PD-AAL-577

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: COSTA RICA

3. PROJECT NUMBER: 515-HG-007 515-0188

4. BUREAU/OFFICE: LAC/PRE/HUD

5. PROJECT TITLE (maximum 40 characters): Private Sector Low Cost Shelter

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 12 DD 31 YY 86

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 83 B. Quarter 1 C. Final FY 83

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 82 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total	20,000					20,000
(Grant)	( )	( )	( )	(300)	( )	(300)
(Loan)	(20,000)	( )	( )	( )	( )	(20,000)
Other U.S. 1.						
Other U.S. 2.						
Host Country					4,000	4,000
Other Donor(s)						
TOTALS	20,000					24,300

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) ST	724	721	862	-	-	300	20,000	300	20,000
(2)									
(3)									
(4)									
TOTALS				-	-	300	20,000	300	20,000

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE: 664

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BU						
B. Amount	20,300						

13. PROJECT PURPOSE (maximum 480 characters)

To assist the private sector establish a replicable,non-subsidized,low cost shelter program for low income families.

14. SCHEDULED EVALUATIONS

Interim MM 11 YY 83 MM 11 YY 84 Final MM 12 YY 86

15. SOURCE/ORIGIN OF GOODS AND SERVICES

[X] 000 [ ] 941 [ ] Local [X] Other (Specify) See Section II.

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ____ page PP Amendment.)

17. APPROVED BY

Signature: Daniel A. Chaij

Title: USAID Director

Date Signed: MM DD YY

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

AID 1330-4 (8-79)

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ACRONYMS

GOCR	Government of Costa Rica
DECAP	Departamento Especial de la Caja de Ahorro y Préstamo
SNAP	Sistema Nacional de Ahorro y Préstamo
INVU	Instituto Nacional de Vivienda y Urbanismo
SBN	Sistema Bancario Nacional
BPDC	Banco Popular
INS	Instituto Nacional de Seguros
CCSS	Caja Costarricense de Seguro Social
IMAS	Instituto Mixto de Asistencia Social
PHG	Programa Habitacional del Gobierno
CABEI	Central American Bank for Economic Integration
A y A	Autoridad de Agua y Alcantarillado
ICE	Instituto Costarricense de Electricidad

AID ASSISTANCE STRATEGY

I. SUMMARY AND RECOMMENDATIONS

A. U.S. Development Objectives

U.S. objectives in Costa Rica are: 1) to help stabilize the economy and restore international financial confidence in Costa Rica; 2) to promote production with special focus on increasing exports; and 3) to achieve economic growth founded on equity and a progressive private sector.

To achieve these objectives the Mission will undertake programs in the following areas: (1) Economic stabilization and recovery. Foreign exchange will be needed to alleviate shortages of raw materials, intermediate goods and spare parts. The proposed HG will assist in this regard. Local currency generations will be channeled to help meet the working capital requirements of the productive private sector, including the construction sector; (2) Strengthening the financial system further. Development of private banks and other private financial entities will be encouraged in order to better service the financial needs of the productive private sector important among them are private housing finance institutions; (3) Export and investment expansion. Private sector's efforts to increase exports and to attract foreign and domestic investment will be supported through technical assistance to appropriate public sector agencies; (4) Improved public/private sector coordination. Improved collaboration between the public and private sectors will be promoted in efforts to contain the current crisis and stabilize the economy; (5) Improved policy formulation and administrative reform. The GOCR's reexamination of its overall policy framework will be assisted. Such policies as a reduced public sector role in the economy, the maintenance of an exchange regime favorable to exports, the reduction of export quotas and controls, decreasing incentives for import substitute industries, a broader commitment to free markets; greater internal capital formation; and policy development in the shelter sector; and (6) Development constraints. Financial support will be targeted to priority areas such as housing, food aid, rural development, science and technology and natural resources management to attack critical long-term constraints to development in a manner which supports and reinforces the economic recovery efforts.

B. Shelter Sector Constraints

Despite Costa Rica's favorable record in meeting the housing needs of its population at most income levels, future production is being jeopardized due to a variety of factors:

1. The country has had a series of economic reverses due to spiraling inflation, an expansive monetary policy, deficit financing and a heavy reliance on short-term foreign debt contracted at a time of exceptionally high interest rates.

2. It is unlikely that the levels of housing production financed by private and public sectors can be sustained. External resources are not available due to debt and currency convertibility situtions. Internal resources are scarce due to fiscal restraint and very cost when attracted from national capital markets.

3. Public institutions such as the Social Security System (CDSS) the National Institute of Housing and Urbanism (INVU), National Institute of Mixed Assistance (IMAS), the Workers Development Bank (BDPC) and others have been promoting housing finance at lower-than-market interest rates. These policies of across-the-board subsidies have contributed to Costa Rica's economic plight.

4. The construction standards for shelter and related infrastructure have been too high and need to be reduced in order to lower costs so that families with modest and lower incomes can be served.

5. The major institutions financing housing for families around and below the median income have been INVU (at subsidized rates of interest) and SNAP (using market rates), but they have depended subsequently on obtaining external resources. When funding sources dried up due to heavy foreign debt burdens, the ability of these institutions to produce shelter was reduced.

6. The savings and loan system is experiencing net worth and net income problems due to policies which while adequate during stable economic times need to be examined in light of the severe economic and financial constraints under which the country is operating. By emphasizing mortgage financing for new units and not diversifying long term operations the systems portfolio of assets are relatively inflexible. Sources of money are short term and costly causing a negative spread. The system needs to improve organization and management to operate more productively. Reforms in such policies and more aggressive promotion of the system can improve the ability of the associations to maintain and expand their important role in shelter finance.

7. The credit department of the Agricultural Bank of Cartago (DECAP) regulates the SNAP and helps attract resources for it as well as INVU. It has a limited ability to attract fresh resouces due to its substantial foreign debt. It needs to pursue policies to support the sector and the associations to mobilize internal resources, particularly at lower costs. DECAP must introduce financial policies on the use of resources depending on their origin and risk and assign strategies for the use of those resources to ensure its and the long term viability of the private housing finance system.

C. AID's Shelter Strategy

AID's strategy is to support basic U.S. economic objectives while supporting a sustained increase in the level of production of shelter for families with incomes below the median by:

1. providing foreign exchange while simultaneously generating additional financing for the shelter sector to maintain production and employment;

2. developing unsubsidized basic shelter affordable by low income families;

3. developing greater private sector involvement, in production of minimum type solutions by the financing, construction, and marketing of shelter for those families, through private savings and loan associations, developers, and promoters; and

4. Providing technical assistance to strengthen financial institutions and to national government for rethinking housing policies and programs.

A key component of the Mission's assistance package for Costa Rica is the Housing Guaranty program. The GOCR and the Mission are of the opinion that despite the economic problems, there is a need to sustain low income housing finance and production in a country that has traditionally placed high priority on the social well being of its citizens, including home ownership opportunities for low and moderate income residents.

Severe budget limitations and the unavailability of external resources are affecting housing production. The HG resources would permit low cost shelter production to be sustained. This would have additional benefits such as generating construction related employment and attracting long-term dollar resources that could be used to meet critical foreign exchange needs. While Costa Rica is undergoing the painful process of debt rescheduling, the nature and features of the HG program are such that the Mission feels that it is an important foreign assistance vehicle at this time.

The proposed HG program is oriented to shelter production affordable by families whose incomes fall below the median without interest rate subsidies. A key feature of the program is that interest rates be tied to financial policies that eliminate housing subsidies. One element in Costa Rica's debt situation is its long history in incurring public debt to subsidize units which are beyond the paying capacities of the families served. This means less generous housing standards, and lower costs to achieve unsubsidized interest rates.

The proposed HG program will be channeled to the private sector savings and loan system (SNAP), the singularly most significant shelter finance system in the country. Since its establishment thirteen years ago, it has financed 27,000 new units. Most of these units are owned by moderate and low income families. The system has made annual investments in housing greater than all public sector agencies engaged in housing finance combined. Unlike those public sector institutions, it has used its own resources and those from finance institutions such as CABEI and BIAPE at prevailing market rates. Since 1977, it has introduced variable rate mortgage instruments that permit it to make adjustments in its yield on a portion of its portfolio.

The private contractors and promoters have established a substantial capacity to develop projects and organize markets for the production of middle income housing. Under the Programs Habitacional del Gobierno, $60 million inconstruction was completed and units were marketed within a three year period. This experience enabled the contractors to establish effective

production and marketing techniques. This capacity will be redirected to provide shelter for the target group, families with incomes below the median. Several developers have acquired land and are designing projects that are more or less consistent with the solution typology in this project. But financing will be required for these and other efforts to be developed. A demand analysis was conducted which showed that the target group would pay for the solutions typology to be funded under this program.

The technical assistance will be provided under this project to promote the use of low cost building materials in constructing new solutions, financial planning, resource mobilization, data processsing and analysis of the procedures and regulatory framework of the private S and L system. In addition, the Mission and the Office of Housing will provide technical assistance and training through related programs to address administrative reform and improved policy formulation. The new government is currently in the process of restructuring broader housing policy responsibilities. AID has a continuing dialogue with the key sectors and once these institutional arrangements for policy are clear, the Mission with its staff, RHUDO and technical assistance will support this effort.

AID's long term strategy will emphasize a greater reliance on the private and public financial system in generating internal resources for housing, to expand the network of shelter delivery institutions, and to mobilize savings and to monitor the flow of external resources to the sector.

D. Program Description

1. Goal and Purpose

The goal of the program is to improve the shelter conditions of families whose incomes are below the median. The purpose of the program is to assist Costa Rica's private sector establish a replicable, non-subsidized, low-cost shelter program for the target group.

2. Program Components

The key elements of this institutional development and low-cost housing production effort are as follows:

a) New Shelter Solutions - The SNAP will finance shelter solutions that are within the paying capacity of families below the median income. Associations will promote new types of housing solutions, including core units of 20 M^2, serviced lots, and serviced lots with home improvement loans. They will also finance a large number of home improvements for families below the median.

b) Shelter Delivery System for Low Cost Solutions - Private promoters and developers will be organizing low income families to acquire units and contractors will be developing projects that meet the paying capacities of beneficiaries. Construction financing risks will be borne by contractors and/or promotors who will then channel buyers to associations to obtain long-term mortgage financing.

c) Savings Mobilization - The SNAP will capture increasing levels of the savings market by attracting new passbook accounts, developing low cost financial instruments, and aggressively promoting the services it provides.

d) Diversification - New lending activities will be initiated to diversify SNAP's asset structure. This diversification will be based upon an analysis of the types of lending activities best suited to savings and loans, a regulatory framework that permits flexibility in pursuing new lending activities, and lending terms that reflect the financial risks and costs of those new activities. This diversification should allow the system to attract savings from individuals who will be attracted by the different services provided by the system.

e) Financial Planning - The system will develop a capacity to monitor its overall financial condition and the condition of individual associations, analyze the impact of the costs of resources which it uses, and determine the spread and lending terms required to maintain the system's viability. This financial planning framework will translate into a strategy for recuperation and revitalization of the system.

f) Productivity - A number of reforms in the operations of the system will be implemented to increase productivity. Collections, loan processing, the deployment and training of human resources, and internal communications will be examined to reduce costs while at the same time improving the level of services.

3. Roles of Participants

The institutions involved in the program and their roles are as follows:

a) Central Bank of Costa Rica - The HG loan will be borrowed by the BCCR which will onlend an equal amount of colones to DECAP. The BCCR will assume the exchange risk.

b) DECAP - DECAP will channel resources to the individual associations; coordinate the program; develop and apply of interest rate policies; and establish regulations which permit diversification, facilitate savings, and increase productivity.

c) Savings and Loan Associations - The associations will finance new shelter solutions, diversify operations, capture savings, improve management and organization, promote the system and develop individual financial planning capabilities.

d) Private Contractors - Contractors and/or promoters will help organize the market for low-cost housing, arrange construction financing, obtain approvals from municipal and national entities regulating construction standards, construct the units and promote new construction materials and reduced standards in solutions to be financed.

4. Financial Plan Summary

The total cost of the project will be $ 24.3 million. The sources and components of the financial plan are as follows:

a) AID/U.S. Private Investors - A $20 million HG guarantied loan will be provided by U.S. lenders. This will be used exclusively to finance shelter solutions for families below the median income.

b) Savings and Loan Associations - Approximately $12 million in internal savings will be generated by the SNAP over the life of the program, of which an estimated $4.8 million will be in the form of low cost savings (e.g. passbook accounts; downpayments on sites and service and core units), and $7.2 million will be from other locally generated resources (e.g. time deposits) at higher cost. Of that total, $4 million will be provided as Program counterpart and will be used to finance solutions for families with incomes below the median.

c) AID - Approximately $300,000 in technical assistance will be provided to develop new low-cost shelter solutions, establish regulations and improve financial planning capabilities, provide advice on computer operations, and outlining new low-cost savings instruments, as well as for formulating a market strategy for capturing savings, strengthening organizational structures and internal procedures, improving collections, and promoting low-cost solutions. Resources will also be set aside to support the dialogue on national housing policy when assignment of those responsibilities are decided by the GOCR.

E. Issues

1. Program Objective

The program objectives are geared to produce low-cost, replicable non-subsidized shelter through the private sector. The experience gained in using new construction standards and materials, establishing adequate financial policies and studying ways to increase flows of resources to the sector will enable the GOCR to sustain production for the poor despite changing economic condition facing the country.

2. Institutional Focus

The reasons for channelling resources through the SNAP are as follows: a) INVU is disbursing the current HG resources and should concentrate its efforts on the immediate production of solutions and its policies before any new program is developed; b) the Ministry of Housing and Human Settlements was suspended by the newly elected government thereby eliminating the one vehicle that might have coordinated interest rate policies of a broad mix of public and private institutions, and c) SNAP has the capacity to reorient its operations to address the econimic realities confronting the sector. DECAP and the mutuals will be supported by a technical assistance program and a flow of resources that would be channeled at rates that correspond to the costs of money and internal rates of return.

3. Status of Urban Employment and Community Improvement HG (515-HG-006)

There were three basic causes for delays in HG 006 implementation:

a) An initial lack of committment to the project by the National Housing Institute (INVU) and the Municipal Development Institute (IFAM). INVU was reluctant to reduce standards and hence costs, while at the same time increasing the mortgage interest rate. IFAM, and the municipal governments, were not willing to introduce the recovery of costs in small community infrastructure projects which have been treated traditionally as grants.

b) Unanticipated difficulties emerged with both the upgrading and home improvement activities. Even if the concept of cost recovery in community infrastructure projects had been acceptable to IFAM and the municipalities, the valorization (or value-added tax) system proposed was too sophisticated for the institutions involved. In the Home Improvement Program, the lack of valid titles among owners and the lack of procedures for making improvement loans to renter-occupied housing had been holding up this activity.

c. Inter-agency coordination proved to be almost impossible to achieve, particularly in the light of the major policy and procedural changes required by the project.

