL)

1. Overview

FUNDASAL is a private, non-profit organization dedicated to assisting El Salvador's poorest households with their housing and community development needs. The organization began operations in 1968 and was legally incorporated in 1970. FUNDASAL has successfully implemented more than twenty low-cost housing projects based on the concepts of community participation, progressive shelter construction, and affordability for truly low-income households. Its accomplishments in this area have been internationally recognized and have enabled it to obtain financial support from several foreign sources including two World Bank loans and grants from various Canadian and European organizations.

Article 3 of FUNDASAL's statutes lists the following objectives:

- Support the individual and community development of those struggling to overcome the poor living conditions in depressed areas of the cities;
- Carry out the construction of low-cost housing and community works on behalf of low-income families in order to facilitate their access to homeownership and a better standard of living;
- Support the development of the cooperative concept as well as the creation of housing, consumer, and savings and credit coops on behalf of their members;
- Create new sources of employment on behalf of the poorest people in order to stabilize and increase their household earnings;
- Stimulate community cooperation, a sense of solidarity and general interest in the struggle for integrated development of the community and the spirit of civic responsibility.

The uniqueness of the FUNDASAL approach lies in two areas: 1) its ability to achieve high levels of cost recovery from a low-income clientele, and 2) its emphasis on the concept of developing a fully integrated community in project execution. To date, the Foundation has completed approximately 7,400 units occupied by nearly 46,000 persons (these figures obtained from FUNDASAL as of June 1984 contrast with the CASALCO data presented in Table III.1). Another 3,500 units to be occupied by some 21,800 persons are currently under construction.

In the last several years, an increasing portion of FUNDASAL's projects have been designed for persons displaced from the country's armed conflict areas. As in the case of the Foundation's traditional projects, the self-help construction method is applied. Because of the urgency of the families' needs, the project execution period is reduced to as little as 18 months. The basic building materials are mud bricks, some wood, and galvanized metal for roofs. Quality of construction is not on a par with the traditional projects.

Table III.15 lists all FUNDASAL's projects completed, underway, and planned as of June 1984. Split into four-year segments, FUNDASAL production appears as follows:

	1969-72	1973-76	1977-80	1981-84*
No. of Units	132	1,266	4,189	1,756

*(First six months of 1984)

While the Foundation expanded its output considerably from 1977 through 1980, it has always been much more concerned with the successful application of the aforementioned concepts than in increasing production of units. In fact, it has always been a FUNDASAL policy to build no more than 2,500 units per year, except in the case of two IBRD-funded projects. However, by 1983 FUNDASAL's staff had grown to 170. In that year, a series of problems within the organization led to the appointment of a new manager and wholesale staff reduction to a current level of 56 employees.

In describing the difficulties that led to this radical reduction of personnel, the FUNDASAL management stated that the organization had grown too large, and taken on too many employees who, though capable, did not share the original objectives of the Foundation.

FUNDASAL is thus looking upon its own recent internal difficulties as an opportunity to return to the basic philosophy on which it was founded. Current priorities are to complete the projects to which the Foundation is committed while consolidating the organization with the remaining staff. A new operational plan for the next several years will be formulated in the near future, which may result in changes to the "Planned Projects" listed in Table III.15.

2. FUNDASAL Operation

The chief governing body of FUNDASAL is the General Assembly, which is made up of all active and honorary members of the Foundation and that meets once a year. At that time, the General Assembly reviews both the annual statement and budget for approval or disapproval, appoints the outside auditor, and selects the 12 members of the Board of Directors from among the membership. Among the 12 directors, the following positions are assigned: President, Vice-President, Secretary, Assistant-Secretary, Treasurer, Assistant Treasurer, Trustee and five regular members. The Board meets twice monthly and has the basic responsibility for planning and organizing FUNDASAL's activities. It also names the Executive Director, who acts as the principal administrator of the Foundation. He has the responsibility for selecting a General Manager and all other FUNDASAL personnel.

Below the position of General Manager, FUNDASAL is made up of four departments: Finance, Administration, Social Development, and Construction. The Finance Department, with 14 employees, handles credit applications,

TABLE III.15

FUNDASAL HOUSING PROJECTS
(as of June 1984)

COMPLETED PROJECTS	HOUSING UNITS	NUMBER OF OCCUPANTS	YEAR OCCUPIED
Primero de Sept., Soyapango	70		1969
Agua Caliente, Ciudad Delgado	62		1972
San Jose del Pino, Santa Tecla	520		1973
La Joyita, Chinameca	44 (rural)		1974
El Vaticano, Puerto El Triunfo	172 (rural)		1974
El Pepeto, Soyapango	530 (IBRD)		1975
Lamatepec, Santa Ana	1,190		1977
Sensunapan I, Sonsonate	563		1978
El Naranjo, Usulutan	422		1979
La Presita, San Miguel	1,216		1979
Meson "El Progreso," Mejicanos	30		1979
El Concaste, Mejicanos	405		1980
Sensunapan II, Sonsonate	363		1980
La Palma, Chalatenango	29		1981
Sensunapan III, Sonsonate	14		1982
El Milagro, Ahuachapan	143 (displaced)		1983
Potrerillos, Ilobasco	55 (displaced)		1983
Chintuc I, Apopa	556		1983
Chintuc II, Apopa	477		1983
La Nueva Esperanza, Ahuachapan (1st and 2nd stage)	81 (displaced)		1983
Casos Dispersos	101		1983
La Divina Providencia, Ilopango	42		1984
La Union, Santa Ana	96 (displaced)		
Rio Zarco, Santa Ana	203		
Sub-total	7,384	45,781	
PROJECTS UNDERWAY			
Chintuc I, Apopa	580 - IBRD		
Chintuc II, Apopa	237		
Rio Zarco, Santa Ana	763		
Popotlan I, Apopa	2,162		
Popotlan II, Apopa	1,757		
La Nueva Esperanza, Ahuachapan (3rd stage)	34		
Hacienda La Ceibita, Ahuachapan	17 (displaced)		
Casos Dispersos	10		
Sub-total	5,560	34,472	
PLANNED PROJECTS			
Santa Teresa, San Martin	3,200		
Lamatepec II, Santa Ana	78		
San Roque, San Salvador	8 (displaced)		
Nueva Concepcion	130 (displaced)		
San Diego, La Libertad	40		
Lourdes, La Libertad	30		
La Nueva Experanza (4th stage)	30		
Sub-total	3,516	21,799	
TOTALS	16,460	102,052	

payment collection, delinquent accounts, cash management and general accounting. Administration, with 18 employees, is responsible for a variety of secretarial and support functions as well as security, maintenance, and purchasing.

The 17 employees of the Social Development Department are directly involved in project development, assisting not only the future residents in their physical efforts, but also laying a foundation for future development of the community by encouraging the residents to plan and develop cooperative organizations. Current FUNDASAL management cites the overinvolvement of Foundation Staff in the planning and implementation of recent projects as an example of how FUNDASAL strayed from its original objectives and methods.

Since work is done on a self-help basis, the role of the seven employees of the Construction Department is restricted to project design and supervision. The latter role is a critical one since the skill level of most participants is usually limited, and the role of contractors is limited to such items as water and sewer infrastructure.

3. **Financial Situation of FUNDASAL**

In evaluating FUNDASAL, it is necessary to keep in mind that its function and goals go beyond providing shelter solutions, incorporating a concept of overall development of the communities with which it deals. Thus, its financial parameters must be viewed in light of its "social" orientation".

FUNDASAL is a private institution that has developed a special ability, greater than that of any other institution in the country, to work in the **barrios** and with marginal families. It functions as an intermediary for resources of various origins, generally with soft terms, and performs a needed financial service (see Appendix Table A.12). In the four years from 1980 to 1983, the level of activity according to the value of units allocated was as follows:

1980	¢7,144,385
1981	¢1,415,364
1982	¢ 745,290
1983	¢1,266,703

The great reduction in activity between 1981 and 1983 coincided with a period of internal crisis and readjustment regarding FUNDASAL's operational policies and planning.

a. **Analysis of the Balance Sheet**

The most negative aspect of the assets (see Appendix Table A.13) is the slowness in transforming projects under construction into allocated housing. Shelter loans have decreased, while the numbers of solutions waiting to be awarded have accumulated alarmingly. This is one of the most essential aspects to be dealth with in the new reprogramming. There is nothing special to note about liabilities, except to emphasize the capacity for borrowing and the increasing capitalization.

b. Structure of the Financial Results

FUNDASAL has traditionally operated on the basis of donations so as to avoid transferring indirect costs to projects. However, in the future, it plans to pay for its operations out of income because the possibility of continuing to obtain donations to cover operations is becoming increasingly doubtful.

In Table III.16, which shows financial results, the usual presentation was changed to clarify this problem. The shelter operation is running at a deficit, as it was programmed to do. Of the donations received during the three-year period in question, 57 percent went to the capital account to strengthen the institution.

4. Capacity of FUNDASAL

FUNDASAL has an indisputable capacity for working with the low-income population while maintaining reasonable financial soundness. However, it's installed capacity exceeds the work it is performing. It is clearly a net receiver of loan resources, inasmuch as it does not have its own attraction instruments.

In order to begin handling shelter credit programs under normal conditions, the institution must:

- Define its internal policies, establishing the sources and costs of financing for programs other than shelter financing.
- Base operations on the actual financial cost of projects, based on total cost coverage parameters, and use the same criterion to determine the interest rates to charge on loans.
- Carry out financial and organizational planning on a short- and medium-term basis.

Special emphasis should be given to improving efficiency in allocating units, in order to return to historical production levels, which are much higher than the current ones.

There is no necessary reason for the operations (e.g. unit costs or production levels) of FUNDASAL to be affected by changing from covering operating costs by donations to paying for them from income. The potential for doing this successfully depends on 1) effective medium-term planning, 2) a sufficient volume of new resources to permit recovery of adequate income levels, and 3) the potential for raising interest rates on loans, a measure which, according to the analysis in Chapter II, would not damage affordability. FUNDASAL's interest rates are currently the lowest among housing institutions (4 to 6.5 percent).

Financial planning and research done by FUNDASAL on its future strategy should be able to measure the capacity of the institution to absorb new funds (and the terms thereof) and direct its future borrowing accordingly.

TABLE III.16

FUNDASAL: FINANCIAL RESULTS
(Thousands of Current Colones)

	1981	1982	1983	PERCENTAGES 1981	1982	1983
Total Operating Income	1,505	1,663	1,569	100	100	100
Financial Products	1,297	1,321	1,486	86	79	95
Expenditures Housing Program	<2,097>	<1,989>	<2,213>	<139>	<120>	<141>
Margin	<800>	<668>	<727>	<53>	<41>	<46>
Other Program Expenditures	<1,018>	<1,078>	<1,277>	<68>	<65>	<81>
Other Income	208	342	83	14	21	5
Other Expenditures	<65>	<69>	<78>	<4>	<4>	<5>
Results	<1,675>	<1,473>	<1,999>	<111>	<89>	<127>
Donations	3,971	3,144	4,882	264	189	311
Surplus	2,296	1,671	2,883	155	100	184

Source: FUNDASAL

TABLE III.17

FEDECCREDITO CREDIT PROGRAMS - 1981

PROGRAM	BUDGET	BORROWERS	AVERAGE LOAN AMOUNT	PERCENT
Agricultural Development	¢ 38,228,000	4,954	¢ 7,715	36
Rural Community Development	8,594,000	1,884	4,560	8
Operational Loans	13,277,000	3,371	3,940	12
Low-Cost Credit	20,836,000	26,831	775	19
Urban Community Development	4,261,000	4,488	950	4
Employee Loans	16,268,000	6,957	2,338	15
Education Credit	5,451,000	1,073	5,080	6
TOTALS	¢106,915,000	49,558	¢ 2,157	100

Source: FEDECCREDITO

F. FEDERATION OF CREDIT COOPERATIVES (FEDECCREDITO)

1. The Rural Credit System

El Salvador's Rural Credit Law of February 1976 identifies local Credit Cooperatives as the implementing institutions for the nation's Rural Credit System. The Law designates the Federacion de Cajas de Credito (FEDECCREDITO) as the coordinator of the functions of the Credit Cooperatives (Coops or "Cajas"). There are 42 cooperatives affiliated with FEDECCREDITO.

The Law describes the Coops' main objectives as follows:

- Provide, distribute and develop credit on good conditions among members or non-members deserving of credit services;
- Promote development of the Cooperative movement in the Republic, especially relative to providing credit for small merchants, producers and industrialists;
- Support cooperative education;
- Authorize the establishment and operations of Rural Credit Coops, as well as examine and audit their organization and administration;
- Serve as guarantor or intermediary in the Cajas' dealings with third party organizations;
- Provide services to affiliated Cajas, particularly with regard to their requests of the public authorities;
- Facilitate the production, transformation, conservation and sale of agricultural and industrial goods.

The constitution and functions of each Caja must be authorized by FEDECCREDITO (the Federation). The Cajas are publicly registered, stock owned cooperative societies. No more than one Coop may function in a single municipality without approval from FEDECCREDITO. No single shareholder, with the exception of public sector institutions, may own stock worth more than ¢10,000.

Included in the Cajas' powers are the abilities to grant loans secured by a number of guarantees including a home mortgage and the ability to accept deposits. The latter capacity has not been developed by the system. Lending for purposes of shelter has been minimal.

The Cajas are required to submit financial statements to FEDECCREDITO for annual auditing. The Federation has full access at all times to the records of the Coops. The Federation has the power to order rectification of any financial or operational irregularity it detects in exercising its regulatory role. The Cajas must comply with any orders of this nature within thirty days of their issuance. FEDECCREDITO has the power to terminate the operations of a Coop in cases of non-compliance with its orders, as well as in other situations such as when a Caja's membership drops below the

30-person-minimum, or a modification of the Caja's statutes without the Federation's approval.

