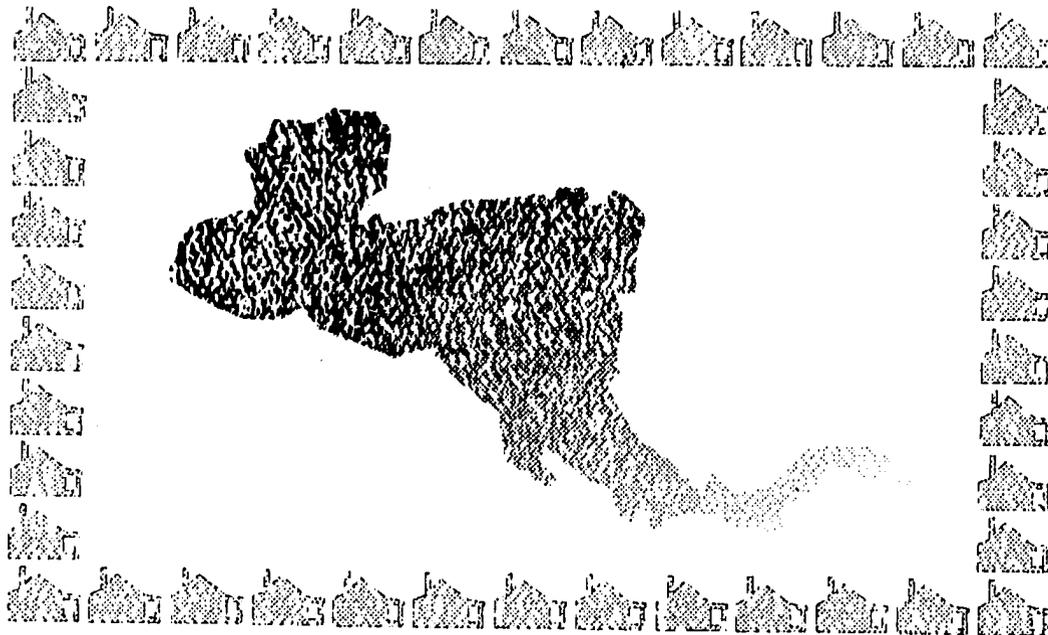


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USAID Housing Program in Central America

Historical Overview, 1961-1992



United
States
Agency for
International
Development

Office of Environment
and Urban Programs

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Particular mention of Dr. Pedro Lasa for his invaluable recollection of the evolution of the shelter sector in each of the countries, also Ronald Carlson, Mario Pita, Sonny Low, Eliecer Fernandez, and Steven Dorsey and Sharon Van Pelt of the Regional Information Clearinghouse for making this report a more enjoyable reading.

Dino Siervo
Economic Consultant

Prologue



In the 30-year history of the Office of Environment and Urban Programs, through its Regional Housing and Urban Development Office for Central America (RHUDO/CA), currently headquartered in Guatemala City, Guatemala, the United States Agency for International Development (USAID) has authorized over 50 bilateral and regional Housing Guaranty (HG) projects in the seven Central American countries, including Panama, investing over \$397.1 million that have benefited over 142,000 low-income families with some form of shelter and/or urban infrastructure service.

Through the pages of this historical overview, we document the evolution of USAID's Housing Guaranty Program between 1961 and 1992 and its impact in Central America. We also present a perspective of the problems encountered over the past three decades, as well as the progress made in addressing shelter and urban service needs in Central America through the design and implementation of the above mentioned housing projects.

During these years I have been privileged to meet and work with very able and dedicated institutions and individuals in Central America, whose efforts have provided for all parties invaluable lessons and experiences in addressing the region's shelter and urban problems. This acquired knowledge has allowed USAID to replicate and apply it in other programs worldwide.

As you read this historical overview, you will note a number of examples in the region of what has been done right, where the government institutional framework has been oriented to facilitate and provide shelter and urban infrastructure for the poor majority, and the increased participation of the private sector has contributed to meeting that goal in most of the Central American countries.

In recent years a resurgence of democracy in Central America has created new challenges. Given the economic and institutional problems being faced by new democratic governments, local government is being looked upon as the institution closest to the people and as the most effective response mechanism to the new and rising demand for urban services, including shelter.

In Central America we continue cultivating working relationships to support our newly democratic neighbors in solving their urban problems. We would like to continue helping each of the countries sort out the issues affecting their quest for more effective and democratic local governments which are able to meet the needs of their constituents and which continue to seek viable solutions and systems to provide affordable shelter and service infrastructure and to plan the orderly growth of the region's urban areas within an environmentally appropriate context.

Peter Kimm
Director, Office of Environment and Urban Programs
U.S. Agency for International Development

Introduction



Since its inception in 1961, the United States Agency for International Development has had a long and productive relationship with all the countries in Central America in working together to help improve shelter and living conditions in general.

The Housing Guaranty Program has been the primary capital resource for USAID shelter programs and related urban activities in the region. In addition, other capital resources and development grants have been provided through individual USAID Missions in each of the countries of the region, and the former USAID Regional Office for Central American Programs (ROCAP). Usually these grants provided resources for technical assistance and training activities to assist in policy development and project implementation of the Housing Guaranty programs.

The Housing Guaranty Program is a unique USAID activity in which funds from the U.S. private sector provide long-term financing for low-income shelter and urban upgrading programs. The United States Government underwrites these transactions through the provision of a full faith and credit guaranty. The first Housing Guaranty loan in Central America was authorized in March 1963 in Honduras for \$2.9 million. Since then, more than \$394.2 million had been provided through 1992, including resources channeled for shelter and urban infrastructure through the Central American Bank for Economic Integration (CABEI).

If we analyze the assistance supplied by USAID in terms of the emphasis given to the sector during the last three decades, we can see that loan amounts have increased substantially: from 1963 to 1970, \$53.1 million was allocated; by 1971 to 1980 this investment had grown to \$96.6 million. This represents an 81 percent nominal increase. And from 1981 to 1992, the investment reached the \$247.3 million mark, representing a 156 percent nominal increase over the previous decade. Over 142,000 low-income families have been provided with affordable housing and urban services through the USAID Housing Program in Central America during this period.

This illustrates the decisive support that USAID has given to the sector, but at the same time this assistance has been insufficient when compared to the magnitude of the shelter problems in the region.

The present housing deficit in Central America is estimated at approximately 2.6 million dwellings. To minimally solve this problem an investment of greater than \$12 billion would be needed. But perhaps what is more important is a vision and a clear political pronouncement by Central American government leaders to solve the shelter problem, not just in the short run with promises of building a certain number of houses, but with a systematic response that encompasses medium- and long-range planning by the major political factions in each country. The USAID shelter experience in Central America has engendered many lessons that can serve as the basis to redirect our relationship with the sector in the coming years.



USAID Housing Program in Central America **Historical Overview, 1961-1992**

Since the 1960's, financing construction and providing shelter solutions has been one of the most important operative areas of USAID in Latin America. USAID actions have always been guided by fundamental principles which are periodically updated and adapted in response to new political, economic and social conditions.

Inflation and the nature of the demands placed on us are the fundamental elements which have sparked certain changes in shelter finance globally and locally. Since the mid 1970's and later in the 80's, all financial institutions and mechanisms that had previously functioned satisfactorily entered a crisis. The banking systems in Central America, with unstable currencies and firmly rigid financial structures, declared themselves incapable of satisfying the housing demand of low-income families. The first groups affected were those at the lower income levels, although the crisis soon grew to include those in the middle and upper income levels as well.

At the same time in Latin America, some governing entities of housing finance charged with the responsibility of tending to the housing deficit realized that systems were inefficient, with direct and indirect subsidies tied to inflation, and would lead to the demise of their organizations. In some countries the problem had been dealt with and these inadequately designed and inefficiently operated institutions had been eliminated. In other countries the problem is still ignored, and national budgets continue to be burdened by inappropriate subsidies and bureaucratic inefficiency.

This situation has been repeated, in varying degrees, throughout all of the countries of Central America. In some, the problems happened more quickly and governments as well as other institutions recognized and dealt with them very naturally. Other countries have not yet realized there is a problem and therefore have not dealt with it.

This report portrays the evolution of the USAID Housing Program in the last three decades, its impact on Central America, and current activities in strengthening local governments as a means to address the shelter and urban service needs of their constituents.

Ronald A. Carlson
Director
Regional Housing and Urban Development Office for Central America

The USAID Central America Housing Development Experience



A. U.S. Shelter Assistance to Developing Countries in the 1950's

During the 1950's, self-help housing was the focus of U.S. housing assistance. Various U.S. agencies were involved in foreign assistance, in particular the Foreign Operations Administration, but also the Department of Housing and Urban Development (HUD) and others.

In self-help housing projects, donors normally provided funds for materials and training and technical assistance to local officials. Low-income families contributed labor to build their houses, while host governments provided them with land, building materials and basic urban services. Mutual self-help projects, in which families worked together in groups such as cooperatives, were preferred by U.S. technicians and were therefore more common, although there were also a limited number of individual self-help projects.

U.S. technicians were involved in additional demonstration projects in most Latin American countries. However, implementation of the projects was slow and the procedures cumbersome. As a result, attention began to turn to other approaches.

B. The Housing Guaranty Program of the USAID Office of Environment and Urban Programs

In November 1961, the U.S. Agency for International Development (USAID) was created and the

Housing Guaranty (HG) Program was established. It was an innovative, economic development instrument designed to encourage and support the construction and financing of shelter projects in Latin America. The HG Program has since been the primary capital resource for USAID shelter and related urban infrastructure investments worldwide. Through this Program, the U.S. private sector provides long-term financing for affordable shelter and urban infrastructure in developing countries. Because the U.S. Government guarantees loan repayment, private lenders charge favorable interest rates. USAID charges the borrower a fee to cover its operating expenses and capitalize a reserve fund.

The Office of Environment and Urban Programs (formerly, the Office of Housing and Urban Programs) administers the USAID HG Program. For thirty years, this Office, which is based in Washington, D.C., has worked with developing countries emphasizing urban policy reform in three interrelated areas: Shelter, Urban Environment, and Municipal Management. The Office currently has twelve Regional Housing and Urban Development Offices (RHUDOs) to advise USAID missions and to co-manage with them most USAID capital and technical assistance programs for shelter and urban development. The RHUDO serving Central America (in this document defined as the countries of Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama) is currently based in Guatemala City, Guatemala.

In Central America, USAID has provided \$397.1 million in HG loan guaranties and over \$252 million in grant resources to finance and support more than



USAID Housing Program in Central America Historical Overview, 1961-1992

50 housing programs benefiting over 142,000 families between 1963 to 1992. While the HG program comprises a unique body of practical experience in Central America, until now it has not been thoroughly documented from a regional perspective.

C. Evolution of USAID Housing Guaranty Policy in Central America, 1961-1992

The evolution of USAID Housing Guaranty policy since the early 1960's can be divided into four stages. The first period, from 1961-1965, focussed mainly on housing construction through demonstration housing projects built primarily by U.S. builder-developers. The second period, from 1965-1972, involved housing construction through U.S. builders and the creation of the savings and loans systems in Latin America, including Central America. The third period, from 1973-1980, shifted the emphasis to address the problems of the urban poor through low-cost housing projects and slum-upgrading projects through governmental housing institutions and cooperatives. During the fourth period, the decade of the 1980's, the policy was twofold, encouraging governments to play a facilitating role, and incorporating the participation of the private sector. During this latter period, emphasis moved from a project to a sector approach to reform housing policies and shelter delivery systems. Since 1990, there has been a gradual shift to programs that enhance the combination of communities and local governments to address the shelter and infrastructure needs and services for the urban constituents whom they serve. Following are brief synopses of each of these periods.

The Builder-Developer Period (1961-1965)

HG Policy Guidelines

The Housing Guaranty Program was established by Section 244 of the Foreign Assistance Act of 1961. Its original purpose was to develop pilot and demonstration housing projects in Latin America. U.S. builders were brought in to share their expertise and shelter technologies with counterparts in the developing countries of Latin America.

Central America HG Implementation

HG projects in this period were characterized by the active role of U.S. builder-developers and the participation of the U.S. Federal Housing Administration (FHA) in the construction of 2-3 bedroom single-family homes for middle income families. The FHA was contracted by USAID in 1964 to review and approve housing project proposals.

Between 1961-1965, over \$37.1 million of HG loan resources were contracted throughout the region and more than 3,000 new housing units were built.¹ Most of the units were constructed by local builders working with American promoters or developers. An active organization in housing was the American Institute of Free Labor Development (AIFLD), a branch of the AFL-CIO. Using HG resources, AIFLD worked with Central American trade unions to provide housing for their members. U.S. lenders involved in these HG programs were union pension funds.

¹ The number of units built during this period was greater, but the precise number cannot be reported due to the lack of information available for these years.



Snapshot of Central America



BELIZE

Capital: Belmopan
Government: Parliamentary Democracy
Population: 1992 estimate - 200,000

GUATEMALA

Capital: Guatemala City
Government: Republic
Population: 1992 estimate - 9.8 million. 45 percent native American, 55 percent Ladinio, people of any ancestry who follow Spanish-American customs.

HONDURAS

Capital: Tegucigalpa
Government: Republic
Population: 1992 estimate - 5.5 million. Vast majority is mestizo. About 10 percent are either Miskito or Garifuna, both a mixture of native Americans and descendants of African slaves.

NICARAGUA

Capital: Managua
Government: Republic
Population: 1992 estimate - 4.0 million. Vast majority is mestizo with some European descendants and indigenous Americans. Some people of African ancestry live in the Caribbean region.

EL SALVADOR

Capital: San Salvador
Government: Republic
Population: 1992 estimate - 5.4 million. About 92 percent are mestizo, 5 percent are of European descent and 3 percent are native Americans.

