Deloitte
Haskins+Sells

PA-ABL-932

Consultants to
Management

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES OF AMERICA

ANALYSIS OF THE HOUSING FUND OF THE CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

Indefinite Quantity Contract: PDC-0000-I-00-6187-00

October 31, 1989

ANALYSIS OF THE HOUSING FUND
OF THE CENTRAL AMERICAN BANK
FOR ECONOMIC INTEGRATION

PDC-0000-I-00-6187-00

OCTOBER 1989

TABLE OF CONTENTS

A. EXECUTIVE SUMMARY

The present consultancy was commissioned by ROCAP and RHUDO/CA to review: (a) the current financial condition and major financial trends of the Central American Bank for Economic Integration (CABEI's) Housing Fund; (b) whether the original assumptions, conclusions and objectives of USAID Loan 596-W-025 (Project 596-0143) and Housing Guarantee 596-HG-006 agreements remain valid; and (c) whether there is sufficient basis for converting the Development Assistance Loan 596-W-025 to a grant.

This report was prepared by a Deloitte Haskins & Sells consulting team, comprised of Claude J.J. Bovet and Raul A. Lacayo, following visits to CABEI headquarters, USAID/ RHUDO in Tegucigalpa and USAID/ROCAP in Guatemala during September 1989.

The following executive summary has been grouped in direct reference to the tasks as described in the corresponding Scope of Work contained in the contract. The tasks are as follows:

Scope of Work

1. Undertake a thorough financial analysis of the Housing Fund of CABEI over such historical period as may be necessary to accurately determine the current financial condition and trends of the Fund. This will require reaching a comprehension of the major general ledger accounts, their operation and inter-relationships. Because of inter-fund transfer and income/expense allocations among funds, it will also require an understanding of the financial condition of the Bank as a whole as it relates to inter-fund accounting procedures.

2. Analyze the financial projections of the Fund including an appraisal of the reasonableness of the assumptions and the application of the interest rate policy.

3. Assess the overall quaity of the financial management of the Fund, suggesting areas of organizational and policy changes for improvement.

4. Identify and comment on accounting and financial management practices and procedures which could be improved as well as those that need to be changed in order to present a more clear and accurate presentation of the financial data.

5. Assess the probably financial effects on the Fund if the current DA loan resources were to be converted to a grant.

6. Analyze the loan arrangements in place which are being negotiated under the programs with central governmenrs, Central Banks, or implementing financial institutions. The Contractor will examine the appropriateness of the loan

mechanisms with regard to the policy objectives and projected physical outputs of the program/project and assess the impact of using program funds to restructure and reschedule borrowers' financial obligations to CABEI.

7. Evaluate the effect of the current schedule of HG and DA funds disbursed on the capitalization of the Housing Fund.

8. Assess the current project implentation plan for appropriateness as a means of achieving project objectives.

<u>Task 1 - Covered in Detail in Chapter C . "Historical and Current Financial Analysis - FY85 to FY89"</u>

The Housing Fund has separate accounts although its capital is part of CABEI's capital and its accounts are consolidated in the Bank's overall accounts. An analysis of the Fund's balance sheet and income statement for the last five years permits an assessment of its performance and the identification of current financial trends.

From FY85 to FY89, the Fund's assets have increased as resources, essentially in the form of proceeds from new borrowings, have expanded. Assets grew significantly in FY88 due to a drawdown of US$25 million under the recent USAID 596-HG-006 loan. The proportional distribution of these assets has changed significantly, however, as housing loans, the Fund's main objective, have declined in both proportional and absolute terms. In FY85, for instance, housing loans were 62 per cent of assets and in FY89 they had decreased to 31 per cent. Net loans by the Fund to other funds have also decreased in proportional terms, although, at US$16 million, they still are a significant amount. Investments, on the other hand, have grown from 4 per cent of assets to 37 per cent during the same period. Except for the deposit at Riggs Bank (part of the recent HG loan), these investments are made up of term and savings deposits in member-country financial institutions. Deposits available to repay the Fund's financial obligations represent 19.5 per cent of assets, and in absolute terms they substantially exceed annual repayments.

The Fund's capital, at 12 per cent of assets, is satisfactory and is significantly higher than the capitalization found in housing finance institutions in several other countries. Also, the Fund's past due loans are relatively low, representing 1.7 per cent of the outstanding loan portfolio.

The Fund has had a relatively small and, at times, negative differential between its borrowed resources and its loan portfolio. The low differential has been partially compensated by interest received on investments and by the availability of capital resources, which do not require an interest expense. The Fund's net interest margin (defined as the ratio of interest income minus interest expense to average assets) has been low. One main reason for this low margin is the slight differential between the interest rate on borrowed resources and loans made by CABEI. Also, interfund loans are paid no interest differential and receive only the equivalent of the Fund's cost of resources. Since FY89, the Fund's net interest margin has been adversely impacted by the negative differential between the cost of the early draw down of HG funds and the return obtained while HG funds are held in escrow at Riggs Bank.

The Fund's return on assets has improved in the last two years, from -1 per cent in FY86 to 4.2 and 0.2 per cent in FY88 and FY89, respectively. That improvement has been largely due to a better return on investments, and the result of changes in accounting policies for recording interest income or investments obtained in member-country currency. The lower return in FY89 is, in part, due to the differential lost by the Fund in the Riggs Bank deposit.

The Fund's operations are an important component of CABEI's activities. There is no formal insulation between the assets and liabilities of the Fund and those of the Bank. Therefore, apart from the Fund's own financial situation, CABEI's financial condition can have a significant impact on the former's operations and its ability to meet its obligations.

As illustrated in several studies, the Bank has been facing a critical financial situation, largely due to the poor financial condition of its member countries. Faced with this critical situation, the Bank has undertaken several measures to strengthen its financial condition. The most important of these measures has been to obtain a commitment from its member countries to provide additional financial support in hard currency and to fulfill their repayment obligations. Other measures include the opening of Bank membership to countries from outside the region and a substantial expansion of activities, through a five-year plan, with multilateral and bilateral institutions' funding support.

If the five-year plan is fulfilled, it would have a significant effect on the Bank. The impact on liquidity would be immediate; the Bank would be able to provide a net amount of US$81.4 million in fresh resources to members during the five years of the plan. Projected net income, in turn, would increase every year reaching US$76.9 million in FY94 from US$6.9 million in FY90. The strengthening of the Bank, and of its ability to meet its obligations, will improve the overall framework within which the Fund operates.

<u>Task 2 - Covered in Detail in Chapter D. "Financial Projections: FY90 to FY94"</u>

To comply with the requirements established in the Agreement with USAID for the new housing program, the Bank developed in February 1988 a financial plan containing cash flows and other projected accounts for a period of ten years, beginning in FY88. The projections included a sensitivity analysis of results for the Fund under three different scenarios.

Under the first scenario, it is assumed that there is no new activity on the part of the Fund, with old loans under past programs being recovered as scheduled and the proceeds being reinvested, not re-lent. The second scenario assumes expanded Fund activity in accordance with a disbursement plan that uses HG resources and the recycling of those resources under the new program. The cost of HG resources is assumed to be 8.4 per cent for the life of the projection. The third scenario includes a similar expansion in Fund activity but assumes that the cost of HG resources increases gradually to 12.5 per cent, the maximum level permissible under the loan.

Using the assumptions of each of the three scenarios, and with other assumptions common to all three scenarios, the results for the Fund are projected from FY88 to FY97. In the first scenario, the Fund incurs losses and experiences a contraction of its loans and assets. In the other two scenarios, the Fund experiences growth, increasing its net income and capital accumulation. The main difference between the last two scenarios is the size of the positive impact provided by the Fund's additional activity.

Given that under both scenarios with incremental Fund activity there is a positive return on equity, the Bank concluded that it would be feasible to adopt fixed rates under the program. The rates adopted initially would be those used in the projections (10 per cent for loans to financial intermediaries and 9 per cent under compensating loan arrangements) although they would be reviewed every six months for new loans to determine if adjustments are necessary, based on changes in the cost of resources.

It is argued in this study that the increase in interest cost assumed under the third scenario appears to be too gradual and that, as a result, that scenario cannot be said to represent a worst case scenario accounting for rapidly changing and tight monetary conditions. It does not, therefore, provide information needed to evaluate the Fund's performance under circumstances significantly different to those of the second scenario. Thus different conclusions concerning the interest rate policy currently adopted by the Bank for the new program may be reached when more conservative assumptions are made about interest rate movements. Under current policy, and depending on the pattern of interest rate movements in relation to disbursements, the Fund could find itself in a position wherein, to recover increases in interest rate costs, it would have to disproportionally increase the interest charged on new loans.

Task 3 and 4 - Covered in Detail in Chapter E. "Institutional Analysis"

The caliber of individual managers of the Housing Fund is found to be high. However, a major deficiency is recognized in the fact that the Fund: (a) does not enjoy the distinction of a separate statute; and (b) does not come under a single management authority. On the contrary, its operations fall variously within the purview of the Bank's several functional departments. An attempt to correct this second shortcoming has been made by giving the Bank's Operations Manager the additional responsibility of coordinating the Housing Fund's programs.

In this regard, it is recommended that the Housing Fund be:

a) Given a separate Statute to clearly define its role and determine its individual integrity. Precedents for this recommendation exist in the original agreements with USAID; in the establishment of the Fund's predecessor, the Housing Finance Department, within CABEI; as well as in the fact that two other CABEI funds already possess separate statutes.

b) Guaranteed its financial independence--if this is possible while establishing its separate Statute--in order to better insulate its operations from CABEI's other more risky and independently leveraged investments.

c) Given unified management under the overall authority of a senior bank officer.

Other recommendations are that:

a) All future housing finance operations be concentrated in the Housing Fund and that the type of subsidized lending previously done by the Social Development Fund be discontinued.

b) The Fund's existing liquidity (37% of assets) be applied to the initial funding of its current engagements. Such liquidity has, in the past, been allowed to grow beyond the Fund's normal requirements, to the direct detriment of its lending operations (31% of assets).

c) The Fund collect, as soon as possible, the net credit balances (US$16 million) due it from the rest of the Bank. If CABEI's new financial program develops as expected, this should take place within a year. Furthermore, while these balances remain outstanding, the Fund should charge an opportunity rate of interest on them, instead of the current cost of funds rate.

d) CABEI study the possibility of redefining and expanding the use of its Housing Investment Certificates as a step towards the development of a secondary mortgage market in the region.

e) CABEI return to a full cost accounting practice in order to allocate direct and indirect costs to its various operating funds.

f) The Housing Fund consider the full amount of outstanding principal on its non-performing loans and not just their past-due payments (as is presently the case) when determining the need for adequate provisions and write-offs.

Concerning the Housing Fund's need to cover the exchange risk in its foreign currency borrowings, a series of arguments are reviewed in the main part of the document to help bolster the Fund's position vis-a-vis the region's central banks in its current--but lately harder to secure--compensating loan arrangements.

<u>Task 5 - Covered In Detail in Chapter H, "Implications of Converting USAID's DA Loan to a Grant"</u>

While recognizing that a decision to convert USAID/ROCAP's US$15 million DA loan (596-W-025) to an outright grant can be made only by USAID, it is clear that such a conversion would result in very important financial advantages to the Housing Fund, as follows:

a) Capitalization

The greatest benefit for the Housing Fund would be the corresponding US$15 million increase in its assigned capital base, assuming the grant is properly allocated to it. This would greatly improve the Fund's capital/debt ratio (from 12% to 17%), leading to a very strong balance sheet and expanded leverage opportunities.

Such an improvement will be particularly meaningful to the Housing Fund when attempting to develop its secondary mortgage market capabilities.

b) Cash Flow and Profitability Impact

Another major benefit to the Housing Fund would be an immediate improvement in its cash flow and profitability accounts. Retained cash would increase by US$300,000 annually during the first ten years and by US$754,000 thereafter to the end of the loan period. Return on equity would improve immediately by 0.3%, a significant impact.

This improvement could also allow the Fund, if it so desired and thought advisable, to increase the measure of its support to other primary financial intermediaries by a corresponding reduction of the interest rate on its loans to them.

On the other hand, were USAID to decide against converting its loan to a grant, it is not believed that this would pose an insurmountable financial hardship for the Housing Fund.

Task 6 - Covered in Detail Chapter F. "CABEI's New Loan Arrangements" and in Chapter G. "Appropriateness of Current Implementation Plan"

The Housing Fund had not granted any loans since February 1984 until it recently approved two loans in Honduras and Costa Rica.

The loans, to the Central Bank of Honduras for US$20 million (with a first tranche of US$2.5 million for immediate use by the Central Bank's housing fund) and to the National Housing Mortgage Bank of Costa Rica for US$6 million, comply with all major policy guidelines established under the USAID agreements. In particular, they are both destined to help support the operations of each country's savings and loan systems and private sector housing developments (with later tranches to Honduras also being available for urban improvements).

We believe that an US$8.5 million disbursement from the HG-006 escrow account at Riggs National Bank is in order at this stage. It would:

Considerably improve CABEI's financial position, duly enhancing its ability to generate positive net and retained earnings.

Substantially reinforce the ability of private housing finance intermediaries in both countries to generate mortgages on lower income housing. The US$6 million loan to BANHVI will be used to purchase new mortgages generated by the Costa Rican savings and loan system. The loan to BCH, in its US$10 million housing component, is also expected to be used through advances to, or mortgage purchases from, the Honduran savings and loan system and other private financial intermediaries.

Substantially encourage the development of private sector promoters and builders.

Nonetheless, it is recommended that, in approving this disbursement, USAID advise CABEI that future disbursements will depend on CABEI's renewed reaffirmation of, and compliance with, the following basic policy objectives:

Ensurance of a modification of lending rate policies of private financial institutions to reflect cost recovery principles.

Improvement of the capacity of shelter and infrastructure institutions to finance, design and develop environmentally sound and financially viable projects.

Encouragement of improved pricing policies by municipalities and infrastructure institutions.

Encouragement of improved collections by public sector institutions.

Tasks 7 and 8 - Covered in Detail in Chapter G. "Appropriateness of Current Implementation Plan"

The Housing Fund's June '89 Balance sheet shows borrowings--all of which are USAID related-in the amount of US$122 million, while the net receivable on loans granted by the Fund is of only US$64 million. We understand that disbursement of USAID loans and guaranteed funds to CABEI was originally made on the basis of new housing loan originations. Thus, we can assume that, of this difference--after allowing for the US$24 million in escrow at Riggs National Bank--the balance of US$34 million results from non-reinvested loan recoveries by the Fund.

