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UNITED STATES GOVERNMENT

memorandum⁹⁸

DATE: July 13, 1978

REPLY TO
ATTN OF: Ronald G. Russell, Chief, Office of
Development Resources

SUBJECT: Loan Completion Report - Loan 525-L-039

TO: Bureau for Latin American and the Caribbean
ARA/LAC/DR
AJD/Washington

Enclosed please find Loan Completion Report for Loan 525-L-039,
Low Income Housing.



Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

OPTIONAL FORM NO. 10
(REV. 7-78)

PROJECT COMPLETION REPORT

Loan Number: 525-L-039

Title: Low Income Housing

Borrower: The Government of Panama

Executing Agency: The Ministry of Housing

Amount: \$15,000,000

Terminal Commitment Date:

Original: December 31, 1976
Revised : March 15, 1978

Terminal Disbursement Date:

Original: June 30, 1977
Revised : June 30, 1978

Date Authorized: May 31, 1972

Agreement Signed: June 30, 1973

Initial CPs Met: November 19, 1973

Total Amount Disbursed: \$14,991,418

Terms of the Loan:

Duration: 40 years
Grace Period: 10 years

Interest Rate: 2% during grace period
3% after grace period

I. Background

The purpose of the loan is to assist the Panamanian Government (GOP) in implementing its sectoral housing strategy, which is designed to: (1) respond to the total national housing requirements, particularly for low and low middle income housing; and (2) improve coordination between GOP agencies involved in housing.

Accordingly, \$14,500,000 in loan funds and \$24,184,000 of GOP funds were originally programmed as the financial input to develop 20,601 housing solutions. In addition, \$500,000 in loan funds were allocated for technical assistance and training to be contracted by the GOP for

strengthening the institutional capability of the Institute of Housing and Urban Development (IVU) as well as for other institutional needs to be identified by the National Housing Committee. After the creation of the Ministry of Housing (MIVI) it was decided that \$450,000 would be used for developing and strengthening the planning capabilities of MIVI and \$50,000 would be used to assist the National Mortgage Bank (BHN) in developing a secondary mortgage market.

Because of the variety of needs and incomes within the low income sector of the population desiring housing, the project was designed to include the following ten types of housing solutions:

(The first six types of housing solutions were developed with AID financial participation, while types 7-10 were financed exclusively with GOP resources.)

Housing Solution Type 1

This solution consists of a lot with water and sewerage connections up to the property line and gravel streets or sidewalks fronting the property.

Housing Solution Type 2

These solutions are constructed on 160 sq. meter lots and consist of a basic 18 sq. meter house, with running water and flushing toilet connected to a sewage line, designed so it can be expanded with additional rooms as the family grows.

Housing Solution Type 3

This line item provided funds for a fully improved 160 sq. meter lot with urban services and 36 M² housing unit. These lots front on a street or sidewalk. Water and sewer connections are made to a sink and flushing toilet in the house.

Housing Solution Type 4

These units consist of high-rise apartments averaging 36 M² per unit, served by urban services.

Housing Solution Type 5

These units are constructed in the rural areas and small towns upon sites legally titled and use existing levels of services.

Housing Solution Type 6

Under this sub-program, the National Water and Sewerage Institute (IDAAN) installed water and sewers with household connections up to

the property lines in areas most of which started out as squatter communities but which have been physically reorganized to allot each family their own parcel of land.

Housing Solution Type 7

The solution consists of 160 sq. meter lots in existing squatter areas. These lots have access to gravel streets or sidewalks, electric service and rudimentary water systems using public water taps.

Housing Solution Type 8

This line item consists of 160 sq. meter lots with the same services as indicated in Type 7, to which are added 18 sq. meter core units.

Housing Solution Type 9

This solution consists of legally registering approximately 2,700 lots in squatter settlements; and

Housing Solution Type 10

Under this sub-program, 172 lots in David were improved with complete water, sewer and electricity systems with site connections, and paved streets.

Counterpart funds have been increased by \$39.0 million for a total GOP participation of \$63 million during the project in order to provide sufficient resources for the construction of the original number of solutions programmed.

To keep home purchasing possible for low-income families despite the inflationary impact of increased costs, various actions had to be taken. One action was the extension of the TCD and TDD to March 15, 1978 and June 30, 1978, respectively. This extension allowed MIVI to follow its very successful policy of bidding, rebidding, and when necessary, negotiating construction contracts, thus minimizing the cost of each sub-project. The extension also supported the GOP experiment with self-help low income housing in rural areas.

In addition, the Ministry and AID agreed to shifts in the use of program funds and to institute measures which would keep mortgage financing within the reach of low income families. The principal measures have been austerity in design, inviting bids on separable portions of sub-projects to improve competition through participation by numerous small contractors and finally extending amortization periods to reduce monthly payments.