These problems were overcome by working exclusively with INVU emphasizing the Sites and Services and Home Improvement Loan Programs. The community upgrading component has been reduced to a pilot program in one selected community which INVU is implementing and which if successful, will demonstrate alternate methods of cost recuperation e.g., through utility bills. IFAM and the Community Development Institute are no longer participating in the project. With the Home Improvement Program a decision was made jointly with INVU to start the program with home owners who have clear title.

The proposed new project will not have to deal with any of the above-mentioned problems since the sites and services solution financed at market rates of interest is a concept which is accepted in Costa Rica; problems associated with the Home Improvement Loan Program have been resolved with INVU, and in any case the SNAP has an ongoing Home Improvement Loan credit line with established procedures; no community infrastructure upgrading activity is contemplated; and no interinstitutional dependencies are being created.

Grant funded technical assistance under the Urban Employment Loan has included two general studies, a housing deficit study and a credit policy study. The assistance called for in in the new project would not duplicate these efforts since it is targeted at specific areas related to the management of the SNAP (see Section II.C.) and a sustaining the dialogue on national shelter policy in the context of new economic realities.

4. Acceptability

While it is expected that the solutions produced will be affordable to the target population, a question was raised regarding their acceptability. It should be noted that the GOCR will not be in a position to launch major new housing initiatives. The bulk of new housing units will be confined to those produced under the HG program. The associations are very interested in working with sites and services solutions and several association managers believe they will be acceptable. The Savings and Loans were successful in marketing 38M2 solutions in 1980 and 1981 under the Plan Habitacional del Gobierno (PHG). The 515-HG-006 program is producing serviced lots which are being bought.

A nation-wide demand study was carried out which demonstrated a significant level of interest among low-income families for the various types of solutions planned under HG 007. Home owners were asked about home improvement loans, and 40% expressed interest. In the case of non-owners, both the serviced lot and the core unit were described. Almost half of the respondents expressed interest in lots and 23% in core units. The determining factor for the lower interest in the core unit was cost, not design standards as some housing officials hypothesized. The category "Will think about it" was large and is important, in particular for new solutions since the demonstration effect will increase demand. The demand for new units is higher than expected. The results of the study and the recent experience of INVU with home improvement loans indicate that the demand for that component will be considerably higher than the available funds.

5. Financial Considerations

Costa Rica is in the process of debt rescheduling and that exercise is expected to be concluded during September but could stretch out to the end of the year. The timing of lender selection is important as loan contracting could be caught up in rescheduling which could delay full or partial payments to the U.S. lender providing the HG loan. This would then require that the HG reserve fund be used to meet those obligatons. Therefore, a decision will have to be made on various contracting strategies which are being examined before loan contracting occurs.

F. Recommendation

This HG program can sustain an increase in the level of production of low-cost shelter solution for low-income families and serve as a major catalyst in developing a greater private sector involvement in the financing, production and marketing of these lower-cost solutions.

The USAID Costa Rica and RHUDO/LA have judged the project to be technically, financially, economically, instituionally, socially, and environmentally sound and viable, and recommend that a $20 million Housing Investment Guaranty be approved as well as $300,000 in grant funds to provide technical assistance and other support for project implementation.

II. PROJECT BACKGROUND AND DETAILED PROJECT DESCRIPTION

A. Background

1. Overview of Shelter Sector

Costa Rica has had the best record of any country in Central America with regard to overall volume of shelter production, but also in the extent to which that production is allocated to lower income groups. That record is now being threatened as a result of the severe economic difficulties which Costa Rica is confronting.

A GOCR Census report estimates that of the existing housing stock (as of December, 1980), 164,500 structures were lacking a basic infrastructure or overcrowded and 84,400 were considered beyond repair. Using the proportion of urban households as a general guide, roughly 83,000 units were in need of improvement and 48,800 new units were required in urban areas in 1981. Estimates of annual production needed for 1982 indicate that 24,000 units would be needed. While the numerical weight of this demand is concentrated in the Central Valley (San Jose, Cartago, Alajuela and Heredia), the coastal areas have urban concentrations that proportionally have even greater deficiency and deficit problems.

Housing production in Costa Rica is carried out through public and private finance institutions, other formal producers (e.g. private contractors and promoters), and through the informal sector mainly in rural areas. Institutional housing production peaked in 1979 with 14,450 units, or 69% of the annual need. That figure is projected to fall to 8,250 units by the end of 1982, only 34% of the estimated annual need. This deterioration in the ability of institutions to meet housing needs will continue as economic conditions become more strained and resources for housing finance diminish.

The public and private institutions comprising the shelter sector are the Savings and Loan system (SNAP), the National Housing and Urban Institute INVU, the commercial banking system (SBN), the Workers Bank (BPDC), the National Insurance Institute (INS), the Social Security System (CCSS) and the Institute for Social Assistance (IMAS).

The principal housing institutions have been INVU, SNAP and SBN. Their production (actual and projected) is as follows:

	1979 Units	1980 Units	1981 (est.) Units	1982 (proj) Units	% Change 1979-82
INVU	2355	1882	3000	2000	-15%
SNAP	4429	3786	3740	2300	-48%
SNB	4639	1911	2000	1900	-59%
	11423	7579	8740	6200	-45%
All Instit.	14433	10438	11400	8250	-42%

As can be observed housing production has dropped sharply. SNAP production dropped by 48% since 1979 and the reduction in units of the SBN was even more severe, 59%. INVU was the least affected of the three institutions and is likely to maintain production levels as a result of the implementation of 515-HG-006. It is important to note that in the past, SNAP has generated a level of investment equal to all public institutions combined,i.e. INVU, INS, CCSS, etc.

Construction costs have soared, by as much as 60% annually in 1981. This situation, combined with rising interest rates, has effectively cut off a majority of the nation's families from obtaining loans for home improvements and the purchase of homes.

2. Private Sector Contractors

Costa Rica's emphasis on housing has resulted in the development of a rather sophisticated and efficient network of financing production and marketing institutions. The product that was produced however was relatively costly and generally subsidies were incorporated in the mortgage financing. There is a general recognition that revised standards need to be developed and some institutions notably INVU and some building materials producers are considering the application of measures to reduce those costs. The system needs to be reoriented to the production and marketing of new low cost solutions. Construction financing from private banks is still available but long term mortgage financing is not due to the problems already cited. This installed capacity and the ability to redirect the efforts of contractors and promoters could be lost. Estimates of production indicate that housing contractors are operating at 35% capacity. Unemployment levels in the construction sector are the highest of any sector making up the economy.

3. The Savings and Loan System (SNAP)

In slightly more than twelve years, SNAP has financed roughly 27,000 units, 84% for houses costing less than C/.100,000. While costs are distorted by recent inflation, the associations traditionally have worked with low and moderate income families. A major part of SNAP's recent lending was supported by the Programa Habitacional del Gobierno and CABEI. The associations have obtained 57% of their financing from DECAP and only 43% from savings accounts, time deposits and mortgage participations. In turn, about 70% of DECAP's resources derive from external sources including CABEI, BIAPE and private banks.

The Savings and Loans are confronting losses provoked by the growing gap between the average yield of its portfolio which was 15.75% as of April, 1982, and its cost of funds which was 15.93%. This negative spread translates into a projected loss of C/.21,730,000 for the associations as of December, 1982.

Specific problems which confront the system and which the program will address are the following:

a) Currently the associations are operating at negative spread of 1.86% including administrative costs. This has occurred because they have depended on DECAP for high cost, external resources. At the same time, they have competed successfuly with commercial banks for short-term, relatively high cost resources, but not low-cost savings. For example, since 1979, the associations'time deposits increased by 183%, while time deposits for the commercial banking system rose by just 82%. Time deposits represent 69% of the system's resources and cost 21.75% at this time, while passbook accounts comprise 12% of their resources at a real cost of 6.8%, with approximately 19% in morgage participations. The system has captured only 4.5% of the savings market when other systems in Latin America have attracted 15-20%. This source of financing has not been promoted by the system, contributing to their collective negative spread.

b) The system has operated on the basis of a 3% commission which was adequate when housing production was high; as lending declined, income from commissions leveled off. Because of the emphasis on commissions, the system has not paid sufficient attention to the costs of money (which increased by 30% in the period 1979-82) in relation to yield on portfolio (which grew by 24%). The system has been operating at a net loss since 1980.

c) In recognition of these problems, DECAP raised the cost of lending to 24% for mortgages and 26% for home improvements, and halved lending terms to ten years and five years, respectively. These severe actions reduced the market and, subsequently lending; this further restricted income from commissions. Furthermore, liquidity was placed in bonds to cover short term liabilities with the result that resources were tied up in assets that yielded less than investments in new mortgages and home improvement loans.

d) DECAP's legislation permits the associations some flexibility in types of loans they may extend. Beyond mortgages and home improvements loans, they can lend for second mortgages, home refinancing, lot acquisition, short term investments, financing of units for higher income families, financing construction materials, and trust operations. However, DECAP and the associations have been very conservative in applying these regulations, effectively restricting the S&Ls to long-term, inflexible portfolios as well as diminishing their image as organizations which provide a variety of services.

These problems appear to be solvable and for the system to be able to reach a point of financial equilibrium, a series of measures need to be taken in the immediate future.

3. The GOCR Response

Costa Rica has had a long tradition of social reform and equitable income distribution in comparison to most developing countries. This tradition translated into a commitment to housing for all income groups. As recently as 1979, the government undertook a massive housing program, the Plan Habitacional del Gobierno (PHG), designed to counter the loss in shelter

production. Units ranging in cost from C/.80,000 to C/.132,000 were financed through SNAP and INVU. Financing for the program came from the Deutsche Bank; the loan was for eight years at the LIBOR rate + 7/8%. These funds were relent through INVU and SNAP at 14%, for units costing less than C/.100,000, and 16% over that level. The interest rates were insufficient to service the Deutsche Bank loan.

There are clear indications that the GOCR is aware of the impossibility of carrying on with programs such as the PHG, given their heavy subsidies. Currently, HG 006 is operating with 19% rates.

The new government assumed power in May, 1982. A draft of a National Emergency Plan has been circulated. The plan consists of a number of austerity measures to restore the economy to equilibrium and to reach agreement with the IMF. The plan includes increases in fuel prices, power rates, and other services, as well as the generation of tax revenues and a reduction in the public sector deficit. The government has begun to implement some of the measures by substantially increasing fuel prices, and raising tariffs for services, and has drafted a "Reforma Tributaria" which will raise taxes.

The government is also attempting to assist the private sector. It has presented legislation to stabilize exchange rates and permit the Central Bank to establish a more flexible rate of exchange for most of the country's imports and exports during next three years. (The authority to set the exchange rate resides in the Congress). Additionally, the new law calls for exchange transactions to be limited to commercial banks in order to control the flow of foreign currency. It is believed that this will bring greater stability to the private sector. The Central Bank also has attempted to reduce subsidies by restricting the types of commodities that are paid for at the C/.20 = $1 exchange rate.

Because of the pressing demands of the economic situation, the new GOCR is still grappling with plans to resolve problems in the shelter sector. Low cost housing is a priority concern along with agricultural development, food production, highway development, and national security in its dealings with various multilateral and bilateral assistance institutions. In discussions with the Ministers of Planning and Hacienda, the Managers of the Banco Central and DECAP, and the Executive President of INVU, there was concern about production of housing for low income families, as well as the need to reactivate the construction sector which is operating at 35% of its capacity. There was agreement to utilize SNAP as the vehicle because of its efficiency and its past history of promoting unsubsidized housing with resources it obtained independently. Particular interest was expressed in the idea of promoting internal savings to continue the production in the housing sector. In light of Costa Rica's current economic condition, government officials are convinced that this is the only major housing activity that can be initiated at this time. For its part, DECAP has increased interest rates in the system. Last year, DECAP also applied its variable rate provision in mortgage contracts signed after October, 1979. Another increase in these interest rates is being considered now.

4. Mission Strategy

The Mission's most recent CDSS identified Costa Rica's most pressing need as the immediate and continuing support of balance of payments to stabilize the economy and reactivate the private sector. Major emphasis was placed on creating productive employment opportunities and reducing GOCR operating costs. Other priorities included housing. The strategy also stated that, wherever possible, private sector involvement in project and program implementation will be sought to minimize the counterpart burden to the GOCR.

This program is consistent with the Mission's strategy in the following ways: it will provide additional financing for the housing sector to compensate for the unavailability of resources; it will develop non subsidized basic shelter for the poor; it will generate productive employment opportunities; it will stimulate internal savings; and it will promote adjustments in the SNAP to improve management and reduce dependence on high cost resources.

5. Other Sector Activities

The current Housing Guaranty Program (515-HG-006) was authorized for $11.4 million, of which $6.6 million have been contracted. Approximately $1.35 million in construction is being financed presently. Combined with GOCR counterpart monies these funds will produce a first phase of 2,800 units. The program projects the total production of more than 8,000 new low-cost solutions in the Greater San Jose Metropolitan Area. In addition, the HG is financing a Home Improvement Loan Program which began operating in May, 1982. To date 600 loan applications have been received for an average amount of US$1,500.

In the past, CABEI has been a major source of financing for DECAP, the system, and INVU as well. Its most recent operations with the Costa Rican system were two loans backed by mortgage participations. The first, for $5 million, was contracted in August, 1979 and has been fully disbursed. Approximately 1,250 units were built. CABEI contracted an additional $10 million March, 1981, for approximately 1,000 units, half of which will serve families below the median income. Almost 70% of those funds were disbursed as of March 31, 1982. DECAP is currently negotiating an additional transaction in mortgage bonds. The level being discussed is $5 million, but the amount is uncertain as CABEI has liquidity problems, thereby forcing cut backs in previously planned allocations to shelter institutions in the region. CABEI is discussing a similar transaction with INVU for about $2 million.

BIAPE has also provided resources to DECAP. Approximately $3 million have been provided, of which all have been disbursed. No additional BIAPE resources are likely to be forthcoming in the near future. The IBRD has no shelter sector projects in process or pending approval.

B. Program Description

1. Goal

The goal of the program is to improve shelter conditions of the urban poor.

2. Purpose

The purpose of the program is to assist Costa Rica's private sector to establish a replicable, non-subsidized, low-cost shelter program for low-income families.

3. Outputs:

To achieve its purpose, the program will strive for the following outputs:

a) New Housing Solutions and Loans

The associations have constructed shelter solution as small as 38M^2 under the Programa Habitacional del Gobierno. They have not financed smaller units, nor sites and services. Also, although the system has financed home improvements on a very limited scale, they have never been an integral part of their operations. The system is now ready to finance the minimum type of solution.

New Solutions Types	Approx. Cost	Est. No. Solutions	Income %ile
Serviced Lot	C/. 50,000	4,044	25th
Serviced Lot w/ sanitary core and home improvement loan	C/. 77,000	2,645	35th
Serviced Lot w/ 20M^2 enclosed space, incl. sanitary core	C/.100,500	2,018	47th
Home Improvement Loans			
Average loan size	C/. 50,000	7,296	25th
	TOTAL	16,003	

NOTE: The costs of these solutions were calculated with a rate of interest of 23.5%. The new solutions have a 20-year term; the home improvement loans have a 10-year term.