The full US$58 million difference can reasonably be considered as included in the Fund's US$77 million of "term deposits and other investments". It can be further assumed that USAID funds have not been used for restructuring or rescheduling CABEI's portfolio, even though part of these deposits are held in currencies other than US dollars.

On the assumption that the recently manifested commitments of CABEI's members and borrowers--regarding capital infusions and loan repayments--are duly carried out, USAID's current implementation plan is considered perfectly appropriate as a means of achieving the Housing Fund's project objectives.

It is obvious that certain original assumptions and goals have slipped, but not to the point of being irretrievable. We believe that, with adequate and prompt support at this critical juncture in its activities, the Housing Fund--and CABEI by extension--can be put on a firm footing once again. This does not imply a relaxation of either standards or policy objectives; quite the contrary, these could be profitably re-emphasized and reinforced as pre-conditions to each new disbursement under the HG and DA agreements.

In regard to interest rate policy, the financial implications of the Housing Fund's current policy have been described in "C. Historical and Current Financial Analysis: FY85 to FY89". From a development lender's standpoint, however, this interest rate policy must be questioned: (a) basically, to see if it conforms with general market rates in the countries involved; and (b) specifically, to see if it provides borrowing agencies, financial intermedaries and ultimate beneficiaries with hidden, indiscriminate and unrecoverable subsidies.

On the first point, the Fund's established policy is to make its financing available at a single interest rate (e.g., 10%) for similar borrowers regardless of their country location. This obviously disregards market rates, inflationary expectations, risk analysis, etc. and unduly distorts the very financial markets it is attempting to develop. This practice should be immediately discarded and an appropriate policy of market based rates adopted in its stead, as called for under USAID agreed policies.

On the second point, although the Housing Fund is itself the beneficiary of an important subsidy in the pricing of the DA loan (and more so if the loan is converted to a grant), it is our understanding that this is to enable the Fund to generate strong profits and retained earnings, thus improving its capitalization. Through its present policy of passing on this cost advantage, the Fund, albeit with the best intentions, is denying itself a legitimate opportunity to properly consolidate its finances.

The USAID agreements require that the Fund's pricing of its loans should in all instances be based on a full recovery of its financial and other costs, particularly since the Fund's borrowers are themselves usually financial intermediaries. Although this requirement is complied with at the precise time of drawing against the HG loans, the Fund's margins could subsequently disappear under adverse interest rate conditions.

To counter this, two alternatives are suggested:

1) Floating Rates, based on the Fund making a reasonable margin over its own variable cost of funds as determined from time to time on its HG borrowings.

2) Full Market Rates, as existing for comparable non-subsidized financings in the countries involved. If the fund needs to limit its margin due to an excessive spread, it could undertake to rebate the excess back to its borrower.

B. INTRODUCTION AND BACKGROUND

The Central American Bank for Economic Integration (CABEI) was created in 1960 by an initial agreement between the governments of Guatemala, El Salvador, Honduras and Nicaragua, with the government of Costa Rica subsequently joining.

CABEI is governed by an Assembly of Governors integrated with the Ministers of Economy and the Central Bank Presidents of each of the five participating countries. Its operations are directed by a Board of Directors chaired by the Executive President and composed of five members elected, one for each participating country, by the Assembly of Governors. The Bank's Executive President is appointed by the Assembly for a five-year period.

The Assembly of Governors resolved in September 1989 to open the CABEI's membership to countries outside the Central American region (see Schedule 3). This led to an impending modification of CABEI's charter which, among other things, will raise capital and increase the membership of the Assembly of Governors and of the Board of Directors.

CABEI's mission is to assist in the regional integration and balanced economic development of its member countries. It commenced operations in May 1961. During 27 years of activities to June 30, 1988, it has granted loans aggregating US$1.9 billion.

CABEI's financial assistance is channeled through four internal funds. A description of these four funds, with indication of their respective assets at June 30, 1989, follows:

<u>Ordinary Fund - US$ 351.9 million - 26.3% of total</u>

To finance pre-investment and investment requirements of industry, agro-industry, services and other projects, principally in the private sector.

<u>Economic Integration Fund - US$ 682.8 million - 51.0% of total</u>

To finance projects in the public sector (governments, regional bodies, local and municipal governments, public and mixed entities) primarily for transport, telecommunications, energy, technological education, evaluation of natural resources, grain storage, irrigation, plague prevention and eradication, agricultural development and promotion of tourism.

<u>Social Development Fund - US$ 44.5 million - 3.3% of total</u>

To finance education, professional formation, health and hygiene, social interest housing, art crafts, and other social and economic development works in rural and urban environments.

Housing Fund - US$ 260.4 million - 19.4% of total

> To finance housing projects for the low income population sectors, principally through loans to, and mortgage purchases from, specialized housing finance institutions.

In furtherance of its goals, CABEI has received substantial financial assistance from foreign governments and multilateral agencies. USAID, in particular, has been and continues to be a major donor.

A USAID package of US$64 million for housing and urban development--comprising a technical assistance grant of US$ 4 million, a development assistance loan of US$15 million and a housing investment guarantee of US$45 million--is in the implementation stage. In this connection, the present consultancy was commissioned to review: (a) the current financial condition and major financial trends of CABEI's Housing Fund; (b) whether the original assumptions, conclusions and objectives of USAID's assistance package remain valid; and (c) whether there is sufficient basis for converting the US$15 million development assistance loan to a grant.

This report was prepared by a Deloitte Haskins & Sells consulting team, comprised of Claude J.J. Bovet and Raul A. Lacayo, following visits to CABEI headquarters, USAID/RHUDO in Tegucigalpa, and USAID/ROCAP in Guatemala during September 1989.

C. HISTORICAL AND CURRENT FINANCIAL ANALYSIS - FY85 TO FY89

The Housing Fund is one of four funds into which CABEI records its Ordinary Capital transactions (see previous Chapter). It makes loans to financial institutions for the purpose of financing medium and low-cost housing construction projects. This Fund, like the other three funds, has distinct accounts, although its capital is part of CABEI's capital and its accounts are consolidated in the Bank's overall accounts.

The Fund began its activities with a loan of US$10 million from USAID, signed at the end of 1963. This loan had favorable conditions and functioned, in effect, as seed capital for the Fund. The Bank did not assign, at that time, any of its ordinary capital resources to the Fund.

Subsequently, the Fund expanded its operations by obtaining USAID's loan guarantees for borrowing in the U.S. capital markets. From 1970 to 1980, US$97.4 million were obtained through five different USAID Housing Guarantee loans. Other resources have come from the issuance of Certificates of Investment for placement within the Central American countries. The Bank has authorized the issuance of such Certificates for up to US$43.5 million, of which US$21.7 million have been placed. Other securities, amounting to US$2.3 million, have also been issued and placed among U.S. insurance companies. From FY82 to FY86, using resources provided by its member countries in local currency, the Bank capitalized the Fund for a total of US$20 million. The Fund's capital resources have subsequently increased as it has accumulated earned reserves.

1. ASSETS AND LIABILITIES

The Fund's balance sheets for FY85 to FY89 are presented in Schedule 4. Those balance sheets, prepared by the Bank, follow essentially the same presentation as used in the audited financial statements. The balance sheet for FY89 is the only one which has not been audited.

According to the balance sheets, total assets of the Housing Fund were US$267.4 million at the end of FY89, higher by 2.7 per cent than the previous year. The growth in the volume of assets shown during the past five years was positive, as high as 13.7 per cent in FY88, although assets decreased by 2.4 per cent in FY87.

For analytical purposes, a modified presentation of the Fund's balance sheet for the period FY85 to FY89 was prepared. That modified presentation contains the following changes:

- Interfund Accounts are placed on the asset side, rather than on the liability side as done by the Fund. In the case of the Housing Fund, loans to other funds have usually exceeded borrowings from such funds, resulting in a net asset. The Fund's presentation tends to undervalue its Fund's assets.

- Compensating loans are netted and are not shown either on the asset or on the liability side. Compensating loans are made for the same amounts in different currencies, at the same interest rates and at the same terms. They exactly off-set each other and function, in fact, as contingency accounts. Including them on the balance sheet would only tend to inflate the Fund's assets and liabilities.

- The Maintenance of Value Reserve is presented, for FY89, on the asset side. This Reserve was created in FY88 to compensate for the devaluation or appreciation of loans and investments in local currency (for previous years, the Reserve contains different accounts and has a different meaning, and is therefore left on the liability side for those years). The procedure followed here is consistent with the one recommended by the auditors in FY88, when the Reserve was brought to the asset side and distributed between loans and investments according to their respective changes in value. Reportedly, the same procedure will be recommended by the auditors in upcoming years.

Incorporating the changes described above, a modified presentation can be obtained as shown in Schedule 5. According to this modified presentation, total assets were as follows:

FY1985	FY1986	FY1987	FY1988	FY1989
		-US$ Millions-		
148.5	163.2	164.5	200.7	206.0

From FY85 to FY88, assets increased as resources, essentially in the form of debt, expanded. Assets grew significantly in FY88 because of an early drawdown of US$25 million under the recent USAID HG 006 loan.

The proportional distribution of assets according to the modified presentation is shown below:

	FY1985	FY1986	FY1987	FY1988	FY1989
			(Percentage)		
Cash	0.8	5.2	2.1	6.6	0.1
Investments	3.8	27.4	28.3	39.0	37.4
Net Loans	62.0	51.5	45.9	33.9	31.0
Intf. Accts.	17.8	7.7	10.5	10.4	7.7
Accumulated Interest on Loans	13.9	3.8	7.3	7.7	11.0
Accumulated Interest on Investments	0.2	1.5	3.0	3.3	3.2
Maint. of Val.	0.0	0.0	0.0	0.0	0.8
Funds Rec. Mb.	0.9	2.4	2.5	(1.4)	0.9
Other Assets	0.6	0.5	0.4	0.5	0.7
Total	100.0	100.0	100.0	100.0	100.0

Some important observations can be made using the distributior of assets presented above:

- Housing loans, the Fund's main objective, have declinec in both proportional and absolute terms. Whereas the: represented 62.0 per cent of total assets in FY85, the: decreased to only 31.0 per cent in FY89.

- Investments, on the other hand, have grown from 3.8 pe cent of assets in FY85 to 37.4 per cent in FY89. Thes investments are essentially term and savings deposits Of total investments, 51.4 per cent were deposited a member country central banks, 17.1 per cent wer deposited at other member country financia institutions, and 31.5 per cent represented the deposi made at Riggs Bank as part of the recent Housir Guarantee loan.

- Liquidity, defined as cash and investments, has remaine at relatively high levels. Some of the Fund investments are conditioned deposits, and fun deposited at Riggs Bank are not readily available f liquidity purposes. Hence, the Fund's liquidity present is lower than the ratio shown above (37.5 p cent), but still quite high at 19.5 per cent (if t deposit at Riggs Bank and conditioned deposits a excluded).

- Interfund accounts, although still significant at 7 per cent in FY89, have decreased substantially from 17 per cent in FY85 (they also decreased in absolute ter during the same period).

- Accrued interest on loans and investments decrea: significantly from FY85 to FY86, but has since ri: substantially. The increase represents inter accumulated on compensating loans, and is exac equivalent to interest earned by the Fund compensating loans but not paid by the central banks. Central banks have not repaid because of a lack of foreign exchange, therefore, CABEI has not repaid the corresponding amounts in local currency.

- No provisions for loan losses have ever been made for loans in this Fund. At the end of FY89, loans past due 180 days or more totaled US$820.4 thousands, or 1.3 per cent of the loan portfolio outstanding. Total past due loans were US$1,071 thousands, representing 1.7 per cent of the loan portfolio. Both of these percentages are modest when compared to the CABEI's past due loans.

Based on these observations, it can be concluded that the Fund, as it recovers older loans, has reduced its housing finance operations, its stated purpose. Its past due loan portfolio is low compared to CABEI's as a whole, partly because loans by the Fund to implementing agencies are made in local currencies, which have tended to depreciate. Thus, implementing agencies have experienced a contraction of their debt with CABEI in real terms. CABEI, on the other hand, has received back those depreciated currencies. Although eventually convertible into dollars at historical exchange rates, the depreciated currencies represent a lower purchasing power and, thus, a lower operating capability for the Housing Fund while it holds them.

The structure of the Fund's liabilities and capital accounts is presented in the table below:

	FY85	FY86	FY87	FY88	FY89
			(PERCENTAGE)		
Loans Payable	66.5	61.1	61.4	61.7	59.1
Bonds	0.5	0.3	0.1	0	0
Certificate of Investment	18.0	11.7	11.3	7.5	6.8
Certificate of Deposit	0	8.3	7.9	6.2	5.3
Total Debt & Obligations	85.0	81.4	80.7	75.4	71.2
Accr. Int. on Obligations	13.0	3.4	7.2	8.8	12.8
Accts. Payable and Other Liab	0	0	0	0	0.4
Maintenance of Value Res	(8.9)	0.6	(2.5)	0	0
Capital	6.7	11.8	12.2	10.0	9.7
General Reserve	6.7	3.8	2.7	2.0	1.9
Retained Earnings	(2.5)	(1.0)	(0.3)	3.8	4.0
Total Capital & Reserves	10.9	14.6	14.6	15.8	15.6
Total Liabilities & Capital	100.0	100.0	100.0	100.0	100.0

As can be seen from the table, loans payable are the main source of funding, representing 59.1 per cent of total liabilities and capital in FY89. This proportion, however, has been declining since FY85, as accrued interest on obligations, capital and reserves have increased in relative importance.

It is significant that, whereas net loans (provided by CABEI) have stood at around 32 per cent of total assets during the last two years, loans payable have been around 60 per cent of total assets in the same period. Thus, loans payable have been financing activities other than housing finance, particularly investments.

Concerning capitalization, it is important to note that the Fund's ratio of capital and reserves to assets was lower than that for other funds and for the Bank as a whole. Using the unaudited financial statements for FY89, for instance, the ratio for the Fund can be calculated as 11.14 per cent, whereas the ratio for the Bank as a whole was 26.5 per cent. A lower capitalization usually implies a lower ability to absorb potential losses. However, in the case of the Fund, with smaller arrears than the Bank as a whole, its relatively lower capitalization does not necessarily mean a relatively weaker position viz a viz the rest of the Bank.