Generally, mortgages were for 25-30 year terms and 40 year terms were allowed in a few extreme cases. The Ministry of Housing originally decided to build high rise low income housing in the inner city to provide shelter for the

former residents of two of the worst slum areas of the capital city; Barraza (13 stories) and Chorillo (15 stories). High land and maintenance costs have proven that these types of projects were too costly. In addition, they were too big to attract maximum competition from Panamanian construction firms and too small to attract U.S. firms. Therefore, the Ministry and AID agreed that in order to obtain maximum competition from construction firms and to provide low income families with a complete solution, the project was revised to include more lower density housing units (four and five-story walkup units and individual housing units) to be built in the suburban areas of Panama City.

In order to more effectively implement the rural housing component, the Ministry of Housing made some important adaptations in the project design. One was to maximize the use of the self-help participation of the home owners. This has resulted in substantially lower construction costs per unit, averaging less than \$1,800 for a 63 sq. mt. unit. Another adaptation was to use asentamientos as the major implementation mechanism. This has made land-title transfers easier and allowed small farmers to better coordinate their mortgage payments with the harvesting of their their mortgage payments with the harvesting of their crops.

The remaining changes were in the programming of loan resources as indicated in Table A.

II. Project Status

A. Construction

20,052 solutions have been completed to date. Loan funds are being used to help finance the construction of 13,046 units, representing 65% of the total program. ^{1/} The average monthly income of the families living in these units is approximately \$250.00.

B. Technical Assistance and Training

The Ministry of Housing contracted four individuals to give 193 hours of short courses in Project Evaluation at a total cost of \$4,754. MIVI also contracted five individuals to give 169 hours of short courses in Planning and Implementing Statistical Investigations at a cost of \$4,258.

In addition, the Ministry contracted the following technical assistance:

<u>Name</u>	<u>Nationality</u>	<u>Cost</u>	<u>Duration</u>	<u>Area of Speciality</u>
Emilio Moreno P.	Venezuela	\$ 7,136.00	(4 mos.)	Economics
Jorge E. Rivera	Colombia	10,890.00	(3 mos.)	Economics
Waldo Lopez	Chile	11,180.00	(4 mos.)	Socio-Economic Research

^{1/} The construction of all loan financed units was completed as of September 30, 1978. Approximately 98% of the units were sold and 95% occupied as of that date according to MIVI estimates. MIVI is developing more precise data for our files.

<u>Name</u>	<u>Nationality</u>	<u>Cost</u>	<u>Duration</u>	<u>Area of Speciality</u>
Luciano Angeloni	Panamá	20,100.00	(10 mos.)	Urban Economics
Carlos M. García	Venezuela	53,300.00	(17 mos.)	Socio-Economics Research
Victor M. Rivera	Panamá	36,000.00	(17 mos.)	Urban Economics
Daniel E. Lopez M.	Panamá	46,700.00	(20 mos.)	Construction & Quality Control
Roberto Alvear Velasques	Panamá	51,700.00	(24 mos.)	Construction & Quality Control
Marco A. Lopez F.	Chile	7,605.00	(2 mos.)	Urban Economics
Lee Schmeil	United States	1,913.00	(2 mos.)	Landscape Architect
		TOTAL		\$246,524.00

The following master degree training were financed with loan resources:

<u>Area of Study</u>	<u>University</u>	<u>Cost</u>	<u>Duration</u>
Urban & Regional Planning	Harvard	\$ 19,700	24 mos.
Urban Economics	Wayne State	19,700	24 mos.
Urban Geography	Georgetown	6,500	12 mos.
Transportation Economics	Georgetown	16,100	24 mos.
Urban & Regional Planning	Cornell	16,100	24 mos.
Urban Planning	Georgetown	21,700	28 mos.
Urban Design	Georgetown	21,700	10 mos.
Transportation Engineering	Georgetown	18,500	22 mos.
Urban Design	Georgetown	17,550	21 mos.
Architecture Technology	UNAM	14,227	21 mos.
Urban Geography	UNAM	14,341	24 mos.
		TOTAL	\$ 186,118

The National Mortgage Bank (BNM) contracted Kenneth Plant in 1976 for \$1,723 and Latin American Development Corporation in 1977 for \$48,041 to assist in developing a secondary mortgage market, to review the present functioning of the savings and loan system in Panama and to implement a training program on secondary mortgage market.

As of June 30, 1978, \$491,418 has been disbursed for technical assistance and training.

IV. Project Accomplishments

Through this project, the GOP has made substantial progress towards meeting the housing needs of the low-income families in Panama. 20,052 housing solutions have been provided to low income families. With the establishment and development of MIVI, the GOP now has the institutional capability to provide for the housing needs of the low income sector.

In addition, the Ministry now has a very capable staff of 100 professionals including 20 engineers, 56 architects, 10 lawyers, 5 sociologists, 1 notary public and 8 economists. This staff has demonstrated an ability to manage all aspects of planning, formulating and executing large scale housing development programs. BNM officials are now trained in the establishment and operations of a secondary mortgage market. The detailed plan for establishing the market has been developed and is ready for implementation.