COSTA RICA

Capital: San Jose
Government: Republic
Population: 1992 estimate - 3.2 million. About 97 percent is of European ancestry, or mestizo, of mixed native American and European descent. Small communities of African ancestry live on the Caribbean coast. Isolated indigenous communities are in the highlands and coastal areas.

PANAMA

Capital: Panama City
Government: Republic
Population: 1992 estimate - 2.5 million. 70 percent of the population is either mestizo or mulatto, a mix of African and European descent. Six percent are native Americans. the rest are of African or European ancestry.



USAID Housing Program in Central America Historical Overview, 1961-1992

Most of these early projects were successfully completed within a few years and resulted in 2-3 bedroom houses built in major cities throughout the region. These developments are now established middle-class neighborhoods located in prime zones. As one prominent Honduran lawyer stated in an interview: "The house I live in was built by USAID . . . and at that time it was affordable." This particular house was financed under the 522-HG-002 Program and was built through the efforts of the "El Hogar" Housing Cooperative in Tegucigalpa.

By the mid-1960's, several technical, legal and administrative factors pointed to the need to restructure the HG program in order to better channel resources to benefit greater numbers of families.

Savings and Loan Period (1965-1972)

HG Policy Guidelines

Development of the HG Program marked an important milestone in 1965, as the Program expanded to include institution-building components which have since become central to the Program's activities in Central America and worldwide. Between 1965 and 1972, the balance of the programmatic emphasis shifted toward housing finance institutions, particularly savings and loan (S&L) institutions. The HG Program effectively provided seed capital to institutions, including free trade unions and credit cooperatives, for long-term home mortgages.

Central America HG Implementation

Characteristics of HG programs of this period included funding from U.S. Savings and Loan Asso-

ciations (S&L); the active role of the U.S. and Central American S&L movements; and construction of 2-3 bedroom homes for middle-income families, principally by host country builders. U.S. S&Ls became the major source of U.S. private financing of HGs in the 1970's, working primarily through the Federal Home Loan Banks of Boston and New York. U.S. S&Ls also provided technical assistance, especially through the National Council of Savings Institutions (then, the National Savings and Loan League). Central American S&Ls were often the implementing agencies of the projects.

Overall, the structuring of the S&L movement and system in Latin America can be considered as one of the HG Program's greatest accomplishments. In addition to HG resources channeled through S&Ls, USAID Missions in each of the countries have authorized substantial grants and development loans to the S&Ls in the region for technical assistance, training, and capitalization funds. Approximately \$59.7 million in HG resources were channeled through S&Ls, and \$13.6 million was allocated in grants and development loans by USAID Missions in Central America in support of the shelter sector.

A considerable amount of HG resources for Central America have been channeled through the Central American Bank for Economic Integration (CABEI). Most of these resources were initially absorbed by the Costa Rican S&L system, which was created in 1970 with USAID-sponsored technical assistance and seed capital. This system rapidly developed into a major source of housing finance; promoted savings; initiated the development of a secondary mortgage market; and promoted the in-

The USAID Central America Housing Development Experience



creased participation of the private sector in the construction of low-cost housing.

Finally, as the HG Program entered its second decade, there was growing concern about reaching more of the poor. HG Program managers worked to convince Central American S&L association leaders in the region to expand their housing finance to include lower-income families. This effort led to the next stage of the Program's evolution.

Basic Human Needs Period (1973-1980)

HG Policy Guidelines

Amendments to the Foreign Assistance Act were made in 1973, 1975 and 1978, and new program development emphasized projects to address the problems of the urban poor. The focus of the HG Program was broadened and funds could be used for housing and related services such as electricity, water, and sewer lines within a community or housing project area; basic slum and squatter upgrading; and sites and services (urbanized lots).

Central America HG Implementation

During this period, community development became an interrelated component of shelter provision. Emphasis shifted from completed houses in the earlier period to providing progressive shelter "solutions." Shelter programs had to be redesigned to be affordable and within the reach of families earning below the national monthly median income.

Several alternatives to making shelter solutions more affordable to the poor were proposed, includ-

ing variations of smaller houses (minimum shelter, core units, floor-roof units, etc.); sites and services (usually a plot latrine in an area with roads and a water supply); and slum or squatter upgrading providing physical infrastructure such as roads, potable water, sewerage system, and/or electricity; and improved site planning, often with lower density. The San Miguelito Project in Panama provides an excellent example of urban upgrading during this period (see page 6).

By the end of the HG Program's second decade, many valuable lessons had already been learned. One such lesson was the importance of integrating the private sector into shelter programs. This lesson became an important operational directive during the HG Program's next decade.

Public-Private Partnership Period (1981-1989)

HG Policy Guidelines

In the 1980's, USAID strategy was to rely more on individual initiative and the private sector to produce housing. Governments were to play a facilitating role, providing infrastructure and a necessary policy framework to promote improved shelter conditions. By the mid-1980's, the HG Program had moved from a project-focussed to a sector-lending approach, which, with the participation of private sector developers and lending institutions, was designed to encourage the reform of national policies and of institutions which provided shelter and urban services.

Central America HG Implementation

Fundamental policy and institutional constraints



USAID Housing Program in Central America Historical Overview, 1961-1992

Slum Upgrading and Home Improvement Project in Panama



View of the Roberto Duran subdivision of San Miguelito in Panama City.

In 1977, USAID authorized a \$15 million Housing Guaranty loan to improve San Miguelito, then an extensive concentration of poverty in metropolitan Panama City with a population exceeding 100,000. Close to two-thirds of the homes were without sanitary sewer services. A majority of the water and electrical connections were communal. Much of the shelter was improvised, made of discarded lumber, cartons and scrap metal, and the inhabitants were badly overcrowded. The area also lacked social and public facilities such as roads, schools, and health centers.

The HG loan which financed the San Miguelito Project (525-HG-010) had a counterpart contribution of \$4.3 million, making the total project value \$19.3 million. The borrower was The National Bank of Panama, and the project was implemented by the Ministry of Housing, the Ministry of Public Works, the water and sewer utility companies, and the electric utility company in coordination with an ad hoc committee called the High Level Commission for the Development of San Miguelito. Areas were selected to be provided with urban infrastructure services, sites and services, and core housing projects. In addition to these objectives, the project was to serve as a model for self-financing slum upgrading programs.

The project successfully achieved all of its

purposes. Services and infrastructure were provided as planned. Close to 4,500 households were provided with water and sewer services, 6,100 households obtained electricity, 541 families moved into new houses, and 3,300 families obtained title to the lots they had settled.

Implementation of the project provided valuable lessons for similar projects, mainly in inter-institutional coordination among various national executing entities. The shelter component of the project ran into great difficulties due to the significant revisions in the type and number of units (originally there were ten different types of solutions). There were cost increases due to construction difficulties with excavating and grading, which reduced the number of project targets and slowed implementation.

Despite these problems the project had a significant impact on the area. Prior to the project, residents of the "Roberto Duran" subdivision of San Miguelito had to clear their own lots, leave their shacks at 5:00 a.m. to line up for water at the public tap, cross large muddy areas on foot, and read by candlelight. After the project, the residents of San Miguelito saw themselves as significantly raised in status, from slum dwellers to home and property owners. The institutional and financial processes established by national implementing agencies were followed in similar projects developed within Panama, such as those managed by the Ministry of Housing.



Another view of the Roberto Duran subdivision of San Miguelito.



in each of the Central American countries precluded greater replication of the projects of the previous decade. The Office of Environment and Urban Programs and RHUDO/CA started emphasizing sectoral goals by tying HG disbursements more closely to policy and institutional accomplishments, rather than progress in implementing specific projects.

This period was characterized by more intensive efforts and activities to promote more effective participation of the private sector in the finance and construction of low-cost shelter. Housing Guaranty loans for \$50.5 million which involved the private sector in low-cost construction and finance were contracted in most of the countries of the region: Costa Rica (\$20 million), El Salvador (\$5.5 million), Guatemala (\$10 million) and Honduras (\$15 million). Additionally, \$59 million in HG loans was contracted with the CABEI, to on-lend resources for low-cost housing through private sector financial institutions in the following countries: Costa Rica (\$13 million), Guatemala (\$2.4 million), Honduras (\$2.7 million), and Nicaragua (\$0.8 million).

New Urban Challenges Period (1990s)

HG Policy Guidelines

Since the availability of land and essential services constitutes the heart of the shelter problem in developing countries, municipal government, which theoretically controls urban land and its use, is a key player in the shelter delivery system. The municipalities have become the point of departure for programs and activities in favor of strengthening and franchising local governments and their communities.

Central America HG Implementation

An integral part of the regional strategy of RHUDO/CA since 1990 has been to promote municipal development as an avenue of inducing institutional changes that permit political and economic empowerment of the local community. This includes: 1) a shift from central to local government control over the delivery of services, certain economic regulations, and political responsibility; and 2) empowering the community, in the context of political leadership and accountability, to make democratic decisions which address basic needs, the quality and quantity of urban infrastructure, and land use. This strategy conforms to continued support for HG Programs serving low-income families.

As evidenced, the strategic justification for the HG Program has come full circle since its inception. In previous periods, the HG Program was the basis for developing and implementing new development strategies, with complementary support of grant resources for technical assistance and training activities. Now, the HG Program is a support mechanism for grant programs that operationalize a specific regional strategic objective of the portfolio of USAID/Guatemala-Central American Programs (USAID/G-CAP), the USAID Mission that houses RHUDO/CA.

During the 1990-1992 period, several activities were conducted within this new policy context:

- USAID/G-CAP approved the Local Government Regional Outreach Strategy project (LOGROS) to strengthen local governance and promote decentralization in Central America.



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- **USAID supported a policy seminar on the role of the municipality in the development process, which resulted in the creation of a Subcommittee for Municipal Affairs by the Central American Parliament.**
- **A seminar was held in Costa Rica in collaboration with the Federation of Central American Municipalities (FEMICA) which generated a new consciousness of the role of the municipality in environmental protection. The seminar also heightened the awareness of municipal officials to the linkages between environmental degradation and deteriorating human health and economic productivity, and provided an agenda for FEMICA to foster regional cooperation and information dissemination in municipal sector.**
- **In Honduras, a Municipal Development Project, funded and managed by USAID/Tegucigalpa, is assisting fourteen pilot cities to take increased responsibility for public services as part of a major government decentralization initiative. Technical assistance is also being provided to these cities in assessing and developing their financial administration, operations, and management systems. Through this process, community participation has been institutionalized with open town meetings and newsletters to involve citizens in decision-making.**
- **In 1993, to further promote democratization in Central America, USAID/G-CAP authorized an amendment to the Local Government Regional Outreach Strategy (LOGROS) to add a HG component. The amendment approves a \$20 million**

Housing Guaranty component, \$6 million in counterpart funds from the Central American Bank for Economic Integration (CABEI), and \$2 million in development assistance grant support to strengthen local governments under the LOGROS project.



A. Overview

In 1960, the Central American countries had only minimal financial and technical capabilities to deal with the housing sector. Costa Rica and El Salvador had public housing agencies which built a limited number of middle income dwellings per year, and private banking institutions provided limited mortgage money at commercial rates for any additional housing construction.

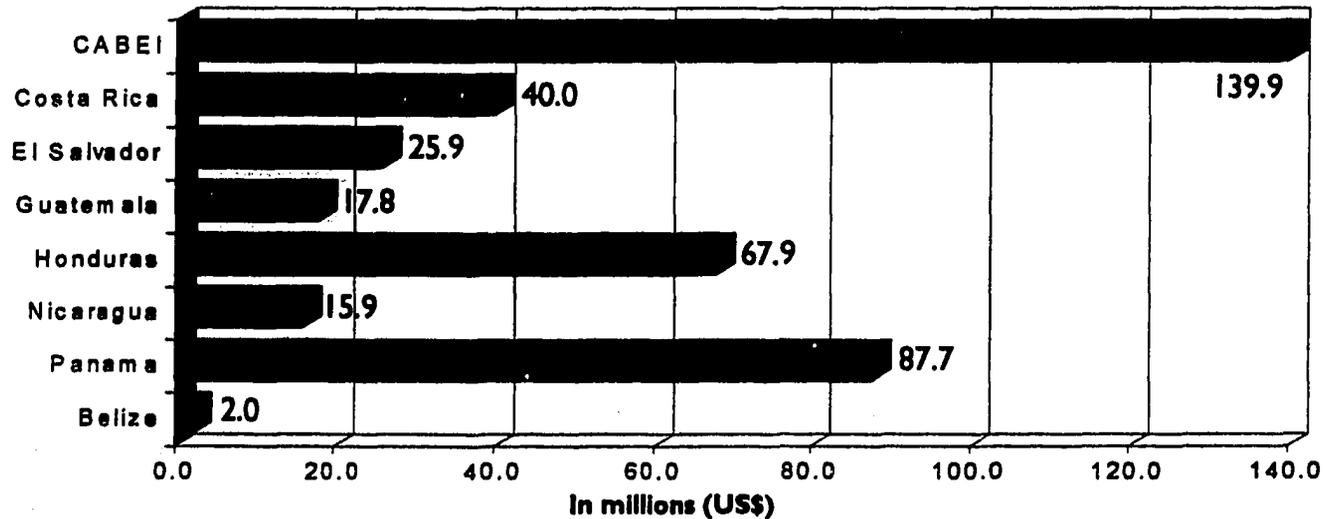
Since then, each Central American countries has achieved a different level of success in meeting its shelter and urban development needs. Each has faced—and is facing—similar problems, although they differ in scale and complexity.

In all Central American countries, USAID relied primarily on HG funds, supported by development assistance and economic support funds from

the USAID Missions in the region, as well as from USAID's former Regional Office of Central American Programs (ROCAP), in order to increase private sector participation in housing finance and construction, improve cost recovery, reduce building standards and persuade lenders to adopt market interest rates in order to create a sustainable shelter finance system.