2. INCOME AND EXPENDITURES

One problem the Fund has confronted is the relatively small, and at times negative, yield differential between its borrowed resources and its loan portfolio. In the table below, the weighted average of the Fund's cost of resources is compared with the weighted average of the yield on its loan portfolio:

	FY1985	FY1986	FY1987	FY1988	FY1989
			(Percentage)		
Borrowed Funds	11.44	11.33	10.42	9.01	10.13
Loan Portfolio	10.54	10.75	10.67	9.95	9.58

The yield on the loan portfolio declined in FY88 and FY89 as a result of a new policy whereby interest past due 180 days or more is not considered as earned. The cost of borrowed funds, on the other hand, has declined in part because of the reductio in certificates of investment outstanding, which carry a hig interest rate.

The low or negative yield differential is partially compensate by interest received on investments and by the availability o capital resources which do not require an interest expense Schedule 6 shows the income statement for the Fund for th period FY85 to FY89.

The table below indicates the movement in the net intere margin for the last four years (interest received and intere paid include amounts derived from compensating loans, bo exactly off-setting each other, as there is no interest ra differential for these types of loans). The net interest marg is the ratio of interest income minus interest expense average assets, and is calculated here using assets from t modified balance sheet.

Interest income here includes interest received on loans, commissions charged on loans, net income derived from interfund transactions, and interest on investments. Interest expense includes interest paid as well as commissions and other expenses related to borrowings. The margin is calculated as follows:

	FY1986	FY1987	FY1988	FY1989
		($CA thousands)		
1. Int. on Loans	19,936	18,674	17,766	17,405
2. Int. on Investments	2,883	3,772	11,542	8,254
3. Interest Received	22,819	22,446	29,308	25,659
4. Interest Paid	23,412	21,495	20,855	23,913
5. Net Interest (3-4)	-539	951	8,453	1,746
6. Average Assets	155,848	163,820	182,565	203,334
		(Percentage)		
7. NET INTEREST MARGIN(5/6)	-0.3	0.6	4.6	0.9

As can be seen from this table, the net interest margin was negative in FY86, and significantly below 1 per cent in FY87. To a large extent, this poor performance was due to the fact that until FY88 interest earned on deposits in local currency was quite low and, in addition, was converted at the current exchange rate, rather than at the historical exchange rate. However, because of a compensating loan arrangement, that income was actually protected against the depreciation of local currency. In agreement with the external auditors and beginning in FY88, interest on investments will be translated at the historical exchange rate. Also, the nominal rate on deposits in local currency has increased substantially (the weighted average of the yield on deposits in local currency for FY89 was 15.52 per cent, compared to a loan portfolio yield of 9.58 per cent).

Despite the adjustment made to the method of calculating interest on deposits in local currency, the net interest margin in FY89 remains low. The 0.9 per cent margin, as seen below, is barely enough to cover administrative expenses and certainly not enough to provide a reasonable return on average assets or to cover possible provisions for loan losses. There are two main structural reasons for the low net interest margin:

- As seen earlier, there is a slim or negative differential between the interest rate on borrowed resources and on loans made by CABEI (there now appears to be a large differential between interest on borrowed funds and interest on investments). CABEI housing loans are made in local currency, so that interest rates are, in effect, extremely low (perhaps even negative in real terms in some countries), with substantial room for improvement.

- No differential is paid on interfund loans. It has been CABEI's policy since 1985 to assign to the Fund its average cost of resources as payment for net credito interfund positions. Previously, an opportunity cost equivalent to the potential revenue that could b obtained on similar investments abroad, was paid to th Fund. Although the relative level of interfund loans t the Fund has declined from 18 per cent to 8 per cent o assets during this five year period, the fact that n differential is assigned has had a quantifiable impact c the net interest margin. By lending to other funds, th Housing Fund has an opportunity cost equivalent to th return it could obtain on investments or on loar (adjusted by any potential risks). Therefore, differential is justifiable.

In addition, during FY89, the funds deposited at Riggs Bank fr the HG 006 drawdown resulted in a negative differential f CABEI. Reportedly, this negative differential was US$6 thousand and, if the Bank had been able to lend these fun rather than maintain the negative differential, net intere income would have been increased by US$744 thousand (US$6 thousand out of the elimination of the negative margin a US$144 thousand as a positive differential over borrov funds). With this additional income, net interest margin wou have been 1.2 per cent.

Concerning the Fund's administrative expenses, these h fluctuated between 0.6 and 0.7 per cent of average assets in past four years. According to a Board of Directors' agreem reached in May 1985, the distribution of administrative expen between funds is made in proportion to their outstanding l portfolio. In the case of the Fund, compensating loans are included. Administrative expenses for the different funds w previously calculated in relation to each fund's cos According to the technical document backing the change made 1985, the new mechanism would improve the position of Ordinary Fund viz a viz the other funds. If this situa still holds, a more direct calculation of the Housing Fu administrative expenses would improve its return on assets.

The income statement has a line item called "Previous Y Adjustment," which includes rectifications made to the in and expense accounts of previous years. If the ratic administrative expenses to average assets and the ratic previous adjustments to average assets are subtracted from net interest margin, the return on average assets car obtained. This calculation is made below:

	FY1986	FY1987	FY1988	FY1989
	(Percentage)			
1. Net Interest Margin	-0.3	0.6	4.6	0.9
2. Admin. Exp./A.A.	0.7	0.6	0.6	0.6
3. Prev. Yrs. Adj./A.A.	0.0	0.0	(0.2)	0.1
4. Return on A.A. (1-2-3)	-1.0	0.0	4.2	0.2

The table shows that, except in FY88, the Fund has had a poor return on average assets. At present, the return has improved in the sense that it is no longer negative, but it stands at 0.2 per cent, a low level. If some provision for loan losses were made, it is possible that the small positive return would again turn negative.

Two key means to improving the Fund's performance, as was indicated earlier, are the obtaining of a better differential on housing loans and the assignment of a differential, related to the Fund's opportunity cost, to interfund loans.

The Fund's policy concerning the new HG loan (596-HG-006) for US$45 million, obtained with USAID's guarantee, will have a significant impact on the Fund's profitability. This is so because HG-006 has been contracted at variable interest rates. CABEI has traditionally granted its loans at fixed rates, even when resources have been obtained at variable rates, an asset/liability mismatch that has created problems in the past. In accordance with the loan agreement, the Bank was to establish a Committee that would set and periodically review the interest rate for new loans and for loans outstanding. The purpose of such reviews would be to ensure that the Fund recovers administrative and financial costs, and that it obtains a positive margin, within the variable rate context, that will increase the Fund's capital and reserves, thus enhancing its ability to expand its operations. The Committee has met only once, in December 1987, when the following decisions were made:

> Rather than provide loans under the housing program at variable rates to cover against the possibility of adverse rate fluctuations on the liability side, it was decided to charge a fixed rate that, by being at an adequate level, would result in a positive margin over the life of that loan.
>
> The fixed rate, to be calculated as the weighted average of the program's cost of resources plus a margin, would be reviewed every six months and would be adjusted if any changes occurred in the program's cost of resources. The new rates, however, would apply only to new loans.
>
> The weighted cost of resources for the program was calculated to be 7.7 per cent, using 8.4 per cent for the US$45 million obtained with HG resources (including a 0.5 per cent guarantee fee to be paid to USAID), 2.0 per cent for the US$15 million obtained through AID DA, and 9.9 per cent for the US$25 million CABEI counterpart resources.
>
> Using the above cost of resources, it was determined that the initial rates to be charged on loans under the new housing program would be as follows:

.. For compensating loans granted in dollars to central banks: 9 per cent (correspondingly, the Fund would pay 9 per cent for the local currency obtained from the central banks as part of the compensating loan arrangement).

.. For loans provided in local currency to financial intermediaries: 10 per cent.

.. For loans related to urban infrastructure: 10 per cent.

. It was assumed that the 1 per cent differential between compensating loans and loans granted by CABEI in local currency would be used to cover operating costs in local currency and to generate a profit margin.

Several observations can be made concerning the mechanism the Bank has established for calculating the loan rate under the new housing program. These observations include:

The cost of HG resources could abruptly rise to 12.5 per cent (12 per cent, the interest rate cap, plus 0.5 per cent for the guarantee fee) in a short period and remain there for a long time. If this occurred, the weighted cost of the program's resources would jump to 9.88 per cent, practically wiping out the profit margin assumed at present. Presumably, CABEI counterpart resources are also rate-sensitive, so their cost could also rise, further reducing the margin or even creating a negative differential. While rates for new loans could be adjusted upwards, old loans which were granted at fixed rates cannot. The result would be either CABEI taking a loss on the old loans or new loans would have to be given at rates high enough to cover those losses (thus, new loans would subsidize old loans).

. The 1 per cent differential to be obtained in loca[l] currency is not protected against devaluation. Therefore, if past experience is a guide, that portion' contribution to the profit margin could be of n[o] significance as local currencies depreciate. Even fo[r] local currency expenses related to the program, the 1 pe[r] cent component could be problematic: as devaluation[s] occur, the purchasing power of that local currenc[y] decreases, reducing the Bank's ability to meet rea[l] costs. Thus, the effective margin in local currenc[y] would be below 1 per cent.

. In establishing the lending rate under the program, th[e] Bank has only taken into consideration its own costs [o]f resources, and not the market interest rat[es] predominating in the countries in which it will len[d]. Because market interest rates in these countries a[re] significantly higher, the Bank is, in fact, subsidizi[ng] the financial intermediaries obtaining its resources.

Taking these observations into consideration, it can be concluded that current mechanisms for setting the program's interest rate can potentially make it difficult for the Bank to comply with the conditions for receiving USAID resources (particularly the one related to cost recovery). It would be wise for the Bank to grant loans under the program at variable rates, to which a cap could also be placed. This cap could be calculated in relation to the one the Bank obtained for its HG resources, also taking into consideration a possible increase in the cost of the Bank's counterpart funds. It would also be desirable that the new rates be fully covered under compensating arrangements (or, alternatively, under maintenance of value clauses if a particular central bank does not wish to enter into compensating loan agreements).

3. CABEI'S CONDITION AND THE FUND

The Fund's operations are an important component of the Bank's activities particularly as there is no formal insulation between the assets and liabilities of the Fund and those of the Bank as a whole. Therefore, apart from the Fund's own financial situation, CABEI's financial condition can have a significant impact on the former's operations and on its ability to meet obligations.

The Fund's assets represented, in FY89, 18 per cent of CABEI 's assets. On the other hand, the Fund assets which may be considered liquid, such as cash and investments, represented a significantly larger proportion of the Bank's corresponding total. These assets stood at 27 per cent of the Bank's liquid assets.

Although the Fund's higher liquidity may help improve the Bank's overall liquidity position, it also reduces the Fund's ability to develop its own activities. A similar effect occurs through the Fund's interfund operations by which the Fund provides 7.6 per cent of its assets (with compensating loans netted against each other) to other funds (essentially to the Ordinary Fund).

It is a fact that its activities are reduced when the Fund provides resources to the rest of the Bank, but there is also the question of whether, if the Bank's financial position deteriorates, the Fund will be able to meet its own obligations. This question arises from the lack of formal insulation between the Fund's assets and liabilities and those of the Bank. The Fund's external liabilities represent 60 per cent of its total assets, while loans outstanding represent only 34 per cent. It would therefore appear that the Fund would not be able to meet its own obligations if the Bank's financial position deteriorated in such a way that the rest of the Fund's assets (i.e. cash and investments) were not available. It is therefore important to review the Bank's current and projected financial position.

Various studies have shown the Bank to be facing a critical financial situation, largely due to the poor financial condition of its member countries, in whom the Bank's loan portfolio is concentrated. Since the mid-eighties, practically all the member countries have stopped repaying their loans, impairing the Bank's ability to continue its operations. Repayments by the Bank to its creditors, however, have never stopped, although commercial bank debt has been restructured. Reacting to the member countries' lack of support for the Bank, traditional providers of external resources have also delayed their flow of fresh funds to the institution, further reducing its ability to operate.

Schedule 7 shows the cash flow experienced by the Bank during the past seven fiscal years. It can be seen how repayments of principal and interest to the Bank slow down significantly during the period, thereby reducing the institution's ability to maintain previous disbursement levels to member countries. In fact, throughout the period, CABEI had been absorbing more resources from member countries than it was providing, and questions were raised on whether the Bank still served a useful function. Short term projections, shown in the table below, indicated that if existing trends continued, the Bank's holdings of hard currencies would be reduced to US$4.6 million on December 1989, and would turn negative beginning in January 1990:

	U.S. Dollars	Other Hard Currency	Total
	(Millions of US Dollars)		
July/89	(0.47)	14.62	14.15
August	2.34	15.40	17.74
September	(4.54)	13.97	9.43
October	(0.59)	15.61	15.02
November	(2.94)	16.41	13.47
December	(10.77)	15.38	4.61
January/90	(22.06)	10.35	(11.71)
February	(21.90)	12.74	(9.16)
March	(23.54)	15.29	(8.25)
April	(29.57)	14.54	(15.03)
May	(33.10)	15.03	(18.07)
June	(41.80)	13.89	(27.91)

Undoubtedly, a situation such as the one depicted in the table above would not only have restricted the Fund's ability to meet its own obligations, but would have also raised serious questions about the Bank's ability to continue operating.

Faced with this critical situation, the Bank undertook, with the support of several donor and multilateral institutions, a far reaching evaluation of its changing role within the Central American context. One important conclusion reached was that the Bank, if it is to adapt to new circumstances, should function in two ways. It should promote integration, a originally envisioned, and it should also function as a development bank, providing a positive flow of resources to member countries, ensuring that resources are used efficiently, and that they are recoverable.

A plan was developed in late 1988 to institutionally strengthen CABEI. This strengthening has been based on the following critical factors:

- Full Support from Existing Member Countries. Countries are to show their support by resuming the repayment of their obligations and removing restrictions on CABEI's use of its own funds held in member countries as deposits. Another measure of support would be the completion of an earlier-approved capital subscription in hard currency, rather than in local currency as traditionally done in the past.

- Management Reform. This reform continues with recent changes that have given more control to the Bank's executive levels. The size of the staff will be streamlined and its quality will be enhanced. Also, authorities and responsibilities will be reviewed and modified.

- Recruiting Extra-Regional Members. The participation of countries from outside the region is a concrete possibility and some preliminary steps have been taken to facilitate such participation. Extra-regional members can be an important source of funds as well as providing a neutral voice at the Board level to support a more efficient use of resources. At present, borrowers have ultimate (and absolute) control on the Bank's funds. Another benefit of extra-regional membership would be that potential CABEI lenders would feel reassured by their participation, improving their willingness to provide fresh funds.