The Rural Credit Law grants FEDECCREDITO a 75-year mandate as regulatory body of the Credit Coops, with location of its headquarters in the capital city of San Salvador. Membership and stock ownership in the Federation are limited to the following:

- Representatives of the GOES Executive Branch acting in the areas of Economics and Agriculture;
- The Rural Credit Cooperatives;
- The Banco Hipotecario de El Salvador;
- Any public sector institutions accepted as members by the Federation's Governing Assembly.

The Federation administers seven different credit programs. They are listed below. Approximately two-thirds of all FEDECCREDITO loans were for an average amount of about ¢2,000 (Table III.17). The Low-Cost Credit (Credito Popular) and Employee Loan Programs average well below the ¢2,000 level.

Agricultural Development, FEDECCREDITO's principal program, targets the traditional cooperative beneficiary, the small producer. Principal products financed are food grains, cattle, coffee, and cotton.

The **Rural Community Development Program** supports a population similar to that which borrows under the Agricultural Development program, but through the provision of technical assistance. Nearly 40 percent of the loans for this category went to food grain producers.

The **Operational Loan Program** is designed to support small enterprises and individuals working in industry, commerce, and crafts by furnishing small sums of working capital.

The focus of the **Low-Cost Credit (Credito Popular) Program** is to boost the household income prospects of urban families, especially the small merchants and persons affiliated with solidarity groups.

The **Urban Community Development Program** is oriented towards small business people located in San Salvador's more depressed neighborhoods. The program targets specifically those persons or entities who are unable to obtain credit through the traditional banking sector.

The **Employee Loan Program** has the objective of assisting Salvadoran families with basic needs such as housing, health, and education, by providing a credit source as an alternative to high-cost, unlicensed lenders. In 1981, 92 percent of the 6,957 loans granted for these purposes were between ¢100 and ¢3,000.

The **Educational Credit Program** grants medium- and long-term loans to cover technical and university level studies.

2. FEDECCREDITO Operation

The Federation is principally administered by a General Assembly, a Governing Assembly, and a Manager (see Figure III.4).

The General Assembly consists of representatives of each of the Cajas and of the stock-owning member institutions. It meets annually to consider for approval the recommendations of the Governing Assembly; name the members of the Governing Assembly; determine the distribution of earnings; select an external auditor; and resolve legal issues concerning the Rural Credit System.

Responsibility for policymaking and management of FEDECCREDITO is assigned to the Governing Assembly. Among the more important responsibilities of the Governing Assembly are the establishment of interest rates and fees (in accordance with BCR guidelines), selection and oversight of personnel, and control over the budget. The Governing Assembly is made up of:

- a President named by the President of the Republic (4-year term);
- one director from the Economic branch of the GOES' Executive Authority;
- one director named by the Board of Directors of the Banco Hipotecario de El Salvador;
- one director named by the BCR;
- two directors named by the Federation's General Assembly.

The **President** of FEDECCREDITO is the organization's legal representative and chief operating officer.

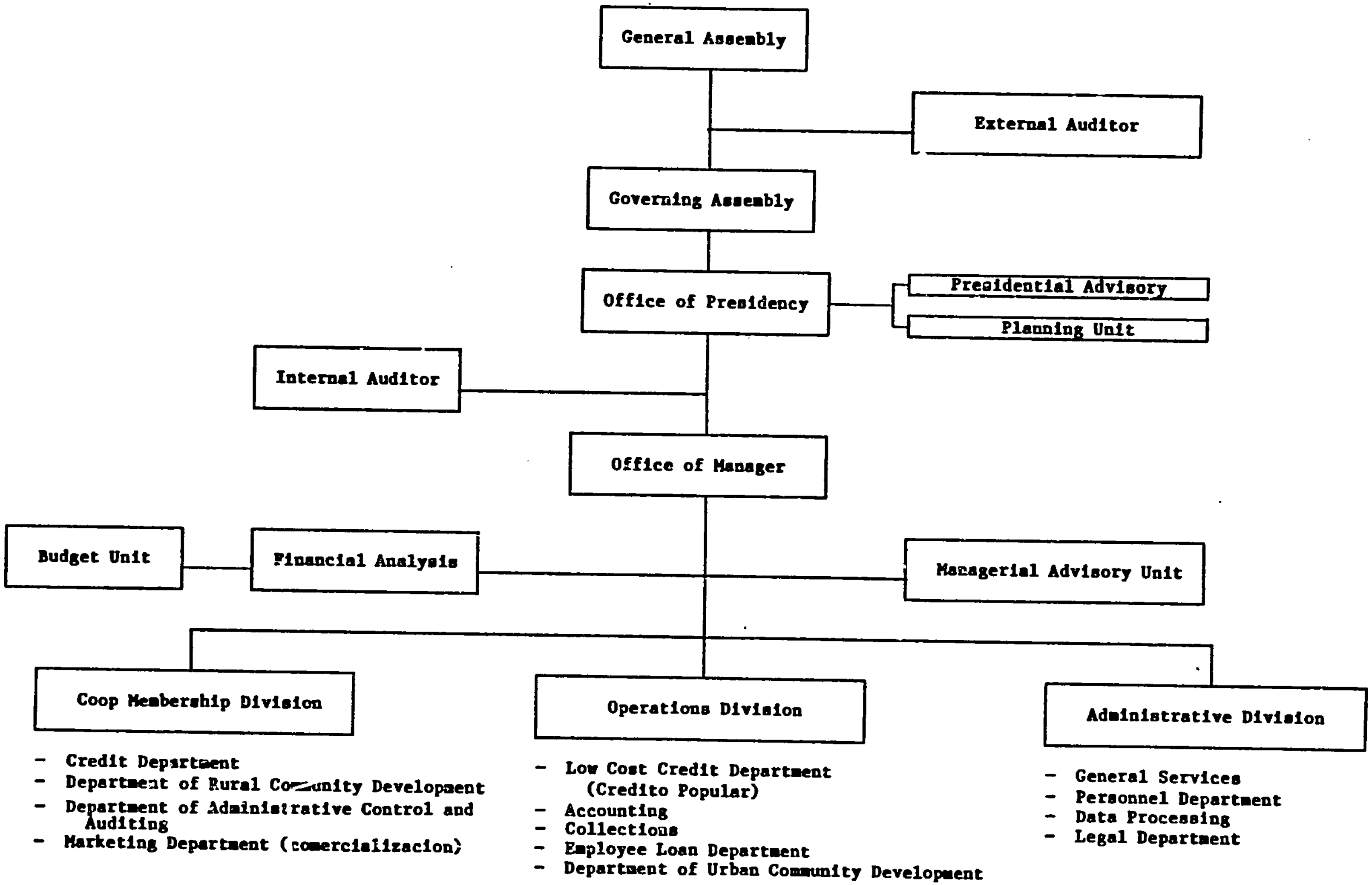
Below the level of the Presidency, FEDECCREDITO employs 377 persons, overseen by a manager, and three assistant managers, and divided into three operational divisions, Coop Membership, Operations, and Administration.

The Coop Membership Division deals directly with FEDECCREDITO's 42 affiliated Cooperatives through four departments. The Credit Department (25 persons) handles loan applications received from the Coops. The Credit Processing Unit reviews all loan requests for proper documentation. The package is then analyzed by the Evaluation Unit for overall soundness of the request and viability of the guaranty offered. Subsequently, the application is passed on to one of several Credit Committees, organized according to the credit category (e.g. small business or consumer loans) which are manned by various FEDECCREDITO employees. The slowness with which credit applications have been processed has been one of the Federation's most serious problems. Previously about three months were required to obtain a decision on a request. Under the new management, this period has been

FIGURE III.4

FEDECCREDITO

ORGANIZATIONAL CHART



reduced to one month, and the present goal is to shorten the process to 15 days.

The Department of Rural Community Development (40 persons) is responsible for optimal placement and use of credit in rural areas. Through its Cooperative Development Unit, the department provides direct assistance to the borrower for successful execution of the project or transaction in question. A Supervision Unit works directly with the individual Cajas to determine the feasibility of projects for which financing is requested and oversee their execution as loans are disbursed.

The Department of Administrative Control and Auditing (19 persons) sees to it that the Coops pursue their development activities in accordance with the regulations of the Rural Credit System. This involves auditing of the Coops' financial records and oversight of the administrative activities of the Federation's affiliates.

The basic function of the Marketing Department ("Comercializacion") (9 employees) is to purchase fertilizer in a timely fashion at favorable market rates so as to make this commodity available to the Coop membership at better prices than they might obtain elsewhere.

The Operations Division, through its five departments, oversees the operation of three different credit programs, as well as the functions of accounting and collections for the entire organization. The Employee Loan Department (41 employees) administers a line of personal credit for both public and private sector employees. Since this type of lending is distinct from the rest of the Federation's credit operations, a separate accounting of this department is done. The Accounting Department (31 employees) is responsible for preparation of the Federation's periodic financial statements and administration of financial controls concerning all departments. Each department administering its own line of credit is responsible for collecting payments, which are passed on to the Treasury.

The Collections Department (21 persons) handles the Federation's delinquent loans. It deals only with those loans three months or more behind schedule.

The Low-Cost Credit Department (26 persons) grants credit on favorable terms to small businesses and assists them in developing their own savings plans so as to build working capital. Finally, the Department of Urban Community Development (20 persons) grants credit to small businesses located in poorer urban neighborhoods. It provides periodic supervision of the use of funds.

FEDECCREDITO and its affiliated Cooperatives constitute in their design and basic structure an appropriate institutional mechanism for carrying out the task of funneling credit to those small producers and consumers who traditionally have had no access to the country's credit system. In practice however, these institutions are experiencing serious problems which limit their ability to pursue that objective. In August of 1983, an analysis of FEDECCREDITO was performed by an AID consultant who stated that "the economic and financial problems of the system are so great that its own viability is questionable under present circumstances".[1]

In terms of the entire Credit System, a fundamental problem appears to be excessive centralization of power in FEDECCREDITO. Whereas the 42 Cooperatives are by design the real operational units of the system, key functions such as credit review and approval are almost entirely handled by FEDECCREDITO. The Cajas apparently have personnel qualified to perform these functions but are not permitted to do so. This factor, combined with low pay and little real technical assistance from the Federation, has produced a situation of low morale among the Coops. In addition, the very Boards of Directors of the Coops tend to feel as if they do not really control them and are unable to identify with the system as a whole due to a lack of direction from FEDECCREDITO.

The Federation's new management appears to be taking the first steps towards dealing with the problem by improving the lines of communication between the Cajas and the central organization. In September/October of 1984, the Federation's President and Manager were in the process of visiting each of the 42 Coops to identify and discuss specific problem areas.

During the last several years, the Rural Credit System has operated without a plan or clear statement of priorities. The present FEDECCREDITO administration stated that it is currently producing such a plan.

As the Federation has assumed inordinate responsibilities relative to the system, it has grown excessively. While all 42 Coops have a total personnel of approximately 400 persons, FEDECCREDITO alone has some 410. In 1976, the Federation employed only 161 people.

The 1983 evaluation by Dextre described FEDECCREDITO as "paralyzed", citing the following reasons:

- Illiquidity with a high and increasing loan delinquency rate;
- Poor employee morale, lack of motivation;
- Serious operational deficiencies in all organizational units;
- Absence of short-, medium- and long-term financial planning;
- Deficiencies in producing financial information which have prevented the Federation from assisting some of the Cajas which were nearly bankrupt;
- No execution of internal audit or application of controls as stipulated in the Operating Manual.

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[1]Carlos Dextre, FEDECCREDITO - Administrative Evaluation, August 1983.

The Dextre report offers a number of recommendations corresponding in general to this list of problems, including the following:

- An urgent program to reduce delinquencies;
- Allow mobilization of resources by the system itself;
- Define Federation's and Rural Credit System's objectives and priorities;
- Transfer all credit operations to the Coops;
- Radical reduction of the Federation's operating expenses; and
- Reactivation of FEDECCREDITO's auditing Department.

The most fundamental of those recommendations is the decentralization of the system whereby FEDECCREDITO would assign many of its credit-related responsibilities to the individual cooperatives. This appears to be a very practical suggestion which could strengthen the overall system and simplify the operations of an overburdened FEDECCREDITO.

FEDECCREDITO, because it controls the flow of monies to the system, has maintained control of credit approvals. If the Cajas were to develop independent sources of funds, such as by exploiting their deposit-taking power, it is possible that the Federation could be relieved of most of its credit review function. If this were accomplished, FEDECCREDITO could consolidate its operations in the areas of regulating and auditing the system, which appear to be more consistent with the responsibilities assigned to it by the Rural Credit Law.

The real implication of thoroughly decentralizing the system is to make each Cooperative responsible for its own financial viability. The Cajas, by accepting deposits, would become directly responsible for generating a portfolio of loans whose yield would be sufficient to pay for deposits as well as administrative costs. With this responsibility of protecting funds deposited by members of the local community, the function of collecting loan payments is likely to be more vigorously pursued. Otherwise, the Coops are likely to become insolvent quickly. FEDECCREDITO should strengthen its capacity to assist the Cajas with management of their new financial responsibilities.

It is recommended that technical assistance be provided to determine the true feasibility of developing the system's depository powers. This would include an assessment of the potential for mobilizing rural savings as well as verifying that the Cooperatives themselves are interested in such a plan. If feasible, a training program for those Cooperatives willing to exercise this power should be provided. This would include the development of specific depository programs appropriate for El Salvador's rural areas, as well as the managerial and accounting measures which will be needed by the Coops.

In order to support this initiative, FEDECCREDITO's auditing capabilities must be strengthened to the point where it can evaluate the Coops' activities on a timely basis and act when and where appropriate.