Between 1963 and 1992, the USAID HG Program provided \$397.1 million worth of investments in Central America (see Figure 1 below for a breakdown), directly benefiting more than 780,000 people, or 142,000 families. The program also provided crucial support for a number of key policy changes in national shelter and urban development strategies in the region. In addition, \$290 million were provided by bilateral USAID Missions in development assistance funds for technical assistance and training.

Figure 1
Regional Distribution of Housing Guaranty Loans, 1963-1992





USAID Housing Program in Central America Historical Overview, 1961-1992

In the late 1970's and 1980's, USAID housing and urban infrastructure programs developed during times in which Central American countries faced serious crises:

- civil wars in Guatemala, El Salvador, and Nicaragua;
- enormous damages to infrastructure and other losses from conflicts in third countries;
- more than one-half million refugees and displaced people in the region between 1980-1983;
- slow expansion of housing and infrastructure due to depressed economic conditions and low government budgets;
- only two countries in 1982 with democratically elected presidents, Costa Rica and Honduras. Newly independent Belize also had an elected prime minister.

Now, for the first time in history all the countries of the Central American isthmus, from Guatemala to Panama, are led by democratically elected

Costa Rica Country Profile

1992 Population: 3.2 million
Urban: 1.5 million
Rural: 1.7 million

Urban Population Annual Growth Rate: 1960-1992: 3.9%

GNP/Capita (1991) \$1,870

Population with Access to:
Safe Water (1988-1991) 92%
Sanitation (1988-1991) 97%

Estimated Housing Deficit: 150,000 units

% of Population with Housing Deficit: 22.8%

Population Density (People per Km²): 63

Sources:

Human Development Report 1994, UNDP.
Central America Shelter Study, UNIAPRAVI (1993)

governments committed to market-based economic policies. This return to regional stability provides the impetus needed for the region to manage urbanization and produce increased affordable shelter for low-income families. Critical to achieving these goals are policies that focus on improving the efficiency of land and financial markets, increasing cost recovery, decentralizing government authority, and encouraging individual initiative

and a creative, broadly participatory private sector.

B. Country Analyses

USAID Efforts in Costa Rica

The USAID housing program in Costa Rica began in 1969 with a \$2 million HG loan. Since then, an additional \$38 million has been provided through the HG Program, along with \$92.5 million of bilateral resources provided by the USAID Mission for shelter purposes, for a total of \$132.5 million through



1992. Approximately 11,000 units were financed with USAID HG resources between 1961 and 1992, benefiting nearly 55,000 persons.

USAID Achievements in Costa Rica

USAID has made significant shelter sector gains as measured in terms of policy changes and production of housing and infrastructure. The various HG programs proved of significant value in achieving the necessary policy reforms and shelter production goals. The most notable has been the priority assigned the shelter sector by the Costa Rican government, which since 1986 has made a concerted effort to implement a variety of significant structural and operational reforms in the sector. The initial step in the process was the passage of legislation in November 1986, which reformed the national housing finance system and created a National Housing Finance Bank (BANHVI) to supervise and strengthen the operations of financial intermediaries (savings and loans, banks, and public entities) that provide short and long term housing credit. USAID assisted in the design of the BANHVI law and furnished both technical and capital assistance to the newly created bank.

Present Situation of Housing Policy in Costa Rica

The role of the State. With the passage of the National Housing Financing System (SFNV) law in November 1986, the State essentially assumed the role of facilitator. Nevertheless, in the program developed by the Special Housing Commission to eradi-

Housing Production

Housing production in Costa Rica exceeds that of any other Central American country:

<u>Years</u>	<u>No. of Units</u>
1990	18,188
1991	21,778
1992	24,587

In 1993, Costa Rica produced 26,481 units which for the first time in history reduced the shelter deficit in real terms.

cate slums, the Ministry of Housing and Human Homesteads (MIVAH) has taken on a very active role in the promotion of housing projects with the participation of private business and, in some cases, the affected communities. Because of recent legal decisions, these projects now will be overseen by the National Institute of Housing and Urbanization and other authorized entities. MIVAH has also influenced the interest rate charged by the authorized entities of SFNV in its long term operations with bonds. Currently, interest rates are near market levels. This situation is presently being analyzed by Costa Rican officials.

Cooperation between the public and private sectors. The public and private sectors in Costa Rica cooperate amply in the areas of housing technology, construction and financing.



USAID Housing Program in Central America Historical Overview, 1961-1992

Synopsis of USAID Housing Activities in Costa Rica

1993. During celebration of the Inter-American Housing Union (UNIAPRAVI) Thirty-First Annual Meeting in San Jose, Costa Rica, the Government of Costa Rica presented an award to Mr. Peter Kimm, Director of the Office of Environment and Urban Programs, in recognition of USAID contributions over the years to the development of housing policies and programs in Costa Rica.

1991-92. BANHVI was supported by an Economic Support Funds local currency program. Since 1988, the local currency equivalent of \$50 million in capital assistance was disbursed to BANHVI through the Government of Costa Rica. This generated over \$9 million in private counterpart funding and produced over 14,000 housing units. A three-year technical assistance program was provided in policy and administrative guidance to BANHVI. The technical assistance also focused on domestic savings mobilizations and design of a national savings campaign.

1989-90. CABEI provided \$6 million in capital assistance to BANHVI, which provided mortgages for 2,400 housing units.

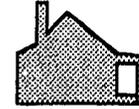
The Central American Institute for Business Administration (INCAE) provided training workshops and seminars for the staff of the National Institute for Municipal Development (IFAM) to strengthen its institutional capacity to assess and advise municipal governments.

Implementation of a \$7 million USAID Mission-funded pilot infrastructure project with IFAM was completed in 1989. This project demonstrated the feasibility of stimulating low-cost housing production through municipal provision of basic water and sanitation services.

1986-87. In 1987, through sites and services programs, USAID, the Costa Rican private sector and infrastructure agencies provided new or improved shelter to over 4,500 families. The objectives of the shelter policy dialogue included: reducing building standards; minimizing subsidies; distributing low-cost shelter more equitably among the smaller, growing municipalities outside San Jose; and coordinating the activities of the thirty-six institutions operating in the shelter sector.

Also, in 1987, the majority of USAID shelter assistance was devoted to helping the National Mortgage Bank, reorganized in 1986 under the new National Housing Finance Law, to operate more effectively. Other activities that year included an evaluation of the Private Sector Program aimed at helping the recovery of the Costa Rican savings and loan system, and increasing USAID collaboration with an infrastructure program through the municipalities.

In 1986, the Municipal Housing Bank increased its lending rate, agreed to link future infrastructure investments to the construction of low-income housing, expanded private sector involvement to include the design, supervision and execution of infrastructure projects, and increased local tariff rates in municipalities.



Costa Rica: Evolution of an Effective Housing Finance System

The Savings and Loan System in Costa Rica is the main provider of mortgage loans for housing, averaging \$75 million during 1988 and 1992. The S&Ls have traditionally worked with low and moderate income families.

The S&L system was created in 1970 with USAID-sponsored technical assistance and seed capital, and received USAID-CABEI resources to rapidly develop its mortgage lending activities, promote savings in general, initiate the development of a secondary mortgage market and foster the participation of the private sector in the construction of low-cost housing. The S&L system prospered during the 1970's with increased participation of private sector builders and developers. This also provided a stable basis of employment for thousands of non-skilled construction workers. However, in the early 1980's the S&L system in Costa Rica faced a serious financial crisis due to the adverse economic conditions and high inflation rates which diminished people's ability to repay these loans. The system's mortgage financing activities fell from a peak of 4,432 mortgages in 1979 to only 1,392 in 1983.

In 1982 USAID authorized a \$20 million Housing Guaranty loan (515-HG-008) and a bilateral USAID Mission loan for \$5 million which were complemented with a local counterpart contribution of \$4 million. These were channeled through the S&L system so they could have working capital for mortgage lending during the crisis years. As evidenced years later, without USAID assistance, the Costa Rican S&L system would have disappeared in the period after 1982.

Concurrent to these project activities, USAID consultants helped Costa Rican officials develop legislation to reform the entire housing finance system and redefine the roles of the various institutions in the sector. This legislation was enacted in September 1986. The new law provided the S&L system greater operating flexibility, e.g., interim construction loans to builders. The



Low-cost Mutual Alajuela Housing Development financed by the Savings and Loan Association of Alajuela, Costa Rica.

new law also created a 2nd tier National Housing Bank (BANHVI) which superseded the DECAP as the central organization of the S&L system.

In December of 1987 USAID and the Government of Costa Rica signed a Memorandum of Understanding allowing for further collaboration in the development of a more effective national system for shelter finance, a process which included financial support to consolidate the newly enacted legislation. To that effect, between 1988 and 1990, the USAID program directed \$32 million to the shelter sector, capitalizing the National Housing Fund (FONAVI) in BANHVI. Originally the funds could only be used to discount mortgage loans granted for new housing production. However, in 1990, FONAVI was amended to include home improvement financing.

Between its inauguration in 1987 and year end 1990, BANHVI purchased nearly 26,500 home acquisition loans, an investment of over \$62.4 million. Thus, USAID resources contributed to some 36% of BANHVI investments in discounted mortgage loans, and nearly 53% of the total number of loans acquired. The USAID funds played a vital role in getting the remodeled shelter finance system underway and its subsequent growth.



USAID Housing Program in Central America Historical Overview, 1961-1992

Also, in 1986, USAID provided technical assistance to prepare a housing needs assessment in Costa Rica that set the basis for the restructuring of the shelter sector.

1979-80. Technical assistance was provided to help in the preparation of a national housing policy.

USAID funded technical assistance to the Savings and Loan System on savings promotion and branch office management techniques.

USAID funded an analysis of shelter programs for low-income families in Limon.

1978-79. USAID assisted in the establishment of the first national mortgage bank and in the formulation of a national housing policy.

An intensive evaluation of the ongoing Housing Guaranty Project was carried out to meet implementation needs.

1976-77. USAID sponsored a study of the possibility for applying a special property tax assessment (valorization) as a means of financing community upgrading projects.



USAID Efforts in El Salvador

The USAID housing program in El Salvador began in 1964 with a \$4.5 million HG loan. Since then an additional \$21.4 million has been provided through the Housing Guaranty Program and \$3.8 million of bilateral resources provided by the USAID Mission for housing totaling \$29.7 million through 1992.²

USAID also helped the Government of El Salvador recover from the earthquake that struck the country in October 1986. The USAID Earthquake Reconstruction Program (total contribution \$98 million plus \$7 million in reflows from credit lines) provided \$30 million for emergency shelter relief, and \$37 million in the construction of 13,062 housing units in 103 communities and locations throughout the country.

El Salvador Country Profile

1992 Population:	5.4 million
Urban:	2.4 million
Rural:	3.0 million
Urban Population Annual Growth Rate:	1960-1992: 2.9%
GNP/Capita (1991)	\$1,090
Population with Access to:	
Safe Water (1988-1991)	47%
Sanitation (1988-1991)	58%
Estimated Housing Deficit	473,000 units
% of Population with Housing Deficit	36.9%
Population Density (People per Km²)	258

Sources:

Human Development Report 1994, UNDP
Central America Shelter Study, UNIAPRAVI (1993)

USAID Achievements in El Salvador

Foremost among the achievements of the HG Program in El Salvador was the breakthrough in the 1980's of private sector participation in housing construction, which produced core units of 20 square meters for the first time. Most recently in 1991, USAID provided technical assistance to the Government of El Salvador (GOES) to develop, design and imple-

ment a national housing subsidy program to help low-income families afford a minimum housing solution, modeled after the Costa Rican system.

At the same time, the GOES—with advice from a consultant team financed by USAID—was drafting a new housing law, which was to create a new institution, the National Housing Contributions Fund, as well as name and employ the staff to manage it. The National Popular Housing Fund law was enacted in June 1992. Launching a new institution and a transparent housing subsidy system simultaneously was without precedent in El Salvador.

² The bilateral USAID Mission total may be greater, however, the data for housing projects was not available.



USAID Housing Program in Central America Historical Overview, 1961-1992

Earthquake Reconstruction in San Salvador Through Housing Cooperatives



Meson San Francisco before self-help cooperative housing program in downtown San Salvador financed with USAID resources through CHF.

In October 1991, five years after an earthquake shook the capital of El Salvador, 70 low-income families participated in a dedication ceremony celebrating the reconstruction of their homes and community. The work was accomplished under an innovative program developed and implemented by the Cooperative Housing Foundation (CHF) to assist the displaced residents of San Salvador's slum tenements which have traditionally housed the city's poor. The program rebuilt housing destroyed in the 1986 earthquake and helped former tenement residents obtain legal title to their new homes.

The program was developed and implemented utilizing approximately \$1.5 million of reflows from previous USAID grants to CHF and \$1.7 million in housing credit funds from USAID's Earthquake Reconstruction Project with the Government of El Salvador (details of this program are provided on page 17). In addition, the grant provided nearly \$650,000 to CHF for administrative and operational expenses.

The program achieved the following: (i) Eight condominium sub-projects were developed and constructed. A total of 510 apartments were constructed. The average unit price of the apartments was the equivalent of \$3,154; (ii) Individual 20 year mortgage loans

were provided by participating financial institutions to all 510 beneficiary families; (iii) CHF designed, promoted and constructed 300 units of self-help housing in two communities in the San Bartolo area of San Salvador; (iv) Two community/day care centers (furnished), two public laundry washing stations, plus recreational areas and parks were constructed by CHF in the self-help communities.