- Substantially Expanded Activities. In order to encourage support of the Bank and to implement its new development focus, a substantial volume of net resources would be provided by the institution to member countries over several years. Obtaining the funds for those activities would be facilitated by the favorable resolution of the three critical factors discussed above.

On September 2, 1989, the Board of Governors approved the proposal for the financial restructuring of the Bank (see Schedule 3). The key measures approved include:

- Reform of the Bank's constitution to permit the participation of extra-regional members for up to 49 per cent of the voting capacity.

. Streamlining of the Bank's staff.

. Normalization of existing financial relationship of members with the Bank and generation of new financial support by agreeing to:

.. Repay upcoming debt as scheduled.

.. Repay past-due loans over a ten year term, including two years of grace, starting inmediately and in sixteen bi-annual equal payments. Interest will be equivalent to six months LIBOR plus 13/16 per cent.

.. Repay "conditioned" deposits over a fifteen year term, including two years of grace, starting inmediately and in twenty six bi-annual equal payments. Interest will be equivalent to six month LIBOR plus 13/16 per cent.

.. Begin making monthly payments immediately for a total capital suscription of US$50 million, in dollars, to be completed in five years.

.. Punctually pay the Bank for loss of value of assets held in member country currency due to exchange fluctuations.

.. Reconfirm the principle of convertibility of member country currency held by the Bank so that the institution can gradually strengthen its capital position and reach required liquidity levels in accordance to a plan to be presented to the Board of Governors.

.. Give priority, in accordance with each member's exchange regulations, to the allocation of foreign exchange so that public and private entities can repay the Bank.

. Approval of a five year program, prepared at a country level, detailing expected loan recoveries, lending activity, use of external resources and cash flow projections.

A detailed analysis of the Bank's five year plan is beyond the scope of this work. However, a review of the assumptions and the results contained in the program is important to determine whether such assumptions are realistic, and, if so, whether in fact the Bank's financial position is strengthened, assuring its (and the Housing Fund's) survival. Similarly, this review can help identify key assumptions in the program so that their consistency with the projections made for the Housing Fund, discussed in the following chapter, can be evaluated.

The plan's objective is to develop new operations for an amount equivalent to US$1,080 million dollars during five years, as shown on Schedule 8. On that Schedule, disbursements shown for the projected five year period are less than US$1,080 million because this higher number refers to loans approved in the period, not necessarily loans disbursed, as there is a lag between project approval and project execution.

The figure of US$1,080 million for loans to be approved through the plan was determined by estimating credit demand from member countries during the period. Total credit demand has been estimated in the Bank's document "Medium Term Strategy" (latest version was developed September 19, 1989) at US$1,519.7 million, broken down as follows:

Productive Sectors	US$498.1 Million
Infrastructure	749.9 Million
Social Dev. & Housing	256.7 Million

The ratio of total loans projected for approval to total estimated demand is 71.1 per cent, while the corresponding ratio for social development and housing is 96.2 per cent. The credit demand identified exclusively for housing was US$84.0 million. No figures are available in the medium term strategy document on the amount of loans projected to be approved exclusively for housing. However, if the same ratio of identified demand to approved loans was assumed to prevail in housing as for the rest of the social development sector, at least US$80.8 million would be projected for approval in housing.

The critical elements necessary to obtain the funds for the Bank's planned credit expansion are, in the first instance, the punctual fulfillment by members of their pledged support. Other important elements are the participation of extra-regional members with a total capital contribution of US$200 million, and the contracting of external resources from bilateral and multilateral agencies for approximately US$650 million. It is also contemplated that existing external debt with private international banks will be renegotiated and reduced.

To facilitate that fulfillment of member obligations, the plan is designed in such a way that the Bank will provide an important positive flow of resources to member countries. Also, the plan's implementation will be based on individual country plans that will take into consideration each country's situation.

A second important element, as far as size of resources is concerned, is the participation of bilateral and multilateral institutions. Although the amount of US$650 million is mentioned in the Board resolution, the plan itself indicates the use of only US$441 million. The discrepancy is reportedly due to the fact that, even though US$650 million will be contracted, only the lesser amount will be used, in correspondence with the lag between project approval and project execution mentioned earlier. Of the targeted amount, the Bank already has available US$111.6 from unused balances contracted with USAID (from the housing program), Mexico, Belgium, the European Economic Community and Venezuela. A review of bilateral and multilateral resources which are close to being formalized indicates that another US$168 million will most likely be available within the current calendar year. Also, another US$195 million is in an advanced process of negotiation.

Concerning the contribution to be made by extra-regional members, in addition to a total of US$200 million contributed as paid-in capital, a US$50 million securities issue would be facilitated, backed by capital subscribed but not paid. Mexico, Argentina and Venezuela have reportedly already agreed to become members. Their contribution can represent US$43.3 million in cash (out of which Mexico and Venezuela have already disbursed US$28.9 million under interim arrangements) and US$86.4 guarantee capital. There is apparently also firm interest in membership on the part of Colombia, Taiwan, Spain and Italy. Their participation can represent an additional US$120 million of capital. The Bank's management expects that, with active promotion and the reform of its constitution, it will attract potential members from other countries in European Economic Community (particularly France, West Germany and the United Kingdom) and countries Northern Europe.

Looking at the fundamental assumptions made by the Bank for its five year plan, it appears that they are reasonable assumptions. The fulfillment of country member obligations is promoted by the fact that they will benefit from fresh resources. The participation of extra-regional members and of bilateral and multilateral agencies can be attained as the Bank demonstrates that it is operational and that it is supported by its own members.

If the plan is fulfilled, the results of the Bank would change significantly. The impact on the Bank's liquidity would be immediate and, rather than ending FY90 with a negative position of US$27.91 million, as would have occurred under past trends, it would accumulate a total of US$36.4 million in liquid assets at that date. The total increment in liquidity during the five year plan would be US$250.5 million, providing 7.5 months of coverage of the Bank's disbursements, debt service and administrative expenses, up from 2.5 months at the beginning of the plan. There would also be a net provision of resources to country members equivalent to US$81.4 million during the five year period, and the Bank's net income would increase from US$6.9 million in FY90 to US$76.9 million in FY94.

This strengthening of the Bank, and of its ability to meet its obligations, undoubtedly improves the overall framework within which the Housing Fund has to operate. In the following section, projections of the Fund's activities for the next five years are reviewed.

D. FINANCIAL PROJECTIONS: FY90 TO FY94

In the previous chapter it was mentioned that, as part of the total credit expansion being contemplated by the Bank under its medium term, five-year, strategy, a range of US$80.8 to 84.0 million would be directed to housing. In this section, that amount is compared with the activity estimated in projections made specifically for the Housing Fund by the Bank's Financial Division. Also, those projections are reviewed in light of current trends of project identification and approval. Evaluations are also made of Housing Fund results assuming that the current housing program is not undertaken. In a later section, the impact on the Fund of converting USAID's US$15 million DA loan into a grant will be analyzed.

1. CABEI'S PROJECTIONS OF HOUSING FUND ACTIVITIES: FY88 TO FY97

In order to comply with the requirements established in the Agreement with USAID for the new housing program, the Bank developed in February 1988 a financial plan containing cash flows and other projected accounts for a period of ten years beginning FY88. The plan was designed to financially strengthen the Fund through its implementation. Specific policies would be established to ensure the Fund's liquidity and financial position. Some of these policies include:

- Competitive Interest Rates. Interest rates would be set at levels that allow for the recovery of financial and administrative costs, while permitting a reasonable profit margin.

- Term. The term of the loans to be granted under the program would be 15 years for housing loans and 15 years, including 5 years of grace, for infrastructure loans.

- Resource Recycling. Loan recoveries and profits would be used to grant new loans or as counterpart for future new resources for the housing program.

- Return on Equity. To attain a 5 per cent return on the Fund's equity, adjustments would be made to interest rates for new approvals whenever the cost of resources used to calculate interest rates varies. Also, Fund investments would be made, as far as possible, in relation to the international cost of funds.

- Liquidity. To allow for a strong financial position, liquidity to be held by the Fund was projected as equivalent to one year of debt service payments.

- <u>Maintenance of Value</u>. Loans will be provided either under compensating loan arrangements or under maintenance of value clauses, in accordance with the preference of the monetary authorities of member countries.

The plan's projections anticipated the following program of loan approvals:

	FY1988	FY1989	FY1990
		(US$ Million)	
Guatemala	13.0	8.6	-
El Salvador	-	15.0	4.3
Honduras	11.5	9.8	6.5
Costa Rica	9.0	7.3	-
TOTAL	33.5	40.7	10.8

As can be seen above, total loans approved during the first three years would have been US$85 million. Disbursements of loans would also amount to US$85 million, although spread over four years:

	FY1988	FY1989	FY1990	FY1991
		(US$ Million)		
Guatemala	7.0	6.0	5.0	3.6
El Salvador	4.8	4.6	5.6	4.3
Honduras	7.2	10.1	4.8	5.7
Costa Rica	4.2	4.6	3.3	4.2
TOTAL	23.2	25.3	18.7	17.8

The projections include a sensitivity analysis of results for the Fund under three different scenarios:

- <u>Assumptions under Scenario 1</u>. There is no new activity on the part of the Fund. Old loans under past programs are recovered as scheduled and the proceeds are invested, not re-lent.

- <u>Assumptions under Scenario 2</u>. Expanded Fund activity in accordance with the disbursement plan presented above. Resources are recycled and the cost of HG resources is assumed to remain at 8.4 per cent during all of the projected period.

- <u>Assumptions under Scenario 3</u>. Also expanded Fund activity, but the cost of HG resources is assumed to increase <u>gradually</u> to 12.5 per cent, the maximum level. During the first three years, the cost is assumed to be 8.4 per cent, rising to 10 per cent for the next three years and to 12.5 per cent for the last four years of the projections.

Other assumptions under these scenarios are that loans under the program will be provided at 10 per cent, with an upfront commission of 1 per cent on annual disbursements. Compensating loans would be given at 9 per cent. Investments in local currency were assumed to yield 11.5, 11.0, and 10.5 per cent for FY88, FY89 and FY90, respectively, and 10 per cent for the following years. Temporary investments in foreign exchange were assumed to yield 9.5 and 9.0 per cent during the first two projected years and 8.0 per cent afterwards. Interfund loans by the Fund are expected to be reduced to zero in a period of four years, beginning the first year of the projections.

The cost of existing debt is assumed to behave as originally contracted. USAID's direct assistance loan is assumed to be 2.0 per cent for the ten years included in the projection, and a one-time commission of 1.0 per cent is calculated on the HG loan (HG interest varies for the second and third scenarios as indicated above). Administrative expenses are assumed to be equivalent to 1.0 per cent of the loan and investment portfolio.

The results for the three different scenarios can be summarized as follows:

<u>Results of Scenario 1</u>. According to this scenario, the Fund's net income gradually decreases from US$1.4 million in FY88 to US$0 in FY93, then becoming a loss. Total assets decrease from US$229.9 million in FY87 to US$139.6 million in FY97. Loans outstanding decrease from US$75.5 million in FY87 to US$19.3 in FY97, while investments increase from US$37.3 million to US$90.1 million. On the liability side, borrowings decrease from US$123.5 million in FY87 to US$84.5 million in FY97. Capital accounts increase from US$24.0 million in FY87 to US$25.3 million in FY97.

<u>Results of Scenario 2</u>. Under this scenario, the Fund's net income increases every year in the projection, reaching an accumulated total of US$26.6 million at the end of the period in FY97. Total assets increase from US$229.1 in FY87 to US$343.6 in FY97. During the same period, loans outstanding go from US$75.5 million to US$164.5. Investments under this scenario reach a peak in FY91, rising from US$37.3 million in FY87 to US$62.1 million and gradually decrease to US$30.6 million at the end of the projection. The Fund's borrowings increase from US$123.5 million in FY87 to US$144.5 million in FY97. During the same period, capital accounts increase from US$24.0 million to US$50 .6 million.

Results of Scenario 3. Net income under this scenario, also increases every year, but at a lower pace than scenario 2, reaching a lower accumulated total of US$13.8 million. Total assets increase, but by a lower amount, going to US$318.8 at the end of the period. Loans outstanding increase to US$151.2 million, 8.1 per cent less than in Scenario 2. Investments increase to US$31.2 million, essentially the same level as in Scenario 2. Borrowings decrease to the same level as under Scenario 2, but capital accounts increase to only US$37.8 million.

Based on the three different scenarios, the Bank concludes that:

At present, the Fund enjoys adequate financial solvency. That solvency would be improved with the incorporation of the new program's activities.

Given that under both scenarios with incremental Fund activity (scenarios 2 and 3) there is a positive return on equity, it would be feasible to adopt fixed interest rates under the program. Offering loans at fixed rates would make Fund resources more competitive in member countries. In any case, interest rates for new loans would be reviewed every six months to determine if adjustments are necessary, given existing market conditions.

The assumptions and conclusions of these projections for the Housing Fund are evaluated in the following paragraphs.

2. CONSISTENCY AND VALIDITY OF PROJECTION ASSUMPTIONS

Based on an evaluation of Fund projections, new developments, and the overall analysis undertaken in this document, the following observations can be made concerning the consistency and validity of projection assumptions:

Identified Demand. There appears to be an inconsistency between demand identified for housing loans in the Bank's recent document "Medium Term Strategy" and the amounts disbursed under Housing Fund projections.

As was indicated in the earlier section related to CABEI's condition, identified demand for housing loans under the Bank's medium term strategy is US$84.0 million. Since identified demand functions in effect as an upper lending limit (supply can not exceed demand), then, presumably, the Bank's total lending plan of US$1,080 million contains at most US$84 million in loans for housing. Projections made for the Fund in 1988, on the other hand, assume that disbursements during the first five years of the program will amount to US$103.0 million under Scenario 2, and US$100.8 million under Scenario 3 (in both cases using original and recycled program resources). Hence, there appears to be a discrepancy between the Bank's projected activity and activity projected for the Fund.

In the document "Plan de Ejecucion Descriptivo Programa Centroamericano de Vivienda de Bajo Costo y de Mejoramiento Urbano AID/BCIE" prepared by the Bank on June 1989, it is indicated that a total of US$122.0 million in loans have been discussed with member countries. Of this amount, US$26.0 million have already been approved and signed. This figure is below the amount of US$33.5 million assumed to be approved in the first year of the projections, which supposedly will result in US$23.2 million disbursed during the first year. Thus, it would appear that Fund projections of US$100.8 to US$103.0 million in loan disbursements during the program's first five years may be high, since actual approvals are already lagging in relation to estimated approvals.