V. Covenants of the Loan Agreement

- A. Section 4.01 Execution of the Project: Full Compliance.
- B. Section 4.02 Funds and Other Resources to be Provided by Borrower: Full Compliance.
- C. Section 4.03 Continuing Consultation: Full Compliance.
- D. Section 4.04 Technical Assistance: Full Compliance.
- E. Section 4.05 Management: Full Compliance.
- F. Section 4.06 Maintenance: Full Compliance. (See Note 1).

Note 1: This Section provides that Borrower, through MIVI, will maintain and repair housing constructed under the Loan. However, the period during which this clause applies is not specified in the Loan Agreement and related documents. Normally, this clause would refer to the life of the project, which in this case is 40 years. According to USAID engineers, maintenance has been satisfactory to date and MIVI is in compliance with this clause at present. However, MIVI maintenance practices will need to be evaluated in the future. This will be done as part of a broader evaluation of AID assisted housing projects and consequently, no recommendation for evaluation of this aspect of the project is considered necessary at present.

TABLE A

PROGRAMMING OF PROJECT RESOURCES

Line	Original - June 30, 1973				Changes Approved During Annual Review February 1975				Final as of October 31, 1977			
	Solutions	G.O.P. \$	A.I.D. \$	Total \$	Solutions	G.O.P. \$	A.I.D. \$	Total \$	Solutions	G.O.P. \$	A.I.D. \$	Total \$
1	4,000	3,093,020	3,000,000	6,093,020	3,025	3,000,000	3,000,000	6,000,000	1,995	1,379,603	1,395,795	2,775,398
2	2,836	3,761,492	3,650,000	7,411,492	2,552	3,547,377	3,517,375	7,064,752	731	2,361,232	1,071,135	3,432,367
3	1,456	3,641,092	3,600,000	7,241,092	799	3,693,334	1,300,000	4,993,334	3,217	16,263,273	4,220,023	20,483,296
4	1,404	6,566,416	2,300,000	8,866,416	4,021	26,827,950	5,402,625	32,230,555	4,650	34,197,586	6,000,000	40,197,586
5	2,400	1,200,000	1,200,000	2,400,000	670	500,000	500,000	1,000,000	970	1,128,160	900,000	1,928,160
6	2,158	760,800	750,000	1,510,800	2,158	760,800	750,000	1,510,800	1,183	297,492	1,012,977	1,310,469
Sub-total	13,974	18,962,820	14,500,000	33,462,820	12,755	38,329,472	14,500,000	52,829,472	13,046	55,627,291	14,500,000	70,127,291
7	2,543	2,263,754	--	2,263,754	1,631	2,264,000	--	2,264,000	4,135	5,790,272	--	5,790,272
8	820	1,584,000	--	1,584,000	1,453	2,615,400	--	2,615,400	--	--	--	--
9	3,032	785,000	--	785,000	2,699	758,000	--	758,000	2,699	758,000	--	758,000
10	172	588,240	--	588,240	172	588,000	--	588,000	172	588,000	--	588,000
Sub-total	6,627	5,220,994	--	5,220,994	5,955	6,225,400	--	6,225,400	7,006	7,136,272	--	7,136,272
TOTAL	<u>20,601</u>	<u>24,183,814</u>	<u>14,500,000</u>	<u>38,683,814</u>	<u>18,710</u>	<u>44,554,872</u>	<u>14,500,000</u>	<u>59,054,872</u>	<u>20,052</u>	<u>62,764,163</u>	<u>14,500,000</u>	<u>77,264,163</u>

- G. Section 4.07 Continuity: Full Compliance.
- H. Section 4.08 Taxation: Full Compliance.
- I. Section 4.09 Utilization of Funds, Goods and Services: Full Compliance.
- J. Section 4.10 Disclosure of Material Facts and Circumstances: Full Compliance.
- K. Section 4.11 Commissions, Fees and Other Payments: Full Compliance.
- L. Section 4.12 Maintenance and Audit of Records: Full Compliance. (See Note 2).
- M. Section 4.13 Reports: Full Compliance.
- N. Section 4.14 Inspections: Full Compliance.

Note 2: Full audits of MIVI and the BBN by the Controller General of Panama were last carried out in 1975. A selective review of financial records was carried out in 1977. AID audited the loan in September 1976, and audit report number 1-525-76-58 was issued on September 29, 1976. While these audits did not result in any recommendations to improve MIVI and BBN's performance under this project, an audit by an outside firm in September 1978 disclosed serious deficiencies in BBN's accounting system and financial reporting in general. The outside audit was being carried out to satisfy a Condition Precedent to Disbursement established by USAID/Panama for the HIG component of the URBE project (AID Loan 525-T-047). The deficiencies are being corrected.

SP/ov *RS/ov*
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