3. Financial Situation of FEDECCREDITO

FEDECCREDITO uses massive internal and external borrowing, which together absorb 70 percent of the liabilities. This institution is authorized to capture market resources, but does so on a limited basis among its members. The important thing for the future is the potential provided by the large number of members. The 42 coops affiliated with FEDECCREDITO have the following shareholder structure (1983):

Number of coops:	42
Total members:	78,604
Number of shares:	614,105
Net capital:	¢13,466,458

Given its vocation of working with small-scale farmers and rural and urban producers, FEDECCREDITO provides a range of loans from personal credit to credit for fertilizers, crops, etc. The institution has operated sporadically in the shelter sector, mainly in housing improvement loans. Today it has ceased this activity due to lack of appropriate funds.

FEDECCREDITO is regulated by the Junta Monetaria and operates with market interest terms. The present lines of credit are at interest rates of between 10 and 16 percent, generally requiring savings contributions through purchase of stocks and bonds.

The balance sheet structure (Appendix Table A.14) is sound overall and shows no distorting effects. The three-year period from 1981 to 1983 showed almost no growth in current terms and was thus negative in real terms. Productive assets grew during this period, going from 81 percent of total assets in 1981 to 85 percent in 1983. This index can be improved by confronting the high level of delinquency from which the institution suffers.

Resources are attracted from different sources, both internal and external. The change of nomenclature in treatment of resources on the balance sheet shows a concern for improving financial information, even if the criteria for distribution of accounts in the assets do not correspond with those for the liabilities. This is a procedural matter to be improved. Capitalization experienced a 31.6 percent growth during the period, strengthening the overall solvency.

The financial margin during this period remained stable and in 1983 was able to cover operating expenses (Appendix Table A.17). Given the variety of activities carried out by FEDECCREDITO, the impact on the financial results of other income and expenses is determinant in establishing the size of the profits.

The cost-return indices show the high financial differential (four to five percent between interest earned and interest paid) and the weight of operating expenses on productive assets (figures in thousands):

	1981	1982	1983
Average Productive Assets	205,336	221,663	223,121
Interest Earned	22,959	25,355	24,410
%	11	11	11
Average Productive Assets	205,336	221,663	223,121
Int rest Paid	14,462	15,302	14,118
%	7	7	7
Average Productive Assets	205,336	221,663	223,121
Operating Expenses	9,709	11,732	9,966
%	5	5	5

4. **Potential of FEDECCREDITO**

FEDECCREDITO has strong qualifications to act on a massive scale in the shelter sector. These are:

- The rural and urban coverage of its offices and warehouses, which extend throughout the national territory.
- A captive and defined market of potential housing clients, composed of more than 70,000 members, among which it is easy to establish a shelter program with appropriate socio-economic features.
- Financial intermediation terms which are compatible with a sound housing finance program.
- Financial-administrative structure with separate accounting sub-systems for each type of credit, allowing for autonomous handling of shelter financing.

These advantages make FEDECCREDITO suitable for rapid implementation of a housing program. However, the following limitations must be overcome:

- Lack of experience in the shelter sector, which will require adaptation and training of part of the organization in this area.
- Limited counterpart funds from savings. The potential for resource attraction by FEDECCREDITO on a massive scale should be evaluated. Involvement in the shelter sector could lead to the creation of a true mutual savings and loan organization.
- Unacceptable default levels in the present portfolio, which has required organizing an exclusive collections team. Before beginning any shelter credit allocations, a flexible and reliable system of selection and collection of credit should be implemented.
- The general management limitations described above, especially centralization and inadequate financial control.

Once these problems are overcome, FEDECCREDITO has available a large shelter market to be served through a properly specialized and controlled program. It is important to stress the need for keeping the shelter funds separate, in management and control, from the other FEDECCREDITO resources.

Further analysis, which was beyond the scope of the present study, is needed to establish 1) the effectiveness of FEDECCREDITO's outreach capacity, 2) its actual coverage in various rural regions, 3) the possibilities of making immediate improvements in financial management, and 4) the feasibility of establishing some type of mutual savings and loan organization as part of FEDECCREDITO.

G. PRIVATE SECTOR HOUSING DEVELOPERS

Chapter I mentioned the distorting effect of the decline in output on productivity in the construction sector.

The private construction sector is formally represented by one organization, CASALCO, which has an active research program on problems affecting the industry. Its publications and analyses of the housing market, shelter policy, and macroeconomic impacts on the sector are the most complete available at this time.

Technically and professionally, the private builders have sufficient installed capacity to carry out massive shelter construction activity. In 1983 it was estimated that out of 125 companies devoted to housing construction, no more than 70 percent were active. Added to this is the high number of companies which went out of business because of the crisis but which, given the nature of shelter production, could start up again immediately. The overall under-utilization is shown clearly in Figure III.5.

The absence of overall housing policies, on the part of both the public and private sectors, put shelter strategy into the hands of the construction industry, resulting in the chaotic situation of today. However, the construction sector cannot be assigned sole responsibility for problems such as unsold assets and declining availability of funds for housing.

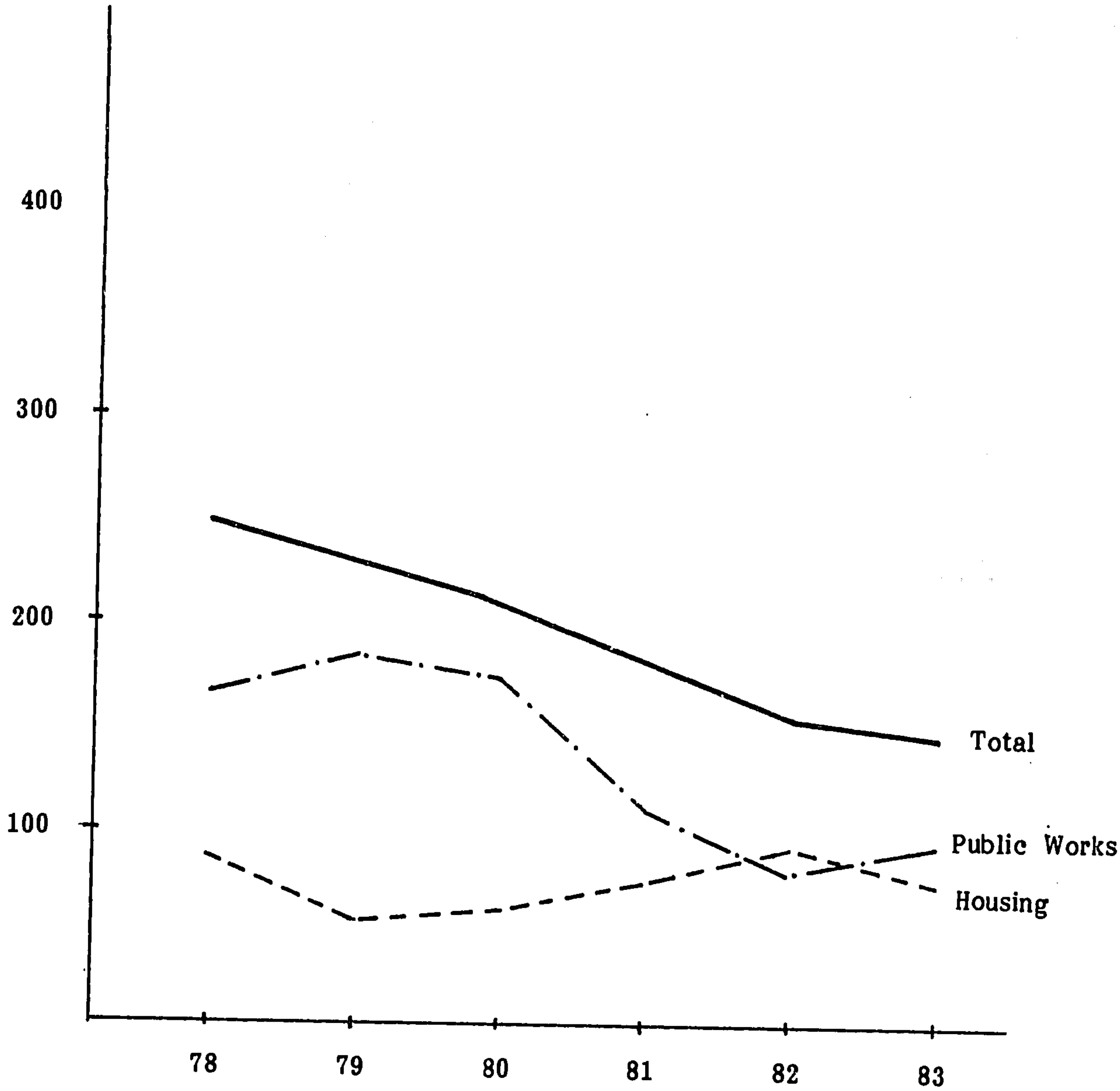
If one wishes to improve the economic and social productivity of housing, the following are needed: 1) a clear definition of national shelter policy, including methods which reasonably guarantee availability of resources and 2) redesign of credit policy in the financial intermediaries, especially Savings and Loan Associations, which would make the developer responsible for marketing and would guarantee suitability of the project based on adequate market analyses. The Savings and Loan System needs to become more professional in this area.

Sectoral productivity assumes, first, fluidity in the availability of materials. A review is needed of the installed capacity of the building materials industry. Second, it requires maximum competition among projects for use of available resources, so that there is always a choice among several alternatives. Finally, given that volume and continuity are prerequisites for sectoral productivity, as great a share as possible of the funds intended for housing and construction should be channeled through the private sector.

FIGURE III.5

TOTAL INVESTMENT IN CONSTRUCTION 1978-1983

(Thousands of Constant 1962 Colones)



Source: CASALCO, "Lineamientos para la Elaboración de un Plan Quinquenal 1984-1988 de Inversión en la Industria de la Construcción."

H. FEDERACION DE ASOCIACIONS COOPERATIVAS DE AHORRO y CREDITO DE EL SALVADOR (FEDECACES)

Time did not permit an evaluation of the potential of FEDECACES for participating in an expanded shelter program. The following brief discussion is based on documentation provided by the Cooperative Housing Foundation of Washington, DC, USA.

FEDECACES, founded in 1966, oversees 43 affiliated credit unions with 18,000 members in both urban and rural ar[illegible]s portfolio is estimated at approximately ¢13 million. FEDECACES is intended to provide the following services to its affiliates:

- Cooperative education
- Technical assistance
- Fidelity bonding
- Life insurance on savings and member loans
- Auditing
- Financing through several credit lines
- Legal advice
- Agricultural inputs (seed, fertilizer, etc.) to rural credit unions

While the overall volume of financial support to affiliates has declined since 1979, the line of credit for agricultural production has grown substantially, with the 1983 figure 67 percent above that for 1979. Internally, FEDECACES suffered deficits in 1980 and 1981 but reportedly regained a positive operating balance in 1984. On the other hand, arrears--both at the credit union level and the FEDECACES level--are unacceptably high. Approximately 25 percent of the Federation's portfolio is in arrears.

The credit unions under FEDECACES have had some experience in home improvement lending. The Cooperative Housing Foundation has proposed a modest program ($100,000) to expand FEDECACES's activities in this field. The program includes technical assistance to improve the capacity at the Federation and credit union levels for design, implementation, and financial management of projects.

I. RURAL HOUSING

1. Financiera Nacional de Tierras Agrícolas (FINATA)

a. Overview

As an instrument of agrarian reform, specifically the conversion of sharecroppers or tenant farmers into small landowners, FINATA's essential activity is to purchase reformed land and to provide credit to the new owners.

In order to pay for land, FINATA has authorization to issue bonds for up to 200 million colones. The cash required for payments of this nature is provided by GOES and equity capital of FINATA. FINATA's operating expenses remain very high while it manages the process of land reform and distribution. The majority of its operating costs are covered by AID, with supplements provided by GOES and FINATA's own funds.

From this point of view, FINATA is an atypical institution whose operation is not paid for by the service rendered, but rather through donation or subsidy to the beneficiary of the service.

After FINATA pays the former owner and the land is granted to the new beneficiary, the latter is given a credit at 10 percent interest on a long-term basis. Each beneficiary is the subject of a socio-economic study so as to provide him with a financial plan according to his foreseeable income. FINATA's legal work in issuing titles is complemented by technical assistance and credit for the new owner's production. In this area, private technical assistance is being used.

FINATA's activity is massive, and as of December 31, 1983 the following figures were applicable:

Title applications	76,641	100%
Final titles delivered	5,359	7%
Provisional titles delivered	55,313	72%
Pending cases	15,969	21%

Counting the final and provisional titles,[2] over 60,000 production units and a similar number of families were incorporated into the FINATA operation.

b. **Finances**

Appendix Table A.16 shows the balance sheets on December 31, 1982 and 1983, which are the first two years of full operation. They indicate only a trend and use of resources. Bonds and capital increase are the sources of growth.

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[2]A provisonal title (**titulo provisional**) is given to a farmer once he has submitted an application for a parcel. It does not confer ownership but simply gives him permission to cultivate the land (usufruct). A definitive title (**titulo definitivo**) confers full ownership rights and is given once the applicant's status has been verified, the parcel has been evaluated, the previous owner indemnified, and the property cleared of all other claims.