One important consideration, however, is that the present number of approvals has been attained without active program promotion, as the program, for all practical purposes, is on hold.

- Results Without Activity from the New Program. According to projections made under Scenario 1, where no new lending activity is assumed to take place with either fresh funds or recycled funds, the Fund shows a loss during the last four years of the projection. To a large extent, this loss is incurred because administrative expenses keep rising steeply, despite the fact that no lending activity whatsoever takes place. For instance, operating expenses go from US$976 thousand in FY87 to US$2,014 million in FY97, while loans decrease from US$75.5 to US$19.3 million and total assets decrease from US$229.9 to US$139.6 million.

If the purpose of Scenario 1 is to develop a standard of comparison for the Fund's performance under conditions where no new funds are injected, as opposed to the Fund's performance with new funding, then the assumptions made for this scenario appear to be unrealistic. On the one hand, it is possible for the Fund to recycle funds from previous programs, thus maintaining a larger loan portfolio over the projected period and earning greater interest income. On the other hand, it is not reasonable to assume that operating expenses will behave as currently presented, steeply rising despite a drastic fall in lending activity and in total asset volume.

Cost of Resources. The decision made to lend funds under the program at fixed rates was based on results of Scenario 3, where net income always remains positive (although lower than in Scenario 2) and return on equity remains at an acceptable level (also lower than in Scenario 2) despite a gradual increase in the cost of HG resources. The assumption made is that interest cost for HG funds will be 8.4 per cent for the first three projected years, 10 per cent for the following three and 12.5 per cent for the remaining four.

Yet the increase assumed in interest cost is, in fact, too gradual. Scenario 3 cannot be said to represent a worst case scenario, or a scenario under rapidly changing and tight monetary market conditions. In this sense, it does not provide information needed to evaluate the Fund's performance under circumstances significantly different to those of Scenario 2.

Although it can still be argued that interest rates will be reviewed every six months, enabling the Fund to adjust its interest income to changes in market conditions, the interest rates being reviewed are for new loans only, not for loans granted prior to any revision. Therefore, depending on the pattern of interest rate changes in relation to disbursements, the Fund can find itself in a position where, in order to recover increases in interest rate cost, it will have to disproportionately increase the interest charged to new loans (thus compensating for the income lost in older loans granted at lower interest rates).

A projection with more conservative assumptions about interest rate movements may lead to different conclusions concerning the interest rate policy currently adopted by the Bank for the new program.

Overall, then, it would be desirable to update existing projections for Housing Fund activities and to develop a worst case scenario. The use of more conservative assumptions and newer data would be helpful in developing an alternative outlook for the Fund should market conditions deteriorate.

E. INSTITUTIONAL ANALYSIS

1. ORGANIZATIONAL ISSUES

a) CABEI as a Development Bank

Other agencies, most notably the World Bank in its November 1988 reconnaissance report, have suggested that CABEI should redefine and refocus its role to that of a purely "development" bank. This matter is outside the scope of our brief, but we do wish to reinforce this suggestion as it relates to the Housing Fund.

By concentrating on "second story" financial functions, instead of on primary lending, the Housing Fund is better able to extend its influence over a greatly expanded range of issues and needs. Also, though itself in the public sector, the Fund, by acting as a secondary-level lender, retains the ability to apply its resources to the support and development of private sector financial intermediaries.

The Housing Fund already operates as a second-story lender and, to our knowledge, does not plan to involve itself with primary lending activities.

b) CABEI's Housing Fund

CABEI is administratively organized along functional lines, with separate departments for legal, planning, promotion, operations, finance, and administration. The four operating funds, although based on distinct sectoral lines and maintaining individualized accounting records, are not separately managed or overseen.

The Housing Fund is no exception. Thus, it does not have a specified officer or authority directly responsible for its overall operations and performance. True, its lending operations have recently been assigned (as an additional duty) to a special Coordinator: the Bank's current manager of the Operations Department. But all ancillary functions: planning, promotion, legal, financial, treasury, accounting, personnel, etc remain diffused within--and subject to the separate authority of--the bank's sundry functional departments.

This lack of an overall, unified leadership for the Housing Fund results in a less than optimum deployment and utilization of its resources and potential. The Fund needs to have, at the very least, its own directly responsible financial management and, ideally, complete authority and responsibility for the full range of its activities.

Though originally established as a separate Housing Finance Department within CABEI and in constrast to the Bank's two other specialized funds, the Housing Fund also lacks a distinct statute of its own to better define its scope and individuality.

In this regard, it is illuminating to recall the original considerations and resolutions that gave rise to the creation of the old Housing Finance Department (see Schedule 2). These are still valid and should be incorporated anew.

Thus, we believe that in order to improve its scope and enhance its effectiveness, while simultaneously protecting its operational integrity and facilitating its future growth, the Housing Fund should be consolidated by:

a) Provision of its own separate statute, which should include the original concepts of board resolution DI-23/64 (Schedule 2) and the further policy guidelines incorporated in subsequent USAID agreements. Ideally, an attempt could also be made to provide the Fund with full financial independence in order to better insulate its operations from CABEI's other, more risky and independently leveraged investments. In any case--CABEI'S creditors permitting--the possibility of eventually spinning-off the Housing Fund as a separate specialized subsidiary should probably be given further thought, particularly if it is to develop secondary mortgage market capabilities.

b) Giving responsibility for the Fund's overall management to a senior officer within the bank. This empowerment should, at the very least, include full authority to identify, design, initiate, promote, execute, complete and follow through on all Housing Fund projects, as well as to oversee the Fund's planning, accounting, treasury and other administrative functions. To accomplish this without disrupting existing functional lines, a limited "matrix" type of structure could be adopted.

c) CABEI'S Other Housing Finance Operations

CABEI has, in the past, funneled considerable amounts of housing finance through its Social Development Fund. This involved direct loans to governments or their instruments for the financing of "social" housing at subsidized rates, as follows (in millions of dollars):

		US$	Rate	Term	Date
Banco Nac.de la Vivienda	Guatemala	30.0	9%	20	Jun'79
Government	Nicaragua	3.1	5%	20	Sep'80
Government	Nicaragua	4.0	5%	20	Jan'81
Instituto de la Vivenda	Honduras	1.0	5%	20	Nov'81
Government (INVA)	Honduras	6.1	5%	20	Jun'82
Government (restructured)	Nicaragua	1.2*	8%	15	Nov'88
	Total	45.4			

* In Nov'88 Nicaragua made a local currency payment on its debt and restructured past due foreign currency amounts into this US$ loan. No new cash was advanced.

The Social Development Fund's type of lending detracts from the Housing Fund's operations; it not only competes directly for targeted borrowers, but does this under a heavily subsidized and non-replicable basis.

We are not aware of any plans by CABEI to repeat this type of lending through the Social Development Fund, but would suggest that all future housing loans be written through the Housing Fund under its normal requirement for self-sustaining, unsubsidized and fully recoverable investments.

2. FINANCIAL MANAGEMENT ISSUES

A detailed assessment of CABEI's management is not a purpose of this consultancy. However, our contacts with the Bank's top management have led to some observations.

Senior officers and most supporting staff appear as individually knowledgeable and competent. The recent financial difficulties stemming from adverse economic conditions suffered by the bank's member (and borrowing) constituency are being properly confronted by management and have been met by recent assembly and board actions. Past planning and financial information relevant to our analysis was readily and comprehensively available. However, updated projections to account for new circumstances were not available for the Housing Fund, principally because the bank's planning staff was occupied on CABEI's overall revised projections.

We believe that additional improvements could be obtained by adopting a matrix type of organization (as previously mentioned under "1. Organizational Issues" hereinabove). This is particularly evident given the bank's division into four distinct and separately accountable operating funds.

Other financial management and accounting issues specifically applying to the Housing Fund, are:

* <u>Liquidity</u>

  The Housing Fund's liquidity deposits of US$77.1 million, plus another US$6.9 million in accrued interest, are held as follows (in US$ millions):

<u>Currency</u>	<u>Principal</u>	<u>Interest</u>
Quetzales	20.1	1.5
Colones Salvadorenos	0.4	0.0
Lempiras	1.9	0.0
Colones Costaricenses	<u>18.1</u>	<u>0.4</u>
Sub-total	40.4	1.9
US dollars	<u>36.7</u>	<u>4.9</u>
Total	77.1	6.9

The only restrictions on this liquidity are:

a) Q9 million are in term deposits at Banco de Guatemala maturing in four tranches between Nov'89 and May'91
b) US$24 million at Riggs National Bank can only be drawn with USAID concurrence as program advances
c) US$12 million are frozen in a "conditioned" account with the Central Bank of Honduras

The Fund's present liquidity is deemed adequate to fund the US$6 million loan to BANHVI in Costa Rica and the US$2.5 million initial tranche of the loan to the Central Bank of Honduras.

Foreign Currency Availability

The Housing Fund's compensatory loan agreements (described in "3. Foreign Exchange Issues") with the various central banks in its lending area are structured to provide the necessary US dollars to properly meet the Fund's payment obligations--both of principal and interest--under existing borrowings, as follows (in US$ millions):

	FY90	FY91	FY92	FY93	FY94
Investment Income	2.4	2.7	3.2	3.6	4.0
Interest receivable	6.3	7.1	7.0	6.1	5.2
Principal "	4.6	9.1	9.1	9.1	9.1
Sub-total	13.3	18.9	19.3	18.8	18.3
Interest payable	10.5	10.4	10.1	9.9	9.6
Principal "	2.3	2.4	3.1	3.9	4.1
Sub-total	12.8	12.8	13.2	13.8	13.7
Net Balance	0.5	6.1	6.1	5.0	4.6

Thus, short of actual default by these central banks, there is no reason for the Fund to fall behind in its foreign payments.

Capitalization

The Housing Fund's assigned capital is currently US$20 million, representing approximately 14% of liabilities. With the addition of currently retained earnings of US$12 million, the net worth/liabilities ratio increases to 22%.

Once the DA and HG loans are disbursed in their full amount of US$60 million and assigned capital is increased to US$25 million, the capital/debt ratio will drop to 12%, other liabilities remaining equal. On the other hand, if the US$15 million DA were converted to a grant, the Fund's capital/debt ratio would instead increase to just under 20%. All such ratios are considered strong, particularly since retained earnings and expected future profits serve to significantly enhance them.

Despite these strong ratios, it should be noted that, as they now stand, the Housing Fund's ratios of assigned capital and net worth to total assets are the lowest of all funds, as follows (in %):

Fund	Capital	Net Worth
Ordinary	16	18
Economic Integration	19	31
Social Development	20	72
Housing	7	11

Inter-Fund Transfers

The Housing Fund shows a net credit due from other bank funds in the amount of US$16 million. This must be viewed from two perspectives. On the one hand, it can be considered as effectively reducing assigned capital to only US$4 million, which would appear insufficient to support the Fund's lending activities and to meet its eventual commitments for counterpart funds under the HG loans. On the other hand, if considered as an investment, it reduces by a considerable sum the resources available for the fund's normal lending.

The Housing Fund further loses in this transaction because of its current practice of charging interest only at its average cost of funds rate. We believe that this inter-fund balance should be paid to the Housing Fund as soon as possible--which, under CABEI's latest financial plan, could well be within a year. While these interfund transfers remain outstanding (in case their balance is not repaid immediately), the Housing Fund should charge interest at least at a realistic opportunity cost.

Investment Certificates

The Housing Fund has Investment Certificates outstanding in the amount of US$14 million, as follows (in US$ millions):

Currency	Balance
US dollars	6.9
Lempiras	5.9
Colones	0.5
Quetzales	0.7

The dollar certificates, paying 10% interest, are all held by present and former CABEI employees. These certificates, after an initial 30 day term, are redeemable upon demand. Other currency certificates, paying between 9% and 11% interest, are mostly held by past borrowers who were required to subscribe to them in proportion to their loans; their maturities coincide with corresponding loan terms.

We do not encourage a renewal of this latter practice, but do believe that CABEI could study the possibility of adapting new issues of these certificates or of similar instruments to the free development of a secondary mortgage market.

Inter-Fund Expense Allocation

All bank expenses are currently allocated to the individual funds on the basis of their respective assets. The previous, correct, cost accounting practice was discontinued in 1985, ostensibly to improve results shown by the Ordinary Fund. We strongly recommend a return to proper cost accounting.

Loan Loss Provisions and Write-offs

It is CABEI's contention that the Housing Fund has no need to provide for doubtful loans because: (a) private sector loans are collateralized by mortgages which fully cover any amounts due; and (b) public sector loans are included within the bank's recently established reserve for loans in foreign currencies to this sector.

Notwithstanding, we believe that the Housing Fund should monitor and provide for its loan portfolio on a more conservative basis. In particular, when a loan has been placed on a non-accrual basis after the presently defined 180 day default basis, we believe that the full amount of the loan should be considered of doubtful collection and the need for adequate provisions or write-offs properly ascertained. Similarly, when a loan has been restructured because of non-compliance, we believe it should continue to be viewed as non-performing until the new payment schedules have been adequately confirmed in practice.

3. FOREIGN EXCHANGE ISSUES

CABEI has very correctly determined that it cannot itself assume an exchange risk between its foreign currency borrowings and their investment in local currencies. To preclude this, it transfers this risk to its own borrowers in those cases where the nature of the investment and its recovery justify it. But, in the case of US dollar borrowings under the Housing Guarantee Program, where it deems this transfer unacceptable, it has instead obviated the risk by entering into "compensatory loan" arrangements with corresponding central banks in beneficiary countries. These arrangements involve a US$ loan from CABEI to the respective Central Bank and a reciprocal loan in local currency from the Central Bank to CABEI. The interest rate, loan term and amortization periods are exactly equal in both loans, and the amount of the local currency loan is made equivalent to the dollar loan at the official exchange rate extant at the time of drawdown.

Lately, however, some central banks have begun to express a reluctance to continue engaging in such compensatory loan arrangements. The following arguments (although not all of equal force) are presented as a means of bolstering the Fund's case for these arrangements.

* Foreign exchange risk

The basic effect of these compensatory loans is comparable to that of a currency swap; there is no cross-sale of currencies and no exchange risk is incurred by <u>either</u> party. However, probably because of the short-hand practice of referring to these transactions as being "currency protected", their true <u>risk avoidance</u> nature is not always clearly perceived and it is sometimes argued that a central bank itself is assuming an exchange risk.

But such is not the case. Whereas CABEI has no use for dollars in its normal (housing finance) operations, a central bank does; dollars, among their other uses, constitute a normal--and probably preponderant--part of a central bank's international reserves. Thus, unlike CABEI, which would have to sell its dollars to fund its lending operations, a central bank can retain them as such or, alternatively, convert them into other equally hard currencies or assets.