Of the $24 million ($20 million HG and $4 million in local contributions), approximately 40% will be channeled to home improvements because of the deficiencies in Costa Rica's housing stock and to help the associations to diversify their long-term portfolio structure. The remaining 60% will be allocated among the various new solution types to provide a range of opportunity for families below the median income.

b) Shelter Sector Delivery System

The promoters and contractors need to adapt past procedures to this reorientation of effort. Particular emphasis will have to be paid to promote new lower construction standards and utilize new low cost construction materials coming on the market. Marketing strategies will have to be developed to promote new types of solutions and to work with lower income groups. This will require substantial coordination with organizations and associations, publicity campaigns, and promotional devices to make low income families aware of the solutions and demonstrate their features. The current delivery system also needs to be improved so that units which are sold can be registered and occupied more quickly.

c) Financial Planning.

The system will need to improve its present framework to determine internal and other costs, and the margins necessary to protect the system to better control its financial position. That is, interest rate policies should be based upon financial analysis, planning and strategy. At the same time,
the associations will further strengthen their ability to serve the poor by developing financial techniques that permit an adequate return on investment while reaching lower income groups. A set of regulations on the application of variable rates will be formalized.

d) Mobilization of Internal Savings

Savings, especially passbook accounts, need to be attracted to reduce the costs of funds. This will be accomplished in three ways: penetration of the savings market, development of new lower-cost instruments, and promotion of the system as one that provides a much broader range of services. Presently, only 4.5% of the regular savings market has been captured, but the program has established 15% as a reasonable target by 1986. To increase this type of savings, the system will define various markets, and promote such activities as student savings, christmas accounts, gift promotions and other techniques. Some of the associations already are pursuing student accounts, one with considerable success. Another method would be to promote increased savings of those who maintain existing accounts. This will require the associations to work more intensively with teachers, labor groups, cooperatives, etc.

e) Diversification

Through the regulation or modification of its governing law, SNAP will seek to expand its gamut of loan activities. Through diversification, portfolio structures will be made more flexible by allocating resources for shorter term investments such as home improvements, construction financing, lot acquisition, construction materials loans and consumer lending which will expedite the turnover of funds. Policy guidelines will be developed by DECAP for all lines of credit and corresponding interest rates, terms, conditions etc. The associations will promote new types of lending and these efforts will be supported by the technical assistance included in the program.

f) Improved Productivity

Productivity, to a large extent, has been related to financial policies. But operational efficiencies in terms of the organization of each association, i.e. structure, procedures and utilization of staff, can affect costs and income. The program will address the issues of collections and increased productivity through its technical assistance component. The organization of the various associations will be reexamined in terms of the allocation of resources, both staff and financial. Are they properly structured to open up new lines of action, do they have enough staff to promote savings, what are the procedures employed in various operations (making loans, promoting projects, etc.), and why does one association differ from another? Training in filling out forms, promoting savings, new solution types and new lines of credit, etc. will be conducted.

C. Inputs

The total program resources (HG and counterpart) will be directed at achieving the planned outputs and addressing the problems which have been identified.

1. HG and Local Resources

i. Problem: Limited production for the target group.

Output: Approximately 16,000 shelter loans for low-income families

Input: The HG resources are being directed to families below the median income. Moreover, the program is designed to have at least $4 million in internal resources of the system directed toward the same target group.

ii. Problem: Lack of financial policy which takes into account cost of resources.

Output: Definition of interest rate policies and regulations.

Input: The HG resources will be loaned to the BCCR which in turn will onlend to DECAP in local currency. (Because of banking regulations, the exchange rate used to determine the amount of colones projected in this Project Paper is US$1 to C/.38 which is the present interbank rate.) BCCR's rate to DECAP is estimated at 15 1/2% which includes 1/2 percent for BCCR's administration. The grace period and repayment period of the U.S. loan (10 and 25 years respectively) will be held constant in the BCCR-DECAP relationship. DECAP will provide HG resources to the system at a cost of 18%.

The active rate of interest used in the program's design and which is reflected in the cash flows in the Project Paper is 23 1/2%. This rate of interest takes into account the rate of return on the present portfolio, the cost of HG funds, the estimated cost of internal resources, and estimated increases in administrative costs expected from diversification. The rate of 23.5% is the minimum needed by the associations to establish an equilibrium and to start to accumulate a surplus for reinvestment. The planning process initiated during the program's design stage will continue through the period of implementation, supported by short and long-term technical assistance.

iii. Problem: Heavy dependency of DECAP and the system on high cost external loans.

Output: $12 million in internal savings generated as a counterpart to the HG resources, with 40% of these resources at costs comparable to regular savings.

Input: An initial advance of $4 million of HG resources will be made. Additional disbursements of the HG resources will be made on the basis of (1) evidence that loans to low-income families have been completed in an amount equal to the disbursement requested, and (2) evidence that the system is generating internal savings in an amount adequate to meet the target of $12 million by the time of the last disbursement. The HG input not only supports the production of low cost shelter, but also encourages the generation of internal resources.

iv. Problem: Lack of policy for diversified lending.

Output: Through expansion of credit services, the system will attract depositors interested in particular services rather than a higher interest yield.

Input: As a condition precedent to the first disbursement of $4 million, DECAP must issue the proper regulations formalizing the different lending activities the associations can undertake under the present governing law. The shelter typology affordable to families below the median income represents one new lending area for the system. But other diversification efforts are critical to the success of the savings mobilization program.

v. Problem: Some associations are operating below acceptable levels.

Output: Improved operational efficiency throughout the system.

Input: The HG program will demand maximum efficiency from the system. The associations which generate savings and produce loans for the target population will receive the bulk of the resources. The technical assistance is designed to help the associations with management difficulties, but they will be rewarded only when performance proves that savings and loan production has improved.

2. Technical Assistance:

An estimated $300,000 in DG funding will be provided to fund a long-term advisor with experience in savings and loans and low-income housing. The technical assistance fund will also be used to finance short-term consultants in the following areas which address problems which have been identified and the planned outputs. Since the required expertise is available in certain Latin American countries undergoing similar problems a source and origin waiver is hereby requested to contract the technical assistance outside of AID Geographic Code 000.

a) Low Cost Housing Construction:

To promote the use of alternative construction materials available in Cost Rica which could be used to reduce construction costs,e.g. substitutes for concrete blocks, and determine the feasibility of the introduction of new materials. Particular emphasis will be made in helping the associations work with architects, engineers, suppliers and contractors to begin to incorporate lower cost materials in the construction of new units.

b) Housing Policy Development:

During the course of the project's implementation and when the GOCR has defined policy responsibilities, technical assistance will be provided to support the dialogue on shelter policy.

c) Savings Mobilization:

To develop a marketing strategy for the associations based upon an analysis of the characteristics of people maintaining low-cost savings accounts, why such savers use other institutions, why savers in the system do not increase their accounts, how to work with groups and organizations (e.g. cooperatives, unions, etc.), the promotional devices to attract new savers,

and an examination of how the they can make saving more accessible. This will be complemented by a training program for staff on promoting savings. Also new low-cost savings instruments will be analyzed and recommended to DECAP. This could result in establishing NOW type accounts, sight depost-instruments or other mechanism which the system has already begun to use.

d) Financial Planning:

To strengthen DECAP's capacity to analyze the impact of various resources (time deposits, passbook accounts, external loans), their costs of money, and the yields on the current portfolios of DECAP and individual mutuals, to identify trends in the system and to formulate policies and strategies.

e) Analysis of Regulatory Framework:

To recommend procedures to DECAP for the establishment of regulations including the types of analyses required; the drafting of regulations that provide flexibility to the mutuals to pursue new activities; the process of review and dialogue with the mutuals to refine the regulatory framework and the flow of information to and within the mutuals, to ensure its systematic dissemination. In addition, recommendations will be made on opening new lines of lending and how these should be regulated in terms of interest rates, length of loan, conditions of loans, etc.

f) Organization and Management:

To develop a set of recommendations and procedures geared toward improving the management and organization of the mutuals. The analysis will examine the division of responsibilities, nature of the workload, registration and accounting systems, allocation of staff resources, internal information systems, and procedures in terms of current operations and the orientation of the program. Recommendations on management practices and organization will be made.

g) Data Processing:

To develop a plan for data processing with specific attention to the monitoring of savings, collections, and loan placement, and to financial analysis. This study would focus on the availability of hardware, the design of software, the types of information and formats to store and analyze information and the costs involved. A product of this effort could be a model contract to obtain such services for the mutuals.

D. Implementation Arrangements

The principle institutions and their responsibilities are outlined below.

Central Bank:
- contract loan;
- assume exchange risk;
- promote reform of system;
- provide line of credit.

DECAP:
- establish financial planning framework and interest rate policies;
- establish regulations for SNAP;
- obtain authority for new lending activities;
- channel resources, monitor program implementation;
- coordinate technical assistance and develop training programs;
- develop and manage new low-cost savings instruments;
- resolve problems of specific associations.

Associations:
- finance mortgages and loans;
- promote new shelter solutions;
- diversify lending;
- capture low-cost savings;
- manage organizational and operational reforms;
- improve collections;
- develop financial planning capabilities.

Private Contractors:
- organize market for development and sale of low cost solutions;
- construct new solutions;
- promote low-cost building materials;
- obtain municipal and agency approvals.

E. Beneficiaries:

The beneficiaries of the program will be families whose incomes are below the median, C/.6250 as of December 1981. At least $24 million will be allocated in loans for home improvements and mortgages for new solutions. An estimated 15,969 solutions will be produced. A range of solutions will be provided to permit families whose monthly incomes fall between the 25th and 50th percentiles to participate in the program. Program beneficiaries will pay up to 30% of their income to amortize the loan or mortgage and will be required to make a down payment of 10% for new shelter solutions. Mortgages will be amortized over a 20 year period; for home improvements, 10 years will be the norm.

III. TECHNICAL FEASIBILITY

A. Methodology

The following methodology was utilized in determining the technical feasibility of the proposed program. A review of the payment capacity at various levels below the median income was used to determine the maximum solution costs affordable to those groups. (See Table 1). Cost estimates were made of various minimum shelter solution types. These solutions and corresponding cost estimates are shown in (Table 2). The payment capacity of families at various levels of the income distribution was linked to affordable solution types (Table 3). Finally, program resources were allocated among the different solution types as shown in Table 4.

It is important to indicate that units costs were based on current construction standards (shelter and infrastructure). This was necessary in order to determine the technical feasibility of the project under present circumstances. However, one focus of technical assistance will be the promotion of lower standards which would reduce construction costs and thereby increase the accessibility of units to lower income groups.

TABLE III-1

EST. PAYING CAPACITY OF BENEFICIARIES

PERCENTILE	MONTHLY HH INCOME	PAYMENT CAPACITY
50th	C/.6250	1875 (30% of income)
35th	C/.4550	1364 (30%)
25th	C/.3568	892 (25%)

NOTE: Estimates of household income were based on a methodology developed by the National Savings and Loan League which is now being applied by the Banco Centroamericano de Integracion Economica throughout Central America. DECAP and INVU have adopted these figures for various programs, e.g. BIAPE, CABEI, and HG 006.

TABLE III-2

SHELTER SOLUTION TYPES AND EST. TOTAL COSTS

A. NEW SOLUTION TYPES	COST AS OF JUNE '82
Fully serviced lot/90M^2	C/. 50,117.00
Serviced lot and additional loan for shell house and sanitary core. The walls could be of wood or some other type of material such as prefabricated panels consisting of cement, natural fibers, and agricultural waste or a combination of wood and other materials.	76,633.00
Serviced lot with sanitary core (3.5M^2) and 16.5M^2 of multi-purpose space	100,436.00
B. HOME IMPROVEMENT LOAN	
Average Loan Amount*:	C/. 50,000.00
Possible types of improvements and corresponding costs are:	
Sanitary core (3.5M^2), Hook-up fees for on-site sewerage and water installation	13,500.00
Additional 20M^2 of enclosed space	40,000.00
Replacement of 40M^2 of galvanized or asbestos sheet roof	20,160.00
Replacement of 40M^2 of concrete floor and foundation.	8,800.00

*Recent experience shows that loans average about C/.50,000 because people desire to make several improvements simultaneously.

TABLE III-3

AMOUNT FINANCED (90% of cost) AND AFFORDABILITY

Solution	Amount to be financed by solution type[1]	Monthly Payment [2]	Affordability[3] (Income Percentile)
Fully serviced lot 90 sq.m.	C/.45,105	C/. 892	25th
Serviced lot and loan of C/.25,000	C/.68,970	C/.1,364	35th
Fully serviced lot, sanitary core and multi use space	C/.90,392	C/.1,787	45-48th
Home Improvement Loan	C/.50,000 (Average)	C/.1,085	25th

1/ Assuming a downpayment of 10%, amount to be financed is 90% of total costs, including construction, S&L's commission, insurance, and legal expenses.

2/ New solutions: 20 year term, interest rate 23.5%; Home Improvement: Term 10 years, interest rate 23.5% which is the rate estimated to be needed by the system to achieve a positive net worth and income position.

3/ Affordability: Assumes up to 30% of family income for housing. However, 25% of incomes of families purchasing serviced lots is planned as a guideline to allow a greater margin to the family for purchasing materials and initiating construction.

TABLE III-4

DISTRIBUTION OF RESOURCES

%	Solutions and Description	Distribution of Resources Amount (in millions)	Solutions to be Produced %	Solutions to be Produced No.
Fully serviced lot $90M^2$	$ 4.8	20%	4,044	25.0
Serviced lot and loan of C/.25,000	$ 4.8	20%	2,645	16.3
Serviced lot with $20M^2$ unit	$ 4.8	20%	2,018	12.6
Home Improvement loan (average C/.50,000)	$ 9.6	40%	7,296	46.6
		TOTALS	16,003	100%

B. Description of the Proposed Solutions

1. Serviced Lot:

The serviced lot will be the lowest cost new solution provided under the program. Lots will have infrastructure, i.e. potable water, sewerage, electricity, storm drainage, streets and sidewalks, according to prevailing design and construction standards. Further reductions in costs are expected as a result of efforts to lower construction standards. Average lot size will be about 90 square meters. The total sale cost of this solution has been estimated at C/.50,117.00 as of July 1982.

2. Urbanized Lot Plus a Home Improvement Loan:

This solution consists of the basic serviced lot and a small loan of about C/.25,000 to finance a first phase living space. The total cost of this solution will be roughly C/.76,633. The loan will be utilized to buy construction materials such as lumber, galvanized or asbestos sheets for roofing, cement, gravel, etc.

3. Serviced Lot, Sanitary Core and Multi-Purpose Area of $16.5M^2$

This solution will offer the same basic features as the former and a $20M^2$ enclosed space divided into a sanitary core of 3.5 M^2 and a multi-purpose area of $16.5M^2$. Its characteristics are as follows:

a) Concrete floor and anti-seismic foundation which is expensive because of the extensive use of structural steel. INVU's structural code is very demanding. The Engineer and Architect College is carrying out a study to establish a more liberal and realistic norm. This study, started eight months ago, should lead to a reduction in seismic coefficients which are greater than those used in the Californian Code. These changes would reduce the use of steel and consequently costs.

b) Cement block walls with steel reinforcement, also because of anti-siesmic considerations.

c) Galvanized or asbestos (currently less costly than galvanized sheeting) sheet roof, supported by a wooden structure.

d) Sanitary core which consists of toilet, shower and lavatory.