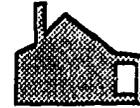
In the case of the development and construction of the apartments, CHF's program involved the purchase of the slum tenements or other appropriate sites located within an approved geographic area; design and subdivision of the sites; provision of on-site water, sewerage, electricity and storm drainage; and construction of individual (condominium) housing units for qualifying low-income earthquake victims. The sites selected, subdivision layout and house designs were based on the

individual beneficiary's capacity to pay. CHF secured short-term construction financing through participating lending institutions using USAID's funds. During construction, participant families also contributed their own self-help efforts to help keep costs down.

As a result of the program more than 650 low-income families are no longer only tenants, but are enjoying the safety and security of owning their own homes.



Condominio San Francisco after self-help cooperative housing program in downtown San Salvador financed with USAID resources through CHF.



Present Situation of Housing in El Salvador

The role of the State. With a sectoral plan included as part of the 1990-1994 National Housing Plan, the State takes on a regulatory and facilitating role in the actions of the various public and private agencies who deal with housing. The Vice Minister of Housing and Urban Development, with the support of the National Housing Council, is charged with this task.

Private Sector Housing Finance Institutions. The Savings & Loan System in El Salvador was nationalized in the 1980's. Yet, since 1990, a process of privatization has reinstated the private sector as a main conduit of housing finance.

Synopsis of USAID Housing Activities in El Salvador

1991-92. A cooperative agreement with the Central American Institute for Business Administration (INCAE) provided seven diagnostic workshops for government officials and USAID to formulate an action strategy for the shelter sector.

The USAID Mission implemented a technical assistance program to assist the Vice Ministry of Housing and Urban Development in defining a housing policy which included new roles for the various housing agencies operating in the country.

1988-89. USAID promoted more effective participation of the private sector through technical training and policy dialogue in the development of low-cost housing.

1987-88. The shelter situation in El Salvador remained critical. The housing deficit, historically large because of migration from conflict areas and the lack of private investment, was compounded by an earthquake in October 1986. USAID provided \$30 million for emergency disaster relief, with an additional \$37 million donated for shelter through a Mission-funded Reconstruction Program.

In 1987, USAID financed a series of institutional assessments to clarify appropriate roles and needed policy changes for the myriad of shelter agencies. The previous year's earthquake refocused USAID attention on the immediate post-earthquake needs. USAID technical assistance was designed to: 1) coordinate international efforts to respond to urgent housing and infrastructure needs; and 2) develop a medium term plan to address permanent shelter needs and to promote coordination in the sector.

1985-86. A Shelter Sector Assessment was prepared to gauge potential housing projects in the country.

1983-84. USAID provided \$5 million through a supplemental authorization to enable the National Housing Authority (IVU) to expand its production of shelter for low-income families.

1980-81. USAID worked with housing finance institutions on the creation of a secondary mortgage market.



USAID Housing Program in Central America Historical Overview, 1961-1992

USAID Efforts in Guatemala

Approximately \$17.8 million has been provided for shelter development in Guatemala through the HG Program. These resources also generated the equivalent of \$4.3 million in local currency counterpart funding. When combined, this funding generated a total of \$22.1 million in investments in the shelter sector between 1961 and 1992. In addition, the bilateral USAID Mission provided over \$600,000 in grants for technical assistance to the Guatemalan Mortgage Insurance Institute (FHA). Also, in 1976, USAID provided over \$14 million for an earthquake disaster relief program which provided emergency and new shelters to approximately 100,000 people.

The impact of USAID assistance in housing has been mixed. The Government of Guatemala (GOG) has never sponsored a sustainable housing policy. Consequently, there is a vacuum in the shelter plans which are developed without strong institutional coordination, realistic objectives and solid implementation mechanisms. In spite of good intentions from

Guatemala Country Profile

1992 Population:	9.8 million
Urban:	3.9 million
Rural:	5.9 million
Urban Population Annual Growth Rate:	1960-1992: 3.5%
GNP/Capita (1991)	\$940
Population with Access to:	
Safe Water (1988-1991)	60%
Sanitation (1988-1991)	60%
Estimated Housing Deficit	815,000 units
% of Population with Housing Deficit	52.1%
Population Density (People per Km²)	90

Sources:

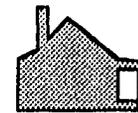
Human Development Report 1994, UNDP.
Central America Shelter Study, UNHCR (1993)

various administrations, the GOG has not demonstrated a political will to modify and modernize the shelter sector. The Housing Guaranty program has been almost the only source of long-term mortgage financing in Guatemala. The sector has never been supported by any permanent form of long-term domestic sources of financing. None of the public entities charged with housing development have been successful during the last de-

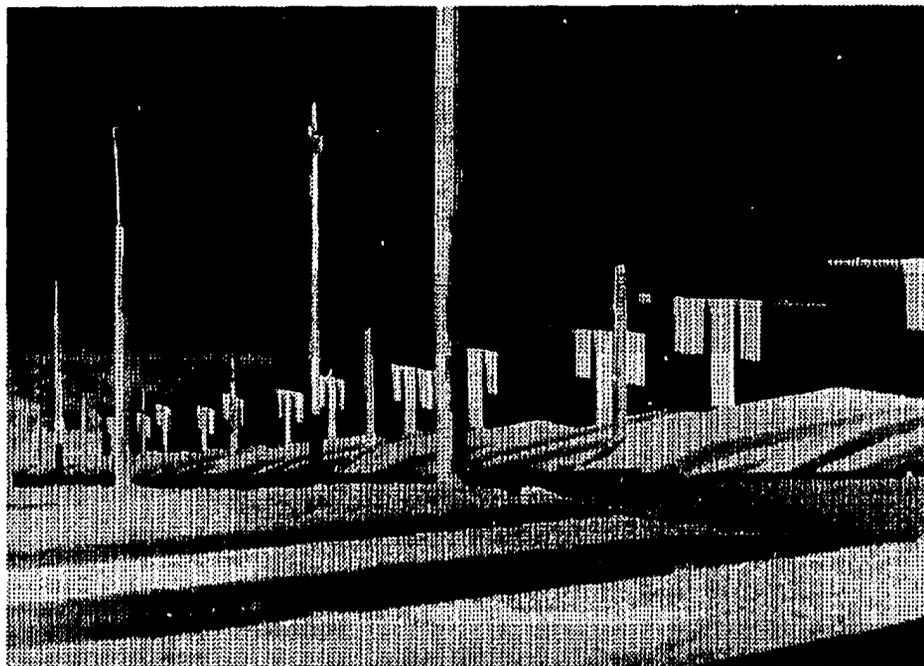
cade. The FHA is an under-utilized insurance institution with limited resources for its own operations; the Bank of Guatemala (Central Bank), which administered the last HG, did so with little enthusiasm or interest in replicability to serve as a second-tier lender.

USAID Achievements in Guatemala

Despite the apparent challenges, there is no doubt that USAID HG programs have, in one way or another, had some positive effect on the Guatemalan housing sector. Through USAID efforts a shelter network was established among thirty-five public and



private sector institutions working in housing construction, finance, and urban development. Training activities were funded through USAID grants which allowed the participation of Guatemalan shelter sector leaders in several short courses, seminars, and international conferences. The participants in these events included members from the Guatemalan Construction Chamber, FHA, Bank of Guatemala, and the Federation of Cooperatives.



Prado de la Sonora, a housing development in Guatemala City being developed and financed by the private sector

The HG programs successfully guided the FHA to lower building minimum standards, creating a 13 square meter shelter solution, which opened up the housing market to lower income groups. Likewise, private developers were encouraged to build minimum standard shelter solutions for the first time. A recent example of the private sector interest in low cost housing is the formation in 1992 of the First Savings and Loan Housing Bank (VIVIBANCO), a new savings and loan formed by a group of builders to cater to the low income strata, by constructing smaller 2-bedroom units with a total building surface of 36 square meters. As one of the founders of VIVIBANCO stated: "The owners of VIVIBANCO were participating in a seminar sponsored by USAID and UNIAPRAVI, and decided that if in other countries the private sector was doing it . . . why not in Guatemala?"

Present Situation of Housing in Guatemala

The role of the State. Traditionally, the State has played a paternalistic role in housing matters through the National Housing Bank (BANVI), and the National Reconstruction Committee (CRN), which have directly participated in the financing and construction of housing projects. In 1992, the Guatemalan Housing Fund (FOGUAVI) was created within the Ministry of Urban Development. Also, the former Housing Bank (BANVI) was closed. These measures could be the beginning of a reform process by the GOG to assume a greater role as a facilitator rather than a constructor of housing.



USAID Housing Program in Central America Historical Overview, 1961-1992

Synopsis of USAID Housing Activities in Guatemala

1991-92. USAID financed a \$10 million HG Program to stimulate a private sector response to the production and financing of low cost shelter. The program has produced nearly 2,000 units. A \$300,000 grant assisted its implementation.

The Central American Bank for Economic Integration (CABEI) loaned \$3 million to BANEX, a private bank, to finance urbanized lots and minimum shelter solutions developed by FUNDAZUCAR, a foundation created by the Sugar Grower's Association. Approximately 1,077 urbanized lots were built.

INCAE, through a cooperative agreement with USAID, held national level seminars with municipal leaders in Guatemala to support the autonomy of municipal governments. Municipal autonomy encourages local involvement in shelter and infrastructure concerns.

1989-90. Various research activities were carried out, including an assessment on creating a Private Mortgage Guaranty Fund for low-cost shelter financing, and a shelter sector assessment and investigation by INCAE of decentralization efforts in Guatemala.

1987-88. USAID provided technical assistance to set the analytical basis for expanding RHUDO/CA's policy and programming to support future national housing finance systems and policies and urban and municipal sector initiatives.

USAID promoted more effective participation of the private sector in building affordable housing.

USAID funded integrated research and training activities by INCAE to support and complement RHUDO/CA's regional objectives.

1984-85. The Cooperative Housing Foundation, with the assistance of a USAID grant, initiated a project to provide credit through private sector organizations to families in the poorest communities in Guatemala. This included technical assistance to the National Federation of Housing Cooperatives.

1979-80. USAID sponsored an in-depth study of urban poverty.

1978-79. A proposed savings and loan law was analyzed to determine if it would effectively mobilize capital for financing low-cost shelter.

A study of urban poverty was prepared.

USAID funded an administrative survey of the National Housing Bank.

USAID funded a study of sewage treatment systems for the National Housing Bank.

1976-77. USAID assessed rural housing reconstruction needs after the 1976 earthquake.

USAID financed a study on the potential of a cooperative housing effort in Guatemala.

USAID assisted in drafting enabling legislation for the creation of a savings and loan system.



USAID Efforts in Honduras

Honduras has made significant progress in increasing the availability of housing for low-income families. Much of this progress can be attributed to active USAID involvement in the country's shelter sector. In the late 1970's, USAID persuaded the Government of Honduras (GOH) to adopt a progressive national housing policy and institutional arrangements to carry out low-cost shelter programs. Over the years, USAID has worked with all major institutions and key participants in the shelter delivery and finance sectors, bringing about institutional, programmatic and policy reforms which have increased access to affordable and adequate housing for lower income families. The USAID housing program has provided over \$67.8 million of HG loans and \$16.3 million in bilateral USAID Mission resources, with local counterpart contributions totaling over \$14.9 million. When all these sources are combined, the total investment in housing between 1961 and 1992 was over \$99 million, which provided 80,506 new units and adequate

**Honduras
Country Profile**

1992 Population: 5.5 million
Urban: 2.5 million
Rural: 3.0 million

Urban Population Annual Growth Rate: 1960-1992: 5.6%

GNP/Capita (1991) \$590

Population with Access to:
 Safe Water (1988-1991) 78%
 Sanitation (1988-1991) 67%

Estimated Housing Deficit 534,000 units

% of Population with Housing Deficit 53.4%

Population Density (People per Km²) 49

Sources:
Human Development Report 1994, UNDP.
Central America Shelter Study, UNIAPRAVI (1993)

housing for over 400,000 people in Honduras.

USAID also helped the GOH recover from the destruction caused by Hurricane Fifi in 1974, through a donation of \$4.8 million for housing construction.

USAID Achievements in Honduras

The vast experience in Honduras may be catalogued as follows:

- USAID introduced the core housing concept in the mid-1970's in Honduras through a project with the Honduran Federation of Housing Cooperatives (FEHCOVIL), which resulted in wide acceptance by beneficiaries and builders alike in subsequent projects.
- USAID provided technical assistance to the GOH to develop a National Housing Policy in 1978, which caused the GOH to focus on low-income housing needs and resulted in public sector institutions moving away from financing only middle-income housing.



USAID Housing Program in Central America Historical Overview, 1961-1992

- The promotion of land titling under urban upgrading programs has resulted in changing the attitudes of the poor toward meeting their own shelter needs and motivating them to seek further development of property which they could consider to be their own.
- Commitment by the local municipalities of San Pedro Sula and Tegucigalpa to provide basic services of water and sewerage to low-income neighborhoods (see page 23).
- Technical assistance to the GOH to structure the development of a Social Housing Fund is considered to have laid the basis for a sound approach to providing a sustainable resource base for financing low-cost housing in the country.

Present Situation of Housing Policy in Honduras

The role of the State. In 1985, the GOH established the Housing Fund (FOVI), a second-tier entity which acts as a mortgage discount facility for the housing finance system. The most recent institutional change in the housing sector in Honduras was the creation of the National Housing Council (CONAVI) and the Social Housing Fund (FOSOVI), in November 1991. These entities are responsible for housing sector policies. FOSOVI is able to operate as a first- and second-tier lending organization. This may be interpreted as a sign of the GOH's desire to play a greater role in housing as a builder and a provider of credit, rather than play solely a normative and facilitating role.