Inorganic emission

When a central bank extends a financial facility (advances, loans, discounts, etc), it records this as an increase of "currency in circulation" on the liability side of its balance sheet. And when this increase is not matched by a comparable increase of hard currency assets, it is referred to as an inorganic emission.

In the present case, the central bank is receiving dollars from CABEI and the local currency emission should qualify as an organic one.

The position would be even clearer if the transaction had been carried out as a currency swap in which, in this instance, the central bank would be receiving the dollars without booking them as a debt separate from its obligation to eventually unwind the swap.

Inflationary impact

Facing the occasionally voiced argument that an <u>ad hoc</u> issue of currency to finance housing can have an inflationary impact, two other economic factors must be considered. First is the relative amount of the issue and whether this is meaningful or not. Second, and most importantly, is the considerable stimulus provided by such financing in the various areas of: employment; construction materials; building industry; appliances and furniture manufacture; housing services; national savings (both for down payments and subsequent amortizations); etc.

Additionally, one must also give weight to the further beneficial impact that housing solutions have on the social and political context.

* Ultimate convertibility

Another argument is occasionally advanced that all foreign currency taken in by a central bank is ultimately translated into local currency terms (such as when used to finance local businesses paying for imports or foreign services).

But, surely, this is not applicable in the cases of housing finance and urban development loans with their large domestic wage component and extensive local materials usage.

* Subsidized financing

A further argument sometimes made to discourage these compensatory loan operations is that the local currency provided by the central bank eventually returns to it in devalued measure, while the ultimate beneficiary of the financing usually sees his investment (i.e. his home) appreciate in nominal, and possibly even in real, terms. Thus, the argument goes, the homeowner has been effectively subsidized at the central bank's expense.

First, it can be fairly counter-argued that the same conditions apply to all other loans, advances or discounts by the central bank when prudently invested by their beneficiaries and when no maintenance of value is required by the central bank. Secondly, inflation and any ensuing devaluations can be seen to be, to a large extent, the direct responsibility of the central bank itself.

F. CABEI'S NEW LOAN ARRANGEMENTS

1. PHYSICAL OUTPUTS

As described in "C. Historical and Current Financial Assessment," the Housing Fund has made few loans in the immediate past, the last one having been written in February 1984.

Activity picked up again in 1989 with two loans entered into, but still undisbursed, with borrowers in Costa Rica and Honduras. A pipeline of possible other projects was also identified in these and other countries in the region. Thus (in millions of dollars):

Country	Borrower	Signed	Potential
Costa Rica	BANHVI (discount of mortages)	6.0	
	IFAM (municipal waterworks)		15.0
El Salvador	BCR		20.0
	Viceministerio de Vivienda		20.0
	CREDISA		8.0
Guatemala	BdeG (housing and urban))		20.0
	Bancos Privados (deposits)		13.0
Honduras	BCH (FOVI/A&P)	10.0	
	BCH (urban improvements)	10.0	____
	Totals	26.0	96.0

This program, totalling US$122 million, exceeds by US$37 million the funds available from HG, DA and counterpart sources and by US$38 million the loan projections contained in CABEI's latest medium term program. The extra margin is justified on the assumption that certain potential projects may not materialize.

2. POLICY OBJECTIVES

The two loan contracts entered into by CABEI--with the Banco Nacional Hipotecario de la Vivienda (BANHVI) in Costa Rica for US$6 million and with the Central Bank of Honduras (BCH) for US$20 million--appear to fall squarely within the scope of USAID's policy objectives as stipulated in the corresponding loan and implementation agreements. Specifically, in addition to their corresponding physical outputs, they will, if properly implemented and followed through:

Considerably improve CABEI's financial position, duly enhancing its ability to generate positive net and retained earnings.

Substantially reinforce the ability of private housing finance intermediaries in both countries to generate mortgages on lower income housing. The US$6 million loan to BANHVI will be used to purchase new mortgages generated by the Costa Rican savings and loan system. The loan to BCH, in its US$10 million housing component, is also expected to assist the Honduran savings and loan system and other private financial intermediaries through advances or mortgage purchases.

Substantially encourage the development of private sector promoters and builders. As a point of reference, the following chart shows the number of loans in the Housing Fund's portfolio at June 30, 1989 and the number of these which were granted to private sector borrowers, developed by private promoters and built by private sector enterprises.

COUNTRY	TOTAL LOANS	PRIVATE BORROWER	PRIVATE PROMOTER	PRIVATE BUILDER
Costa Rica	8	4	4	8
El Salvador	3	1	3	3
Guatemala	3	2	3	3
Honduras	24	20	22	24
Nicaragua	7			5
Total	45	27	32	43

Both loans could also be refined in their implementation to enhance their potential contributions to:

a) Improving the capacity of shelter and infrastructure institutions to finance, design and develop environmentally sound and financially viable projects.
b) Encouraging improved pricing policies by municipalities and infrastructure institutions.
c) Encouraging improved collections by public sector institutions.
d) Encouraging a modification of lending rate policies of private financial institutions to reflect cost recovery principles.

G. APPROPRIATENESS OF CURRENT IMPLEMENTATION PLAN

1. GENERAL

On the assumption that the recently commitments made by CABEI's members and borrowers--regarding capital infusions and loan repayments--are duly carried out, USAID's current implementation plan is considered appropriate as a means of achieving the Housing Fund's project objectives.

It is obvious that certain original assumptions and goals have slipped, but not to the point of being irretrievable. We believe that with adequate and prompt support at this critical juncture in its activities, the Housing Fund--and CABEI by extension--can be put on a firm footing once again. This does not imply a relaxation of either standards or policy objectives; quite the contrary, these could be profitably re-emphasized and reinforced as pre-conditions to each new disbursement under the HG and DA agreements.

2. USE OF AID FUNDS

The Housing Fund's June 1989 balance sheet shows borrowings--all of which are USAID related--in the amount of US$122 million, while the net receivable on loans granted by the Fund is of only US$64 million. We understand that disbursement of USAID loans and guaranteed funds to CABEI was originally made on the basis of new housing loan originations. Thus, we can assume that, of this difference--after allowing for the US$24 million in escrow at Riggs National Bank--the balance of US$34 million results from non-reinvested loan recoveries by the Fund.

The full US$58 million difference can reasonably be considered as included in the Fund's US$77 million of "term deposits and other investments." It can be further assumed that USAID funds have not been used for restructuring or rescheduling CABEI's portfolio; even though part of these deposits are held in currencies other than US dollars.

3. INTEREST RATE POLICY

The financial implications of the Housing Fund's current interest rate policy have been described in "C. Historical and Current Financial Analysis: FY85 to FY89".

From the viewpoint of a development lender, this interest rate policy must also be questioned: (a) in general, to see if it conforms with normal market rates in the countries involved; and (b) in particular, to see if it provides borrowing agencies, financial intermediaries and ultimate beneficiaries with hidden, indiscriminate and unrecoverable subsidies.

In regard to the first point, the Fund's established policy is to make its financing available at a single interest rate (e.g. 10%) for similar borrowers regardless of their country location. This obviously disregards market rates, inflationary expectations, risk analysis, etc and unduly distorts the very financial markets it is attempting to develop. This practice should be immediately discarded and an appropriate policy of market based rates adopted in its stead, as called for under USAID agreed policies.

On the second point, although the Housing Fund is itself the beneficiary of an important subsidy in the pricing of the DA loan (and more so if the loan is converted to a grant), it is our understanding that this is to enable the Fund to generate strong profits and retained earnings, thus improving its capitalization. Through its present policy of passing on this cost advantage, the Fund, albeit with the best intentions, is denying itself a legitimate opportunity to properly consolidate its finances.

The USAID agreements require that the Fund's pricing of its loans should in all instances be based on a full recovery of its financial and other costs, particularly since the Fund's borrowers are themselves usually financial intermediaries. Although this requirement is complied with at the precise time of drawing against the HG loans, the Fund's margins could subsequently disappear under adverse interest rate conditions.

To counter this, two alternatives suggest themselves:

1) Floating Rates, based on the Fund making a reasonable margin over its own variable cost of funds as determined from time to time on its HG borrowings.

2) Full Market Rates, as existing for comparable non-subsidized financings in the countries involved. If the Fund needs to limit its margin should the spread become excessive, it could undertake to rebate the excess back to its borrower.

H. IMPLICATIONS OF CONVERTING USAID'S DA LOAN TO A GRANT

The possibility of converting USAID/ROCAP's US$15 million loan (596-W-025) to a grant has been suggested. Obviously, this is a decision that only USAID can make. But, in the affirmative, the consequences for CABEI would be as follows:

a) Capitalization

The greatest benefit for the Housing Fund would result from the corresponding US$15 million increase in its assigned capital base, assuming the grant is properly allocated to it. This would greatly improve the Fund's capital/debt ratio, giving it a very strong balance sheet and expanded leverage opportunities.

Such an improvement, also, will be particularly meaningful to the Housing Fund when attempting to develop its secondary mortgage market capabilities.

b) Cash Flow and Profitability Impact

Another major benefit would accrue to the Housing Fund be the immediate improvement in its cash flow and profit accounts. Retained cash would increase by US$300 thousand annually during the first ten years, and by US$754 thousand from then on. Return on equity would improve as interest expense decreases. The improvement would be approximately 0.3 percent in the first year.

c) Procurement Sources

A derivative consequence, not deemed important in the present instance, is that grant funds are more limited than loan funds on how beneficiaries can use them, particularly in procurement.

On the other hand, were USAID to decide against converting its loan to a grant, it is not believed that this would pose an insurmountable hardship to the Housing Fund.

LIST OF ENTITIES AND PERSONS CONTACTED

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)

Ron Nicholson	ROCAP, Deputy Director
Ann W. McDonald	ROCAP, General Development Officer
Marc Scott	ROCAP, General Development Officer
Paul Tuebner	ROCAP, Project Development Officer
Pirie Gall	ROCAP, Project Development Officer
Tom Miller	ROCAP, Program Officer
Joe Hill	ROCAP, Controller
Donald Richardson	ROCAP, CABEI Liaison Officer
Mario Pita	RHUDO, Director
William H. Yaeger	RHUDO, Deputy Director

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION (CABEI)

Rolando Ramirez Paniagua	Presidente Ejecutivo
Jose Miguel Gaitan A.	Vice presidente Ejecutivo
Alfredo B. Noyola	Asesor de la Presidencia
Antonio Jose Duarte	Contralor
Felix Martinez Dacosta	Asesor Juridico
Rigoberto Merino	Gerente de Operaciones
Jorge A. Papadopolo	Gerente Financiero
Victor M. Rheinboldt	Jefe de Area, Analisis Financiero
Arnaldo Pasquier	Jefe de Area, Consecucion Recursos
Mariano Buitrago	Jefe de Area, Tesoreria
Carlos R. Araujo	Jefe de Area, Contabilidad
Rodrigo MacGregor	Coordinador de Oficinas Regionales
Sergio Nunez	Jefe de Area, Desarrollo Social y Vivienda.

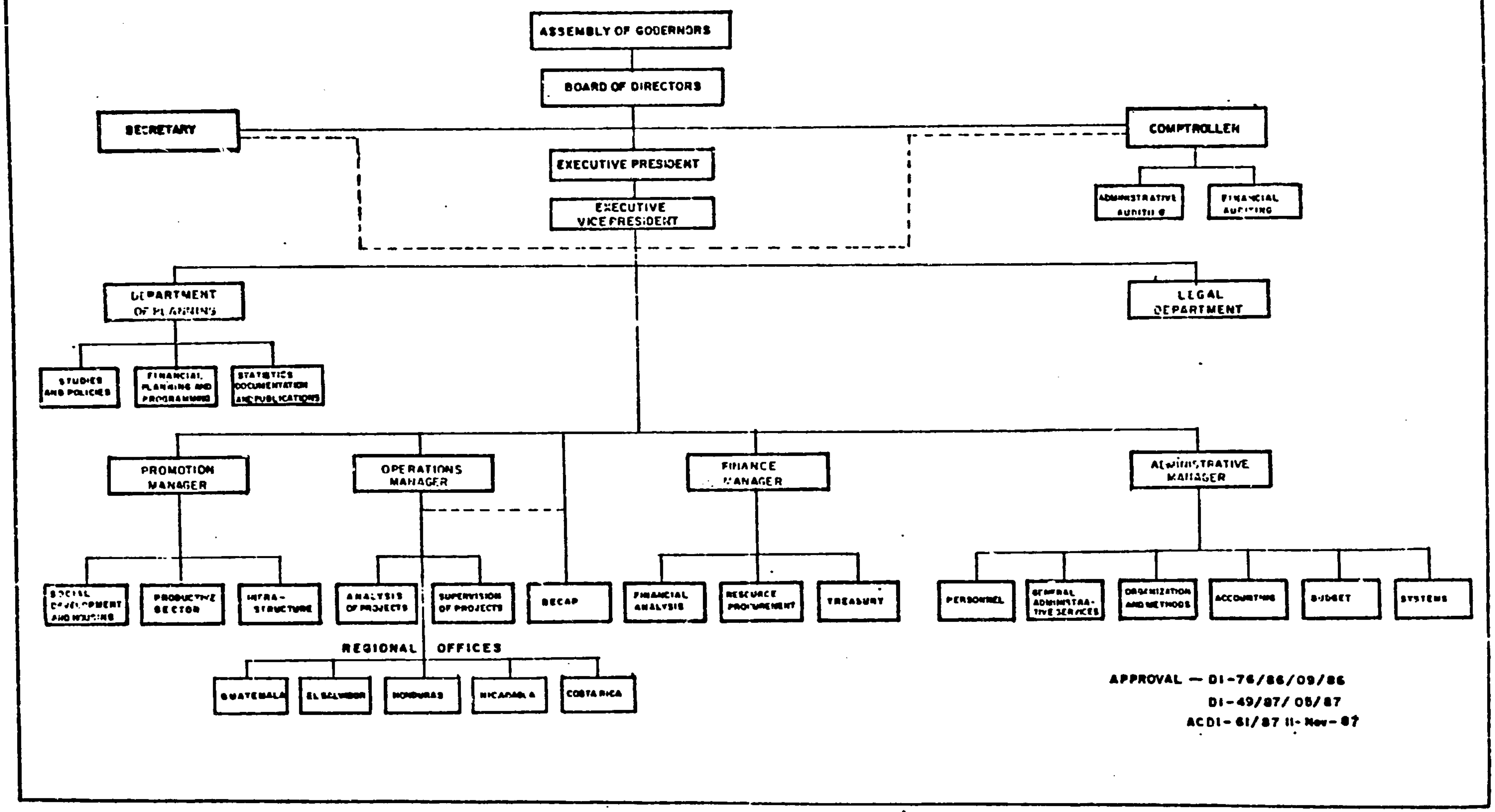
LIST OF PRINCIPAL DOCUMENTS AND REPORTS REVIEWED

Project Paper and Implementation Agreement USAID 596-HG-006	Aug'87
Project Loan and Grant Agreement USAID 596-W-025 Program 0143	Aug'87
Memorias Annuales 1985/86, 1986/87, 1987/88 (draft) CABEI	
Plan Financiero del Programa Habitacional CABEI/FFV	Feb'88
Avance del Plan de Fortalecimiento Institucional CABEI	Jan'89
Plan Operativo Anual 1989/90 CABEI	May'89
Fortalecimiento Financiero e Institucional CABEI	May'89
Programa de Ejecucion: Vivienda y Mejoramiento Urbano CABEI	Jun'89
Propuesta para la Reestructuracion Financiera del BCIE CABEI	Sep'89
Estrategia de Mediano Plazo del BCIE CABEI	Sep'89
Evaluation of the CABEI/ROCAP Program Development Associates, Inc. by J. Vanderveen, S. Williams and J. Bustamante	Mar'88
EC Mission Report on CABEI (draft) Commission of the European Communities by Paul Goffin (consultant)	Nov'88
Report of Reconnaissance Mission to CABEI World Bank by Moritz and Walter (consultant)	Nov'88
Strengthen CABEI (draft) United Nations Development Program by Knox and Stohler (consultants)	Jul'89
CABEI, Report to RHUDO and ROCAP (draft) Water and Sanitation for Health Project by F.S. Mattson and A. Austin	Aug'89
CABEI, Current Situation and Future Prospects (draft) Price Waterhouse by J. Richard Breen	Aug'89