Presented below is the structure FINATA's financial result to illustrate how the operation is financed (figures in thousands):

	1982	1983
Total Income	1,167	1,175
Financial Income	1,152	1,670
Financial Expenses	(1,700)	(1,932)
Financial Result	(548)	(262)
General Expenses	(5,802)	(14,268)
Other Income	15	105
Other Expenses	(476)	(528)
Result	(6,811)	(14,953)
Subsidy	5,861	16,506
Available	(950)	1,553

FINATA's subsidized basis is evident. The administration is aware of and concerned over the default situation that is already serious and which, if not controlled now, could turn portfolio servicing into an unmanageable problem. On June 30, 1984, the amount that should have been collected was ¢2,264,452, while ¢52,509 was actually collected, i.e., only two percent. This and other aspects of management improvement, which the administration is trying to implement, should be accompanied by political support.

c. Capacity of FINATA

FINATA has certain possibilities with respect to rural housing:

- The need for housing felt and shown by many of the reform borrowers.
- The existence of shelter projects promoted by FINATA, not only as social welfare, but also to support rural economic production (so farmers can live adequately on their plots rather than elsewhere).
- FINATA has already established a mortgage credit portfolio with more than 60,000 families, many of them potential beneficiaries of housing loans, making it easier to situate and establish specific shelter programs as well as to evaluate the capacity for payment and control collections.

Limitations to be overcome are:

- The high default rate of the portfolio, which requires the establishment of mechanisms to reasonably guarantee adequate credit recuperation.
- Establishing within FINATA a specific unit in charge of shelter credits. This should operate with high productivity criteria and with costs covered by its own intermediary activity without the need to resort to subsidies.

If these conditions are met, FINATA can do a great deal of work among rural title holders. If the final population of families is 75,000, it can be conservatively established that 40 percent represent effective demand for some type of shelter credit; this means 30,000 possible credits that could be placed within a relatively short period.

2. **Instituto Salvadoreño de Transformacion Agraria (ISTA)**

ISTA, the Salvadoran Institute for Agrarian Transformation, is primarily an administrative agency, not an executing one. Its principal responsibility is to oversee the creation of viable cooperatives out of what were large private **haciendas** before 1980. ISTA is mainly involved in 1) solving the complicated and often severe financial problems of the Phase I coops and 2) providing management and administrative support to the coops. As of late 1984, ISTA was in charge of 378 cooperatives, 54 of which had been granted legal titles to the land. The rest of the former **haciendas** were still owned by ISTA.

Since around mid-1983, ISTA has been attempting to carry out a shelter program with AID financing. The program targeted 20 settlements on Phase I coops and was designed initially to provide lots of 600 m2 without services. Dwellings were to be built by mutual and self help. Later stages of the program contemplated technical assistance and loans for dwelling construction. As of September 1984, no funds had yet been disbursed for this program.

The inability of ISTA to make any progress for 18 months is due in part to numerous changes in personnel over the period. However, ISTA's inaction also stems from its own inertia. The staff in charge of the program consists only of two architects and several assistants, a structure capable of handling design but not other crucial aspects such as shelter policy, finance, supervision, or execution. The staff was unable to provide specific information on any of the essentials needed to get the program off the ground:

- No plans, schedules, or designs were available;
- No criteria for selecting coops for the program had been developed; the staff merely planned to begin working on the coops selected by the previous government;
- The mechanism for planning and executing the project was not defined;
- No thought had been given to financing mechanisms or cost recovery;
- It was unclear what the tenancy status of the lots would be, given that the Coop lands belong either to ISTA or to the Coop itself;
- No mechanism had been developed to coordinate with other agencies.

Because ISTA has not demonstrated planning, outreach, and implementation capacity in this program, it is recommended that no further attempt be made, for the time being, to involve ISTA in housing.

In principle, ISTA should neither execute nor finance housing projects. This should be done through the cooperative organizations themselves. The policy guidelines for rural housing presented in Chapter I suggest that housing should not be free; thus shelter programs on Phase I coops should be carried out only where the Coop is financially solvent and reasonably well managed. The Coop should be responsible for organizing the beneficiaries, sorting out design issues, and managing cost recovery.

3. **Direccion de Desarrollo de la Comunidad (DIDECO)**
DIDECO, the Ministry of Interior's community development agency, specializes in carrying out physical works and social promotion in rural communities. Its staff works with local community groups, DIDECO providing materials and technical assistance and the groups providing the labor of their members. DIDECO has no capacity or experience to handle credit programs. All projects carried out by DIDECO are on a donation basis. Most of its investment budget comes from external funding sources including the Inter-American Development Bank, UNICEF, BCIE, and AID.

In 1983 DIDECO was selected by AID to carry out a modest pilot project to construct 250 "floor-roof" (**piso-techo**) shelter units on Phase I coops. Four coops were chosen for the project, which had a budget of $170,000. The project was completed, though one coop had to be dropped due to military activity. In general, the project had mixed results. The units were built, but the budget was overrun because on one coop the beneficiaries insisted on units with soil-cement block walls after one such unit was built for demonstration purposes. The project did not address either cost recovery (the units were donated) or tenancy of land on which the units were built.

This initial experience suggests that DIDECO may be an adequate mechanism for constructing low-cost shelter solutions in rural areas, especially if its staff is given some specialized training and technical assistance. However, DIDECO does not appear to be a promising conduit for a shelter program based on cost recovery. If it would like to continue working with DIDECO in the housing sector, AID should investigate the possibility of teaming DIDECO up with FEDECREDITO. The two institutions are already involved in a joint program to provide small loans for agricultural, commercial, and service enterprises. This program is suffering from various coordination problems, but it would be worth investigating the potential for overcoming them. This way, DIDECO could handle the technical side of the shelter program while FEDECCREDITO deals with the financial.

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CHAPTER IV

SECTORAL POLICY ISSUES

A. ESTABLISHING A HOUSING POLICY

The first requirement in El Salvador is to prepare a complete, coherent shelter policy. This should not be confused with concrete programs, regardless of how laudable and necessary they might be.

The existence of a housing policy presupposes the existence of an overall socio-economic policy, of which housing is a part. The housing policy should define plans and programs which are the result of inter-institutional goals and interdisciplinary coordination. It should include:

- Quantitative and qualitative housing output goals based on a balance between needs for housing, family affordability, and expected available financial resources.
- The terms of access of the specialized financial intermediaries to the monetary market, so that there is a possibility (not a guarantee) that they will participate in the market on the basis of effective competition and thus raise the resources necessary to meet plan goals.
- Productivity and quality requirements for the supply sector, including building materials as well as housing units.
- Appropriate legal, statutory, and procedural regulations so as to avoid discrepancies between ends and means.
- Effective intrasectoral coordination, so that the various institutions may carry out their roles with no unnecessary overlaps. The role of the housing sector should be clearly specified in relation to other sectors, so that there is no conflict of policies, particularly where monetary policies are involved.

As a final observation, it should be noted that the clarity and effectiveness of a sectoral policy is not the result of nor does it require complex bureaucratic or high-level structures, such as ministries. Rather, it requires clear and full definition of roles, and the appropriate means to fulfill them.

B. INTEREST RATE STRUCTURE

As was discussed in the section on monetary matters (Chapter I), the interest rates of the financial intermediaries are set by the Junta Monetaria. The loss of competitiveness of housing savings was emphasized, and this must be a key factor in formulating any housing policy. Among housing institutions there is a great deal of diversity in interest rates.

Table IV.1 presents shelter credit policies by institution. This frame of reference emphasizes the diverse treatment of equal socio-economic sectors. The financial intermediaries, Savings and Loan Associations, and banks use market rates, while other institutions use rates that are highly subsidized. These latter should be revised in order to allow all institutions to have financially sound mixtures of resources without compromising their social orientation.

TABLE IV.1

HOUSING CREDIT TERMS

INSTITUTIONS	INTEREST RATE (percent)	AMORTIZATION PERIOD (4 years)	SHARE FINANCED (percent)	CREDIT LIMIT (¢)	PERCENT OF INCOME FOR HOUSING
IVU	7 - 12	20 - 30	90	22,500	30
S&Ls	14 - 17.5	up to 25	up to 95	71,250	25
FUNDASAL	4 - 6.5	up to 20	up to 95	8,000	25
FSV	4 - 10	up to 25	100	30,000	30
INPEP	7 - 12	up to 20	90	75,000	30
Banco Hipotecario	14 - 17.5	up to 20	90		33
IPSFA	8	up to 20	90	50 minimum salaries	33

Source: Each institution listed

The opportunity costs of maintaining subsidized interest rates on loans can be illustrated through the following example: The maximum interest rate on an IVU loan currently is 12 percent, while the maximum long-term lending rate allowed by law for the Savings and Loan System is 17 percent (which is a positive real rate). For each ¢10,000 lent, the following terms would apply:

	IVU	S&L
Loan:	¢10,000	¢10,000
Yearly interest	12%	17%
Amortization period	20 yrs	20 yrs
Monthly payment	¢110.11	¢146.68

The IVU monthly payment is 75 percent of that charged by the S&L (by the same token, the present value of the IVU monthly payment at the "market" rate of 17 percent is ¢7,507). In other words, the opportunity cost per ¢10,000 on each IVU loan is approximately ¢2,500.

The fact is that El Salvador cannot afford to subsidize housing. It should seek real financial soundness throughout the housing sector because this is the only way to achieve sustained large-scale shelter provision. The analysis in Chapter III showed that shelter solutions are affordable to lower-income families even with market interest rates.

Among the specific measures to be taken are:

- Elimination of the 12 percent interest ceiling of IVU.
- Readjustment of the FSV rates so they are closer to the reality of the market and allow for remunerations to contributors.
- Establishment of real and recoverable financial cost criteria for institutions such as IVU and FUNDASAL.
- Include a variable interest rate as a common clause in long-term credit and apply this mechanism when appropriate.
- Extend the practice of increasing or variable installment payments and similar devices to facilitate credit affordability, both for new credits and those borrowers facing problems during the lifetime of the loan.
- Equalize interest rates to the greatest extent possible for similar socio-economic sectors, avoiding discriminatory treatment.

Within the formal finance market as a whole, there are no distortions caused by the interest rate structure of any particular institution, since the regulatory framework is uniform. The distortions are internal to each institution, as in the case of FSV, whose lending rates are below market levels.

If sufficient data were available, it would be interesting to analyze whether there are "cross-subsidies" between income groups in the operations of any housing finance institutions. Unfortunately, there are no data readily available (i.e. socio-economic profiles of contributors/savers or borrowers) that would have permitted such an analysis for this report. Regarding FSV, one could say that there is a cross subsidy of a sort that flows from contributors who have not obtained a housing unit and loan to those who have (see Chapter III, Section C).

C. UNSOLD INVENTORIES

The phenomenon of immobilization of assets has become the critical and most controversial issue in the shelter sector.

Immobilization of housing projects, with severe effects on finances, is a problem which affects all shelter institutions with varying degrees of intensity.

For IVU, the major problem is 600 apartments which have a value of over ¢15 million and cannot be allocated because they are unsuitable to the market.

FSV is facing major difficulties in marketing projects which it bought for over ¢40 million from builders without having an effective market.

In these two cases, the way to resolve the problem is to accept the loss and minimize it. The institutions own the projects. They must sell them as soon as possible and absorb the loss, either by debiting capital, or as a deferred asset to be amortized on a long-term basis.

The situation in the Savings and Loan System is basically different, not only because of the size of the problem, but also because of the fact that many of the housing projects are being managed by the Associations with only interim financing and on the assumption that marketing was the responsibility of the promoter and long-term financing the obligation of another, separate institution (e.g. FSV, INPEP).

Since 1978, unsold projects have been accumulating in the possession of the Savings and Loan Associations. There are three basic reasons for this:

- Development of high-cost condominiums (over ¢100,000) which lost effective demand after the 1979 crisis.
- Crises in construction companies which, due to internal or marketing problems, abandoned projects whether or not they were completed.
- Projects conceived and developed with the expectation of purchase by FSV but with marginal saleability in the open market. When the expected purchase by the Fund fell through, the projects were in fact unsaleable under normal credit conditions.

Chronologically speaking, this has been the sequence of events. The scope of the Savings and Loans' problem involves more than 3,000 housing units with a capital of greater than ¢130 million at risk. Much can be and has been said about where to lay the blame, but this does not solve the problem.

Extrasectoral nature of the problem: A phenomenon that can be compared in nature to the immobilization of assets is the non-collection or refinancing of financial institutions' portfolios which, as discussed earlier, absorbed in 1983 almost 60 percent of the BCR credit. The current conditions and structure of the financial system appear to favor loss of productivity of investments, an untenable and impractical situation.

Causes of the phenomenon: A distinction should be made between the causes listed above and the causes which allowed a risk to become an actual loss. It is hard to explain how a situation that was negative from the beginning could expand and worsen gradually over six years. The following are the only apparent applicable reasons:

- The lack of effective management in the Associations which is accountable and in a position to take action to prevent weakening of the institutions' financial position.
- The change in the goals of SINAP shareholders, which went from seeking effective earning power to preferring accounting solvency and the external order and image of the sector.
- Lack of leadership or capacity to impose policies in the central body.

- Lack of sufficient guarantee terms for credits issued and insufficient market analysis of the projects by the system, revealing a considerable operational deficiency.
- Absence of builder commitments to projects, transferring to third parties the responsibility for financial failure.

The basic responsibility in the search for a solution belongs to SINAP, since SINAP has the capital at risk, which is not private capital since it actually belongs to savers.

Means of dealing with the problem: Various formulas for liquidation of projects have been presented. None have been successful, basically because of the impossibility of finding a way of absorbing the contingent loss.

In order to solve the problem, it is necessary to keep in mind that the projects are in fact the financial responsibility of the Associations, and that the major risk of loss is theirs. The following would avoid or minimize this:

- Transfer the costs to the potential users of the housing. If the costs cannot be transferred, the projects will have to be sold at a loss.
- If builders have failed to perform in any way, obligate those responsible to absorb their share of the loss. Provide the Association with the pertinent legal mechanisms to pursue this.
- Convert the incurred but non-transferable losses into long-term deferred assets, or directly write them off to capital and reserves. BCR can help in reducing the effects of this problem either by buying assets at their nominal value (buildings), or by recapitalizing the system, or by furnishing resources with sufficient financial margin to allow the Associations to recover their losses in a shorter period of time.