The estimated sales price for these units is C/.100,435. This price includes all project costs, plus S&L commissions, legal expenses and insurance.

4. Home Improvement Loans

These loans will be used to improve the conditions of existing structures. Deficit and deficiency information on the existing housing stock indicates the need for such financing. The estimated average loan amount is C/.50,000 based upon the recent experience of INVU's home improvement program. A loan this size can finance the construction of the following: sanitary facilities, additional bedroom, a new roof and/or new concrete floor and foundation. Two or more different types of improvements could be made with a C/.50,000 loan. The range of loans will be wide, allowing the participation of families below the 25th percentile.

Discussions with INVU and S&L associations staff provided information on how homeowners tend to use home improvement loans. Roofs seem to be a principal concern of home owners. Due to Costa Rica's lengthy rainy season, people seek to improve their roofing first. Since this work does not require specialized labor, borrowers can and do perform the work themselves. Consequently, the loan is used to acquire materials such as galvanized or asbestos sheets, nails, wooden beams, etc. Additional enclosed space is the second most common improvement. Usually the additional space is required to accommodate the needs of expanding families. This kind of improvement requires some specialized labor,e.g. bricklayers, but this type of expansion can be performed by a tradesman at less cost.

Sanitary cores are a lesser priority as most units in urban areas have such facilities. Nevertheless, some homeowners do not have such facilities even though their homes front on a sewer line. In other cases, the sanitary core is inadequate or in need of major repairs. Replacement of concrete floors and foundations is another type of improvement for which there is strong demand. Assuming that the current average size of a home for a moderate income family is $40M^2$, a loan of C/.20,160.00 would be needed for new floors.

Some examples are provided of combination improvements that can be carried out with a C/.50,000 loan.

Sanitary core replacement, $40M^2$ of galvinzed or asbestos sheet roof and replacement of $40M^2$ of concrete floor and foundation.

Additional $20M^2$ of enclosed space plus a sanitary core. (C/.53,500.00)

Additional $20M^2$ of enclosed space plus replacement of $40M^2$ of concrete floor and foundation. (C/.48,800.00)

Additional $20M^2$ of enclosed space plus replacement of $40M^2$ of galvanized or asbestos sheet roof. (C/60,160.00)

Replacement of $40M^2$ of galvanized or asbestos sheet roof plus a $3.5M^2$of sanitary core. (C/.33,660.00.)

C. Program Development Costs

The analysis of the key elements used in determining the feasibility of producing the program's typology of units is provided in this section.

The primary cost variables associated with housing development are land acquisition and site preparation, infrastructure, and construction costs. An analysis of cost variables in Costa Rica for the $20M^2$ unit under consideration shows that acquisition of raw land represents 9%, infrastructure 43%, and construction about 48% for housing projects similar to those being contemplated under this program. For the serviced lot, the distribution is 18% for land and 82% for infrastructure.

1. Land and Urbanization:

The cost of land is determined by the combination of purchase price (including legal fees) and the proposed density of the project. Density becomes a factor in designing projects to reach the AID target population since raw land in Costa Rica represents 9% of the total cost of the core unit and 18% of the serviced lot.

Net project densities are regulated by INVU. Those regulations control densities via lot dimensions and open spaces. They establish road width, alignments, and design configuration of sidewalks, streets and curbs. They regulate lot coverage and floor area ratio (FAR), etc. This fairly detailed set of regulatory controls, when applied to low-income housing under the present economic conditions, deter the production of housing for low-income groups. It appears that the regulatory models used for present Costa Rican subdivisions were designed when socio-economic conditions were more favorable. Additional constraints that can affect tnat density are often imposed, however, by other entities such as the municipalities.

INVU has drafted for authorization, a new set of regulations for subdivisions that are more compatible with the paying capacity of low-income families. The new regulations permit the use of a minimum lot of $60M^2$ with a minimum frontage of 4 meters for projects with sewer installed, and $120M^2$ with a minimum frontage of 6 meters without sewer. Previously, the minimum had been $90M^2$. It will be possible, therefore, to obtain a substantial reduction in development costs: a 30% reduction for a serviced lot and a 25% reduction on a serviced lot with sanitary core, when the amended regulations are put into effect.

INVU's office of Project Coordination is responsible for determining land availability around San José. For the current HG Program, land cost has been about C/.50-100 per square meter, depending on location, soil and topographic conditions. Also, the savings and loan associations have made contact with developers, who have found these figures to be accurate. INVU has made an aerial photogrammetic study of the San José region. Of the 584 hectares of developable land, 124 hectares are currently for sale. In the peripheral provinces, land is readily available. Costs there are substantially lower, approximately C/.40-60 per square meter.

2. Infrastructure Costs:

The technical analysis indicates that the average cost of infrastructure is C/.500 per square meter of net disposable land for lots. That cost includes a primary sewerage treatment plant, storm and sanitary sewer collector lines, water distribution system, electricity, pedestrian and vehicular pavements, open spaces and recreational areas.

There is a general consensus that infrastructure standards in Costa Rica are more demanding than in most Central American countries; the costs pose a problem which is especially acute for low-cost housing. For example, the minimum pipe size established by the Water and Sewerage Authority (A y A) for the potable water network is 4 inches when smaller pipes could be utilized. The system is designed for a capacity of 100 gallons per person per day while in Panama's low income areas, where water consumption should be greater because of climatic conditions, the criteria is 60 gallons per day. Costa Rica's design criteria may have been raised to compensate for inefficiencies in the system (e.g. water is lost due to the age and condition of the primary network), but the criteria are unduly high.

The agency which regulates electricity (ICE) has established a consumption criteria of 1.5 kilowatts for a low-cost housing unit. However, according to data obtained from a recent study of low cost housing, the actual consumption is only 0.75 kw. Thus, the ICE criteria demand greater transformers and cable gauges than required to service low income consumers. Furthermore, the regulations establish a height for utility poles (normally made of precast concrete) that exceeds adequate safety standards. Additional costs are associated with the excessive height of the poles and the resulting additional length of cable. These few examples are illustrative of areas where existing regulations could be modified. These standards are in various stages of review by the agencies charged with the authority to set design standards.

3. Construction Cost:

The typology presented in this Project Paper was based on the most common construction techniques, that is, concrete block walls, concrete slab at grade, corrugated zinc roof on wood trusses, and standard plumbing fixtures and electrical installations. The core unit is designed to permit expansion into a larger unit through progressive stages.

Two types of construction techniques are commonly used in Costa Rica for low cost housing units. The only fundamental difference between the two is in the characteristics of the exterior walls. The first type employs complete masonry walls made of concrete blocks which are roughly 4"x8"x8" or 4"x8"x16". Most of the time, those blocks receive a cement parging and paint. The second type consists of the construction of a masonry wall up to 3 feet (a zocalo) topped by wood siding up to the roof structure.

The most common housing in some of San Jose's low income areas uses wood siding and/or corrugated zinc panels. The wood trusses used are similar to those employed by formal sector builders and the roofing is of corrugated zinc or asbestos panels. Although wood siding is used, concrete blocks are preferred by builders because of their availability throughout the country. Due to seismic conditions, foundations laid by professional builders are made with reinforced concrete, and masonry walls are also reinforced and crowned by a concrete lintel beam. Foundation trenches are excavated by hand and the concrete is poured in situ with no forms. The floor is a concrete slab on grade which in some cases is finished with colored cement. The most common roof structure is a wood truss system rudimentarily prepared and designed to carry fiber-cement or corrugated zinc panels. Soffits and ceilings (when included) are of pressed wood panels and are painted. Fenestration is of wood and glass (imported). The most typical fenestration unit is an awning type window pivoted at center.

Construction costs in the provinces tend to be greater since most building materials must be transported from the San José Metropolitan Area to the construction sites. This offsets the savings obtained due to lower land costs. However, there appears to be greater flexibility and acceptability in the use of lower cost building materials to enclose the unit outside the San José Metropolitan Area. Since incomes tend to be lower in the provinces, lower cost solutions in those areas should be promoted more vigorously.

Some savings in construction can be obtained if construction practices were brought into line with the paying capacities of families with incomes below the median. For example, roughly 3% of the final costs could be cut by reducing the amount of reinforcing steel in the foundations and walls of the units to be built under this program. Alternative wall materials like clay blocks rather than cement blocks would contribute to additional cost savings. There has been resistance from cement block producers to the use of soil cement. It is about 50% less expensive than the cement blocks they produce. However, sales of cement block have declined substantially, partly due to the fact that costs of those blocks are rising rapidly, beyond the paying capacity of most Costa Rican families.

At present, a system is under investigation which utilizes a new type of material for walls which could greatly reduce construction costs. Called Panelacs, it consists of panels made from a mixture of cement, carton, paper fibers, rice hulls, and a very low percentage of asbestos. The panels can be tailored to most standard housing dimensions. This modular system could result in a reduction of as much as 25% inn construction costs for a core unit. It is being subjected to a variety tests for wind and earthquake resistance with very satisfactory results. During the implementation of the proposed program, technical assistance will be provided to assist in the introduction of cost savings in construction techniques referenced in this section.

4. Inflation:

Inflation has severely impacted the construction material price index, though it is not clear how much the construction industry itself has contributed to current inflation rates. According to the Central Bank, the annual growth rate of the consumer price index was 18.5% in 1979 (base year - 1978). That rate rose to 21.01% during 1980, and it was estimated to be 102.69% for 1981.

Information for 1982 indicates that the rate of inflation in the construction sector has been rising at about 5% per month since the beginning of 1982. The fact that the construction sector is operating at 35% of capacity will have an impact on future inflation in the sector. Recent evidence indicates that price increases are slowing. For example, competition among builders has been so intense that the bids for the sites and service projects financed under the HG-006 program were below the estimates made by INVU staff.

Cement comprises 38% of the building materials used in the construction of low-cost housing. Cement manufacture has a high-energy consumption rate, with energy representing 35% of the total production costs. Changes in oil prices, which have recently increased, will tend to push up costs. Cement is expected to be abundant due to the lack of construction activity. However, this underscores the need to seek new materials in constructing shell houses.

D. Construction Sector Employment

The creation of jobs in light of the serious economic conditions of the country is a high GOCR priority. The construction industry has suffered the most dramatic economic setback of all sectors. While it represented 6.4% of the GNP in 1979, the Banco Central estimates that for 1982, it will represent only 2.3% of GNP. Unemployment indexes for the construction industry are greater than those for the country as a whole. In 1981, for instance, the unemployment rate for the industry was already 14.0%. The HG Program will result in modest improvements in the performance of the construction sector over the next four to five years.

E. Environmental Considerations

The IEE negative threshold decision has been reached through the examination of the different elements of the program. However, it should be stressed that the housing project delivery system now in place in Costa Rica (including the savings and loan system), applies environmental measures such as prevention of soil erosion, maintenance of the water table, etc. (See Annex VII)

IV. SOCIAL SOUNDNESS ANALYSIS

A. Target Population

While wages have increased at a rapid rate over the past few years, the economic well-being of the population has steadily eroded. Because of redistributional policies of the government, however, the real income of the target population is being eroded at a slower rate than that of higher income groups whose real incomes are being subtantially reduced.

The most recent median income figure (C/.6,250) was established in December, 1981. While this figure will be used through 1982, it will need to be adjusted annually until new census data becomes available, perhaps in 1984. Because of the lack of reliable data on household income for all of the countries in Central America, a methodology based on national accounts was developed by the National Savings and Loan League for AID/ROCAP, which was applied by the Banco Centroamericano de Integracion Economica (CABEI), establishing median household incomes for various countries, including Costa Rica. The calculations for Costa Rica are as follows:

Percentile	Monthly HH Income	Payment Capacity (25%-30%)
50th	C/.6,250	C/.1,562.50-1,875.00
40th	C/.5,000	C/.1,250.00-1,500.00
25th	C/.3,800	C/. 950.00-1,140.00

As was noted in the technical section on the typology, the serviced lot (with estimated monthly payments of about C/.900) is within the reach of the 25th percentile, although additional funds for construction could not be made available immediately. An appropriate target population for these lots will be squatter families who have an existing structure, however crude, which can be relocated to the site. Over time, permanent constructions would be made.

The core unit of $20M^2$, with estimated payments of C/.1,790 is affordable at a level slightly below the 50th percentile, and the intermediate unit (lot with loan for materials) will reach families between the 35th and 40th percentiles. One target population for these units would be renters who do not have materials of any kind at hand, and who would require a minimal structure at the outset of the progressive development process. Renters represent about 30% of the middle and low income families in many urban centers. While survey data is limited, preliminary figures for the Metropolitan Area of San Jose indicate that for the target group (with incomes over C/.3,500 and under C/.7,000), about half use at least 25% of their monthly incomes for rent; while the lowest income groups tend to pay proportionately higher amounts, about 15% of the families in the indicated income range dedicate 30-40% of their incomes to rent. The data seem to indicate that hard economic times are changing the proportion of income a family must budget for housing. Also, families usually are more willing to sacrifice for ownership rights than in a rental situation. Based on these considerations, a more flexible formula may be used in determining capacity to pay, of up to 30% of household incomes for families purchasing the basic core units. Families purchasing serviced lots should spend a proportion closer to 25% of their income in order to have a margin for savings and future constructions.

The last component of the project, home improvement loans, is designed for home owners. Because of the variable loan amounts, it can reach a wide range of income groups. A number of housing officials in Costa Rica believe that this component will have a very high level of demand. See Sub-section B.3. for a discussion of on-going programs of this kind.

B. The Demand for Low-Cost Units

As indicated previously, Costa Rica has virtually no experience with the progressive development strategy, except through the informal housing sector. The units previously constructed for low-income families all have been complete houses, with a gradual reduction in constructed area and level of finishing. The core unit, therefore, is an experiment in the context of Costa Rica, much as it was a few years ago in other countries.

Since progressive development models have not previously been built in Costa Rica, concrete demand data are not available,e.g. number of core units sold, number of eligible applicants for lots, etc. To estimate demand, a number of secondary sources must be used. Various lending and savings programs were reviewed. Also, a study was commissioned to measure interest in the types of solutions proposed under this program. The information from these various sources is presented in the following sub-sections.

1. The Demand Study

Since the new HG Program will introduce an entirely new typology, a study was proposed to assess the interest of low-income families in the types of units designed for HG 007. A nation-wide sample survey was carried out in July, 1982, based on the sample used by the Direccion General de Estadistica y Censos for its series, "Encuesta Nacional de Hogares".

The survey was limited to urban families, with incomes below the median, and the sample was further reduced because of resource limitations. A total of 1,315 families were surveyed; the distribution of the sample reflects the distribution of urban households nation-wide,i.e. about 80% of the surveyed families live in the Central Valley, and 20% in outlying provinces. The study does not pretend to provide statistically significant results on demand. Rather it should be considered as an initial sounding of the receptivity of families to the progressive development strategy.