SCHEDULES

1. CABEI Organizational Structure
2. CABEI Board Resolution 23/64 Creating the Housing Finance Department
3. CABEI Assembly Resolutions 13/89 and 14/89 Approving new Capitalization and Financial Plan
4. Housing Fund: B/S FY 1985/89
5. Housing Fund: Modified B/S FY 1985/89
6. Housing Fund: P/L FY 1985/89
7. CABEI: Main Financial Variables
8. CABEI: Financial Projections FY 1990/94

ORGANIZATIONAL STRUCTURE OF THE CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION



SCHEDULE 1

El suscrito Subsecretario del Banco Centroamericano de Integración Económica, CERTIFICA:

Que el Directorio del Banco en su sesión del día viernes 10 de abril de mil novecientos sesenta y cuatro, tomó la siguiente Resolución:

"RESOLUCION DEL DIRECTORIO No. DI-23/64

EL DIRECTORIO:

CONSIDERANDO, que la "Declaración de Centroamérica" de fecha 19 de marzo de 1963, establece:

> "Los Presidentes también acordaron que se debe dar facilidades a los habitantes de Centroamérica para la construcción y compra de viviendas. Existen en Centroamérica instituciones nacionales de préstamos y ahorros que han recibido ayuda de la Alianza para el Progreso, y otras están a punto de establecerse. Con el fin de obtener apoyo adicional para estos esfuerzos nacionales, los Presidentes de los países de Centroamérica sugirieron que se establezca un Departamento Hipotecario Regional, como una división del Banco Centroamericano de Integración Económica, como fuente secundaria de fondos para hipotecas sobre viviendas; y el Presidente de los Estados Unidos está dispuesto a ofrecer ayuda técnica y financiera del mismo."

CONSIDERANDO, que de acuerdo con el inciso 3.1 (d) del Contrato de Préstamo suscrito el 29 de noviembre de 1963, entre el BCIE y AID, por cantidad de $ 10.000.000, el BCIE para hacer uso de dicho préstamo debe establecer un Departamento Financiero de la Vivienda;

CONSIDERANDO, que en el Contrato de Préstamo a que se refiere el considerando anterior, se estipuló el plazo de cuatro meses para el establecimiento del Departamento Financiero de la Vivienda, y que dicho plazo ha sido prorrogado hasta el 30 de abril del año en curso;

CONSIDERANDO, que la Asamblea de Gobernadores del BCIE, en su tercera Reunión Ordinaria conoció de las negociaciones llevadas a cabo entre el BCIE y AID para la celebración del Contrato de Préstamo antes referido, así como del Plan Preliminar de Operaciones del Programa Regional de la Vivienda; y

CONSIDERANDO, que para la creación del Departamento Financiero de la Vivienda se hace necesario modificar el Artículo 13 del Reglamento -- del BCIE, lo cual es facultad del Directorio de acuerdo con el Artículo 23 del citado Reglamento,

RESUELVE:

PRIMERO: Crear el Departamento Financiero de la Vivienda (DFV) con las siguientes atribuciones:

1. Actuar como fuente de financiamiento de segunda instancia para instituciones de crédito hipotecario para la vivienda que operen en los países miembros.

2. Obtener recursos para proveer el mantenimiento contínuo e indefinido del sistema de financiamiento, mediante la movilización de:

   a. ahorros del área centroamericana;
   b. fondos públicos internacionales y extranjeros; y
   c. fondos o capitales privados del exterior, principalmente a través de bancos comerciales, compañías de seguro y asociaciones de ahorro y préstamo.

3. Procurar que se adopten políticas y normas, sobre una base re-- gional, para el desarrollo y financiamiento de la vivienda media en los países centroamericanos.

4. Fortalecer las instituciones financieras existentes y estimular la creación de nuevas instituciones de esa clase, que movilicen ahorros y que proporcionen crédito hipotecario directo para la construcción de viviendas.

5. Incrementar la competencia entre las instituciones que otorguen créditos para la vivienda, lo mismo que entre los constructores y contratistas, a fin de reducir los costos de financiamiento y -- edificación de viviendas.

Res. No. DI- 23/64

6. Promover la creación de un mercado centroamericano de materiales de construcción producidos sobre la base de módulos comunes, y contribuir así a la expansión y mejoramiento de la industria centroamericana de la construcción.

SEGUNDO: Reformar el Artículo 13 del Reglamento del BCIE, que se leerá así:

Habrán cuatro Departamentos y tres Oficinas Generales en la organización del BCIE:

a) Departamento de Análisis de Proyectos.
b) Departamento de Operaciones
c) Departamento de Fomento de Inversiones
d) Departamento Financiero de la Vivienda
c) Oficina del Secretario
f) Oficina del Tesorero y Contador
g) Oficina del Consejero Legal.

TERCERO: Esta Resolución entrará en vigor el 15 de abril de 1964, y de ella se informará a la próxima Reunión Ordinaria de la Asamblea de Gobernadores del BCIE, de conformidad con el Artículo 23 del Reglamento del mismo.".

Es conforme al original con el que fué debidamente cotejado

Tegucigalpa, Distrito Central, diez y siete de abril de mil novecientos sesenta y cuatro.

Francisco Alemán
Subsecretario

BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA

Ref.: Pago de llamamiento de capital (Res. AG-1/88)

El suscrito, Secretario de la Asamblea de Gobernadores del Banco Centroamericano de Integración Económica, CERTIFICA:

Que la Asamblea de Gobernadores del Banco, en su Trigésimosegunda Reunión Extraordinaria, celebrada los días 1 y 2 de septiembre de mil novecientos ochenta y nueve, en la ciudad de Managua, República de Nicaragua, adoptó la siguiente:

"**RESOLUCION No. AG-13/89**

LA ASAMBLEA DE GOBERNADORES DEL BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA,

CONSIDERANDO:

Que la Asamblea de Gobernadores, dentro del Plan de Fortalecimiento Institucional del Banco, ha decidido que el llamamiento de capital por US$ 50.0 millones a que se refiere la Resolución AG-1/88 y pagaderos por los países miembros, en partes iguales, en sus respectivas monedas nacionales, debe ser modificado en el sentido de que sean pagaderos en US dólares, en un plazo de 5 años.

POR TANTO:

En uso de las facultades de esta Asamblea y con los votos que establece el Artículo 4 del Convenio Constitutivo del Banco.

R E S U E L V E :

PRIMERO: Que los US$ 50 0 millones de capital que fueron llamados por Resolución AG-1/88, sean pagados en dólares de los Estados Unidos de América, o en su caso, convertidos a dólares de los Estados Unidos de América.

/2

SEGUNDO: Que el pago, o en su caso la conversión, se efectúe en un plazo de 5 años contado a partir de la fecha de esta Resolución, mediante cuotas mensuales de acuerdo con la siguiente programación anual.

Programa Anual de Pagos de Capital en Divisas
(En Miles de Dólares)

País	1989/90	1990/91	1991/92	1992/93	1993/94	Total
Guatemala	2,000	2,000	2,000	2,000	2,000	10,000
El Salvador	3,500	1,250	1,250	2,000	2,000	10,000
Honduras	2,000	2,000	2,000	2,000	2,000	10,000
Nicaragua	3,200	1,400	1,400	2,000	2,000	10,000
Costa Rica	2,000	2,000	2,000	2,000	2,000	10,000
TOTAL	12,700	8,650	8,650	10,000	10,000	50,000

TERCERO: No obstante lo dispuesto en el numeral anterior, el Directorio queda autorizado para requerir el adelanto de pagos y el correspondiente ajuste de las cuotas anuales de cada país cuando sea necesario por razón de la ejecución del plan financiero y el comportamiento de los flujos de divisas anuales del respectivo país".

Esta Resolución fue aprobada por la Asamblea el dos de septiembre de mil novecientos ochenta y nueve.

Es conforme con su original, con el que fue debidamente cotejado.

Tegucigalpa, Distrito Central, cuatro de septiembre de mil novecientos ochenta y nueve.

BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA SECRETARIA

Hugo [illegible] R.
Secretario
BANCO CENTROAMERICANO DE
INTEGRACION ECONOMICA

HOF:ARL:bmc

Ref.: Plan financiero para el fortalecimiento del Banco

El suscrito, Secretario de la Asamblea de Gobernadores del Banco Centroamericano de Integración Económica, CERTIFICA:

Que la Asamblea de Gobernadores del Banco, en su Trigésimosegunda Reunión Extraordinaria, celebrada los días 1 y 2 de septiembre de mil novecientos ochenta y nueve, en la ciudad de Managua, República de Nicaragua, adoptó la siguiente:

"**RESOLUCION No. AG-14/89**

LA ASAMBLEA DE GOBERNADORES DEL BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA,

Tomando en cuenta el documento de la Presidencia Ejecutiva sobre la situación de liquidez del Banco, elevado a su consideración por el Directorio, y las recomendaciones presentadas por la Comisión Especial de Presidentes de los Bancos Centrales constituida en Acuerdo AGex-31/1,

CONSIDERANDO:

1) Que el Banco Centroamericano de Integración Económica es una institución fundamental en el financiamiento del desarrollo e integración de Centroamérica, por su importante contribución en el otorgamiento de créditos mediante la captación de recursos externos para programas y proyectos regionales y por constituir un organismo identificado con la problemática económica y de desarrollo de sus países miembros;

2) Que es necesario fortalecer al Banco de manera integral y permanente, sobre la base de un esfuerzo compartido por todos sus países miembros,

/2

que le permita ampliar significativamente sus operaciones para beneficio de cada uno de ellos;

3) Que dicho fortalecimiento requiere que los cinco países miembros cumplan puntualmente con sus obligaciones y compromisos con el Banco. Asimismo, que cancelen, dentro de un plazo prudencial, la mora de cartera y la de los préstamos compensatorios, así como que restituyan los depósitos condicionados; y que efectúen los pagos de capital y los originados por los ajustes de valor por variación del tipo de cambio (Quebranto Financiero);

4) Que conforme al Plan de Fortalecimiento Institucional del Banco, se requiere continuar, en lo interno, con la adopción de las medidas para dotarlo de mayor eficiencia, agilidad y una adecuada capacidad de respuesta ante la problemática centroamericana;

5) Que las necesidades de financiamiento de la región a ser atendidas por el Banco, mediante un importante número de programas y proyectos concretos, así como el manifiesto apoyo internacional patentizado a la Institución durante los últimos meses, plantean expectativas financieras de gran alcance a corto y mediano plazo para el Banco y, por consiguiente, para sus países miembros;

R E S U E L V E :

1. Declarar que las obligaciones financieras de los países miembros para con el Banco constituyen compromisos prioritarios y su cumplimiento, una condición <u>sine qua non</u> para que el Banco pueda captar recursos de la comunidad financiera internacional para cumplir adecuadamente con sus objetivos en el desarrollo regional.

/3

2. Que los países miembros, teniendo como referencia los parámetros y supuestos contenidos en el documento anexo,* y los términos de esta Resolución:

a) Cumplan puntualmente, a partir de la fecha de esta Resolución, con el pago de los vencimientos de capital e intereses de la cartera de préstamos del Sector Público, incluyendo préstamos compensatorios y otros adeudos;

b) Efectúen la cancelación de la mora en divisas de la cartera de préstamos del Sector Público, incluyendo préstamos compensatorios y otros adeudos, en un plazo de hasta diez años, que incluye dos de gracia, a partir de esta fecha, mediante el pago de 16 amortizaciones semestrales iguales y consecutivas. Esta cancelación incluirá, además, el pago de intereses semestrales, a la LIBOR a 6 meses, más 13/16%;

c) Restituyan los depósitos condicionados en divisas en un plazo de hasta quince años, que incluye dos de gracia, a partir de esta fecha, mediante el pago de 26 amortizaciones semestrales iguales y consecutivas. La cancelación de estos depósitos incluirá, además, el pago de intereses semestrales a la LIBOR a seis meses, más 13/16%;

* Documento titulado "Propuesta para la Reestructuración Financiera del BCIE, Comisión Especial de Presidentes de Bancos Centrales de los Países Centroamericanos, 1 de Septiembre de 1989"

/4

d) Efectúen el pago del capital llamado de US$ 50.0 millones (US$ 10.0 millones por cada país) a que se refiere la Resolución No. AG-1/88, en los términos de la Resolución No. AG-13/89 de esta Asamblea de Gobernadores;

e) Atiendan oportunamente los pagos por ajustes de valor por variaciones de tipo de cambio (Quebranto Financiero);

f) Afirmen el principio de convertibilidad de modo que progresivamente el BCIE fortalezca su posición patrimonial en divisas y alcance los índices de liquidez requeridos, conforme a un plan que el Directorio y la Administración Superior deberán presentar a la próxima reunión de la Asamblea de Gobernadores;

g) Den prioridad, conforme a las disposiciones cambiarias de cada país, a la asignación de divisas para que las entidades del sector público y privado realicen oportunamente sus pagos al BCIE.