The Associations should sell the projects in the most suitable manner, and for this the following actions are required:

- Determine the marketability of each project and under what terms each is saleable. Once this is established, complete unfinished projects at the lowest possible cost, in accordance with the potential market, and market the units under the best possible terms.
- Seek cooperation from the other sectors involved (construction) to minimize the negative financial effects.
- Record the losses and plan for their quickest possible recovery.

The image of solvency which SINAP wants to maintain by not recording the expected losses has already been lost, and the market is aware of the status of the immobilized assets, the recording of uncollected (and perhaps uncollectable) interest and, finally, the progressive weakening of the system. If this situation continues, SINAP runs the risk of losing savings and could face general insolvency.

The situation is untenable, but even more so is the fact that there is no definite plan of action already implemented and in operation to solve the problem. The flexibilization of terms decreed by the BCR for these projects is a contribution but, although this is facilitating some operations, the crisis will not be overcome unless it is faced directly and completely.

D. FOREIGN EXCHANGE RISK AND THE HOUSING SECTOR

The existence of a parallel legal market for purchase and sale of foreign exchange through the banks suggests the possibility of a future change in the exchange value of the colon. However, the majority of persons consulted for this analysis were not in favor of a devaluation; nor was one contemplated in near-term plans of the government.

The parallel market works with a colon-dollar exchange rate of ±4 colones per dollar, compared with the 2.5 official rate, a 60 percent difference. This gap merits the attention of those projecting long-term external debt.

Focusing the topic on shelter finance, one must make a distinction between the current situation and possible future impacts.

1. Current Situation

The external debt in the sector is modest, and at no time is the foreign exchange risk expected to reach the levels of crisis which have affected the systems in countries such as Costa Rica or Bolivia. A review of the institutions with greatest participation in the sector on an individual basis shows the following:

FSV: There is no substantial exchange risk since its current external operations include: 1) BCIE, to which it sold an already established mortgage portfolio, and 2) FIV (Fondo de Inversiones de Venezuela), resources which are handled through special agreement of the GOES--Government of Venezuela petroleum account.

IVU: On April 30, 1984, the total debt corresponding to external resources was ¢13.8 million, equivalent to nine percent of capital and reserves, and 11 percent of long-term credit. The source of this debt is soft resources (0.25 percent interest) loaned by the IDB. The low weight of foreign debt in IVU's portfolio means that there is virtually no effective exchange risk in this case.

Savings and Loan System: The Salvadoran system has traditionally made little use of external credit, the major growth of which has occurred in the past few years when foreign debt rose from 21 percent to 27 percent of total FNV liabilities. FNV external credit is channeled to the Associations, which receive it as internal credit.

The current mortgage portfolio created with these funds contains no provision for adjustment due to devaluation. Before analyzing the potential impact of this, it is necessary to examine the position occupied by foreign debt within all operations of the System:

FNV (thousands of colones)	**1979 (Dec)**	**1984 (June)**	**Change**
Productive Assets	72,202	147,500	104%
Foreign Debt	15,258	42,444	178%
Percent	21	29	

The percent of debt is high, and its growth, assuming a devaluation equal to the cost on the parallel market, would make the share rise from 29 percent to 46 percent. In absolute terms the debt would go from ¢42.4 to ¢67.9 million, an increase equal to the total capital as of 1984. In the improbable event that FNV should have to assume alone a foreign exchange penalty of this nature, its financial position would suffer a severe setback.

It is more logical to assume that any risk transferred to the System would be recovered in the Associations' portfolio.

Savings and Loan Associations (thousands of colones)	**1979**	**1984**	**Change**
Productive Assets	658,064	908,140	38%
Foreign Debt	15,258	42,444	178%
Percent	2	5	

The percentage weight of the foreign debt is minimal for the Associations. In the event of a total transfer of the risk discussed above, the additional burden based on data as of June 30, 1984 would be a 0.4 percent increase in financial costs as a proportion of productive assets, with the ratio of average productive assets to average deposits falling from 0.946 to 0.920. It would also be necessary to generate a surplus for long-term amortization of the ¢25.5 million in new debt, which means an additional 0.3 percent interest on the portfolio.

At present levels of exchange risk and portfolio-debt ratios, the impacts of possible devaluation are manageable. In contrast with some other countries, the overall ratio of external debt to portfolio value in the housing sector in El Salvador is low enough to permit the impact of a conceivable devaluation to be absorbed without a severe deterioration of housing finance operations. The only exception, as noted above, is FNV.

2. **The Future**
The financial intermediaries should have no responsibility other than the appropriate and effective use and recovery of resources. The exchange risk should be assumed by GOES, which actually has foreign currency at its disposal and is seeking the most productive use for it.

With regard to the financial risk in domestic currency imposed by a devaluation, the legal instruments covering individual credit operations should include interest rate adjustment clauses which permit maintenance of a real financial return on the portfolio. This is especially necessary when resources are obtained at a floating rate.

E. LEGAL AND REGULATORY ISSUES IN HOUSING FOR LOWER-INCOME PEOPLE

1. **Background**
As in the rest of Spanish America, the physical layouts of 18th and 19th century cities in El Salvador were determined by Spanish colonial planning regulations. It wasn't until 1950 that the "Direccion General de Urbanismo y Arquitectura" (DUA) was created within the Ministry of Public Works to regulate urban development and extend urban infrastructure. The creation of DUA was in part a result of the first housing diagnostic study conducted by foreign advisors in 1949, which identified the already alarming housing situation and called attention to the disorderly growth of most urban areas. The creation of DUA resulted in the development of the first master plan for San Salvador and adjacent areas by 1954. Partly as a result of this effort, the first urban legislation was enacted: The Law of Urbanism and Construction, still in effect today.

Three events helped to change the directions set by the 1954 master plan: 1) the creation, at the presidential level, of the National Council of Economic and Social Planning and Coordination (CONAPLAN) in 1962, which provided a new focus for national and regional planning; 2) the creation throughout the 1960s of several autonomous agencies which began their own programming and planning of large scale urban public works independently of DUA's master plans (ANDA, FNV and IVU); and 3) the 1965 earthquake which left thousands of people homeless.

Between 1966 and 1969 a series of urban studies began to emerge, focussing mainly on the Metropolitan Area of San Salvador. These studies were carried out by DUA and CONAPLAN with the help of foreign advisors. The principal result of these efforts was the widely publicized Metropolitan Development Plan, METROPLAN, and the creation in 1970 of a National Department of Urban and Regional Planning under CONAPLAN, but ranking higher than DUA and the autonomous agencies in the government hierarchy.

During the mid-seventies, several studies were conducted that focussed on housing and related subjects. Probably the most important one was the study sponsored by the United Nations Development Program and World Bank, under the Ministry of Planning, known as EDURES ("Estudio de Desarrollo Urbano y Regional"), finalized in late 1978. The value of EDURES lies in its specific focus on project-oriented issues. It recommends a concrete program of upgrading and improved service provision for low-income settlements. Included are measures dealing with budgeting, institutional reform, and legal and regulatory changes.

2. **Role of DUA**

The "Direccion General de Urbanismo y Arquitectura" (DUA) was created with the objective of planning and executing the construction, maintenance, repair and rehabilitation of urban streets, storm drainage systems, public buildings, and other municipal works. In effect, all urban infrastructure except for water supply has been centralized under DUA.

Although DUA's infrastructure investment in urban areas has kept pace with developments built by the "formal" sector, DUA has been traditionally less receptive to extending urban infrastructure to informal settlements. This resistance has been due in part to the fact that DUA itself is also the agency in control of subdivision and building permits and has considered it incongruous for one of its divisions to invest in improvements in a particular settlement that another of its divisions has declared illegal or out of its control. Under the new governmental policies, however, this past attitude seems to be changing, not only in DUA but in other institutions in charge of public works and regulations.

3. **Procedures for Development Permit and Project Approval**

The Law of Urbanism and Construction establishes not only that MOP through DUA should plan the growth of cities through official regulating plans ("Planes Reguladores"), but also that plans for all urban construction--private or public--have to be submitted for approval prior to construction. According to the directions established by this law, DUA is the agency in control of subdivision and building permits.

DUA presently uses a coordinative mechanism for assuring compliance of proposed subdivisions with the requirements of the Municipalities, ANDA and the Ministry of Health (all of which take part in approvals). This is accomplished through consultations between DUA and representatives of these agencies who are located in, or are in regular attendance at, the DUA offices where subdivisions are reviewed. This makes it possible to achieve more or less simultaneous approvals by the different agencies and to reconcile any differences without major administrative delays. However, the process has many problems, some of which are due to the fact that many important decisions are made on an informal basis.

A recent report on the legal requirements for development permits and project approval[1] indicates that there are several serious bottlenecks in the regulatory framework:

- The Law of Urbanism and Construction is too rigid and is not designed to deal with housing that is affordable to lower-income people;
- There is a lengthy process of production of plans and technical studies that accompanies the petitions prior to construction;
- It sometimes takes a long time for DUA's technical staff to approve plans;
- Among the various institutions that have to approve plans there are contradictory standards and requirements.

Ambivalence exists in present provisions for ensuring compliance with development control laws. DUA can order the suspension of works undertaken in violation of the requirements of a regulatory plan. The Municipalities share with DUA the authority to suspend or demolish works which are in violation of provisions of the Law of Urbanism and Construction and its regulations. DUA and the Municipalities are also authorized by this law to impose fines for these violations. Not only are these fines too small to have an effect, but there is also little enforcement by DUA of the above regulations.

4. **Development Standards and Regulations**

Development standards and subdivision controls are found in a number of laws and regulations in addition to the Law of Urbanism and Construction and the Law of Regulating Plans. These other sources include the Sanitation Code ("Codigo de Sanidad") and the Regulations for Aesthetics and Construction ("Reglamento de Ornato y Construccion").

The central issue in development regulations for the purposes of this report is affordability. Neither the physical standards nor the regulatory process currently allow legal development of shelter solutions that are affordable to lower-income people.

Two sets of urban development by-laws have been enacted over the past ten years. The oldest one was enacted in 1973,[2] and the newest one in 1980.[3]

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[1] Victor S. Rivera, Programacion y Ejecucion de Programas de Vivienda en El Salvador, AID, San Salvador, El Salvador December 1983.

[2] "Reglamento a la Ley de Urbanismo y Construccion," Ministerio de Obras Publicas, Decreto N.69, Direccion General de Urbanismo y Arquitectura, San Salvador, El Salvador, Septiembre 14 de 1973. Informally referred to as "the little pink book."

[3] "Reglamento a la Ley de Urbanismo y Construccion en lo relativo a Urbanizaciones y Fraccionamientos, Edicion 1980," Ministerio de Obras Publicas, Direccion General de Urbanismo y Arquitectura, San Salvador, El Salvador, Julio de 1980.

Article 85 of the new by-laws ("reglamentos") revokes the old one of 1973, although in informal conversations DUA officials stated that the 1973 "reglamento" was still in use.

From strictly a technical point of view, the standards and restrictions contained in both "reglamentos" have been analyzed in order to find whether there have been any improvements over the past ten years in the thinking of the regulatory body with regard to issues that have a direct effect on limiting or providing access to housing for low-income families. Both "reglamentos" establish standards and restrictions for residential developments according to a typology of categories, defined by the characteristics of the plot (dimensions and areas) and densities. The principal findings of the analysis of regulations are:

- The 1980 "reglamento" lowers the minimum and excludes the maximum types or categories defined in the "reglamento" of 1973, allowing smaller plot sizes and higher densities and restricting larger plots and lower densities.
- There is a reasonable degree of compatibility between the four types of urbanization categories in the 1980 "reglamento" and the eight types described in the "reglamento" of 1973. Special attention should be given to the lower R4 and R8 categories which are loosely defined as "special categories", under which many kinds of special dispensations can take place.
- No major breakthroughs have been achieved with the changes in the categorization of types of developments, except for the fact that there is a criterion in the 1980 regulations for setting up "maximum" standards, perhaps due to a recognition of limited land resource and infrastructure costs.

It is a recognized fact that housing is one of the major consumers of urban land and that the relationship between land use and density is a critical factor in housing development. A brief analysis of three key physical standards (front garden space, school area, and circulation) illustrates the limitations on the achievement of affordable solutions posed by existing regulations.

Front garden space and school area: The analysis shows that as plots get smaller (increasing densities), the percentage of front garden space required increases in relationship to plot size and overall area. The same happens with school space required; the area for school increases as plot sizes go down (increasing densities).

An adequate relationship between a larger percentage of total area destined for residential use and higher densities (meaning smaller plots) has a direct effect on improving affordability of lower-income families to housing projects by dividing the initial investment among more families. Monthly amortization payments go down, and there is more area of the project to produce rent or income.

SISTEMA Consultores[4] proposed that the requirement for school space be reduced to five percent of school area over plot area, and argues that the existing requirement not only increases the production costs of housing but also is not observed, in that school areas are often not used for schools.

The EDURES, study[5] analyzed the requirements in both DUA's and the Ministry of Education's "reglamentos" and concluded that the Ministry's lower standards are more realistic than DUA's.

Circulation space: According to a brief comparison between the requirements contained in the by-laws and the factual data taken from several FSDVM sites and services projects built from 1973 to 1978, the overall circulation space required by DUA is excessive when applied to low-income projects.

The tendency of FUNDASAL's projects to have significantly lower overall percentages of circulation, especially those related to vehicular areas and parking space, shows evidence of FUNDASAL's affordability criteria and the years of struggle to convince DUA officials of the need for change. FSDVM has had to seek special dispensations for most components of its projects, not without being subject to costly delays in project implementation.