Synopsis of USAID Housing Activities in Honduras

1991-92. USAID implemented the Shelter for the Urban Poor II Program, consisting of a \$1.6 million technical assistance grant, combined with \$42.5 million in capital assistance (\$35 million Housing Guaranty loan and a \$7.5 million local currency counterpart).

The program was to improve the capacity of private sector institutions to provide housing and hands-on experience to municipal governments in the provision of basic urban infrastructure for low-income families. The success of this HG program in lending to municipalities prompted the authorization of a new, seven year, \$10 million Municipal Development Project designed to increase citizen participation in the democratic process and improve municipal capacity to respond to citizens needs for land, infrastructure, and public services.

1990-91. USAID completed an urban development study of La Ceiba, the third largest city in Honduras. The study identified problems and opportunities, and proposed direction for further investigation regarding municipal administration and the future orderly growth of the city.

INCAE carried out a seminar on informal sector finance and shelter production.

1989-90. Technical assistance was provided for land development studies in San Pedro and La Ceiba, Honduras' second and third largest cities, respectively. Also, a national shelter and urban develop-



The Honduras Urban Upgrading Project

In 1980, nearly 38 percent of all Hondurans lived in urban areas, which were growing twice as fast as rural areas. Over half of the total population lived in Tegucigalpa and San Pedro Sula, which were growing over 6% annually, 12% in marginal settlements.

Formal production of low-income housing was extremely limited; 60% of new urban shelter was produced informally usually in unplanned, illegal or undeveloped areas lacking basic services or unsuitable for housing. In 1980, nearly 60% of the units in Tegucigalpa and San Pedro Sula lacked private indoor plumbing, water or flush toilets.

USAID approved a \$10 million HG to improve the capacity of the cities of Tegucigalpa and San Pedro Sula to upgrade marginal communities on a scale sufficient to reduce the housing and infrastructure deficits and be financially self-sufficient. The bulk of the Housing Guaranty loan resources provided infrastructure services. Also, \$4.1 million in Government of Honduras counterpart funds were provided for project administration and off-site infrastructure.

USAID grants for nearly \$450,000 provided technical assistance and training to the two municipalities and concentrated on infrastructure standards, the development of social promotion and citizen participation systems, the resolution of land tenure issues, betterment of tax systems, computerized billing systems and to conduct socioeconomic analyses and overall evaluations of the urban upgrading program.

An estimated 96,600 low-income people residing in 38 marginal communities of Tegucigalpa and San Pedro Sula benefited from the project. The average monthly family income of participating communities was \$212 in Tegucigalpa and \$300 in San Pedro Sula, representing 50% and 92% of the median income in each city, respectively.

Over 6,000 low-income families received secure property titles. The total employment generated was just over 630,000 person-days, mostly unskilled labor. These achievements required a relatively small investment per family, approximately \$800 in capital investment and \$935 in total cost per family. The loan terms to beneficiaries were at real market interest rates.

The project proved the value of upgrading existing marginal neighborhoods as opposed to providing new construction. Both low-income communities and the municipalities demonstrated the desire to undertake upgrading activities and the potential to institutionalize effective tax systems adaptable to low-income community upgrading activities. The project developed Honduras's first betterment tax system. It also highlighted several important issues to be considered in planning and implementing other USAID financed upgrading efforts:

- (i) Sufficient time and technical assistance must be provided to municipal governments, so they can develop the institutional capacity to manage the project;
- (ii) the design of urban upgrading programs should include explicit provision for the financing of off-site infrastructure;
- (iii) contracting out both the construction and supervision of physical works to the private sector substantially improves the efficiency and effectiveness of the project;
- (iv) the early identification of land tenure and procedures for adjudicating land titles is essential to the



USAID Housing Program in Central America Historical Overview, 1961-1992

ment assessment and a management assessment of the national water and sanitation authority were prepared.

CABEI and the Central Bank of Honduras signed an agreement for a \$20 million shelter and urban development sector program. The housing finance policy agenda included the creation of a discount facility for organizations working with the informal sector.

1988-89. USAID provided capital assistance under Loan 522-HG-008 for \$35 million to finance the Urban Poor II Program. There was a \$7.5 million local counterpart contribution. The USAID Mission provided a \$1.6 million technical assistance grant, which financed the following activities, in addition to project implementation:

- Set the analytical and policy basis required to expand RHUDO and Mission sector programming related to: 1) national housing finance systems and policies; and 2) strengthening of local governments.
- Developed the analytical basis to prepare an urban development strategy for the Mission's Country Development Strategy Statement.
- Provided technical support for the preparation and implementation of technical assistance to support the San Pedro Sula Urban Development Program.
- Promoted more effective participation of the private sector in the construction of low-cost housing.

The Shelter for the Urban Poor II Project provided long-term financing for urban upgrading (water, sewerage, street paving) to 25,300 families and over 2,600 new mortgage loans for sites and services. In San Pedro Sula, the project led to a successful partnership between the municipal government, a local financial institution and private landowners under a locally controlled Popular Housing Fund (FOVIPO). The municipality, together with the financial institution, provided resources to create a fund to finance upgraded lots purchased by low-income families, with landowners financing the price of the land.

In 1986, technical assistance was provided for the completion of a Shelter Needs Assessment and a policy development agenda, as well as a housing finance strategy.

In 1986, officials of the Central Bank of Honduras were trained in housing finance with the help of the U.S. Savings and Loan Associations. This training was financed through the Central America Peace Scholarships Program.

1985-86. A \$5 million loan (522-HG-0050) was authorized for the Shelter for the Urban Poor II Program. The borrower was the Ministry of Finance. The National Housing Institute (INVA) implemented the program. This loan was a continuation of a previously authorized program (Shelter for the Urban Poor I Program authorized in 1978), enabling private developers and bankers to discount mortgage loans to eligible low-income families. Under this loan, the public sector facilitated private sector involvement in the efficient provision of housing. Ap-



proximately 40 percent of project funding was made available to private developers. The Shelter for the Urban Poor I Project assisted INVA to reach a sustained level of about 2,000 new housing units every year. This is only about 40 percent of the annual need for new housing created by the formation of new households among the poor in the major cities alone.

The Government of Honduras created a Housing Fund, which mobilizes public and private financing for low-income housing. A USAID Mission grant of \$700,000 helped finance policy studies to assist in the establishment of the Housing Fund.

1980-81. USAID undertook an evaluation of the progress of the Honduran National Housing Institute in computerizing its mortgage portfolio.

Assistance was provided to the Foundation for Minimum Cost Housing of Honduras in preparing its charter, regulations, and administrative agreements for use in sponsoring and developing urban projects and land bank projects.

1979-80. USAID provided technical assistance to INVA, the National Housing Institute, on environmental design, architectural planning, and socio-economic assessment of potential program beneficiaries.

USAID conducted an urban study to identify community development activities and social services that could accompany a Housing Guaranty project.

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

1977-78. Follow-up studies were conducted relating to the implementation of the national housing policy covering the informal shelter sector land banking, and a social fund to finance housing.



USAID Housing Program in Central America Historical Overview, 1961-1992

USAID Efforts in Nicaragua

The USAID housing program in Nicaragua spanned from 1965 until 1973. During that time, four Housing Guaranty loans were authorized for a total of \$15.9 million, which financed approximately 3,000 new units of housing in the country.

USAID Achievements in Nicaragua

USAID technical and capital assistance helped in the development of Nicaragua's savings and loan system. However, in July 1979, under the Sandinista Administration, most of the private sector was nationalized and private financial institutions ceased to exist. A notable achievement of USAID was the assistance provided for the Managua Urban Reconstruction effort following the 1972 earthquake that destroyed part of the city. More than \$43 million was made available for low-cost housing and infrastructure. A new central market was built and its modern design has made this facility an example of efficiency and cleanliness in food handling.

Nicaragua Country Profile

1992 Population:	4.0 million
Urban:	2.4 million
Rural:	1.6 million
Urban Population Annual Growth Rate:	1960-1992: 4.7%
GNP/Capita (1991)	\$300
Population with Access to:	
Safe Water (1988-1991)	54%
Sanitation (1988-1991)	52%
Estimated Housing Deficit	510,000 units
% of Population with Housing Deficit	77.8%
Population Density (People per Km²)	31

Sources:

*Human Development Report 1994, UNDP.
Central America Shelter Study, UNIAPRAVI (1993)*

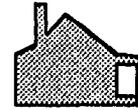
Present Situation of Housing Policy in Nicaragua

The role of the State. The role of the state is one of direct involvement as a provider of funds and builder of housing. Economic and political situations in Nicaragua have prevented a restructuring of the sector and the creation of incentives for private sector development and involvement in the provision of shelter. When the Housing Bank (BAVINIC)

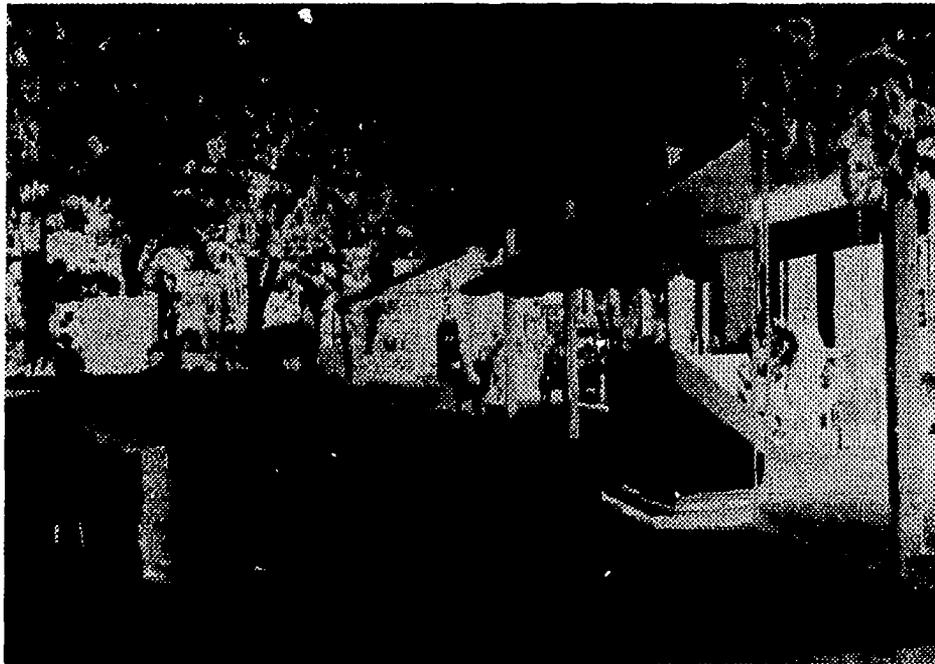
was created in June 1966, one of its functions was to oversee the then thriving savings and loan system. That system is no longer in existence. The current government is proposing a new banking law which will foster private banking and will allow commercial banks to carry out mortgage loans.

Synopsis of USAID Housing Activities in Nicaragua

1981. USAID provided assistance in evaluating an emergency shelter plan.



Above: Housing development "Las Brisas" in Managua. USAID financed 202 units in 1971 through Housing Guaranty Loan 524-HG-002. **Below:** View of Managua's Central Market, built in 1981 with USAID resources for earthquake reconstruction.





USAID Housing Program in Central America Historical Overview, 1961-1992

1975. USAID provided \$30 million in assistance for the Managua Urban Reconstruction Project.

1974. USAID approved \$13.6 million in assistance for the Earthquake Recovery Low Cost Housing Project that was implemented through BAVINIC.

1973. USAID provided \$5 million of capital assistance (loan 524-HG-003) through the Federal Home Loan Bank to the Nicaraguan Savings and Loan System.

USAID granted \$3 million for earthquake emergency housing.

1969. USAID provided \$3.7 million as a seed capital loan for the development of the Nicaraguan Savings and Loan System.

1967. USAID provided a \$403,000 grant to implement a housing demonstration pilot project consisting of different size units.

1963. USAID approved a \$1 million grant under the Alliance for Progress (Point Four) to the Mortgage Bank for self-help housing in Managua.



USAID Efforts in Panama

The USAID housing program in Panama began in 1965 with a \$2.9 million HG loan. Since then, an additional \$84.7 million have been provided through the HG Program, with an additional \$45.5 million of bilateral resources for housing provided by the USAID Mission, for a total of \$130.2 million in USAID assistance between 1965 and 1992. Over 35,000 units were financed with USAID resources during this period. USAID presence in Panama was temporarily curtailed between December 1987 and January 1990.

USAID Achievements in Panama

In addition to the physical provision of low-cost housing, USAID has had a long trajectory in Panama, working with public and private entities in the housing sector. The goals have been many: to strengthen the institutional policy and financial framework of the shelter delivery system in Panama; to undertake studies and analyses needed to formulate policies,

Panama
Country Profile

1992 Population: 2.5 million
Urban: 1.4 million
Rural: 1.1 million

Urban Population Annual Growth Rate: 1960-1992: 3.4%

GNP/Capita (1991) \$2,130

Population with Access to:
Safe Water (1988-1991) 84%
Sanitation (1988-1991) 92%

Estimated Housing Deficit 195,000 units

% of Population with Housing Deficit 35.9%

Population Density (People per Km²) 33

Sources:
Human Development Report 1994, UNDP.
Central America Shelter Study, UNIAPRAVI (1993)

strategies and programs affecting not only projects funded by the HG but the sector as a whole; and to provide technical assistance to local institutions to establish the data base necessary for better comprehension of the overall financial sector and urbanization process.

In the early 1980's, as a result of USAID assistance, the Ministry of Housing (MIVI) implemented a strategy based on pro-

grams designed for families in the lowest income groups. Since then, the Government of Panama (GOP) through MIVI has directed its efforts almost exclusively to sites and services projects, home improvements loans, and other very low-cost solutions that meet the needs of low-income families.