The survey team gathered basic data on housing conditions, tenure, and income. In the case of non-owners, interviewers presented two of the housing alternatives planned for HG 007: the core unit and the serviced lot. (The middle-cost alternative of a serviced lot plus loan had not been formulated at the time the questionnaire was designed.) Because of the lack of core unit models in the country, a visual aid was used to explain that solution type. Property owners were questioned regarding interest in the home improvement loans program.

In order to have information for this Project Paper, a preliminary report was prepared on selected variables. The final report of the study will be available in August, 1982. The analysis of the key variables is provided below. It should be noted that totals differ slightly since all families did not provide information for every variable.

a) Income, Tenure, and Disposition to Pay

Although the sample was selected from households with incomes at or below C/.6,250 per month, about 13% of the families indicated incomes above that level. This may be due to problems with the original sample, to increases in wages since the original sample was drawn (Nov. 1981), or both.

Distribution of Income of Sample Families

HH Income	No.Cases	% Sample	National %ile
less than C/.2200	260	25.0%	20th
C/.2200-3499	228	21.9%	25th
C/.3500-5299	290	27.6%	40th
C/.5300-6500	120	11.6%	50th
more than C/.6500	139	13.9%	--
Totals	1,037	100%	

The survey provides the following breakdown on the tenure of sample families.

	No.	%
Renters	482	39%
Owners	640	52%
Neither renters nor owners	109	9%
	1,231	100%

Renters were asked how much they currently pay per month. Also, families were asked to estimate how much they could pay if they were to participate in a new housing project. Since non-owners tended to answer the latter question more than owners, the respondents for the two variables are more or less equivalent.

Level of Payment	Actual Rents		Payment Capacity est. by families	
	No.	%	No.	%
less than C/.500	143	29.7%	109	20.7%
C/.500-999	196	40.7%	197	37.4%
C/.1000-1499	82	17.0%	107	20.3%
C/.1500 or more	61	12.6%	114	21.6%
No. Cases	482	100%	527	100%

The table indicates that families are willing to pay more for a new solution than they currently pay in rent. About half of the families estimate payments equivalent to those contemplated under HG 006.

b) Interest in Housing Loans

The owners who were surveyed were asked whether they would be interested in a home improvement loan, with an approximate payment of C/.1,000 (a loan of between C/50-60,000). Non-owners were asked about interest in either a serviced lot with estimated payments of about C/.700 per month or a core unit with payments close to C/.1,500. These amounts are slightly lower than the estimates provided in the technical section since they were calculated at 21% interest, instead of 23.5%. The differences, however, are not considered large enough to have affected the results to any large degree.

Level of Interest of Owners in Home Improvement Loans

	No.	%	
Very Interested	113	17.7%	40.2%
Interested	144	22.5%	
Will think about it	140	21.9%	
Indifferent	22	3.4%%	37.9%
Not Interested	221	34.5%	
No. Cases	640	100%	

A solid 40% of the respondents expressed interest in home improvement loans. The category "will think about it" should also be considered as demand potential since a number of these families could become interested in home improvement loans at a later time.

For the families who expressed lack of interest, 30% were not in the market for a loan because they were not planning any improvements on their homes in the near future. Another 31% felt the payments were too high, and the rest of the families expressed personal reasons, or did not explain.

Renters and other non-owners were questioned about both the serviced lot and the core unit. Therefore, to some degree the data measures the elasticity of demand as the monthly payments rise according to solution type.

Level of Interest of Non-Owners in Serviced Lots and Core Units

	Lots			Core Units		
	No.	%		No.	%	
Very Interested	105	17.8%		53	9.1%	
			45.5%			22.6%
Interested	164	27.7%		79	13.5%	
Will think about it	116	19.6		126	21.7%	
Indifferent	24	4.1%		18	3.1%	
			34.9%			55.7%
Not Interested	182	30.8%		306	52.6%	
	591	100%		582	100%	

Reasons for Lack of Interest

	Lot	Core Unit
High Cost	24.0%	54.0%
Program Design	29.6%	18.6%
Other	46.4%	27.4%
	100%	100%

When families were asked about core units as opposed to serviced lots, the category "Will think about it" and "Not Interested" increased significantly. Higher cost, rather than program design, explains the changes in level of interest, which seems to indicate that low-income families are open to the progressive development strategy if they feel they can afford the units. This contradicts the contention that expectations are too high for the minimum solutions to be acceptable. The category "Will think about it" is of particular importance for new projects since the demonstration effect will persuade many families to apply.

Although interest dropped for the core units, the expression of explicit interest by 23% of the families is significant. Since cost seems to be the critical variable, it is possible to extrapolate from the responses on lots and core units and assume that about one-third of the families would have expressed interest in the middle-cost alternative of lot and loan. This assumption is supported by the responses of families to a hypothetical case in which the solution cost was maintained, but monthly payments varied with changes in interest rates (19%, 21%,25%). The rate of interest was not mentioned, therefore families reacted solely to the monthly payments. In synthesis, the following relationship was demonstrated.

Payment Level:	1	2	3
Level of Interest	43%	32%	22%
High Cost as Reason for lack of Interest	19%	29%	38%

c) The Image of the Savings and Loan System

Survey results support the observation that the mutuals have a low-profile image among lower income groups. Families were asked if they had ever made contact with an institution which finances housing. Those who answered affirmatively were asked which institution they had approached. The results were as follows:

Contact with Housing Institution

YES	31.6%	(407 cases)
NO	68.4%	(881 cases)
	100%	(1,288)

Institutions Contacted (in affirmative cases)

INVU	41%	
Banks	30%	(Banco Popular represents 8%)
IMAS,CCSS,INS, etc.	20%	
Associations	9%	
	100%	

Although SNAP's lending for low-income families has equalled or surpassed that of INVU in many years, the target population does not have a high level of awareness of the associations. This is one of the principal areas which will be addressed by the HG 007 program.

2. INVU's Applicant Backlog and HG 006

INVU stopped accepting applications through normal channels in early 1981 since it, along with all public institutions, did not have units available for financing. It does, however, accept applications for special programs, HG-006 included. Quite a large backlog of applications exists for different kinds of programs which are detailed below. The mutuals do not have a backlog; they accept applications only if the prospects are good for making a loan. INVU, therefore, provides a better source of information on existing demand. The home improvement program will be discussed in the next sub-section.

Status of Applications/INVU May,1982

Housing Units(1)		
San Jose	1,712	"Active"
	2,542	"Inactive" (Without Savings)
Limon	385	
Puntarenas	620	
	5,259	Sub-Total
Serviced Lots (006)		
San Jose	1,962	
Various(2)	4,888	
	6,850	Sub-Total
"Unserviced Lots"(3)		
Puntarenas	390	
Cartago	357	
	747	Sub-Total
Credits and Special Projects (4)		
	2,675	Sub-Total
TOTAL	15,531	

(1) While savings are not officially required under the regular mortgage financing program, the projects include a 10% downpayment. Therefore, if applicants do not have sufficient savings to cover a downpayment, they are considered "inactive". INVU has not had the capacity to update its files which means that many applicants, even those considered "active", have been in the system for years. A computerized system is being considered for the near future.

(2) The second group in the serviced lots category (4,888) has an uncertain status since it has been organized nation-wide, and the feasibility of serving these families has not been determined as yet.

(3) The category of "Unserviced Lots" is a response to invasions of INVU-owned land. Arrangements have been made with the families for the purchase of the land, although no plans have been made for the installation of infrastructure. These projects represent a semi-legal operation when standards and norms are considered, and have caused considerable controversy for the institution.

(4) This category includes rural credits, credits made under the Savings and Loan program , and "Proyecto Fenix" which is a group of families who are plaintives in a legal action with a developer.

3. Home Improvement Loans Programs

INVU's Home Improvement Loans Program (component of HG 006) is specifically for families with incomes below C/.6,250. Loans can be made for amounts between C/.10,000 and C/.60,000, at 19%, for up to ten years.

On May 27, 1982, INVU began a publicity campaign for the loans program, using radio announcements, and leaflets distributed through schools. In a month and a half, about 450 families had registered. (More approached INVU, but were turned away because of incomes over the required level of C/.6,250.) The majority of these families applied for the maximum amount of C/.60,000.

INVU's Home Improvement Loan Applications
(as of 6/27/82)

Loan Amounts	% of Applicants
C/.60,000	61.7%
40-50,000	17.6%
25-35,000	12.6%
10-20,000	8.1%

Given the response to the program, INVU estimates that it can make at least 3,000 loans per year under this program.

C. The Participation of Women

While no legal restrictions exist for the participation of female headed households in the housing programs of the various institutions, this group represents only a fraction of the borrowers within the savings and loan system. Within the population as a whole, almost 11% of all households are headed by women, and the proportion is even higher in urban areas (17.7%). While a noteworthy sub-group, there are real limitations on the participation of female heads in the HG 007 Project. Lower wages, and a prevalence of single-earner households, place this group solidly below the 25th percentile, which precludes participation for the majority, except for home improvement loans which will reach lower income groups.

V. INSTITUTIONAL ANALYSIS

A. DECAP

1. Background

On May 12, 1969, the National Savings and Loan System was created by Law No. 4338 which designated the Banco Credito Agricola de Cartago (Agricultural Credit Bank of Cartago) as the headquarters for the system which, in turn, created a special savings and loans department (DECAP) to oversee this operation. The law specifies that the principal objective of the system is to

stimulate public savings and housing investments, for families with low and middle-level incomes. Activities are directed at financing new units, and the improvement, expansion and conservation of existing structures. The law specifies the responsibilities of DECAP toward the system: guaranteeing savings and mortgages, setting reserve levels, administering mortgage insurance, regulating lending activities and other operations, generating resources and establishing the requirements for membership in the system. DECAP also has the responsibility of providing technical assistance.

Besides the Associations themselves, DECAP is authorized to work with approved institutions which include INVU, commercial banks with mortgage departments, and other legally constituted entities which channel resources toward the financing and development of housing which meets DECAP's requirements. DECAP has played a major role in mobilizing resources for housing by attracting external resources from private and multilateral lending agencies. It has also developed a financial instrument, the mortgage participation certificate, which has proved to be an effective vehicle for attracting external and internal investments in housing. Most of these resources have been channeled to the associations of the system.

2. DECAP's Administrative Structure and Performance

DECAP has a total of 26 staff members, including the Executive Director, four security guards and two general office workers. The activities related to auditing and inspection of the various associations are carried out by two staff members of the Banco Credito Agricola de Cartago. The Bank also provides support services in legal matters, statistical analyses and financial projections. It charges DECAP for any direct costs incurred,e.g. travel and per diem, and an annual percentage for these support services.

With the current staffing level, including the indirect support from the Bank, DECAP has been able to satisfactorily carry out its functions in providing financing to associations, generating savings directly, and providing FHA insurance. Approximately 800 operations are monitored monthly from the associations and approved institutions. The only current plans to augment the staff involve a proposal for a small data processing team which may be hired in the near future. The conclusion of the internal review team is that the staffing pattern and levels of DECAP are adequate for its participation in the HG program.

3. Changes being made by DECAP

While much remains to be done in restructuring and strengthening the savings and loan system, DECAP has begun to make important operational and policy changes. A computer system is being installed which can be used to analyze financial costs and interest rate policies, to program activities, and to measure the achievement of program targets. DECAP has raised interest rates on mortgages with variable rate provisions, established higher interest rates for new mortgage and home improvement lending and reduced the amortization schedule by half.

The body of regulations governing the system is under review. There are limitations on the system which would require the introduction of new legislation to the Legislative Assembly to have existing provisions modified. To cite a few of these limitations: the associations can only provide credit on an individual basis to persons who do not own property, with the exception of housing cooperatives in which case multi-unit projects can be financed; credit can only be provided to a person who will be the first occupant of a house,i.e. exclusively for new units; the interest rates for savings passbooks must conform with those established by the Central Bank for the commercial banking system.

In general terms, DECAP has used a conservative approach in the past to the financial management of the system. The circumstances in which it now finds itself require a somewhat more aggressive and experimental approach. The changes which are being made in the system reflect the need for creative problem solving.

Measures taken and in effect:

- Variable interest rates;
- Graduated payments;
- Elimination of restrictions on home improvement loans (previously only 20% of monthly loan volume);
- Reserve systems on home mortgages for the cancellation of interim financing of developers;
- Purchase of land and the advancement of funds for project development;
- Second mortgages
- Short-term investments with high returns which maintain liquidity.

Measures under Consideration

- Mortgage refinancing;
- Trust accounts.

Measures which require legal changes

- Consumer loans;
- Interim financing for construction;
- Financing of commercial construction;
- Financing rental units.

4. Problem Areas to be Addressed by the Program

As has been noted, DECAP has attracted resources from international institutions over a long period and channeled them to the system. The conditions of the lending were such that administrative costs were added to the cost of resources which flowed to beneficiaries for mortgage and loan financing. As long as the economic climate was stable the system worked

well. The events of the past few years have to a large extent exposed weaknesses. The system has not been backed up by any financial planning framework to take into account future sources and costs of resources, promotion and expansion of the system, and strategies to be adopted as conditions changed. The system was so committed to fulfilling its mandate of home ownership for lower income families that it failed to maintain control of its financial base.

This explains recent shifts in policies and practices which to some extent were extreme reactions to a deteriorating financial condition. For example, although variable interest rates were established in 1979, they were applied for the first time in March, 1981, at which time the rates of affected mortgages were raised from between 16% and 18% to 21.75%, some at fixed rates and some variable. The fact that the rates were increased so much in one step produced an unfavorable public reaction which undoubtedly would have been mitigated if changes had been made in smaller increments over time, with advance notice.

Recently, in an attempt to respond to the financial crisis facing the system, it was decided that the interest rates would be increased to 24% and 26% respectively for mortgage and home improvement financing. The mortgage term is for ten years, half of what it was before, and the improvement loan is for a maximum of five years. Monthly payments are beyond the capacities of most families due to the combination of higher rates and shortened term so the mutuals are forced to place resources in less productive investments and they have lost commission income. Those measures were carried out in the absence of medium and long-range goals, objectives, and policies to maintain the viability of the system.

Another weakness has to do with the lack of an orientation beyond financing housing. The associations vary widely in terms of what they attempt to do. They have lost sight of the need to promote an image for the system of serving various needs of the Costa Rican society.

Finally, more vigorous leadership is needed to manage the system. The problems of some of the weakest associations reflect inaction when problems first became apparent. To a degree, developing a planning framework for the system and monitoring the performance of the associations will permit a basis for exercising such leadership.

B. The Savings and Loan Associations

1. Past Performance and Volume

Over the years the savings and loan system has been a major contributor to the production of new housing units. While production has dropped in the past few years for all of the housing institutions in Costa Rica, the system is still the most important producer of new units when the major public and private institutions are compared.

SNAP has been a principle lender for low-income families in Costa Rica. First in terms of total volume of lending, the associations represent a significant proportion of all housing investments from all sources. In 1980, the lending by mutuals (C/.326,540,200) matched the investments made by all the public sector institutions combined.1/ The public sector housing loans in 1980 represented 20.8% of total investments, and the savings and loan system represented 20.1% of the volume of C/.1,626,324,000. The rest of the investments, almost half, was made by other private sector institutions and developers.