With respect to circulation area requirements, SISTEMA consultores presents the argument that in El Salvador the width of the carriage way or "area de rodamiento" is calculated according to the length of the street, which is as illogical as calculating the diameter of a drainage pipe according to its length. Width calculations should be done according to volume of traffic by unit of time and in direct relationship with the economic level of the neighborhood or economic characteristics of the project's beneficiaries.[6]

5. **Regularization of Informal Settlements According to the Standards of Urbanism and Construction**

The history of regulations for the development and use of urban land in many countries suggests that these regulations are not effective unless they are based on the economic and social realities of each locality. They are most effective when they are integrated with the other instruments needed to stimulate and regulate actions of the private sector and coordinate the actions of the public sector.

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[4]SISTEMA Consultores, La Vivienda y El Desarrollo Urbano, Ministerio de Obras Publicas, Sub-secretaria de Vivienda y Desarrollo Urbano, San Salvador, El Salvador, 1983, p. 79.

[5]EDURES, A Program for the Integrated Improvement of Critical Metropolitan Areas in El Salvador, Document N.25, Final Report, Volume I, Ministerio de Planificacion, United Nations Development Program, World Bank, PADCO, San Salvador, El Salvador, May 1978, p. 97.

[6]SISTEMA Consultores, op. cit., pp. 80-81.

Studies made in El Salvador, such as the previously mentioned EDURES study, called attention to the rigidity and ineffectiveness of laws for the regulation of land use subdivision and construction, in the sense that the requirements for physical development were not feasible for low-income families.

A reorientation of the nature of land planning controls will be needed in order to counteract two very negative aspects of present controls: a) the effective restriction they impose on the supply of adequately serviced land by requiring excessively high standards and b) the fact that these controls force significant fringe development into the illegal land market, leaving large numbers of residents with technically illegal tenure.

Mesones: Regardless of illegality, lack of maintenance, inadequate services, and overcrowding, the historical fact is that mesones have played, are playing and will continue to play a major role in housing the urban majorities in El Salvador.

Governmental policy in the past can be characterized by a combination of contradictory positions ranging from neglect and prohibition to complete and partial servicing.

Mesones are subject to a degree of control through:

- The "Ley de Urbanismo y Construccion" (Law of Urbanism and Construction) which prohibits the construction and or repair of mesones or apartments with collective services;
- The "Ley de Inquilinato" (Rent Control Law) which states that rentals cannot be increased beyond the levels of December 1973, for tenants who remain in the same meson; and
- The "Codigo de Sanidad" (Public Health Code) which establishes minimum required levels of services.

The Rent Control Law is not well known by tenants; rentals are set by the landlord according to market potential. Because of the existing laws, on the other hand, most landlords use this as an excuse to neglect maintenance and minimize services. Although this law requires leases of rooms to be in writing and threatens landlords with penalties for non-compliance, usually rental agreements are verbal.

For this study it was not possible to investigate the relationship between the legal status of mesones vis a vis the regulations and the potential for upgrading existing mesones. The only experiment in meson upgrading was undertaken by FSDVM in 1977, and its focus was on both tenure and physical improvement (see below).

The issues involved in meson "regularization" are extremely complex. Assuming that the key reason for regularization of mesones is to permit upgrading, the biggest problem is: what incentives do landlords have to make improvements? This leads to questions regarding the tenure status of mesones and the risk that upgrading might make meson shelter less affordable. A thorough study should be carried out of these issues.

The construction of new mesones has been analysed by the EDURES study in order to increase the supply of this sub-market and expand the benefit that this represents to the low-income majority in urban centers.

As presented by the EDURES study, the issues involved in the increase of supply must deal with the following criteria:

- Changes in the land use and rent regulations to encourage the improvement of and additions to existing mesones;
- Standards and types of construction cannot be arbitrary; they must be the highest standards which can be achieved within the existing constraints (land costs, construction costs, and monthly payments);
- The private sector must participate in building new complexes, provided that there is sufficient incentive.
- To give the meson population alternative shelter choices, housing with the following characteristics should be provided: a) housing should be located in the areas where mesones are now located; b) monthly payments should be similar to those now paid; and c) higher quality construction and services should be provided than now exist.

The EDURES study analyzes a mathematical relationship between net residential density, monthly rental or hire purchase payments, land prices, construction costs, the size of housing constructed, and profitability (defined as the coeficient between gross annual rent and capital invested). The conclusions of this analysis are that: a) it is feasible to build new housing with individual sanitary services to meet the demand of the meson population which currently has no alternative to mesones; b) different combinations of standards and financial terms can enable housing to be constructed and made available to all income groups of the current meson population.

Tugurios and colonias ilegales: Tugurios and colonias ilegales are now held to be "illegal" because they have not been approved by DUA and could not be so approved for lack of conformity with standards laid down in the regulations. "Legalization" in this sense would follow from changes in the regulations which would simply repeal those standards, modify the approval requirements, and substitute new standards and procedures. Governmental policy toward tugurios in the past can be characterized as a combination of contradictory positions ranging from prohibition, neglect, and eradication to partial or complete servicing and legal land titling. The new government in El Salvador sees the rehabilitation of tugurios as the main focus of public sector policy in the short term. Several projects are now underway under this approach. The problems and obstacles presented by the legal and regulatory framework will be "bypassed" as there is a coordinative mechanism at the highest level composed of representatives of the agencies and ministries involved. Nevertheless, this high level coordination will not last forever, and the issues addressed in this chapter will have to be dealt with effectively in order to provide for the continuation of these rehabilitation programs in the medium and long term.

Legalization should follow from changes in the regulations to remove or reduce restrictions on the development process and establish new approval procedures. If it is considered necessary or desirable to require some formal act of approval before subdivisions can be given legal status, this can be done through explicit provisions in the revised regulations describing the types of subdivisions considered to be legal in general terms and also for specified purposed (such as making sales or leases and providing infrastructure). It should be made clear that legalization would not exempt subdividers from complying with the particular requirements imposed by the modified system.

Strictly eaking, unless DUA formally classifies a development as "urban", it is regarded as "rural" and is not entitled to municipal services confined to "urban lands". At the same time the land owner and occupiers may be immune from particular municipal assessments for the same reason. This problem is exacerbated by the assignment of different meanings to the term "urban" by different government agencies.

To provide solutions to these legal problems is beyond the scope of the present work. For the purposes of the current government's tugurio upgrading programs it should be sufficient if an amendment to the "Ley de Urbanismo y Construccion" provides that the legalization of subdivisions for low-cost urban residential development shall not bar access by the residents to municipal services, the benefits of the land registration system, or any other public services or benefits to which occupants of "urban lands" are entitled. Pertinent municipal or other laws relating to the provision of those benefits should be revised similarly.

6. The Tenure Situation in Informal Settlements

Due to the lack of recent studies addressing this issue, reference has to be made to the publications of the 1975-78 period, when a number of relevant studies were carried out by several private authors and public institutions. It is safe to assume that a) the data presented is relevant today to point out the magnitude of the problems related to tenure and that b) the situation has not improved.

The reason for being concerned with the individual tenure status of dwellings is that lack of legal tenure can cause problems for households and for the housing market as a whole. At the household level, lack of secure tenure discourages investments in needed improvements and may prevent access to credit from formal financial intermediaries. For the housing market overall, it holds back potential demand for building materials and construction labor by dampening the incentives for upgrading.

Tenure in Mesones: It is not clear whether an effort to change or "regularize" the tenure situation in mesones is worthwhile. For many meson families, the issue of what kind of property rights they enjoy may be of little importance, compared with the need for obtaining better services or merely waiting until they can move out to a tugurio or colonia ilegal. A clarification of this should be a part of a comprehensive study of the meson market.

The only known meson rehabilitation program was carried out on an experimental basis by FSDVM in 1977-78, when FUNDASAL purchased a meson complex with the purpose of upgrading.[7] One of the main objectives of the project was to provide the users (former and new tenants) with secure tenure of the meson property through selling it back to them under some form of collective ownership. There were several legal restrictions on reaching this objective, due to the fact that the "Codigo Civil" (Civil Code) in El Salvador does not include a category where projects of this nature can fit in.

The following alternatives were analyzed by FSDVM, in consultation with the meson community:

- "Social property" (Propiedad social)
- "Cooperative association" (Asociacion cooperativa)
- "Undivided ownership" (Propiedad en proindivision)
- "Individual purchase" (Compraventa en forma individual)

It was felt that the "asociacion cooperativa" (cooperative association) type of tenure was the most suitable one, but based on the "incipient level of maturity" of the community it was decided that this decision was to be postponed for a five year term in order to work with the community in an educational process so that by the end of this term they could decide for themselves what kind of tenure arrangement (collective or individual) was more suitable for their needs and expectations. In the end a "contract of tenure" with a promise of sale was signed between FSDVM and the users.

Tenure in Tugurios: Securing tenure in tugurios may very well be a simple task, if compared to what is required in other forms of informal settlements. The achievement of tenure by tugurio residents means the gradual transference of title from public agencies (such as IVU, municipalities and ministries) which own invaded land to individual households or cooperative organizations in all cases where there are no serious reasons for relocation.

IVU is recognized as one of the few institutions with experience in tugurio rehabilitation projects, through its "Programa de Acceso al Bienestar

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[7]EDURES, op. cit., Appendix III, Vol. II. pp. IIIA-1 to IIIA-6.

Comunitario" (ABC), Access to Community Welfare Program. The procedures followed by IVU to grant tenure rights to illegal occupants are illustrated in a major upgrading project in the city of Acajutla.[8]

IVU can utilize two forms of tenure arrangements granted by law:

- "Bien de Familia", for real estate that does not exceed ¢15,000.
- "Arrendamiento con Promesa de Venta": for lots with no structures.

There is a list of requisites that the beneficiaries have to comply with in order to be eligible for these types of tenure arrangements: birth and marriage certificates, good conduct certificates, and other documents of the same sort. While these are simple requisites, they are often difficult for tugurio dwellers to obtain and long delays occur. It is necessary to provide legal assistance so that these families can obtain the necessary documentation. From the time initial contacts are made with the community until the time most of them have the documentation up to two years may have passed.

The review and approval of the documentation and the transfer of the upgraded units is done by IVU's Board of Directors. Once this is accomplished, the IVU legal department writes the contracts and formalizes the "arrendamiento con promesa de venta" or the "bien de familia" contracts to be given to the beneficiaries of the project. These contracts can then be used as legal documents for mortgages, payment of services, taxes, and all legal formalities.

Tenure in Colonias Ilegales: There have been no previous experiences with the upgrading or rehabilitation of colonias ilegales by any private or public sector institutions. In informal conversations and according to analysis of secondary source data, it has been pointed out that this is a very sensitive issue, in that it involves dealing with a lucrative and well-established operation that goes on in the shadow of the legal and regulatory framework.

The EDURES study[9] points out that "a substantial percentage of the purchases or lease-purchases of lots from subdividers in the colonias ilegales lack legal formalities, usually to the prejudice of the buyers. The contracts not be in written form; if they are, they may not be notarized; if notarized, they may not be registered. Even if in writing, the terms are apt to be unfavorable to the buyers, who in most cases are not represented by their own attorneys. As a result, the buyers do not receive the full protection of

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[8]FSDVM/Fundacion Inter-Americana, Proyecto Experimental de Rehabilitacion del Meson El progreso (Estudio Monografico), San Salvador, El Salvador, September 1979.

[9]Oscar Rene Salegio, Evaluacion Urbanistica de un Proyecto de Rehabilitacion Marginal y sus Repercusiones, Ministerio de Educacion, Direccion de Publicaciones, San Salvador, El Salvador, September 1974, pp. 16-18.

the law. But perhaps more serious is the inhabitants' feeling that their tenure is insecure, because their transactions have taken place outside the formal legal system or because they were not adequately represented as participants in the system. This perception generates, in turn, a distrust of both private and public institutions with which they may have dealings--institutions perceived as having ready access to the advantages of the law and legal representation."

Types of tenancy contracts in colonias ilegales include:

- Verbal agreements;
- Agreements backed by monthly receipts for payments to the landlord;
- Written unregistered contracts; and
- Registered contracts

Households in colonias ilegales tend to have limited information about their rights and obligations. Frequently the legal service they receive on entering into a contract is provided by the developer's lawyers.

Informal agreements equivalent to some form of ownership do exist in colonias ilegales, especially in the case of individuals who have signed an "arrendamiento con promesa de venta", a rental with promise of sale agreement. These are usually unnotarized papers composed of two parts: the first is a normal rental agreement which specifies the use of a plot, not dissimilar to a house rental agreement. The second part is an option to purchase which states that with the last monthly payment, the accumulated rent becomes mortgage payment towards purchase and, if no default has occured, title transfer can take place.

Usually the agreement, whether written or verbal, contains a penalty clause establishing that failure to meet one or occasionally two monthly payments will cause all previous payments to revert to the status of simple rent for the use of the property. It is the most important part because failure to receive payment, whether by default or because the owner refuses to accept it, will permit the cancellation of the agreement without the return of any part of the monthly payments even after many years. The plot can again be offered to another family because the original family has not actually acquired the legal deed. Thus it is not uncommon to find a plot that has been rented under several agreements to either the same or different households, all of which hoped to become legal owners.

According to Harth's study, consolidation and regularization of tenure in colonias ilegales would involve among other things:

- The efficient registration of plots that have effectively met all payments;
- The elimination of leaseholds that can automatically become simple leases through failure to meet payments; and

- Valuation of land according to tax schedules for the purpose of establishing sales prices in incipient colonias.[10]

In a recent speech to CASALCO, President Duarte emphasized the importance of tenure regularization in informal settlements. He stated, "If the legal framework does not exist, it should be invented or created". He mentioned the legal term "usucapion", a traditional right to property claimed by those who have lived on it for many years.[11] President Duarte also emphasized the willingness of the new government to set up the appropriate legal framework in the least amount of time possible.

It is important to recognize that awareness of these problems and the political willingness to deal with them have never been a central housing policy issue of past governments in El Salvador.