3. Solicitar a los Gobiernos de la República de cada uno de los países miembros que, mediante su intervención, las instituciones del sector público deudoras del BCIE den prioridad a la inclusión, dentro de sus presupuestos, de las partidas necesarias para garantizar el pago oportuno de sus obligaciones.

4. Instruir a la Administración Superior del Banco para que proceda a formalizar con los países miembros, en un plazo no mayor de 60 días a partir de la fecha de esta Resolución, los acuerdos de pago requeridos de conformidad con los literales b) y c) del numeral 2 anterior.

5. Instruir al Directorio y a la Administración Superior para que procedan a:

/5

59

a) Establecer, a la mayor brevedad, un procedimiento que permita a los países miembros pagar parte de sus obligaciones con deuda externa del Banco, en proporción a los montos de los adeudos vencidos, dentro del marco de la solución global incluida en esta Resolución;

b) Desarrollar y ejecutar, a partir de este ejercicio, un plan quinquenal de operaciones, por un monto estimado de US$ 1,080.0 millones.

Dicho plan será desarrollado mediante planes operativos anuales, que serán conformados tomando en consideración la situación actualizada del BCIE y de los países, de modo que se facilite el cumplimiento de las obligaciones de los países y del Banco establecidas en esta Resolución. Su propósito es permitir que en el mediano plazo el Banco otorgue un flujo neto positivo considerable de recursos en divisas a los países miembros y, asimismo, le permita al Banco utilizar recursos externos en montos superiores al servicio de su deuda. Dicho plan quinquenal estará sustentado, entre otros, en los siguientes supuestos:

- Cumplimiento puntual, por parte de todos los países miembros, de sus obligaciones y demás compromisos con el Banco.
- Pago de capital, por US$ 50.0 millones provenientes de los países centroamericanos, a ser realizado en un período de cinco años, conforme al literal d) del numeral 2 anterior.

/6

- Obtención de recursos por US$ 250.0 millones procedentes de países extrarregionales.
- Contratación de recursos externos provenientes de fuentes bilaterales y multilaterales por aproximadamente US$ 650.0 millones.
- Distribución equitativa de los recursos del Banco entre todos sus países miembros, de acuerdo a la generación y ejecución oportuna de proyectos, técnica y financieramente viables por parte de aquellos.
- Refinanciamiento y reducción del saldo de la deuda del Banco con la banca privada internacional.

c) Continuar aplicando las medidas de emergencia adoptadas por la Administración Superior respecto de los problemas de liquidez, mientras se ejecutan las disposiciones establecidas en esta Resolución;

d) Dar cumplimiento estricto a la política establecida sobre desembolsos en casos de prestatarios en mora, conforme al ACDI-9/86, según la cual el Banco debe suspender desembolsos al sector público cuando éste tenga una mora mayor de 60 días. Asimismo, el BCIE suspenderá desembolsos al sector público cuando se incumpla con los pagos de las obligaciones referidas en los literales b), c) y d) del numeral 2 anterior;

e) Informar bimestralmente a los Gobernadores sobre la ejecución de las disposiciones establecidas en esta Resolución.

5. Instruir al Directorio y a la Administración Superior para que:

/7

a) Continúen ejecutando el Plan de Fortalecimiento Institucional en todos sus alcances, incluyendo una severa política de austeridad, que implique una significativa disminución de costos administrativos, para cuyo efecto deberá analizarse la posibilidad de reducir las oficinas regionales y el número de plazas presupuestadas, con miras a un mejoramiento cualitativo urgente de la Institución. Asimismo, deberá adecuarse el proceso de construcción del edificio sede a las condiciones de liquidez del Banco. A este efecto, el Directorio y la Administración Superior deberán adoptar las decisiones pertinentes en un término máximo de 45 días, debiendo informar de inmediato a los Señores Gobernadores sobre el particular;

b) Presenten a la próxima Asamblea Ordinaria de Gobernadores, a celebrarse el 24 de noviembre de 1989, las políticas y procedimientos necesarios para que los créditos al sector privado sean canalizados a través de los intermediarios financieros de cada país".

Esta Resolución fue aprobada por la Asamblea el dos de septiembre de mil novecientos ochenta y nueve.

Es conforme con su original, con el que fue debidamente cotejado.

Tegucigalpa, Distrito Central, cuatro de septiembre de mil novecientos ochenta y nueve.

Hugo Ordóñez F.
Secretario
BANCO CENTROAMERICANO DE
INTEGRACION ECONOMICA

HOF:ARL:bmc

BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA — SCHEDULE 4
FONDO FINANCIERO DE LA VIVIENDA
Balances Generales Ejercicios AF85 - AF89
(En Miles de $CA)

	AF85	AF86	AF87	AF88	AF89*
ACTIVOS					
Efectivo	1,127	8,495	3,434	13,238	103
Depositos a plazo y otras inversiones	5,661	44,666	46,465	78,272	77,099
Prestamos por Cobrar					
Prestamos aprobados menos recupercaciones	104,262	92,537	81,573	72,487	68,345
Saldos no desembolsados	(12,127)	(8,545)	(6,026)	(4,496)	(4,496)
Prestamos Netos	92,135	83,992	75,547	67,991	63,849
Prestamos compensatorios	99,397	84,125	81,959	80,621	93,961
Intereses y otros cargos acumulados:					
Sobre prestamos	20,554	6,265	11,942	15,406	22,593
Sobre inversiones	349	2,432	4,876	6,619	6,677
Fondos por recibir de paises miembros	1,385	3,930	4,179	(2,814)	1,762
Inmuebles y equipo de oficina (neto)	7	4	1	-0-	-0-
Otros Activos	903	790	678	1,113	1,393
	221,518	234,699	229,081	260,446	267,437
PASIVO, CAPITAL Y RESERVAS					
PASIVO					
Prestamos y otras obligaciones por pagar:					
Prestamos por pagar	98,828	99,749	100,890	123,902	121,764
Bonos	690	460	230	-0-	-0-
Certificados de inversion	26,754	19,083	18,581	15,067	13,903
Certificados de deposito	-0-	13,547	12,959	12,290	10,972
	126,272	132,839	132,660	151,259	146,639
Intereses acumulados sobre obligaciones	19,361	5,554	11,809	17,566	26,295
Cuentas por pagar y otros pasivos	-0-	-0-	88	68	916
Cuentas interfondos	(26,400)	(12,600)	(17,344)	(20,839)	(15,839)
Prestamos compensatorios	99,397	84,125	81,959	80,621	93,961
	218,630	209,918	209,172	228,675	251,972
Reserva mantenimiento de valor	(13,264)	1,018	(4,094)	-0-	(16,689)
CAPITAL Y RESERVAS					
CAPITAL	-0-	-0-	-0-	-0-	-0-
Autorizado	-0-	-0-	-0-	-0-	-0-
No suscrito	-0-	(1,000)	(1,000)	(1,000)	(1,000)
No llamado	-0-	-0-	-0-	-0-	-0-
Capital interfondos	10,000	20,000	20,000	20,000	20,000
Pagado	10,000	19,000	19,000	19,000	19,000
Aportes especiales de capital	-0-	237	1,000	1,000	1,000
Donaciones	-0-	-0-	-0-	-0-	-0-
Reserva general	9,914	6,152	4,526	4,002	4,002
Utilidades (perdidas acumuladas)	(3,762)	(1,626)	(523)	7,769	8,152
	16,152	23,763	24,003	31,771	32,154
	221,518	234,699	229,081	260,446	267,437

* No auditado

Source: CABEI

HOUSING FUND: MODIFIED BALANCE SHEET
FY85 - FY89

	FY85	FY86	FY87	FY88	FY89
ASSETS					
Cash	1,127	8,495	3,434	13,238	103
Time deposits and other Invest.	5,661	44,666	46,465	78,272	77,09
Net loans	92,135	83,992	75,547	67,991	63,84
Interfund accounts	26,400	12,600	17,344	20,839	15,8
Accrued Int. and other (charges):					
On loans	20,554	6,265	11,942	15,406	22,59
On investments	349	2,432	4,876	6,619	6,67
Maintenance of value reserve	-	-	-	-	16,68
Funds rec. from mem. countries	1,385	3,930	4,179	(2,814)	1,76
Property, off. equip, (net)	7	4	1	0	
Other assets	903	790	678	1,113	1,3
TOTAL	148,521	163,174	164,466	200,664	206,0
LIABILITIES AND CAPITAL					
Loans payable	98,828	99,749	100,890	123,902	121,7
Bonds	690	460	230	0	
Certificates of Investment	26,754	19,083	18,581	15,067	13,
Certificates of Deposit	0	13,547	12,959	12,290	10,
Total debt and obligations	126,272	132,839	132,660	151,259	146,
Accrued Int. on obligations	19,361	5,554	11,809	17,566	26,
Accr. payable and other liab	0	0	88	68	
Maintenance of value reservo	(13,264)	1,018	(4,094)	0	
Capital and reserves					
PAID-IN-CAPITAL	10,000	19,000	19,000	19,000	19,
Special cont. of Capital	0	237	1,000	1,000	1
General reserve	9,914	6,152	4,526	4,002	4
Retained earnings	(3,762)	(1,626)	(523)	7,769	8
Total Cap & Res	16,152	23,763	24,003	31,771	32

Source: Based on CABEI's Presentation

BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA | SCHEDULE 6

FONDO FINANCIERO DE LA VIVIENDA

Estado de Resultados Ejercicios AF85 - AF89

(En Miles de $CA)

	AF85	AF86	AF87	AF88	AF89*
INGRESOS					
Prestamos					
Intereses	19,116	18,045	16,552	15,124	15,090
Comisiones	275	153	74	84	43
Cargos por servicios	-0-	-0-	-0-	-0-	-0-
	19,391	18,198	16,626	15,208	15,133
Intereses sobre inversiones	926	2,883	3,772	5,399	8,254
Otros ingresos	-0-	-0-	-0-	6,143	-0-
Total Ingresos	20,317	21,081	20,398	26,750	23,387
GASTO					
Intereses, comisiones y otros gastos sobre la deuda	23,728	23,412	21,945	20,855	23,913
Gastos de administracion	1,022	1,056	976	1,011	1,268
Rectificacion anos anteriores	159	(23)	48	(327)	94
Transacciones interfondos (neto)	(2,462)	(1,738)	(2,048)	(2,558)	(2,272)
Total Gastos	22,447	22,707	20,921	18,981	23,003
Utilidad neta	(2,130)	(1,626)	(523)	7,769	384
Utilidades acumuladas al principio de ano	(765)	(3,762)	(1,626)	(523)	7,769
Transferido a reserva general	(867)	3,762	1,626	523	7,769
Utilidades acumuladas al final del ano	(3,762)	(1,626)	(523)	7,769	384

* No Auditado

Source: CABEI

CABEI:
Main Financial Variables (Foreign Exchange)
(Millions of US Dollars)

Variables	FY83	FY84	FY85	FY86	FY87	FY88	FY89	
Income:								
Recuperaciones Principal e Intereses	82.8	47.6	52.8	72.1	58.7	71.3	34.2	419.5
Recursos Externos	32.4	54.1	28.1	37.7	26.9	52.2	38.4	269.8
Producto de Inversiones	4.4	3.4	3.2	2.5	3.5	7.4	20.9	45.3
Total	119.6	105.1	84.1	112.3	89.1	130.9	93.5	734.6
Outflows:								
Desembolsos	45.2	18.8	24.9	36.7	28.0	31.5	31.9	217.0
Servicio de la Deuda	105.1	100.1	71.6	58.6	55.3	65.5	69.6	525.8
Gastos Administrativos	4.0	4.8	4.7	4.7	5.8	6.5	8.3	38.8
Total	154.3	123.7	101.2	100.0	89.1	103.5	109.8	781.6

No incluye-otros ingresos y egresos.

Source: CABEI

BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA SCHEDULE 8
PROYECCIONES FINANCIERAS POR MONEDAS
=====)CONSOLIDADO DIVISAS (==== ====) CASO A/B-F (====
(En Miles de $CA) ====) BANCO TOTAL = BANCO BASE + NUEVAS OPERACIONES (====

CONCEPTO	Marc. Financ AF90	AF91	AF92	AF93	AF94	Total AF90-AF94
INGRESOS						
Recuperaciones de prestamos	43,033	41,803	54,836	58,569	70,771	269,012
Intereses y comisiones sobre ptmos.	27,095	28,338	35,238	54,819	78,759	224,249
Intereses prestamos compensatorios	4,826	4,606	2,890	2,732	2,575	17,629
Productos sobre inversiones	13,990	17,031	21,762	27,146	29,415	109,344
Productos F.C.M.C.	4,128	195	293	8,547	9,325	22,488
Utilizacion de recursos externos	52,255	60,489	88,952	103,247	136,263	441,207
Donaciones	13,172	6,701	4,693	4,176	2,186	30,929
Aportes de Capital	12,700	58,650	78,650	90,000	10,000	250,000
Prestamos compensatorios	4,826	4,606	2,890	2,732	2,575	17,629
Ingresos varios	350	353	2,353	14,068	14,826	31,950
TOTAL	176,375	222,773	292,557	366,036	356,694	1,414,436
EGRESOS						
Gastos de operacion	5,792	6,082	6,386	6,705	7,040	32,004
Gastos financieros	54,072	53,536	48,359	51,653	61,263	268,883
Interesses prestamos compensatorio	0	0	0	0	0	0
Amortizaciones a las fuentes	31,585	33,627	35,005	34,513	35,371	170,101
Prestamos compensatorios	0	0	0	0	0	0
Desembolsos de prestamos	61,541	80,557	133,148	189,361	245,323	709,930
Egresos varios	14,553	10,947	6,489	600	1,863	34,452
TOTAL	167,543	184,749	229,387	282,832	350,860	1,215,370
INGRESO NETO	8,832	38,024	63,170	83,204	5,834	199,065
SALDO FINAL BANCOS E INVERSIONES	170,925	208,950	272,120	355,324	361,158	261,158
Saldos Condicionados	134,524	134,524	131,887	124,307	110,638	110,638
Saldos Liquidos	36,401	74,426	140,233	231,017	250,521	250,521

SALDO INICIAL: 162,093 CASO A/G-F 01/09/89