INVU is the most important of the public sector agencies, but its 1980 loans represented only 7.4% of total lending. INVU provides a good point of reference for measuring the production of the SNAP. In terms of units constructed, the performance of the Associations is even more impressive than when measured by volume of monies loaned.

	Total No. of Houses Constructed 1979 - 1981(est.)		
	1979	1980	1981(est.)
Total No. Units	17,939	18,149	15,438
% Share of Total			
Public Sector (INVU)	52.7% (13.1%)	34.1% (10.4%)	37.5% (12.8%)
Private Sector (SNAP)	47.3% (24.7%)	65.9% (20.8%)	62.5% (22.1%)

Source: Unpublished update of 1980 "Boletin Estadistico", INVU. The Private Sector includes developers as well as institutions.

1/ The public sector: Caja Costarricense del Seguro Social (CCSS); Institucion Nacional de Seguros (INS); Instituto Nacional de Vivienda y Urbanismo (INVU); Instituto Mixto de Ayuda Social (IMAS); and Banco Popular. Total 1980 investments of C/.338,397,000.

While INVU has an explicit mandate to provide housing for low-income families, the associations are not required to serve that population exclusively. Nevertheless, association officials express a strong moral committment to families with limited resources, and their lending practices bear out this committment. According to estimates made by the association, the largest part of the system's portfolio is made up of loans to families with "low" and "middle-low" incomes. Since the definition of "low-income" has changed so much over the past few years, and since the estimates of the associations are based on cumulative lending over the past decade, the following figures should be viewed with some caution. It is believed, however, that between 30% and 40% of the system's loans have benefitted families with limited resources, which matches or surpasses INVU's lending.

Est. % Loans (cumulative) made by Associations by Income Categories

Income Group	% Loans	Average Loan Amount
Low (Less than C/.1,400 per mo.)	34%	C/.30,368
Middle-Low (C/.2,000-3,500 per mo.)	49%	C/.72,926
Middle-High (C/.6,500-12,000 per mo.)	17%	C/.120,300-127,000

2. The Administrative Structure of the Associations

The overall organizational structures and administration of the various associations will need to be strengthened. The Mutual Guanacaste is in an extremely critical situation which needs to be addressed in the near future. Although the Mutual Puntarenas has been able to establish an adequate administrative capacity over the past year and a half with assistance from a team sent by DECAP, it will need substantial support during the development of the program.

Currently only Cartago has branch offices - Turrialba, and Limon, and a collections office in San Jose. The Mutual Alajuela closed its branch office in Quesada last year since the level of operations did not justify the administrative costs. The same may be true for Cartago since at the present time these outlying operations do not pay their way. (The opening of agencies or branch offices will be reviewed with the associations and DECAP, perhaps using as a base documents designed by the Mutual La Vivienda: "Criteria for establishing agencies", and "Functions of the branch office manager".)

In general, the associations have been conservative with regard to expanding staff, which has been a primary factor in keeping administrative costs low. According to the financial analysis of the system, all of the associations, with the exception of Cartago and Guanacaste, have been able to maintain administrative costs at a reasonable level. As noted above, Cartago's higher costs are due to its branch offices.

The compact nature of the system will facilitate any reorganization or adjustments which will be required by the HG program. It is expected, however, that staffing levels will need to increase, both because there are vacancies to be filled and because new activities will be introduced. The staffing level (as of June, 1982) is as follows:

Staff Positions
Associations:

Staff Position	La Vivienda	Heredia	Cartago	Alajuela	Puntarenas	Guanacaste
Manager	1	1	1	1	1	1
Asst.Manag.	1	1	1	1	-	-
Finance or Managem.advisor	-	1	1	-	-	-
Ext.Auditor	1	1	1	1	1	1
Short-term Consultant	2	3	8	6	1	3
Appraiser/ Consultant	2	2	2	4	1	1
Accountant	1	1	1	1	1	1
General*	33	26	39**	22	6	7
Perm. Staff	33	29	42	25	8	9
Ext. Advisors	6	6	11	12	3	5

*Includes staff working in accounting, cashier windows, in loan analysis, secretaries, general office workers, etc.
**Includes 12 staff members of branch offices.

The managers of the associations and many of their staff members have extensive experience. Although staff training will be needed in new operational areas, the quality of the staff is excellent which would indicate that technical assistance will be readily absorbed. With the exceptions of La Vivienda and Cartago which have developed special units for technical supervision of projects, the associations have not developed internal capabilities of this kind, relying instead on short-term contracting of professional services for specific projects. This is one area where new personnel may be needed.

3. Problems to be Addressed

a) Promotional Activities

Previously it was not necessary to expend a great deal of energy in promotional activities either for the borrowers or for project developers because demand was always high and because the types of solutions offered by the associations fit the expectations of the borrowers. Current circumstances dictate that the market be aggressively sought, both for savings and lending. Since the project's shelter solutions are new and possibly less attractive than previous unit types, it will be important to promote the new solutions before and while projects are under construction. The association will need an efficicient loan processing procedure to insure the rapid sales of units when they are finished, and to reduce financial costs at the same time.

Actions must be taken by each association in its dealings with project developers, borrowers, and potential borrowers, and savers. New techniques must be developed for the dissemination of information to the general public, and the associations must develop their capacity to deal with community organizations. Market studies will be needed to determine the expectations and attitudes of the general public to the services provided by the associations, in order to design better strategies for serving them. Specific action plans will be implemented for each aspect of the program, with strategies to promote new projects and motivate savings,e.g. advertising the diverse services offerred by the association to clients and stressing other positive aspects like the FHA insurance. Also, segments of the population must be analyzed to tailor programs to their specific needs.

b) Savings Generation

The system has not aggressively attempted to increase regular savings, except for some isolated programs at the local level. Although the other associations have begun to make greater efforts in savings, the Mutual Heredia is the only association which has an exceptional record in opening new accounts. It has designed a program directed specifically at elementary schools, with educational material which is used to motivate savings. Although other sectors may have greater potential for the generation of savings, this program provides an interesting example for future promotional campaigns. Also, the school program has indirect benefits in that it raises awareness of savings in the households of the students and raises the image of the mutual within the community. Various types of campaigns are possible within different socio-economic strata using a similar approach.

Most S&Ls in Costa Rica have ignored regular savings as they have oriented their resource mobilization through such instruments as mortgage participations and time deposits. After thirteen years only 4.5% of the free savings market has been affected when most other Latin American countries with the maturity of Costa Rica's system have captured 15% to 25%. The S&Ls and DECAP need to design a free savings strategy that can increase market

penetration. This can be achieved by three approaches: 1) the implementation of a marketing plan that will attract low cost savings; 2) the design of lower cost savings instruments; and 3) the diversification of lending and expansion of operations to promote the system on the basis of services it offers.

The implementation of a marketing strategy will be carried out by the associations and supported by the technical assistance program. Such a plan will analyze the savings market in terms of the socio-economic characteristics of the population and those potential savers that could be attracted to place savings in the system and how. The associations have already begun to work with organized groups such as labor unions teachers groups, and school students to promote savings. One association has successfully initiated a school savings program. Since 1979 the S&Ls have increased penetration from 3.37% of the savings mass to its current 4.5% level but they are aware more can be done. In addition to promotional and publicity capmpaigns, accessibility needs to be improved. This can be achieved by allocating specialized staff to work on savings, opening longer hours, setting up low cost operations on part time bases (e.g. one S&L has worked out an agreement to use space in a large supermarket on Saturdays) and developing incentives for groups and individuals to save with the system. This type of strategy needs to be initiated on an organized basis by all the associations to pursue this market.

c) Organization and Methods

There has been a variety of problems related to the internal flow of information. Loan applications are not properly completed. Processing of loans and mortgages takes an average of 15 days in some associations, in others as long as two to three months. Collection procedures need to be coordinated internally to reduce late payments and related financial costs. The allocation of resources, human and financial, must be analyzed in terms of the orientation of the program to promote savings and new shelter solutions. Finally, internal management coordination between stated policies and day to day operations needs to be analyzed and control procedures developed and implemented.

Another important area is the need to attract lower cost resources by developing new instruments and reexamine regulations on current passbook accounts. For example, relatively small deposits with amounts of $1,000 or more have access to time deposits. Such regulations could be reexamined to require higher minimum deposits. Or the system can implement new instruments such as NOW accounts or sight deposits which could rates equivalent to or higher than passbook accounts but below the more expensive time deposit. Technical assistance will be provided to address this issue in the context of Costa Rica's current financial structure and the possibilities that exist.

Finally the dimension of activities undertaken by the system if broadened will bring more people through the doors of the associations. Some associations are making arrangements with utility companies for people to pay

their bills. A broad range of activities beyond diverified lending could bring more people through S&L doors which will enable the promotion of the system that provides a variety of services, not just mortgage financing.

C. The Developer

The SNAP has collaborated over the years with approximately fifteen private developers who operate in Costa Rica. Normally, these developers identify interested clients and present them to the association for financing. Construction financing is obtained ususally from commercial banks. It is the private developer who is responsible for all aspects of marketing and construction, including the acquisition of necessary permits and approvals, and the S&L system then finances the purchase of the solutions. Conversations with representatives of a number of the construction firms indicated that they could and would be willing to produce the low cost solutions required given the proper program framework under which they could be assured of the take-out financing and support from the financial institutions. Five firms already have acquired sites in five separate cities in the metropolitan area and are designing projects that can be made consistent with the solution guidelines developed for this program. These projects exceed 1,000 units. Acceptability on the part of the builders does not appear to be an issue. (See Annex VI for details related to constructing solutions) The S&L while recognizing that lending to the lower income families may present some additional problems for credit analysis and qualification, recognize the need to undertake both a promotional and project qualifying role and the mortgage generation for the lower standard units.

VI. FINANCIAL ANALYSIS

A. Economic Analysis

1. Current Economic Situation

The rate of economic growth in the Costa Rican economy declined in each year after 1977, with GDP dropping about 3% in 1981, and a further decline of about 4% projected in 1982, perhaps bottoming out. The economy is suffering its worst crisis since the 1930's and recovery through the 1980's is possible only if economic stabilization and austerity policies are implemented soon. A large external debt must be slowly reduced and a huge internal public sector deficit must be trimmed more quickly and drastically. Inflation and unemployment were high in 1981 and will be worse in 1982. The moratorium on external credit from foreign commercial banks and suppliers in 1981 forced a 22% drop in imports in nominal terms through a devaluation of over 200% from January to December. Export performance held up in spite of serious problems in the Central American Common Market (CACM). The current balance of payments improved, partly due to nonpayment of interest. The capital account decreased because of capital flight and the lack of commercial lending. The central government's fiscal situation improved in 1981, but the deficits of public sector agencies increased. As a result, a greater percentage increase in

credit from the national banking system went to the public rather than to the private sector. The Government of Costa Rica (GOCR) reached an agreement for a three-year Extended Fund Facility ($330 million) with the International Monetary Fund (IMF) in June 1981, but did not meet the first set of economic targets.

The economic outlook for 1982 is a deepening of the adverse trends of high inflation, unemployment and recession evident in 1981. The same low level of imports in real terms will prevail, but there should be improvement in the capital account and greater stability in the exchange rate. The major economic problem for 1982 is the huge public sector deficit of over 15 billion colones. Cutting this deficit is the primary task of the new government. The new economic team is implementing painful but required economic austerity measures, as a basis for negotiating a one-year standby agreement with the IMF. Such steps are a sine qua non for laying the bases for gradual economic recovery.

2. GOCR Capacity to Pay

a. Overall Situation

Official capital inflow in 1981 was $257 million net, mainly from multilateral and bilateral sources. Commercial bank lending to the public sector, except for $31 million in short-term loans early in the year, was virtually non-existent. Banking credit to the private sector and suppliers was gradually reduced or cut off during the year. The GOCR stopped interest payments in September and principal payments in July. The GOCR has held three meetings with a Steering Committee of private banks, chaired by the Bank of America, to try to reschedule the $1.1 billion in outstanding debt. Some progress has been made towards reaching an agreement. The GOCR proposed that principal on short-term loans be converted to five years, with three years grace, and medium-term loans to ten years with five years grace. Interest payments due over the next five years would be converted to new loans. For their part, the banks want full interest payments and a GOCR-IMF agreement. The debt rescheduling proposal underlines the fact that the debt will be a serious burden for the economy for years to come.

Even if Costa Rica successfully negotiates a rescheduling of its public external debt to reduce its service payments, maintenance of real GDP at the 1981 level during 1982-86 would require large foreign exchange inflows to cover growing resource gaps over that period. If increasing levels of capital infusion do not materialize, imports (and national production) would contract and/or debt service payments be stretched out much further. In this context, the contracting of the loan under this program should be phases so that it would not be included in a debt rescheduling which could, otherwise, materially affect the HG reserve fund.

DECAP itself is not liable for the foreign debt incurred in support of the system. The Banco Agricola de Cartago is responsible to foreign lenders for debt repayment. As part of the overall agreement being reached with foreign investors, the Central Bank will make payments to the creditors of the Banco Agricola de Cartago.

b. HG Program

A $20 million HG would amount to less than 1% of the estimated public debt. Because of the current situation of the economy, the GOCR will be hard-pressed to repay obligations over the next few years. The long-term nature of a HG Loan and its grace period will reduce the impact of repayments during that period. Despite these problems, the GOCR has been current on its AID payments. Approximately $2.5 million in payments will be made this year. Payments on the HG-006 in the amount of $979,631 have been made.

B. Financial Condition of System

1. DECAP

The actual financial position of DECAP is favorable while at the same time being a problem. DECAP has a high level of liquidity in productive investments that resulted in earning of C/.6 million during the month of April, but it had to adjust its books by C/.430 million due to an adjustment for devaluation which cannot be supported by its current mortgage portfolio. The Central Bank, as guarantor for DECAP's obligations, must assume responsibility for this adjustment. Furthermore, DECAP is faced with a situation of a negative return on a fixed rates portfolio, while the resources used for that portfolio are at a variable rate which is rising. As soon as DECAP's excess liquidity is used for pending payments on its external debt, the balance will quickly become negative.

Leaving the adjustment for devaluation aside, DECAP's liability structure has been financed in the following manner.

Internal markets	147,471	14%
National Organizations	337,835	32%
International Organizations	577,221	54%
Total	1,065,527	100%

Of these total resources, 52% is at a variable rate, almost two-thirds of of which is debt contracted with international institutions. Only 27% of its variable rate debt is covered by variable rate mortgages which is one of the principal causes of the deterioration of DECAP's financial position.

In the last three years, the cost of funds has risen 30%, from 10.16% in 1979 to 13.06% in April, 1982. These increases have been related to rapidly accelerating costs of internal resources, that is, renewals and new investments in six-month time deposits which now cost the system over 21%.

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DECAP's asset structure currently amounts to C/.989,945,000 consisting of participations from approved institutions. The yield of this portfolio is 13.69% which is insufficient to cover its actual financial expenses, 13.77% (a .08% negative spread). Were operational and financial expenses to be combined, the yield would have to be 15.17%, or 1.48% over the actual yield for DECAP to reach a point of equilibrium.