7. Conclusions and Recommendations

a. Maintenance of Institutional Coordination

For the achievement of short term objectives, DUA, the municipality of San Salvador, and other institutions are working together in an inter-institutional effort to upgrade existing squatter settlements under direct orders of the President. The system used to deal with existing regulations is called "bypassing", which means that existing regulations will be ignored in order to reach these short term objectives.

This high level inter-institutional coordination will have to be maintained for the time needed to set the necessary arrangements so that DUA can update its requirements and give them legal status.

b. Procedures for Development Permits

It is evident that informal arrangements for permit approval seem to be common in El Salvador. The rapid institutionalization of these informal procedures is necessary in order to achieve short- and medium-term goals. In the long term, one objective of the reform of the Law of Urbanism and Construction would be to streamline the regulatory process through reduction of the number of agencies involved in granting approvals, simplification of procedures, and minimization of arbitrary decisions caused by irrelevant or outmoded standards.

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[10] EDURES, op. cit., Vol. II, Document N.25, Final Report, p. 192.

[11] Harth, op. cit., p. 411.

c. Development Standards and Regulations

Neither the 1973 or 1980 development regulations accomplish the objective of providing affordability to low-income families, except for the special dispensations contained in a discreet manner in the lower categories of development types (R4 and R8). Since the specifications for these special categories are more or less "open", institutions such as IVU and FSDVM have to spend a considerable amount of time negotiating with officials of the different agencies incharge of approval (DUA, etc.) in order to be subject to special dispensations and obtain approval of their projects. Without doubt, private developers go through the same treatment.

The absence of development guidelines or their lack of clarity requires many basic regulatory decisions to be made in an informal manner. These decisions must be made in order to avoid costly delays. The best that can be done is to keep related planning principles in mind and introduce awareness of affordability criteria in making regulatory decisions. Planning and regulatory instruments will simply have to evolve together.

Development of highly flexible and clearly defined subdivision and building regulations would involve not only lowering standards to meet the real needs and possibilities of the popular sectors, but also making them enforceable. The laws and their regulations must be feasible in relation to the social and economic conditions of the country. They must be feasible from a political point of view and in relation to exisitng administrative policies. In setting up new residential development standards for low-income families, the sites and services projects of FSDVM should be studied in order to record what has been achieved and use these criteria as the basis for new development regulations.

Development standards should be grouped in a single manual. This should facilitate the administration of controls; it should tend to eliminate conflicting dispostions of various laws and regulations; and it should make it easier for private developers to be aware of, understand, and work within the requirements.

d. Regularization of Informal Settlements According to Standards of Urbanism and Construction

The historical inappropriateness of development standards vis-a-vis the economic status of the Salvadoran population and the difficulty of enforcing the regulations have caused a large proportion of urban development to occur outside of governmental control and in areas where the subdivision regulations are unclear and poorly defined. As a consequence of these and other factors the legal and regulatory framework has been applied only to a small percentage of urban development, that carried out by private and public institutions of the formal sector.

Regardless of prohibition, informal settlements play an important role in housing the urban majorities. In order to increase the supply of housing available or affordable to low-income groups and incorporate them into the umbrella of legality, a system of progressive urban development, or development in stages, should be established that substantially differs from what is currently codified in the regulations of the present Law of Urbanism and Construction.

The progressive development system should de facto legalize present low-income settlements by recognizing the reality of their existence as a housing solution. The development requirements under this system should match these settlements' present standards. This highly flexible system should be open to incorporating varying degrees of communal services and levels of housing and urbanization development, construction in stages, and phasing in the introduction of infrastructure networks and municipal services.

The most important issue is that of affordability, and it should guide the development of standards whether these are designed for building new mesones, upgrading tugurios, the construction of sites and services projects, or the regularization of colonias ilegales.

F. COMMUNITY ORGANIZATION, MUTUAL-HELP AND SELF-HELP COMPONENTS IN UPGRADING PROGRAMS

Community organization, mutual-help, and self-help are important components of rehabilitation and housing programs for low-income families. According to Salvdoran experience, only two institutions have used mutual-help and self-help methods in the construction process: FSDVM and IVU. There are a number of studies which describe the experiences of these two institutions. More extensive references are found with respect to the success of FSDVM's progressive development programs utilizing these methods.

The construction process in FSDVM housing developments is done in three stages:

- Construction by contractors, which includes site preparation, land works, infrastructure, and the construction of walls of basic units;
- Construction by means of mutual-help, which includes the organization of participants in construction teams for the completion of the units; and
- Construction by means of self-help: The fundamental aim of this stage is the consolidation of the units (since the mutual-help stage ends when units reach a "habitable level"). Generally work in this stage is done by individual families.

Affordability of FSDVM's projects is enhanced substantially by the elimination of the down payment requirement. This is made possible by permitting households to substitute their own participation in the construction process for the down payment.

The problems of organizing communities for mutual-help and self-help construction methods and the way in which these operations can effectively be used to achieve long-range community development goals depends on a clear definition of intent and methodology and the effective training of social workers and technical staffs. A poorly-defined program and the utilization of poorly-trained personnel can cause costly delays in project implementation, desertion of participants, and possibly failure of the entire project.

APPENDIX TABLES

TABLE A.1

GROSS DOMESTIC PRODUCT BY SECTOR

(Constant 1962 Prices - Thousands of Colones)

	1975 VALUE	1975 GROWTH RATE	1975 % SHARE	1976 VALUE	1976 GROWTH RATE	1976 % SHARE	1977 VALUE	1977 GROWTH RATE	1977 % SHARE	1978 VALUE	1978 GROWTH RATE	1978 % SHARE
Agriculture	787.300	6.3	25.2	725.183	-7.9	22.3	751.332	3.6	21.8	856.645	14.0	23.4
Mining	4.537	-6.8	0.1	4.026	-11.3	0.1	3.686	-8.4	0.1	3.671	0.4	0.1
Manufacturing	578.028	4.7	18.5	628.587	8.7	19.4	661.517	5.2	19.2	691.476	4.5	18.9
Construction	127.984	49.3	4.1	115.933	-9.4	3.6	157.145	35.5	4.6	147.045	-6.4	4.0
Utilities	70.538	9.9	2.3	77.867	10.4	2.4	87.766	12.7	2.6	96.608	10.1	2.7
Transport, storage & communications	172.916	5.4	5.6	195.570	13.1	6.0	214.331	9.6	6.2	223.322	4.2	6.1
Commerce	709.162	4.0	22.7	769.987	8.6	23.7	803.437	4.3	23.3	828.527	3.1	22.6
Finance	77.703	2.6	2.5	88.280	13.6	2.7	101.532	15.0	3.0	103.894	23.0	2.8
Housing acquisition	110.360	3.5	3.5	114.275	3.5	3.5	118.329	3.5	3.4	122.522	3.5	3.3
Public administration	234.899	0.2	7.8	274.275	12.5	8.5	288.232	5.1	8.4	320.329	11.1	8.7
Personal services	240.430	0.7	7.7	252.903	5.2	7.8	256.557	1.4	7.5	270.677	5.5	7.4
Gross domestic product	3122.857	5.6	100.0	3246.886	3.4	100.0	3443.864	6.1	100.0	3664.721	6.4	100.0

	1979 VALUE	1979 GROWTH RATE	1979 % SHARE	1980 VALUE	1980 GROWTH RATE	1980 % SHARE	1981 VALUE	1981 GROWTH RATE	1981 % SHARE	1982 VALUE	1982 GROWTH RATE	1982 % SHARE	1983 VALUE	1983 GROWTH RATE	1983 % SHARE
Agriculture	887.350	3.6	24.7	841.065	-5.2	25.6	787.479	-6.4	26.1	737.962	-6.3	26.0	738.000	0.0	26.0
Mining	3.785	3.1	0.1	3.880	2.5	0.1	3.800	-2.1	0.1	3.750	-1.3	0.1	3.800	1.3	0.1
Manufacturing	656.828	-5.0	18.2	586.199	-10.8	17.8	524.969	-10.4	17.5	480.875	-8.4	17.2	466.400	-3.0	16.5
Construction	143.916	-2.1	4.0	111.425	-22.6	3.4	94.354	-15.3	3.1	92.423	-2.0	3.3	96.400	4.3	3.4
Utilities	107.732	11.5	3.0	105.700	-1.9	3.2	102.400	-3.1	3.4	98.500	-3.8	3.5	103.400	5.0	3.6
Transport, storage & communications	208.769	-6.5	5.8	193.700	-7.2	5.9	172.500	-10.9	5.7	161.300	-6.5	5.7	167.000	3.5	5.9
Commerce	759.689	-8.3	21.1	625.013	-17.7	19.0	531.900	-14.9	17.6	468.100	-12.0	16.5	458.800	-2.0	16.2
Finance	106.064	2.1	2.9	102.600	-3.3	3.1	93.100	-9.3	3.1	91.700	-1.5	3.2	95.500	4.1	3.4
Housing acquisition	126.875	3.5	3.5	130.000	2.5	4.0	133.800	2.6	4.4	137.300	2.6	4.8	140.000	2.0	4.9
Public administration	332.223	3.7	9.2	341.857	2.9	10.4	345.959	1.2	11.5	356.300	3.0	12.6	361.800	1.5	12.8
Personal services	268.405	0.8	7.5	247.861	-7.7	7.5	226.520	-8.6	7.5	206.890	-8.7	8.7	202.800	-2.0	7.2
Gross domestic product	3601.636	-1.7	100.0	3289.300	-8.7	100.0	3016.761	-8.3	100.0	2835.100	-6.0	100.0	2833.900	0.0	100.0

Source: Banco Central de Reserva

TABLE A.2

CENTRAL GOVERNMENT FINANCES
(Millions of Current Colones)

	1979			1981			1983		
	Amount	% of Income	% of Financing	Amount	% of Income	% of Financing	Amount	% of Total	% of Financing
Income	1,171	100.0	-	1,068	100.0	-	1,265	100.0	-
Expenditures	<1,280>	<109.3>	-	<1,581>	<148>	-	<1,626>	<128.5>	-
Result	<109>	<9.3>		<513>	<48>		<361>	<28.5>	
Financing	109	9.3	100.0	513	48.0	100.0	361	28.5	100.0
- Internal	81	6.9	74.0	452	42.3	88.0	314	24.8	87.0
- External	28	2.4	26.0	61	5.7	12.0	47	3.7	13.0

Source: BCR

TABLE A.3

MONETARY MARKET
(Millions of Current Colones)

	CURRENT GDP	CONSUMER PRICE INDEX	MONEY	SAVINGS*	MONEY/ GDP (%)	SAVINGS GDP (%)	SAVINGS DEFLATED BY CPI	SAVINGS MONEY (%)
1978	7,592	100.0	1,190	1,300	15.7	17.1	1,300	109.2
1979	8,607	108.7	1,428	1,323	16.6	15.4	1,217	92.6
1980	8,916	127.6	1,559	1,344	17.5	15.1	1,053	86.2
1981	8,646	146.4	1,568	1,583	18.1	18.3	1,081	101.0
1982	8,914	163.6	1,628	1,860	18.3	20.9	1,137	114.3
1983	9,639	185.1	1,585	2,256	16.4	23.4	1,219	142.3

* Includes "Cedulas Hipotecarias" and "Titulos de Capitalizacion."

Source: BCR

TABLE A.4

INTEREST RATES IN THE FINANCE SYSTEM
(Percentages)

	Sept. 1978		Feb. 1982		Feb. 1984	
Rates to Deposits	Banks	S & Ls	Banks	S & Ls	Banks	S & Ls
A. Savings						
Free	8.5	9.5	8.5	9.5	7.0	8.0
With Notice	-	-	9.0	10.0	7.5	8.5
Programmed	-	-	-	11.0	-	11.0
B. Certificates of Deposit						
60 days	-	-	-	-	9.5	9.5
90 days	8.75	-	-	-	-	-
120 days	8.75	-	-	-	11.0	11.0
60-180 days	9.25	-	11.0	11.0	12.5	12.5
more than 180 days	10.0	-	12.5	12.5	-	-
360 days	Free	-	Free	Free	13.0	13.0
Rates to Borrowers						
Bank credit	13.0-15.5	-	13.0-18.5	-	13.0-17.0	-
Housing credit						
Long term	-	12.0-13.0	-	14.0-18.5	-	[illegible].0-17.0
For construction	-	14.0	-	20.0	-	17.5

Source: BCR

TABLE A.5

LABOR PRODUCTIVITY BY SECTOR
(Constant Prices)

	Economically Active Population (000)	Population Employed (000)	Percent Employed	TOTAL		AGRICULTURE		MANUFACTURING		CONSTRUCTION	
				Value Added/ Workers	Productivity Coefficient	Value Added/ Workers	Productivity Coefficient	Value Added/ Workers	Productivity Coefficient	Value Added/ Workers	Productivity Coefficient
1978	1425.5	1372.2	96.3%	3579.3/1372.2	2.608	827.6/568.7	1.455	639.6/194.5	3.288	165.2/71.4	2.314
1979	1575.6	1470.8	93.3%	3521.2/1470.8	2.394	840.3/658.9	1.275	607.9/203.4	2.989	147.8/65.2	2.267
1980	1593.4	1336.5	83.9%	3215.3/1336.5	2.406	785.6/468.4	1.677	505.0/228.3	2.212	125.5/67.2	1.868

Source: MIPLAN

TABLE A.6

FNV BALANCES
(Thousands of Current Colones at December 31 of Each Year - Except 1984)