The private sector is also increasing its role in producing and financing housing for low-income groups. Changes in legislation in the late 1980's, coupled with the saturation of the high cost housing market, created an environment which was more conducive to private sector initiatives in low and



USAID Housing Program in Central America Historical Overview, 1961-1992

moderate cost housing. Evidence of the new private sector initiative can be seen in the implementation of the Private Sector Low Cost Shelter Project (HG loan 525-HG-014 for \$25 million) which is being channeled through three Panamanian private banks.

As part of the 1977 Panama Canal Treaty, the United States pledged \$75 million under the USAID HG Program to help finance housing for low-income families in Panama. The resources were authorized in three equal tranches of \$25 million. The first was authorized in 1979 (525-HG-012), and produced 5,700 serviced lots, homes and apartments and over 7,000 home improvement loans.

The second \$25 million tranche (loan 525-HG-013) was authorized in 1983, but only \$10 million was contracted in 1986. Because of ensuing economic and political developments, loan draw downs did not begin until 1991. This program should be completed by mid-1994 and will have produced close to 3,000 low cost units built by private sector developers and financed by the National Mortgage Bank (BHN) and the *Caja de Ahorros* (Savings Bank).

The third and last tranche of the \$75 million commitment started in April 1992, (loan 525-HG-014) and is being channeled exclusively through private banks on a reimbursement basis. Banco General, the largest Panamanian private bank, was the first bank to sign an Implementation Agreement under this project. Because of the unique circumstances in Panama (dollar currency and no exchange rate woes) this HG carried no GOP guaranty. The banks and the mortgages are the guaranties for this opera-

tion. This is one of the few HGs in the world with this type of arrangement.

Two other private banks have signed implementation agreements, Banco del Istmo and Banco FEDPA (which represents the cooperative sector).

The \$25 million will be complemented by an additional 20 percent participation by each bank, plus a 10 percent down payment from each applicant. These resources will initially finance approximately 2,500 homes in the \$10,000 to \$18,000 price range, which will be accessible to Panama's low-to median-income families. Repayments on the individual mortgage will be reinvested in approximately 3,500 additional low cost houses, thus bringing the total units financed during the 30-year project period to 6,000.

Present Situation of Housing Policy in Panama

The role of the State. In July 1991, the GOP created the National Housing Council (CONAVI) and the Shelter Savings Fund (FONDAHVI), and established the basis to develop a National Housing Policy. These measures show that the State is assuming more of a conducive and facilitating role in the sector than it had in the past.

Synopsis of USAID Housing Activities in Panama

1991-92. RHUDO/CA provided short-term technical assistance to USAID/Panama in reactivating the



Panama Housing Guaranty Programs. The USAID/Panama Mission also implemented the Chorrillo Reconstruction Program that provided replacement housing for 2,200 families affected by the events surrounding the deposition of Panamanian military rulers. All families in the Chorrillo area of downtown Panama City have now received a house in their former neighborhood or in other areas, as they were given the choice of selecting the location for their new residence.

A \$25 million Private Sector Low Cost Shelter Program (525-HG-013) was also implemented to improve the quality of life for below median-income urban families through increased access to affordable shelter. The program involves mortgage and commercial banks and other private finance institutions in financing low cost shelter for the first time. Participating institutions receive training and technical assistance. The program has financed the construction of approximately 3,000 new housing units.

Technical assistance for institutional strengthening was also provided to the *Caja de Ahorros* (Savings Bank) and the Ministry of Housing.

1987-88. RHUDO/CA continued to work with the Ministry of Housing which was carrying out a previously authorized \$25 million program (525-HG-012). That program financed an estimated 12,700 shelter solutions, including 5,700 urban renewal apartments and serviced lots. This program also established an innovative lending approach in Panama—making construction materials loans so that the beneficiaries could improve their homes in accordance with their repayment abilities. This prac-

tice is now part of MIVI's activities through the National Mortgage Bank (BHN). Between 1991 and 1993, close to 7,000 construction materials loans (\$5.8 million) were approved by the BHN.

As one Panamanian official stated: "the HG-012 has been one of the most successful programs in Panama."

Since the late 1970's, the public sector has targeted a greater proportion of its resources to the lowest income families and the Government of Panama has made numerous reforms and policy decisions to strengthen the financial foundation of the BHN, its principal financial institution for low-cost housing.

1986-87. In Panama, RHUDO/CA efforts were concentrated on expanding the shelter delivery system by: increasing the participation of private sector institutions in the finance and production of low-cost shelter; adopting policies limiting the public sector's role in production while emphasizing its planning and policy making functions; and creating mechanisms to channel additional local resources into housing.

A new HG program, the Private Sector Low-Cost Housing Program for Panama (525-HG-013), was contracted. The program was designed to increase the delivery of low-cost shelter through private sector institutions by eliminating the constraints that limit private sector involvement.



USAID Housing Program in Central America Historical Overview, 1961-1992

Additionally, technical assistance was provided to support: more flexible urbanization and building codes; a strategy to mobilize savings for shelter investment; and the strengthening of the savings and loan and cooperative systems.

RHUDO/CA has also worked closely with the USAID Mission in Panama to implement a program of capital assistance to the public sector to consolidate the gains made in the past six years in innovative low-cost shelter solutions and improve the financial and administrative efficiency of the MIVI and the BHN. Technical assistance and training are key complements that support policy dialogue on issues such as reductions in building standards, establishment of secondary mortgage markets, and strengthening of the savings and loan system, as well as the provision of training for municipal managers in budgeting and planning to improve service delivery and management.

1985-86. An Urban Development Assessment and a Municipal Financial Management Analysis were carried out through USAID technical assistance.

1980-81. USAID funded preparation of a manual on storm water and erosion control measures for the Ministry of Housing.

USAID sponsored studies on increasing employment and income among the urban poor and a pilot program to generate employment using community organizations.

1979-80. USAID provided a long term resident advisor to assist in the implementation of the Housing Guaranty project (522-HG-011) authorized in 1979.

USAID contracted a financial analyst to help strengthen management and financial reporting capabilities in Panama's National Mortgage Bank and the Nuevo Chorrillo Housing Cooperative.

1977. In Panama, two loans were authorized in 1977. The first was for \$3.4 million which was loaned to the National Mortgage Bank of Panama to finance 900 single-family homes owned by members of the Nuevo Chorrillo Housing Cooperative. Twenty percent of the work was performed by cooperative members, who also participated fully in project conception and design.

The second loan was for \$15 million to upgrade squatter settlements and marginal residential areas in the San Miguelito district of Panama City (see page 6). In addition to the provision of basic utility services and the construction of streets and sidewalks, a sites and services project and minimum housing units were also built.



**USAID Efforts
in Belize**

USAID authorized a HG loan for Belize for \$2 million in September 1982. Credit unions used these funds for home improvement loans to low income families. The Development Finance Corporation also used the funds for home improvement loans in rural areas not reached by the credit unions. A \$400,000 bilateral grant by the USAID Mission was also provided to the Cooperative Housing Foundation (CHF) to provide technical assistance to credit unions during project implementation. The Housing Program financed approximately 1,000 home improvement loans in Belize.

**Belize
Country Profile**

1992 Population: 200,000
Urban: 102,000
Rural: 98,000

Urban Population Annual Growth Rate: 1960-1992: N/A

GNP/Capita (1991) \$2,180

Population with Access to:
 Safe Water (1988-1991) 75%
 Sanitation (1988-1991) 48%

Estimated Housing Deficit: N/A

% of Population with Housing Deficit: N/A

Population Density (People per Km²): 9

Sources:
Human Development Report 1994, UNDP.
Central America Shelter Study, UNIAPRAVI (1993)



USAID Housing Program in Central America Historical Overview, 1961-1992

USAID HG Program through the Central American Bank for Economic Integration

Background

The Central American Bank for Economic Integration (CABEI), located in Tegucigalpa, Honduras, was created in 1960 by the countries of Central America to foster both economic integration and greater balance of development within the region. Its role is that of a financier of public and private development projects. USAID encouraged the founding of this regional development bank because of its potential contribution to development of a common market in Central America. The first years of operation of CABEI were devoted mainly to regional public infrastructure projects such as highways and telecommunication facilities that could promote economic integration. In March 1963, a Housing Fund was established at CABEI, with a USAID concessional loan of \$10 million, in response to regional demand to help resolve housing problems. As a result, CABEI can provide technical assistance, take equity positions, and operate a secondary mortgage market for the region.

CABEI is organized around five separate funds: a) the Integration Fund provides loans to the public sector for infrastructure development; b) the General Fund finances industrial, tourism, and agricultural projects; c) the Housing Fund purchases mortgages from various financial institutions in Central America; d) the Social Development Fund finances

projects in the fields of education, health, low-cost housing, and urban development; and e) the Social and Economic Development Fund, established as a temporary mechanism for the incorporation of countries from outside the region.

The Housing Fund and its Impact on Regional Housing

The bulk of CABEI's housing lending activities are carried out through the Housing Fund (HF). The HF and CABEI's housing programs in general have enjoyed strong support throughout the region from both the private and the public sectors.

The principal objectives of the HF, as formulated in an August 1983 policy statement, are as follows:

- establish and develop institutions that mobilize savings for investment in housing, i.e., savings and loan systems;
- mobilize other sources of financing for investments in the sector;
- promote and develop a secondary mortgage market;
- support the adoption of regional policies and standards for housing;
- promote technological research in the area of housing and human settlement;
- provide technical assistance and advice to private and public housing institutions in the region; and
- participate in and support regional housing associations or groups.



The HF has played a major role in CABEI's overall lending program. The proportion of CABEI's loan portfolio represented by HF loans averaged 6.6 percent between 1987 and 1992. Between 1964 and June 1993, the HF channeled 71 loans totalling \$191.3 million through 47 private sector financial intermediaries in Central America. All five member countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) have received housing loans, with the largest proportion of the loans being received by Costa Rica (47 percent) and the smallest by Nicaragua (1.8 percent). Private sector savings and loan systems have received the majority of all housing credits, although all types of housing institutions in the region have had access to CABEI's Housing Fund. In Guatemala, where there is no specialized housing finance system, the commercial banks have been a major user of CABEI housing funds.

CABEI has assisted various types of organizations engaged in housing finance. Much of its emphasis has been on funding new housing projects, particularly low-cost housing. As national institutions increased their capabilities, CABEI has been able to rely more on their project supervision and thus focus more on mortgage investments. CABEI has invested in housing mortgages through five different kinds of institutions:

- Savings and Loan Associations: construction loans were made with mortgage takeouts.
- Central Savings and Loan Banks: CABEI purchases mortgages and mortgage-backed securities; these institutions purchase mortgages from

their member institutions, thus both national and regional money sources replenish the funds available for mortgage loans.

- National Housing Institutions: these usually focus on low-cost social housing, sometimes with USAID bilateral assistance; CABEI increasingly provided much-needed mortgage financing.
- Cooperative Federations: CABEI has worked with both individual housing cooperatives and national federations in each of its member countries.
- Commercial Banks: some commercial banks, especially in Guatemala, have had major housing finance programs.

The involvement of a wide spectrum of the financial community in CABEI-financed housing programs has fostered the use and acceptance of a uniform set of regional norms and standards for processing, approval and implementation of housing loans. These regional standards have appreciably facilitated the integration of the region with respect to housing activities.

It is estimated that CABEI underwrote approximately 7 percent of housing financed by the formal sector in the region between 1963 and 1992. While apparently a modest figure, this proportion, nevertheless, represents about 30,000 units which provide housing for nearly 165,000 people.

CABEI has attempted to establish a secondary mortgage market in one form or another in order to



USAID Housing Program in Central America Historical Overview, 1961-1992

generate additional funds for housing. With USAID assistance, CABEI initially tried to develop a secondary mortgage market based on the U.S. system. However, when that model proved to be impossible to implement, a more modest concept was devised whereby CABEI relied on the use of external funds to purchase mortgages generated by primary lenders in the region. This attempt coincided with the economic crisis in the region and, as a result, CABEI was unable to borrow money from outside the region other than housing guaranty loans. While the secondary mortgage market concept has not been implemented due to the above reasons, neither has it been proven invalid. Only as the region regains a greater degree of political and economic stability can the concept be tested fully.

Nevertheless, CABEI has been successful in introducing financial instruments that will play an important role if and when CABEI is able to develop a true secondary mortgage market. CABEI has developed and issued Housing Investment Certificates (CIVs), which are short-term notes backed by the full faith and credit of CABEI. These are generally sold to local financial institutions which participate in CABEI's housing lending activities. No market is maintained for trading the CIVs, and CABEI guarantees their repurchase. Generally, CIVs have been used to absorb excess liquidity of purchasing institutions as well as provide CABEI with short-term liquidity. While the volume of CIVs has fallen far short of being adequate for secondary market operations, the certificates have been useful in introducing the region to the concept of interregional sale of housing-related financial instruments.

A second type of financial instrument, the mortgage bond, has been designed, although none have been issued to date. Under this agreement, mortgages will be originated by local financial institutions under specified terms and then sold to a central mortgage institution (for example, BANHVI in Costa Rica). The central institution will then sell mortgage bonds to CABEI which, in turn, will hold the bonds, financing them through external lending. Proceeds from this refinancing are re-lent by the central institution to a primary lender in that particular country. If CABEI is able to implement this program, again assuming a return to regional stability, then the concept of a regional secondary mortgage system will take a major step forward.

While CABEI has not been able to develop a secondary mortgage market, it has continued to operate a rediscount facility, providing mortgage finance to primary lenders. By acting as a second-tier lending institution, or rather, as a bank for banks, CABEI is playing a major role as a supplier of housing finance in the region.