2. SNAP

The associations also are experiencing a very delicate situation by virtue of their recent losses and a substantial reduction in their productive activities, primarily due to the economic change facing the country. At the same time, the system lacks the capacity to deal with these changes due to deficiencies in operations and market orientation. The HG program is crucial to breaking the financial decline and producing needed strutural changes to strengthen the system.

The Costa Rican system, like most mutual savings and loan systems, tends to ignore financial costs. Rather they emphasize commissions and other income to maintain a positive financial result. However, the decline in lending, coupled with the rapid increase in the costs of money, has forced the system into a loss situation in net income and worth. At present, all the associations are experiencing net worth and income problems despite vigorous efforts to reduce operational costs.

While 1979 earnings increased by C/.4 million, by 1981 the system had lost C/.8.5 million; in the first four months of 1982, another C/.6 million were lost. The accumulated losses for the associations is projected to be over 21 million colones by the end of 1982. Drastic, immediate action is needed to generate productive activities with a sufficient margin, and utilize total capacity. Traditionally external debt and the discounting of mortgages through DECAP was the primary vehicle for obtaining funds. However, economic conditions and the corresponding exchange problems render this option improbable and not recommendable. The transition to greater dependence in local markets for resources can only be gradual and is a key element of the HG program.

C. Financial Impact of Program

1. DECAP

The program has been designed to eliminate one of the most serious problems affecting DECAP which is their heavy reliance on high cost external borrowing. DECAP will receive the equivalent in local currency of the U.S. dollars provided to BCCR, at the inter-bank rate of exchange which is presently US$1 to C/.38. Because of the terms of the loan from BCCR (10 years grace, 25 years repayment), the HG resources will have an effect on DECAP similar to a seed capital loan which DECAP will rollover a number of times in its dealings with the associations.

The following financial projections of the effect of the HG resources, combined with other resources generated internally by DECAP, have taken into account the terms of the BCCR loan to DECAP and the rate of interest from DECAP to the associations (18%).

TABLE VI.1

FINANCIAL PROJECTIONS: DECAP
(000,000 DOLLARS)

NET INCOME

INCOME	JUNE 83	DECEMBER 83	JUNE 84	DECEMBER 84	JUNE 85	DECEMBER 85	JUNE 86	DECEMBER 86
Interest Investments *	0.10	0.13	0.12	0.12	0.11	0.11	0.11	0.13
Interest Loans	2.17	2.31	2.55	2.80	3.03	3.17	3.22	3.27
Commissions	0.04	0.04	0.05	0.05	0.05	0.05	0.05	0.06
TOTAL	2.31	2.48	2.72	2.96	3.19	3.33	3.38	3.45
EXPENSES								
General Expenses	0.18	0.21	0.22	0.24	0.25	0.26	0.28	0.29
Financial Expenses	2.12	2.25	2.45	2.65	2.85	2.97	3.00	3.04
TOTAL	2.30	2.46	2.67	2.89	3.10	3.23	3.28	3.33
Net Income	0.01	0.02	0.05	0.07	0.09	0.10	0.10	0.12

2. The Associations

a. Mobilization of Resources

The effective cost to the system of internal resources rose from 12.01% in 1979 to 18.48% in 1982, a 54% increase. The liability structure of the system has been one of the reasons for this large increase. There is no question that individual savers have become conscious of the need to seek a higher rate of return on their deposits. However, the system has failed to establish specific measures to control the amount of resources generated through time deposits which are costly. For instance, high yield interests are paid for certificates of deposit with amounts as low as US$1,000.

The HG program will seek to improve the liability structure of the system and to increase their share of the regular savings market. Toward this end, the program demands that the system generate at least $4.8 million in passbook savings, out of total counterpart savings of $12.0 million. The cost of such resources has been estimated at 8% for the projections made in this Paper. At the present time, the system holds more than 60,000 individual accounts (passbooks) earning around 8% in interest, which is a major reason why the system has not had even greater operational losses.

In terms of tapping the overall savings market, the system will be required to increase its present share of about 4.5% to approximately 15%. There is a considerable savings market in Costa Rica, demonstrated by the fact that at the end of 1981, the National Banking System had attracted C/.1.44 billion, a 10% increase since 1979. At the same time, the system was able to attract the equivalent of only 4.5% of the resources held by the National Banking System.

A gradual approach will be required to penetrate the savings market, with particular attention to the lower cost resources in that market. The Program objective is to achieve, by the time of the last HG disbursement, $12 million in local savings with approximately $4.8 million in passbook savings and the balance in time deposits. The following presents an illustrative projection for the generation of the local savings:

Year	% Passbook Savings ($4.8 million)	% Time Deposits ($7.2 million)
1983	15%	30%
1984	25%	40%
1985	40%	20%
1986	20%	10%

The target is to reduce the system's internal cost of resources from 18.48% for 1982, to 15% by 1986.

b. Mortgage and Loan Rates

The active lending rate projected for the program has been estimated at 23.5%. This rate will be adjusted as required, according to the system's financial costs of resources. Adjustments will be possible by using the standard readjustment clause included in all loans and mortgages executed by the savings and loan system.

The rate of interest used for the design of the program was based on a careful examination of the financial and administrative costs of DECAP and the associations. This process of setting rates in accordance with a continual review of resource costs will be stressed and supported throughout the program's implementation stage.

The active rate for the program (23.5% est.) combined with the planned reduction in costs of internal resources (from 18.48% currently to 15% in 1986) should provide an ample financial and operational margin for the system.

D. Consolidated Financial Projections for the System

The next table provides information on the consolidated balance sheet and income statement.

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TABLE VI.2

FINANCIAL PROJECTIONS: SNAP (IN US$ 000.000)

NET WORTH.

ASSETS.	JUNE 1983	DECEMBER 1983	JUNE 1984	DECEMBER 1984	JUNE 1985	DECEMBER 1985	JUNE 1986	DECEMBER 1986
Liquid Assets	2.67	3.01	3.30	3.59	3.9	4.21	4.46	4.85
Loans	38.71	42.79	46.64	51.23	54.45	56.47	58.66	61.46
Fixed Assets	0.44	0.49	0.54	0.58	0.72	0.91	0.96	1.01
Other Assets	1.89	2.01	2.08	2.16	2.36	2.5	2.63	2.76
TOTAL	43.71	48.30	52.56	57.56	61.42	64.08	66.71	70.08
LIABILITIES								
Deposits	17.42	19.64	21.58	23.53	25.56	27.62	29.33	31.91
Decap Advances	25.58	28:17	30.92	33.55	35.16	35.71	36.26	36.76
Other Liabilities	1.23	1.26	0.92	1.26	1.32	1.13	1.18	1.07
Reserves	0.32	0.29	0.29	0.32	0.34	0.34	0.34	0.32
Net Worth	(0.84)	(1.06)	(1.15)	(1.10)	(0.96)	(0.72)	(0.40)	0.02
TOTAL	43.71	48.30	52.56	57.56	61.42	64.08	66.71	70.08

NET INCOME

INCOME								
Interest from Investments	0.20	0.23	0.25	0.30	0.32	0.35	0.37	0.40
Interest on Loans	3.03	3.36	3.92	4.48	5.02	5.43	5.74	6.02
Commissions	0.09	0.15	0.14	0.14	0.12	0.11	0.10	0.16
TOTAL	3.32	3.74	4.32	4.92	5.46	5.89	6.21	6.58
EXPENSES								
General Expenses	0.39	0.41	0.46	0.50	0.54	0.57	0.60	0.65
Financial Expenses	3.24	3.55	3.96	4.37	4.77	5.08	5.29	5.51
TOTAL	3.63	3.96	4.42	4.87	5.31	5.65	5.89	6.16
Net Income	(0.31)	(0.22)	(0.10)	0.05	0.15	0.24	0.32	0.42

Some comments on the data are in order.

i. Previously, SNAP had a ratio of deposits to investments of 91-92% and was using resources as quickly as they became available. This ratio has declined to around 86%. The program should bring the ratio of available resources/investments back up to around 90% by the end of the disbursement period. This percentage could be increased further if the system can shorten the review time between receiving a deposit and investing it (estimated at three months). Technical assistance aimed at improving efficiency should help the system's deposit/investment ratio.

ii. A 15% deduction has been made on the amount projected to be available for lending. This percentage includes the legal reserves required, plus the cash levels needed for daily operations.

iii. A reserve for bad debts has been estimated at 5% of the portfolio. This reserve is high and should be reduced in the near future by efforts to improve the system's collection procedures.

iv. A negative Net Worth is reflected until 1986. However, it should be noted that surplus income is reducing the negative position. In brief, the system can gradually decrease its negative position and accumulate a surplus for reinvestment.

v. The financial cost of the system increases through the projected period. This increase is the normal result of the impact of DECAP's line of credit (provided with HG resources) at a relatively high interest cost (18%). However, the cost is offset by the increment in the active interest rate.

vi. The general expenses category has been increased gradually through the projected period. This reflects the more aggressive role expected of the system in terms of attracting savings and increasing their lending activities. However, the general expenses could be reduced through greater management efficiency which the program plans to promote through technical assistance.

VII. IMPLEMENTATION PLAN:

A. Participating Entities

The borrower will be the Central Bank of Costa Rica. The Central Bank will convert the dollar proceeds from the HG loan to colones to lend to DECAP. The Central Bank will bear the foreign exchange risk and will be responsible for making loan repayments to US investors. DECAP will have full responsibility for coordinating the allocation of HG resources

to the S&Ls, monitoring performance of the associations in attracting savings and diversification, establishing interest rate and lending policies for the system, and seeking the appropriate legislative reforms to expand the financial role of the system. DECAP will also coordinate technical assistance and take the lead in reorienting and restructuring the system.

The S&L associations will be responsible for promoting and arranging for the financing and development of shelter solutions, capturing savings and internal resources for solutions and new lending activities, diversification, and improvement in management of their operations. Emphasis will be placed on developing a delivery system for low-cost shelter and aggressively pursuing low-cost savings during the initial phase of the program.

Private developers and promoters will be responsible for organizing the market for the delivery of shelter solutions. Agreements between the associations and developers will be made on scheduling of construction, design of projects and reimbursement for construction.

B. Program Documentation

An Implementation Agreement to be signed by both the Central Bank and DECAP will be negotiated shortly following program authorization. The Agreement will outline the expected program outputs and implementation schedule. A Loan Agreement will follow. This Agreement will be signed by the Central Bank and the U.S. Investor and will set forth the terms of the HG loan. A Guaranty Agreement will be signed by AID assuring payment to the U.S. investor against any loss. A similar agreement will be signed by the GOCR guarantying repayment to A.I.D.

The Implementation Agreement will be drawn up and signed in October, 1982, as soon as possible following program authorization. This will permit the BCCR to search for a U.S. investor and negotiate a loan as close to the end of December as possible, barring any major difficulties in U.S. financial markets or other unforseen circumstances.

C. Use of Resources

1. HG Loan and Counterpart Resources:

HG Loan disbursements amounting to $20 million will be made over a period of four years. An advance of $4 million will be made around December, 1982, to initiate a rapid flow of resources. The $4.0 million advance will be "liquidated" by DECAP with loans and mortgages for families below the median income before the last disbursement of the HG resources. Subsequent disbursements of HG funds will be related to the presentation by DECAP of evidence of completion of the loans and mortgages to target families and of progress being made to achieve the generation of $12 million in local savings.

2. Technical Assistance

A DG for $300,000 will be authorized in FY 1983 to provide techncial assistance for program implementation. The resources will be used to fund a long-term advisor and short-term consultants. Technical assistance funds will be obligated by the Mission through a PSC for the long-term advisor and PIO/Ts with firms and individuals for the short-term activities.

The estimated budgets for technical assistance personnel are:

Type of Assistance	Person/months	Est. Cost
Long-term advisor	18	$160,000
Shelter Delivery System	3	30,000
Savings Mobilization	4	40,000
Financial Planning/ Organiz. Management	3	30,000
Laws/Regulations	1	10,000
Data Processing	1	10,000
National Housing Policy	2	20,000
TOTALS	32	$300,000

In addition to the above assistance, the program will benefit from the services of the Inter-American Savings and Loan Union (IASLU) which provides specialized technical assistance to its members, of which the Costa Rican system is one. The Union finances its assistance in part with an HG funded cooperative agreement which has been extended to mid-1984. PRE/HUD (regional/contracts) and RHUDO/LA will also provide funding for certain aspects of the short-term technical assistance as well as for Program evaluations.

D. Scope of Technical Assistance

1. Long-term Advisor

This advisor will be located in the office of DECAP and will work closely with DECAP and the savings and loan associations in all matters related to the implementation of the program. The advisor will coordinate the provision of short-term technical assistance and provide the necessary monitoring and follow-up.

2. Shelter Policy Advisor

The Mission and the RHUDO will provide technical assistance and training to address administrative reform and improved policy formulation. The new government is currently in the process of restructuring broader housing policy responsibilities. AID has a continuing dialogue with the key sectors and once these institutional arrangements for policy are clear, the Mission, and RHUDO will support the policy formulation exercise.

3. Low Cost Housing Construction

An analysis will be made of construction materials available in Costa Rica as well as construction techniques, which could result in reduced costs for shelter. The consultant will determine the savings that could be incurred and how the mutuals can incorporate the use of less costly materials in the contracting of projects financed under the program. The analysis will take into consideration the extent to which materials are available and lend themselves to large scale production requirements. Also, the consultant will work with construction materials producers to promote the production of lower cost materials such as soil cement or other combinations that might reduce the cost of housing for families below the median income. The consultant will assist the system in the promotion of new construction techniques and in the relations of the system with community groups participating in the program.

4. Savings Mobilization

This assistance will be provided to help the associations develop and implement a marketing strategy to attract savings to the S&L system and to enable DECAP to establish a new instrument or instruments to attract additional resources. The marketing strategy will begin by determining why savers place savings with other institutions, the characteristics of people who maintain savings accounts, and an examination of the characteristics of those people who do not maintain savings accounts and why. Based upon these results, a marketing strategy will be developed taking into consideration media to be used, promotional devices, design of passbooks, operational techniques to simplify the act of making deposits, and staff training to support this effort. Once the plan to attract savings is developed, it will be tested by the associations and, depending upon the results, necessary adjustments will be made.

The designing, marketing, and management of new low-cost savings instruments will be carried out in the context of financial markets in Costa Rica and legal restriction that prevail upon the National Banking System and the associations. An analysis of legal changes that might be necessary to establish new savings instruments will be made. Once instruments are developed, a marketing strategy and management plan will be designed for the system.

5. Financial Planning/Organization Management

The purpose of the assistance will be to work with DECAP staff to develop a capability to analyze the impact of various internal and external resources on the financial condition of the system. The work will also require that financial costs be assigned to different lending activities, taking into consideration risk as well as strict financial costs. A computer model will be developed using DECAP's recently acquired facility to integrate financial information and to make projections of the application of financial policies tied to short, medium and long-range financial plans. It will provide DECAP with the capability of generating information to measure its performance as well as that of individual associations.