AVERAGE ASSETS	1979	1980	1981	1982	1983	1984	% of Change
Banks and Investments	12,587	13,936	14,536	42,406	42,406	42,177	235%
Loans and Advances	59,615	98,903	105,506	112,363	101,765	105,323	77%
Fixed Assets	155	207	260	312	853	1,575	916%
Other Assets	894	1,767	9,613	10,399	4,290	6,373	613%
Total	73,251	114,813	129,915	146,099	149,314	155,448	112%
Index (1978=100)	100	157	177	199	204	212	112%
AVERAGE LIABILITIES							
Internal Credit	41,011	74,551	50,504	25,291	12,552	12,950	(68%)
External Credit	15,258	19,563	29,402	39,247	44,089	42,444	178%
Housing Bonds	---	---	25,000	50,000	54,119	56,794	127%
Other Liabilities	6,923	8,503	9,965	14,523	18,383	20,635	198%
Sub-total	63,192	102,594	114,871	129,060	129,142	132,823	110%
CAPITAL	5,200	5,200	5,200	5,200	5,200	5,200	--
Profit and Reserves	4,859	7,019	9,845	11,839	14,972	17,425	259%
Total	73,251	114,813	129,915	146,099	149,314	155,448	112%

PERCENTAGE DISTRIBUTION

AVERAGE ASSETS	1979	1980	1981	1982	1983	1984	% of Change
Banks and Investments	17	12	11	16	28	27	59
Loans and Advances	81	86	81	77	68	68	(16)
Fixed Assets	--	--	1	--	1	1	--
Other Assets	2	2	7	7	3	4	100
Total	100	100	100	100	100	100	---
Index (1978=100)							
AVERAGE LIABILITIES							
Internal Credit	56	65	39	17	8	8	(86)
External Credit	21	17	23	27	30	27	29
Housing Bonds	--	--	19	34	36	37	95
Other Liabilities	9	7	7	10	12	13	44
Sub-total	86	89	88	88	86	85	(1)
CAPITAL	7	5	4	4	3	3	(57)
Profit and Reserves	4	6	8	8	11	12	71
Total	100	100	100	100	100	100	--

TABLE A.7

FNV INCOME AND EXPENDITURES
(Thousands of Current Colon., at December of Each Year - Except 1984)

	1979	1980	1981	1982	1983	1984 (June)
TOTAL INCOME	4,921	17,376	10,289	16,427	16,659	8,272
Financial Income	4,474	16,813	9,472	15,580	16,017	7,936
Financial Expenditures	1,661	12,844	6,764	<11,237>	<10,773>	<5,526>
Financial Result	2,813	3,969	2,708	4,343	5,244	2,410
Operating Expenditures	<1,206>	<1,822>	<2,034>	<1,908>	<1,720>	1,117
Other Income	447	563	817	847	642	336
Other Expenditures	<238>	<47>	<68>	<416>	<468>	<270>
Total	1,816	2,663	1,423	2,866	3,698	1,359
	PERCENTAGE DISTRIBUTION					
•TOTAL INCOME	100.0	100.0	100.0	100.0	100.0	100.0
Financial Income	91	97	92	95	96	96
Financial Expenditures	<34>	<74>	<66>	<68>	<65>	<67>
Financial Result	57	23	26	27	31	29
Operating Expenditures	<25>	<11>	<20>	<12>	<10>	<14>
Other Income	9	3	8	5	4	4
Other Expenditures	<5>	--	<1>	<3>	<3>	<3>
Total	36	15	13	17	22	16

Source: FNV

TABLE A.8

SAVINGS AND LOAN SYSTEM: CONSOLIDATED BALANCES
(Thousands of Current Colones at December 31 of Each Year Except 1984)

AVERAGE ASSETS	1979	1980	1981	1982	1983	1984 (June)	% Change 1978-84
Banks and Investments	93,107	70,808	100,848	113,720	111,005	114,188	71
Loans	564,957	597,904	608,190	641,278	722,992	793,952	41
Fixed Assets	5,782	7,037	7,761	8,724	11,728	14,128	144
Extraordinary Assets	538	3,519	10,834	21,643	27,060	40,730	7,471
Other Assets	12,013	22,374	43,760	60,100	68,465	75,306	527
Total	676,397	701,642	771,393	845,465	941,250	1038,304	54
AVERAGE LIABILITIES							
Savings Deposits	510,233	490,500	562,980	606,640	583,626	579,134	14
Fixed Term Deposits	---	8,000	17,130	66,440	181,164	271,420	3,293
FNV Credits	59,627	98,915	101,806	104,386	103,879	109,747	84
Other Liabilities	67,761	62,372	43,592	14,256	16,479	19,312	(72)
Sub-total	637,621	659,787	725,508	791,722	885,148	979,613	54
CAPITAL	22,623	25,298	25,300	33,050	41,550	42,300	87
Reserves	6,232	7,566	8,483	5,743	2,992	3,437	(45)
Retained Earnings	9,921	8,991	12,102	14,950	11,560	12,954	31
Total	676,397	701,642	771,393	845,465	941,250	1038,304	54

PERCENTAGE DISTRIBUTION

AVERAGE ASSETS							
Banks and Investments	13	10	13	13	12	12	(15)
Loans	84	85	79	76	77	77	(8)
Fixed Assets	1	1	1	1	1	1	---
Extraordinary Assets	---	1	1	3	3	4	300
Other Assets	2	3	6	7	7	7	250
Total	100	100	100	100	100	100	---
AVERAGE LIABILITIES							
Savings Deposits	75	70	73	72	62	56	(25)
Fixed Term Deposits	---	1	2	8	19	26	2,500
FNV Credits	9	14	13	12	11	11	22
Other Liabilities	10	9	6	2	2	2	(80)
Sub-total	94	94	94	94	94	95	---
CAPITAL	3	4	3	4	4	4	33
Reserves	1	1	1	1	---	---	---
Retained Earnings	2	1	2	1	2	1	---
Total	100	100	100	100	100	100	---

Source: FNV

TABLE A.9

FSV: BALANCES 1979, 81, 83
(At December 31)

AVERAGE ASSETS	Thousands of Current ¢			Percentage of Change 1979-83	Percentages		
	1979	1981	1983		1979	1981	1983
Available	26,811	35,221	7,229	<73>	11	10	1
Immobilized Projects	80,476	77,095	81,358	1	33	21	15
Loans and Discounts	121,570	216,845	388,279	219	49	58	72
Other Assets	16,165	43,369	65,799	307	7	11	12
Total	245,022	372,530	542,665	121	100	100	100
AVERAGE LIABILITIES							
Contributions	204,740	315,497	426,475	108	83	85	79
Internal Credits			1,350	-			-
External Credits	-	90	24,074	-	-	-	4
Other Liabilities	6,633	10,743	25,546	285	3	3	5
Subtotal	211,373	326,330	477,445	126	86	89	88
Capital	25,000	25,000	25,000	-	10	7	5
Reserves	8,649	21,200	40,220	365	4	5	7
Total	245,022	372,530	542,665	121	100	100	100

Source: FSV

TABLE A.10

IVU BALANCES
(Thousands of Current Colones)

AVERAGE ASSETS	1981	1982	1983	Percent Change 1981-83	1979	1981	1983
Available	11,884	12,244	7,672	<35>	7	7	4
Construction Finance	29,264	28,155	24,155	<18>	17	15	13
Long-Term Finance	21,570	216,845	388,279	219	50	57	63
Fixed Assets	16,165	43,369	65,799	307	7	6	7
Other Assets	245,022	372,530	542,665	121	8	8	8
Total	174,982	185,064	190,904	9	100	100	100
AVERAGE LIABILITIES							
External Debt	17,175	15,957	14,720	<14>	10	9	8
Internal Debt	10,684	17,768	21,876	104	6	10	11
Other Liabilities	3,081	3,027	1,870	39	2	1	1
Subtotal	30,940	36,750	38,466	24	18	20	20
Capital and Reserves	144,042	148,312	152,438	6	82	80	80
Total	174,982	185,064	190,904	9	100	100	100

Source: IVU

TABLE A.11

IVU FINANCIAL RESULTS
(Thousands of Current Colones)

	1981	1982	1983	Percent Change 1981-83	Percentages 81	82	83
Total Income	7,414	8,179	8,281	11.7	100	100	100
Financial Income	6,076	6,252	7,046	16.0	82	76	85
Financial Expenditures	< 675>	< 1,906>	<1,086>	< 61.0>	< 9>	23	< 13>
Financial Results	5,401	4,346	5,960	10.3	73	53	72
Operating Costs	< 4,993>	< 5,103>	<5,594>	12.0	< 67>	< 63>	< 68>
Other Income	1,338	1,927	1,235	7.7	18	24	15
Other Expenditures	< 749>	< 830>	<1,293>	72.6	< 10>	< 10>	< 15>
Result	997	340	308	69.1	14	4	4

Source: IVU

TABLE A.12

FUNDASAL: LOANS 1981 and 1983

	Annual Interest Rate	1981	1983
Government of El Salvador	2-8%	¢21,250,000	¢21,250,000
Banco Hipotecario of El Salvador	6-7%	6,421,894	6,323,536
Asociación Guatemalteca de Padres Maryknoll	-	440,607	713,784
Fundación Panamericana de Desarrollo	3.5%	167,804	271,044
Government of El Salvador	2%	11,730,646	17,204,309
Banco Hipotecario of El Salvador	7%	301,962	244,312
Instituto de Vivienda Urbana	5%	7,084,172	7,084,172
Financiera Nacional de la Vivienda	5%	262,805	250,447
Financiera Nacional de la Vivienda	5%	61,970	61,970
Banco Interamericano de Desarrollo	1%	380,300	1,046,079
		¢48,102,160	¢54,450,453

Source: FUNDASAL

TABLE A.13

FUNDASAL BALANCES
(Thousands of Current Colones)

Average Assets	1981	1982	1983	Percent Change 1981-83	Percentages 81	82	83
Available & Investments	2,221	3,499	5,121	130	4	5	7
Housing Loans	17,090	16,731	16,259	< 5>	28	25	22
Solutions to Allocate	1,707	3,657	8,975	426	3	6	12
Projects in Construction	32,678	36,518	36,536	12	55	54	49
Land	603	871	1,021	69	1	1	1
Fixed Assets	3,188	3,315	3,152	< 1>	5	5	5
Other Assets	2,217	2,683	2,899	31	4	4	4
Total	59,704	67,274	73,963	24	100	100	100
Average Liabilities							
Loans to be Paid	46,781	50,472	53,646	15	78	75	73
Donations to be Applied	1,379	1,622	1,816	32	2	2	2
Other Liabilities	3,708	5,361	7,404	100	7	8	10
Subtotal	51,868	57,455	62,866	21	87	85	85
"Patrimonio Social"	7,836	9,819	12,097	54	13	15	15
Total	59,704	67,274	73,963	24	100	100	100

Source: FUNDASAL

TABLE A.14

FEDECCREDITO: BALANCES
(Thousands of Current Colones)

Average Assets	1980	1981	1982	Percentages 1981	1982	1983
Available & Investments	11,911	20,962	31,813	5	8	12
Short-Term Loans	45,084	53,327	53,420	18	20	20
Medium-Term Loans	110,416	113,201	105,695	43	43	40
Long-Term Loans	37,925	34,173	32,193	15	13	12
Fixed Assets	6,874	10,424	13,764	3	4	5
Other Assets	40,734	32,841	29,841	16	12	11
Total	252,944	264,928	266,726	100	100	100
Average Liabilities						
Deposits & Contributions SINAP	207,684*	211,614*	19,766	82	80	7
Bonds			31,037			12
BCR and Local Credit			133,035			50
External Credit			22,205			8
Other Liabilities	17,001	22,212	23,504	7	8	9
Subtotal	224,685	233,826	229,547	89	88	86
Capital	28,259	31,102	17,653	11	12	7
Reserves and Surplus	-	-	19,526		-	7
Total	252,944	264,928	266,726	100	100	100

*Until 1983 the data on the origin of resources is not disaggregated.

Source: FEDECCREDITO

TABLE A.15

FEDECCREDITO: FINANCIAL RESULTS 1981, 82, 83
(Thousands of Current Colones)

	1981	1982	1983	Percentages 81	82	83
Total Income	37,686	47,313	47,003	100	100	100
Financial Income	22,959	25,355	24,410	61	54	52
Financial Expenses	<14,462>	<15,302>	<14,118>	< 38>	< 33>	< 30>
Result	8,497	10,053	10,292	23	21	22
Operating Expenses	< 9,709>	<11,732>	< 9,966>	< 26>	< 25>	< 21>
Other Income	14,727	21,958	22,593	39	116	48
Other Expenses	<10,989>	<19,430>	<18,308>	< 29>	< 40>	< 39>
Result	2,526	849	4,611	7	2	10

Source: FEDECCREDITO

TABLE A.16

FINATA: BALANCES 1982-83
(Thousands of Current Colones)

	1982	1983	Percentages 82	83
Assets				
Available	4,909	2,326	20	5
Investments	7,279	6,770	30	17
Loans	2,410	10,940	10	27
Fixed Assets	1,946	2,227	8	6
Other Assets	7,983	18,522	32	45
Total	24,527	40,785	100	100
Liabilities				
Financial Bonds	4,850	15,747	20	39
Subsidies	4,310	1,435	17	3
Other Liabilities	3,163	5,430	13	13
Subtotal	12,323	22,612	50	55
Capital	12,204	18,173	50	45
Total	24,527	40,785	100	100

Source: FINATA

TABLE A.17

VICE-MINISTRY OF PUBLIC WORKS: PERSONNEL

Department	Status of Employment: Direct Hire	Under Contract	Day Labor	Total
Office Staff (MOP & VMOP)	86	23	97	206
Planning Office	41	2	21	64
Geotechnical Research	55	9	124	188
DUA	242	118	5,487	5,847
DUA-ORE	-	-	1,293	1,293
Highways	212	106	7,924	8,242
Highways/ORE	-	-	2,051	2,051
National Geographic Institue	238	120	457	815
Procurement Office	56	-	-	56
TOTALS	930	37	17,454	18,762

Source: MOP