Importance of USAID HG Program

The role of the USAID HG Program was crucial to the success of the CABEI Housing Fund. A USAID concessional loan of \$10 million provided the initial capitalization of the Housing Fund in 1963. Since then, there have been nine HG loans for a total of \$139.9 million. A complete list of HG loans to CABEI is shown in Appendix C. The initial HGs were targeted to provide resources to increase the



capacity of shelter institutions in Central America. During the latter part of the 1970s, USAID and CABEI agreed to pursue a new role whereby CABEI would become a major secondary source of investment capital which could be channeled to support primarily private but also public shelter finance agencies. That was based on the assumption that political and legal problems related to issuing mortgage-backed documents on a regional basis could be worked out and that resources could be mobilized on a regional level to support such a secondary facility.

Unfortunately, conditions in Central America changed adversely in late 1970s and during the early 1980s, when most countries in the region suffered precipitous economic decline. The idea of capturing resources from outside the region expired as political conditions worsened and mobilizing resources from various countries in the region ran into competition with national schemes whereby governments sought to cover their internal deficits by vigorously competing for national savings. The Housing Fund, which was CABEI's principal resource base, was adversely affected by commitments to a portfolio with a relatively low yield and the rising costs for attracting resources for its sustenance. This situation led to a decapitalization of the Fund. Meanwhile, CABEI underwent a general liquidity crisis due in part to payments in arrears and debt services of its member countries. In the early 1990s, CABEI began to adopt a series of internal measures to modify its financial and administrative structures which improved the institution's liquidity position in general. These measures earned the support of the interna-

tional lending community. The Housing Fund situation also improved as a result of these measures, and USAID proceeded later on in 1992 to reinstate disbursements and approve CABEI's participation in RHUDO/CA's Local Government Regional Outreach Strategy Project (LOGROS).

Of the \$228.9 million approved for housing projects under the HF, the USAID HG Program has provided \$139.9 million. Thus, close to 62 percent of HF investments has been derived from USAID. The remaining 38 percent were generated from internal funding and loan recipients' down payments. Figure 2 (page 38) shows the distribution of HG resources to CABEI that were channeled to each of the countries in Central America between 1963 and 1992. No other external donors or lenders have contributed to the Housing Fund.

HG loans provided through CABEI have generated additional housing funds for the region through a multiplier effect. The additional costs associated with channeling HG funds through CABEI are offset by the additional resources generated for housing. Given the thoroughly documented demand for housing in the region, lending by CABEI for housing has complemented the bilateral HG lending rather than competed with it.

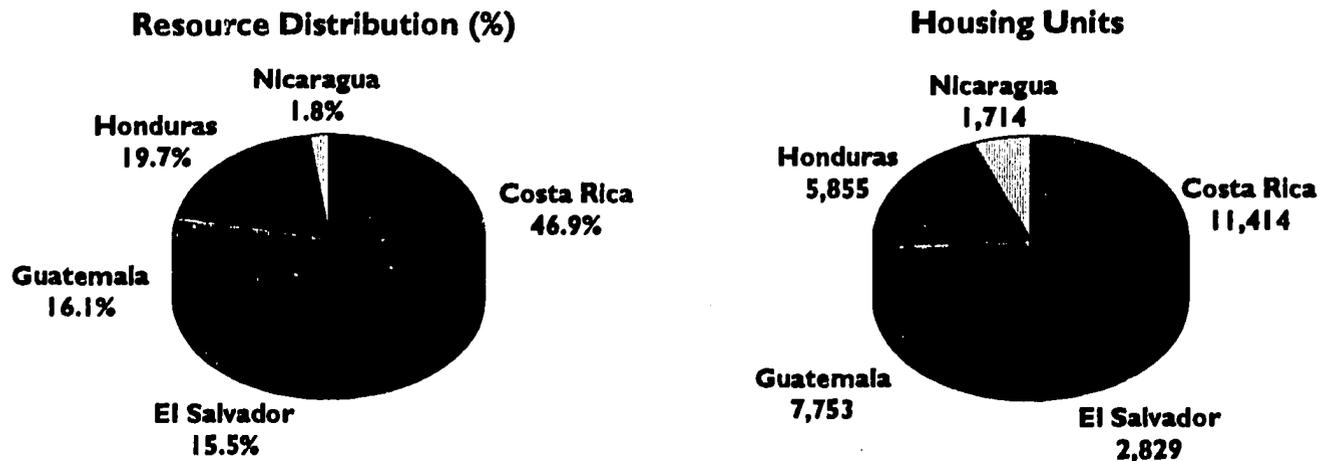
Outlook

USAID provided a vote of confidence on CABEI's ability to foster economic development in the region when it authorized in August 1993 a HG



USAID Housing Program in Central America Historical Overview, 1961-1992

Figure 2
Distribution of Housing Guaranty Loans through CABEI, 1963 - 1992



loan for \$20 million to support the efforts of the LOGROS Project to finance municipal infrastructure investments in Central America. Through this USAID activity, the U.S. Government will guarantee a \$20 million loan to CABEI, which in turn will contribute an amount equal to 30 percent of the HG funds to be loaned to intermediary financial institutions for on-lending to public or private intermediaries for municipal infrastructure projects.

Synopsis of Other USAID Regional Housing Initiatives in Central America

1990-91. A \$4 million grant provided technical assistance in support of the Central American Shelter

and Urban Development Loan (596-HG-006) to CABEI. The technical assistance provided guidance in the formulation, promotion, and execution of integrated shelter and urban development policies in most Central American countries.

1987-88. After a year of complex negotiations, USAID and CABEI signed the 596-HG-006 Implementation Agreement as part of a five year \$89 million regional program to finance low-cost housing solutions and basic infrastructure for the urban poor. Funding under this program was designed to mobilize the under-utilized private and public capacity for shelter and infrastructure improvements in Costa Rica, Guatemala, and Honduras.



1986-87. To implement training initiatives in Central America through INCAE, RHUDO/CA financially supported 120 participants and three seminars during 1986: Housing and Urban Development Strategies (Regional), Housing Finance (Guatemala), and Municipal Development (Guatemala).

1980-81. A seminar was held in CABEI on secondary mortgage markets:

- Basic considerations in portfolio analysis.
- Features of mortgage-backed securities.

1979-80. Technical assistance was provided to the Inter-american Savings and Loan Bank (BIAPE) for

Support of the S&L System in Central America

The history and the prospects of USAID support of the savings and loan systems in Central America provide an excellent example of the complementary nature of bilateral and regional shelter programs. In four of the five Central American countries (with the exception of Guatemala) USAID has been successful in promoting the development of a savings and loan system by providing various types and levels of assistance ranging from seed capital and HG loans to technical advice. The regulations and administrative structure of these systems are largely in place. The various S&L banks have developed a respectable level of expertise.

This has been possible in part because of CABEI's role in supporting the growth of these institutions through policies favoring low-cost housing, which also resulted in the commitment of these private financial institutions to affordable housing by low-income families of the region.

the development of a secondary mortgage market and marketing to attract and place funds destined to finance low-cost shelter.

A case study evaluation was conducted to assess the impact of the Housing Guaranty Program on CABEI and the success of shelter programs financed by CABEI.

1977-78. CABEI received technical assistance for a management study of the Housing Department of the Bank.

A study analyzed the organizational structure and potential viability of the Interamerican Savings and Loan Bank (BIAPE).



USAID Housing Program in Central America Historical Overview, 1961-1992

Lessons Learned

The Office of Environment and Urban Programs of the U.S. Agency for International Development has worked for the past 30 years on shelter problems worldwide. During the past decade focus has been on the broader problems of urbanization, urban environment, and municipal management.

USAID experience in project lending and institution building in Central America during the past three decades has contributed to its overall policy and strategy of housing and urban development programs in the region and worldwide.

There were four underlying principles that guided the Office of Environment and Urban Program's approach to development and to low-cost shelter:

- private sector participation;
- policy dialogue;
- institutional development; and
- technology transfer.

The principal vehicle for capital assistance has been the Housing Guaranty Program. The Office of Environment and Urban Programs has also developed a number of tools to evaluate and address specific housing and urban problems in Central America and other countries. These tools have included the following:

- shelter sector assessments;
- housing needs assessments;
- urban development assessments;
- municipal management assessments;

- housing policy analyses;
- housing finance strategy methodology;
- guidelines for urban land studies and infrastructure studies; and
- decentralization concepts and guidelines.

USAID programs were instrumental in fostering major policy improvements in a number of the countries of the region, including the creation of private housing finance institutions; public-private partnerships in urban development; promotion of cooperative housing; informal sector self-help mechanisms; and most recently, loans to improve local government's response to citizen demands for improved services and political empowerment (see Figure 3 on page 41 for a policy summary).

National housing policies in effect in most countries in the region are generally compatible with USAID shelter policy, namely: housing as a basic need and a high priority for the sector; emphasis on below-median income beneficiaries; use of affordable criteria, reduction of building codes to more accessible standards, cost recovery, rationalization of subsidies; a shift from government to private financing and construction; and land tenure and titling to facilitate ownership.

"The role of a donor is to assist and accelerate the process by which the developing country sorts out the issues and is able to make the right decisions itself."

Peter Kimm, Director,
Office of Environment and Urban Programs,
in a 1986 interview.



Figure 3
 Summary of Housing Policy in Selected Central American Countries, 1992

	<i>Role of Government: (F)acilitator or (B)uilder</i>	<i>Housing Finance: Market Determined</i>	<i>Subsidy Policy: (D)irect or (I)ndirect</i>	<i>Private Sector Low-cost Shelter Participation</i>
Costa Rica	F	Yes	D	Yes
El Salvador	F	Yes	D	Yes
Guatemala	F	No	I	Yes
Honduras	B	No	D	Yes
Nicaragua	B	No	I	No
Panama	F	No	I	Yes

Implementation of the housing and urban development programs in Central America have provided important lessons to USAID:

First, the focus of the Housing Guaranty Programs evolved gradually from pilot or demonstration housing projects with largely physical objectives to those that focussed on supporting and improving the performance of institutions at the national as well as the municipal level, and which dealt increasingly with those institutions best suited to make institutional and regulatory changes in the shelter sector.

Second, community development became an integrated component of providing shelter. The success of a project depended more on the participation of the beneficiary population, from the initial site selection to the mechanism for carrying out the project. Beneficiaries should be able to maintain their prior community identity and structures, and all communities should be free to choose their own leaders. This is particularly relevant in squatter relocation projects.



USAID Housing Program in Central America Historical Overview, 1961-1992

Third, shelter programs were redesigned to become more affordable and within the reach of families earning below the national monthly median income through variations of smaller houses (core units, floor-roof units), sites and services (urbanized lots), and slum or squatter upgrading providing physical infrastructure such as streets, potable water, and sewerage system.

Fourth, experience proved the value of upgrading existing marginal neighborhoods as opposed to providing new construction. Both low-income communities and local governments demonstrated the desire to undertake upgrading activities and the potential to institutionalize effective tax systems adaptable to low-income community upgrading activities.

Fifth, conventional building and planning regulations and codes must be modified to meet housing needs of low-income families. Shelter standards should permit progressive housing development compatible with the economic conditions of the residents. Legal tenure and the availability of basic public services, are factors which induced beneficiaries to invest in gradual home improvements.

Sixth, the informal housing sector was in large part ignored by national and municipal agencies. The Housing Guaranty Programs increasingly stressed individual initiative and both informal and formal private sector to produce housing, with governments

providing infrastructure and the shelter policy framework.

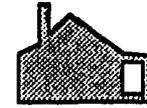
Seventh, self-help housing projects through NGOs have provided a vast experience in the region and have fostered informal and cooperative arrangements in low-income shelter solutions.

Eighth, long-term mortgage lending to low-income beneficiaries is not a major credit risk. Repayment records of many savings and loan institutions in the region are as high as ninety-seven percent or better.

Ninth, new forms of cooperation between public and private sector were developed which led to an increase in serviced land where municipalities have provided basic urban services. The regional strategy of RHUDO/CA since 1990 works toward achieving municipal development to induce institutional changes that permit political and economic empowerment of the local economy. It also emphasizes sectoral goals by orienting capital assistance in response to policy and institutional accomplishments rather than the implementation of specific projects.

Tenth, training became an integral element of the technical assistance under the Housing Guaranty Programs to develop skills and improvements in the capacity of individuals and institutions to respond to shelter and urban development problems.

Acronyms



AFL-CIO	American Federation of Labor and Congress of Industrial Organizations
AIFLD	American Institute of Free Labor Development
BIAPE	Inter-American Savings and Loan Bank
CABEI	Central American Bank for Economic Integration
CHF	Cooperative Housing Foundation
FAA	Foreign Assistance Act
FEMICA	Federation of Central American Municipalities
FHA	U.S. Federal Housing Administration
HF	CABEI's Housing Fund
HG	Housing Guaranty Loan
HUD	U.S. Department of Housing and Urban Development
INCAE	Central American Institute for Business Administration
LOGROS	Local Government Regional Outreach Strategy Project
RHUDO/CA	Regional Housing and Urban Development Office for Central America
ROCAP	Regional Office of Central American Programs of USAID (former)
S&Ls	Savings and loan thrift institutions
UNDP	United Nations Development Program
UNIAPRAVI	The Inter-American Housing Union
USAID	United States Agency for International Development
USAID/G-CAP	USAID/Guatemala-Central American Programs

Costa Rica

BANHVI	National Housing Finance Bank
DECAP	Central Savings and Loan Department of the Agricultural Bank of Cartago
SFNV	National Housing Finance System
CEV	Special Housing Commission
MIVAH	Ministry of Housing and Human Settlements
INVU	Institute of Housing and Urbanization
IFAM	National Institute for Municipal Development

El Salvador

GOES	Government of El Salvador
FONAVIPO	National Popular Housing Fund Law
VMUDU	Vice Minister of Housing and Urban Development
CONAVI	National Housing Council
IVU	National Housing Authority



USAID Housing Program in Central America
Historical Overview, 1961-1992

Guatemala

FHA	Guatemalan Mortgage Insurance Institute
GOG	Government of Guatemala
BOG	Bank of Guatemala (Central Bank)
BANVI	National Housing Bank
VIVIBANCO	First Savings and Loan Housing Bank
CRN	National Reconstruction Committee
FOGUAVI	Guatemalan Housing Fund
BANEX	Export Bank
FUNDAZUCAR	Sugar Grower's Association Foundation
FENACОВI	National Federation of Housing Cooperatives

Honduras

CONAVI	National Housing Council
FEHCOVIL	Honduran Federation of Housing Cooperatives
FOSОВI	Social Housing Fund
FOVI	Housing Fund
FOVIPO	Popular Housing Fund in San Pedro Sula
GOH	Government of Honduras
INVA	National Housing Institute

Nicaragua

BAVINIC	Nicaraguan Housing Bank
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Panama

CONAVI	National Housing Council
BHN	National Mortgage Bank
GOP	Government of Panama
FONDAHVI	Shelter Savings Fund
MIVI	Ministry of Housing

Appendix A: Profile of the Housing Guaranty Loan Process



Housing Guaranty Program

The Housing Guaranty Program involves collaboration with a host-country housing institution acting as borrower. Borrowers may include a government ministry, a national housing bank or housing development corporation, a central savings and loan system, or a similar institution in the private sector such as a national cooperative organization.

Following a request from the country, USAID will request that the Office of Environment and Urban Programs and RHUDO, working with host country officials, prepare a shelter sector assessment. Based on the analysis, USAID and the borrower determine the type of housing program to be financed and the institutional structure within which it will be undertaken.

When a mutually agreeable project has been developed and authorized by USAID, the Office of Environment and Urban Programs and the borrower enter into an Implementation Agreement defining the use of the proceeds of the loan. Disbursements under the loan are subject to the fulfillment of certain conditions as set forth in this agreement.

At the same time, the borrower seeks the most favorable terms available in the U.S. capital markets for a U.S. Government-guaranteed loan. A typical housing guaranty loan is a long-term loan for a period of up to 30 years, with a 10-year grace period on the repayment of the principal.

The U.S. lender and the borrower then negotiate the terms of the financing within interest rate terms that reflect the prevailing interest rates for U.S. securities of comparable maturity. These understandings are formalized in a loan agreement between the borrower and the lender, subject to USAID approval. In addition, certain provisions with regard to the paying and transfer agent, terms, and amortization, prepayment rights, and lender's fees and other charges must be included in each loan agreement or otherwise agreed upon in a manner satisfactory to the Office of Environment and Urban Programs.

The USAID Guaranty

Upon the signing of a loan agreement, USAID will sign a contract indicating that repayment is guaranteed by the full faith and credit of the U.S. Government. The fees that USAID charges for its guaranty are as follows: (1) a fee of one-half of one percent (1/2%) per annum of the unpaid principal balance of the



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guaranteed loan; and (2) an initial charge of one percent (1%) of the amount of the loan, which is deducted from the loan disbursements.

Additionally, USAID requires that the government of the borrowing country sign a full faith and credit guaranty of repayment of the loan and outstanding interest.

Lenders

A variety of participants in the U.S. capital markets, including investment bankers, commercial bankers, Federal Home Loan Banks, savings institutions, life insurance companies and pension funds, have loaned funds to host-country borrowers as part of the Housing Guaranty Program.

Lenders are selected by host country borrowers, typically selected through a competitive negotiations process. The Office of Environment and Urban Programs requires that lending opportunities be advertised and that borrowers solicit lending proposals from the largest practicable number of prospective lenders,

A notice of each USAID guaranteed investment opportunity is published in the Federal Register and mailed to interested firms or individuals.

**Appendix B:
USAID Housing Assistance,
1961-1992, by Country**

Costa Rica USAID Housing Sector Assistance (US\$)

Housing Guaranty Program	Authorized	Contracted	Loan Amount	Grant Resources	Counterpart Resources	No. of Units Financed
515-HG-003 A01	10/67	4/69	1,999,992	—	N/A	N/A
515-HG-004 A01	5/72	12/72	2,499,799	—	N/A	N/A
515-HG-005 A01	5/72	12/72	2,098,220	N/A	N/A	N/A
515-HG-006 A01	8/78	8/81	6,600,000	650,000	1,680,000	5,553
515-HG-007 A01	5/78	8/83	6,740,923			
515-HG-008 A01	9/82	8/83	5,617,436			
515-HG-008- B01	9/82	4/85	14,467,826	300,000	5,000,000	5,014
Subtotal HG			40,024,196	950,000	6,680,000	10,567
<u>USAID Mission Program</u>						
515-K-040				5,000,000	7,266,000	2,754
515-W-028				310,000		
515-0186				5,000,000		
515-0186.35				928,000		
515-0192.35				173,000		
515-0192.26	COFISA			4,526,000		
515-0222.03	COFISA			5,000,000		
515-0222.1.1A	BANHVI			36,478,000		
515-0222.1.5B	CHF			23,000		
515-0231	BANHVI			15,564,000		
515-0236	BANHVI			9,821,000		
515-0240	BANHVI			8,736,000		
TOTAL			40,024,196	92,509,000	13,946,000 1)	13,321 1)

1) Due to the unavailability of information for some projects, this total underestimates the actual output.

El Salvador US Housing Sector Assistance (US\$)

Housing Guaranty Program	Authorized	Contracted	Loan Amount	Grant Resources	Local Counterparts	No. of Units Financed
519-HG-001 A01	2/64	5/64	4,492,935	N/A	N/A	501
519-HG-002 A01	6/65	12/66	4,478,443	N/A	N/A	601
519-HG-005 A01	4/68	1/71	1,929,172	N/A	N/A	463
519-HG-006 A01	4/80	11/80	9,500,000	300,000	3,750,000	1,333
519-HG-007 A01	4/81	12/82	5,500,000			1,324
Subtotal HG			25,900,550	300,000 1)	3,750,000	4,222 1)
USAID Mission Program						
519-0333 Emergency Shelter				67,000,000		13,062
ESF 87				2,195,122		
ESF 86 (PRONAVIPO)				854,700		
519-299				285,000		148
PL 480 1983/84				122,100		N/A
TOTAL			25,900,550	70,756,922	3,750,000	17,432

1) Due to the unavailability of information for some projects, this total underestimates the actual output.

Ea

Guatemala USAID Housing Sector Assistance (US\$)

Housing Guaranty Program	Authorized	Contracted	Loan Amount	Grant Resources	Counterpart Resources	No. of Units Financed
520-HG-001 A01	9/64	9/64	1,817,000	N/A	454,000	N/A
520-HG-001 B01	9/64	3/67	3,000,000	N/A	750,000	N/A
520-HG-002 A01	12/67	7/69	1,500,000	N/A	375,000	N/A
520-HG-003 A01	12/67	7/69	1,500,000	N/A	375,000	N/A
520-HG-004 A01	9/82	9/88	10,000,000	600,000	2,384,417	1,851
Subtotal HG			17,817,000	600,000	4,338,417	1,851
<u>USAID Mission Program</u>						
520-0241		2/76	—	14,018,000	—	100,000
Earthquake Disaster Relief						
TOTAL			17,817,000	14,618,000 1]	4,338,417	101,851 1]

1] Due to the unavailability of information for some projects, this total underestimates the actual output.

Honduras USAID Housing Sector Assistance (US\$)

Housing Guaranty Program	Authorized	Contracted	Contracted Amount	Grant Resources	Counterpart Resources	No. of Units Financed
522-HG-001 A01	3/63	12/64	2,868,315	---	N/A	748
522-HG-002 A01	2/64	10/64	1,502,600	---	N/A	327
522-HG-003 A01	6/69	6/70	827,814	N/A	N/A	117
522-HG-004 A01	3/71	12/71	2,166,057	N/A	N/A	400
522-HG-005 A01-D01	9/78	9/81	10,250,000	400,000	5,000,000	5,709
522-HG-006 A01	5/80	12/81	25,250,000	350,000	2,500,000	30,600 1]
522-HG-008- A01	9/84	9/87	25,000,000	1,600,000	7,416,117	25,300
Subtotal HG			67,864,786	2,350,000	14,916,117	63,201
<u>USAID Mission Program</u>						
522-K-007	1963			398,000		186
522-L-011	1969			2,000,000		350
522-007403	1966-1975			1,955,000		
522-W-028	1975			660,000		969
522-W-023	1976			4,000,000		
522-0171	1981			2,500,000		15,000
Disaster Relief						800
Recovery Hurricane Fifi	1974-1976			4,864,000		N/A
TOTAL			67,864,786	18,727,000	14,916,117 2]	80,506

1] In addition, 25,300 families were provided infrastructure loans, and there were 2,605 mortgage loans for sites and services. 2] Due to the unavailability of information for some projects, this total underestimates the actual amount.

Nicaragua USAID Housing Sector Assistance (US\$)

Housing Guaranty Program	Authorized	Contracted	Loan Amount	Grant Resources	Counterpart Resources	No. of Units Financed
524-HG-001 A01	5/65	3/66	6,652,845	N/A	N/A	N/A
524-HG-001 B01	5/65	4/70	272,069	N/A	N/A	700
524-HG-002 A01	11/69	3/70	4,000,000	N/A	1,000	202
520-HG-003 A01	8/73	11/73	5,000,000	N/A	1,250	2,000
Subtotal HG			15,924,914	N/A	2,250	2,902
USAID Mission Program						
	<u>Year Started</u>	<u>Year Ended</u>				
Proj. 524-0926	67	69		403,000	N/A	N/A
Proj. 524-0066		11/69		3,700,000	---	
Proj. 524-0116	74	78	Earthquake Recovery Low Cost Housing	13,617,000	N/A	N/A
Proj. 524-0107	74	81	Managua Urban Reconstruction	24,000,000	N/A	N/A
Proj. 524 0140	75	81		6,000,000	N/A	N/A
TOTAL			15,924,914	47,720,000 1)	2,250 1)	2,902 1)

1) Due to the unavailability of information for some projects, this total underestimates the actual output.

Panama USAID Housing Sector Assistance (US\$)

Housing Guaranty Program	Authorized	Contracted	Loan Amount	Grant Resources	Counterpart Resources	No. of Units Financed
525-HG-002 A01	12/65	6/66	2,952,900	---	N/A	N/A
525-HG-003 A01	5/67	12/67	1,483,513	---	N/A	N/A
525-HG-004 A01	2/71	2/71	1,991,886	---	N/A	310
525-HG-005 A01	2/69	3/70	962,834	---	N/A	208
525-HG-006 A01	2/69	11/69	2,881,080	---	N/A	417
525-HG-008 A01	1/73	5/74	9,000,000	N/A	3,500,000	
525-HG-009 A01	12/76	7/77	3,400,000	210,000	1,485,000	900
525-HG-010 A01	10/77	2/78	15,000,000		4,300,000	2,960
525-HG-011 A01	10/79	10/81	12,000,000		4,667,000	4,026
525-HG-012 A01	8/79	3/83	10,000,000		3,889,000	1,747
525-HG-012 B01	8/79	5/85	11,000,000		4,278,000	12,700 1]
525-HG-013	9/83	8/86	10,000,000		3,900,000	2,885
525-HG-014		4/92	7,000,000	300,000	2,781,000	2,500
Subtotal HG			87,672,213	510,000	28,800,000 2]	28,653 2]
<u>USAID Mission Program</u>						
Panama Immediate Recovery	1/90			2,500,000	N/A	593(apts)
Chorrillo Emergency Housing	3/90			17,384,810	N/A	2,131
Temporary shelter food/other services (USAID/OFDA)				2,845,000	N/A	4,000
525-L-008 A				956,390	N/A	
525-L-027				3,487,820	N/A	
525-N-016				2,876,032	N/A	
525-L-039				14,989,776	N/A	
TOTAL			87,672,213	45,549,828	28,800,000	35,377

1] Includes 5,700 serviced lots, homes and apartments plus 7,000 home improvement loans. 2] Due to the unavailability of information for some projects, this total underestimates the actual output.

Belize USAID Housing Sector Assistance (US\$)

Housing Guaranty Program	Authorized	Contracted	Loan Amount	Grant Resources	No. of Units Financed
505-HG-001 A01	9/82	1/84	2,000,000	460,000	990

**Appendix C:
Housing Guaranty Program
through CABEI**

Central American Bank for Economic Integration (CABEI) USAID Housing Guaranty Loan Multiplier Effect (US\$ Million)

Housing Guaranty Program	Authorized	Contracted	Loan Amount	CABEI Counterpart	Beneficiaries Counterpart	Total Investment	No. of Units Financed
596-HG-001 A01	8/69	3/70	10.0	3.5	3.4	16.9	2,107
596-HG-002 A01	6/72	4/73	11.0	6.2	1.9	19.1	2,245
596-HG-003 A01	5/74	1/75	12.0				
596-HG-003 B01	5/74	5/76	11.0				
596-HG-003 C01	5/74	11/81	18.9				
	Subtotal		41.9	2.4	3.8	48.1	6,148
596-HG-004 A	5/78	11/81	6.0				
	Subtotal		6.0	20.5	1.6	31.6	4,956
596-HG-005 A01	9/79	11/80	10.0				
596-HG-005 A-D01	9/79	2/84	36.0				
	Subtotal		46.0	26.9	6.8	79.7	8,520
*596-HG-008 A01	9/86	6/88	25.0	10.2	1.8	37.0	5,589
	TOTAL		139.9	69.7	19.3	228.9	29,565
	Percentage		61.2	30.4	8.4	100.0	

* This loan is under implementation under CABEI's Housing Fund