A general survey of the organization structure and staffing of the various assocations will be made. Two associations will be selected for a management audit to determine how various operations are carried out, the allocation and training of staff to carry out operations, the procedures utilized and where specific difficulties exist. Thecoordination of operations, the establishment and implementation of policies and overall management also will be examined. Recommendations will be made to the associations and DECAP regarding procedures, staffing, training, etc.

6. Analysis of Regulations

An analysis of DECAP's regulations and procedures for dissemination and application of regulations will be carried out. This technical assistance activity will examine the regulations currently in effect, how they are formulated, how they are communicated to the associations and how those regulations filter to the management and staff of the associations. The associations will be contacted to determine their impressions of deficiencies in the process.

Once current regulations are revised and analyzed, and recommendations are made, the examination will turn to new regulations that are needed to reinforce the program. A regulatory procedure will be developed taking into consideration the analyses required, guidelines in drafting regulations, procedures for channeling regulations to the associations, monitoring their implementation and sanctions. These regulations will be used to govern diversification, savings, loan processing procedures, etc.

7. Data Processing

An expert in the design of an information systems for savings and loans will work with the associations to identify the nature and extent of the information to be automated and the availability of computer hardware in Costa Rica that best satisfies such needs, and the software for the system. In addition to collections information, the system will consider such needs as the management of the increased number of small savings accounts to be attracted, calculating daily, weekly and monthly earnings of savers, monitoring the system's portfolio subject to variable interest rates, the

administration of the program, and financial planning and analysis in light of continually changing costs of resources and yields of portfolio. The consultant will recommend the software necessary for the association's information system and draft a contract for the use of hardware services.

E. Conditions and Covenants

1. Condition to Investor Selection

As a condition precedent to the selection of an investor, AID shall determine, upon the recommendation of PRE/HUD, that adequate provision has been made to protect the repayment of the HG loan from the effect of any debt rescheduling by the Government of Costa Rica.

2. Conditions Prior to First Disbursement

i. An Implementation Agreement for the Program will have been signed by the BCCR, DECAP and AID including the establishment of the line of credit for the program, a technical assistance plan and a program regulation indicating the manner in which the HG resources will be made available.

ii. DECAP will have issued a regulation formalizing the different lending activities the system is now legally empowered to undertake. This regulation will also indicate the procedures for the application of the variable interest rate on mortgages.

3. Covenants

The Implementation Agreement will contain the following covenants, that apply to DECAP and the associations:

i. DECAP will present a plan to deal with the management problems affecting the Guanacaste association.

ii. DECAP and the associations will take measures to reduce the costs of the solutions to be financed under this Program to the maximum extent possible.

iii. DECAP will continue to seek additional resources for shelter finance through the associations from national social security, insurance, and other agencies with capacities to attract massive internal resources.

iv. DECAP will conduct periodic evaluations of the Program including an analysis of the amount of local savings being generated by the Savings and Loan System, and will take necessary steps to implement the recommendations resulting from such evaluations.

F. Negotiating Status

Meetings have been held with the Ministers of Planning and Finance as well as the General Managers of the Central Bank, DECAP, and the associations. The purposes, objectives, and conditions of the program have been discussed extensively. Letters have been obtained from the General Manager of the Central Bank and DECAP requesting the HG resources.

BANCO CENTRAL DE COSTA RICA

SAN JOSE, COSTA RICA

26 de agosto de 1982
PE 183-82

Recd. 8-30-82
ACTION: GDD
Due: 9-13-82
cc: LO
CHRON
RF
CONT

Carlos Manuel Castillo
PRESIDENTE EJECUTIVO

Señor
Daniel Chaij, Director
Misión de la Agencia para el
Desarrollo Internacional
Embajada Americana
S. O.

Estimado señor Director:

Me refiero a la carta N.V.-604-81, del 16 de diciembre de 1981, dirigida a la AID, en la cual se presentó una solicitud oficial en el sentido de que, por medio del Programa de Inversiones Garantizadas para Vivienda, se gestionara el financiamiento de un programa de vivienda dirigido al sector de bajos recursos de la población de Costa Rica.

Al respecto, por su carta del 29 de diciembre de 1981, y por las diversas reuniones que se han celebrado entre representantes de la AID, del Gobierno y de este Banco, me enteré de que se han hecho los estudios y análisis del programa por realizar, concluyéndose en que es factible su ejecución en los términos generales que expongo más adelante.

En consecuencia, le solicito en forma oficial gestionar, ante las autoridades respectivas del Gobierno de los Estados Unidos de América, el otorgamiento de una garantía para un crédito por la suma de US$20.000.000,00 (veinte millones de dólares), el cual será suministrado por un inversionista privado que se dedique a actividades de naturaleza bancaria y que sea de reconocida solvencia económica. Los recursos serán usados en el financiamiento de un programa de vivienda destinado a la población de bajos ingresos, que desarrollará el Sistema Nacional de Ahorros y Préstamos, representado por el DECAP, las Mutuales de Ahorro y Préstamos y por las demás instituciones elegibles que operan con el DECAP, en un lapso de cuatro años aproximadamente,

En dicha operación actuará como prestatario, o sea, deudor directo del crédito, el Banco Central de Costa Rica y como autoridad ejecutora el DECAP, quien dirigirá, distribuirá y controlará el uso de los fondos,

los cuales serán administrados en el otorgamiento de crédito a los beneficiarios del programa, por las Mutuales y las instituciones elegibles, de acuerdo con las condiciones que se determinen en el respectivo Convenio de Ejecución que se suscribirá con la AID.

Para estos efectos, el Banco Central, como prestatario, una vez se otorgue la garantía respectiva por la AID, obtendrá el crédito correspondiente en dólares de los Estados Unidos de América y transferirá, por medio del Banco Crédito Agrícola de Cartago, al DECAP los fondos en moneda corriente (colones) al tipo de cambio actualmente denominado interbancario preferencial, en los mismos términos de plazo y de interés que se obtengan del prestamista estadounidense, más el 0,5% (medio por ciento) anual que se cobrará por concepto de gastos de administración. Se deja constancia de que la diferencia de cambio producto de las operaciones correrá a cargo y estará bajo responsabilidad del Banco Central, además de que se celebrará un contrato de ejecución de este Banco con el DECAP, en el que se establezcan estas condiciones y las que se desprendan del convenio que se suscriba con la AID.

Adicionalmente, solicitamos se apruebe nuestra petición tendiente a que en forma directa se asigne la suma de hasta US$300.000 para asistencia técnica requerida por el país para ejecutar dicho programa eficiente y urgentemente.

Soy de usted atento y seguro servidor,

Carlos Manuel Castillo

ANNEX II

AID 1020-26 (11-79)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

(INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE PAR REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

Life of Project:
From FY 82 to FY 83
Total U.S. Funding $20,300,000
Date Prepared: 7/28/82

Project: Title & Number: Private Sector Low Cost Shelter

PAGE 1

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: (A-1)	Measures of Goal Achievement: (A-2)	(A-3)	Assumptions for achieving goal targets: (A-4)
To improve the shelter conditions of low income families.	Private sector low income shelter production is restored to or greater than total shelter production as of 1979 by the end of Program.	Periodic review of public and private shelter sector records.	That private sector is successful in restructuring operations to adapt to changing the financial conditions.

ANNEX II

AID 1020-20 (9-79)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

(INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE PAR REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

Life of Project:
From FY 82 to FY 83
Total U.S. Funding $20,300,000
Date Prepared: 7/28/82

PAGE 1

Project: Title & Number: Private Sector Low Cost Shelter

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: (A-1) The purpose of the program is to assist Costa Rica's private sector establish a replicable, nonsubsidized, low-cost shelter program for low-income families.	Measures of Goal Achievement: (A-2) The private sector has developed an efficient shelter delivery system for promoting, processing, constructing, financing, selling and collecting related to low cost shelter program.	(A-3) Periodic review of private sector financial records.	Assumptions for achieving goal targets: (A-4) (a) DECAP and SNAP are successful in moving resources efficiently. (b) Private developers are promoting, developing and selling units.

AID 1020-25 (11-78)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

(INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE PAR REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

Life of Project:
From FY 82 to FY 83
Total U.S. Funding $20,300,000
Date Prepared: 7/28/82

Project: Title & Number: Private Sector Low Cost Shelter

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: (A-1)	Measures of Goal Achievement: (A-2)	(A-3)	Assumptions for achieving goal targets: (A-4)
1. (New Solutions). New types of shelter solutions for low income families 2. (Private Developers). Developers organize low income families to acquire units; units meet paying capacity of beneficiaries; risks borne by developers who will channel buyers to associations to obtain financing. 3. (Financial Policy). A financial policy which will be based on financial costs of different sources of money, financial returns of investments, and other factors that will assure the growth and financial strength of system. 4. (Savings Mobilization). Reorientation of SNAP liability structure by generating increased levels of internal resources, particularly lower cost free savings which will reduce cost of resources.	1. Approximately 16,000 shelter solutions, 8,700 new solutions and 7,300 home improvement loans. 2. Affordable units (ref. 1) are developed, built and sold to target group by private developers. 3. A computer model which will be used as a basis for assigning interest rates for the system according to the various lines of credit to be extended. The model will combine various sources of funds to determine costs and will be tied to yield of the portfolio to establish the spread necessary to maintain viability of the system. 4. DECAP has issued regulations on interest rate policy for new lines of credit, variable rates, graduated payments for low cost housing.	1. Periodic review of Project Delivery Plans and mortgage portfolio of DECAP, SNAP. 2. Periodic review of SNAP records. 3. Review of DECAP proceedings and regulations for establishing interest rates. 4. Review of Project Delivery Plans, disbursement records of DECAP and associations. 5. Review of SNAP portfolio and regulations of DECAP. 6. DECAP and SNAP records.	1a. Inflation in construction sector increases in relation to salary adjustments. b. New building materials are incorporated into construction of projects. c. New solution types are acceptable to families with incomes below the median. 2. That investments in free savings continue to grow and SNAP has increased its share of the market by aggressive marketing. 3. Market for diversified lending materializes.

ANNEX II

AID 1020-25 (1-79)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

(INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE PAR REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

Life of Project:
From FY 82 to FY 83
Total U.S. Funding $20,300,000
Date Prepared: 7/28/82

Project Title & Number: Private Sector Low Cost Shelter

PAGE 1

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: (A-1)	Measures of Goal Achievement: (A-2)	(A-3)	Assumptions for achieving goal targets: (A-4)
5. (Diversification). Re-orientation of SNAP's asset structure by diversifying investments into short-term, higher yield lending activities.	5. SNAP has generated at least $12 million in internal resources, of which $4.8 million is low cost free savings.		
6. (Productivity). SNAP has produced operational and management reforms that improve productivity of S&L associations.	6. Associations with problems have improved situation.		

ANNEX II

AID 1020-26 (11-78)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

(INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE PAR REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

Life of Project:
From FY 82 to FY 83
Total U.S. Funding $20,300.000
Date Prepared: 7/28/82

Project Title & Number: Private Sector Low Cost Shelter

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: (A-1)	Measures of Goal Achievement: (A-2)	(A-3)	Assumptions for achieving goal targets: (A-4)
1. HG	$20 million	Reports and records of AID, SNAP and DECAP.	1. U.S. Investor proposal fits terms and conditions established in program.
2. SANP savings.	$ 4 million		2. Savings can be generated as contemplated.
3. Technical Assistance	$300,000.00		3. Appropriate TA personnel can be found and programmed according to program needs.

Department of State

OUTGOING TELEGRAM

ANNEX III

ORIGIN OFFICE LADR-03
INFO AALA-01 LACE-03 LADP-03 GC-01 GCLA-03 GCFL-01 FM-02
HO-04 FHLB-01 HUD-02 RELO-01 MAST-01 3B-00 /026 A0

INFO OCT-00 /007 R

DRAFTED BY AID/LAC/DR:SSCHAEFFER:CEM
APPROVED BY AID/AA/LAC:MDBROWN(ACTING)
AID/LAC/DR:SESMITH
AID/LAC/DR:ILEVY
AID/LAC/CEN:PFARLEY (DRAFT)
AID/LAC/DP:JPURCELL (DRAFT)
AID/PRE/H:PVITALE
AID/LAC/DR:TMCKEE (DRAFT)
AID/LAC/DR:CLEONARD
AID/LAC/DR:AJCAUTERUCCI
----------015145 040733Z /23

P 040543Z FEB 82
FM SECSTATE WASHDC
TO AMEMBASSY SAN JOSE PRIORITY
INFO AMEMBASSY TEGUCIGALPA PRIORITY

UNCLAS STATE 029989

AIDAC - FOR RHUDO

E.O. 12065:N/A

TAGS:

SUBJECT:DAEC REVIEW OF THE COSTA RICA SHELTER DEVELOPMENT PID (515-HG-007).

1. SUMMARY. THE DAEC REVIEWED AND APPROVED THE SUBJECT PID ON JANUARY 8, 1982. THE FOLLOWING COMMENTS AND GUIDANCE ARE PROVIDED TO ASSIST MISSION IN PROJECT DEVELOPMENT AND PREPARATION OF THE PROJECT PAPER (PP).

2. PROJECT OBJECTIVES. THE DAEC DISCUSSED FOUR POSSIBLE OBJECTIVES FOR THE PROJECT, BASED ON OUR READING OF THE PID AND THE OVERALL ECONOMIC SITUATION IN COSTA RICA: (1) FINANCE LOW-COST HOUSING CONSTRUCTION; (2) PROMOTE POLICY CHANGES WHICH WOULD RESULT IN STRENGTHENED HOUSING FINANCE INSTITUTIONS; (3) PROVIDE A FAST DISBURSING RESOURCE TRANSFER TO COSTA RICA; AND (4) GENERATE EMPLOYMENT. TO SOME EXTENT, THESE OBJECTIVES WILL BE MUTUALLY EXCLUSIVE, THEREFORE, THE PP SHOULD BE CLEAR AS TO THE PRIORITY OF THE OBJECTIVES LISTED ABOVE. WITH RESPECT TO EMPLOYMENT GENERATION, IF THIS IS A PRINCIPAL OBJECTIVE THE PP SHOULD INCLUDE A DISCUSSION ON THE TYPE OF EMPLOYMENT AND NUMBER OF JOBS WHICH WILL POTENTIALLY BE GENERATED AS A RESULT OF THE PROJECT AND ANALYZE AND RECOMMEND METHODS OF CONSTRUCTION THAT WILL MAXIMIZE THE NUMBER OF JOBS CREATED. IN ADDITION, THE PP SHOULD INCLUDE A CURRENT ANALYSIS OF ECONOMIC CONDITIONS AND THE POTENTIAL EFFECT WHICH ECONOMIC SITUATION COULD HAVE ON THE PROJECT.

3. INSTITUTIONAL FOCUS. (A) THE MISSION SHOULD CAREFULLY CONSIDER THE MERITS OF FOCUSING ASSISTANCE SOLELY ON THE S&L SYSTEM AS OPPOSED TO THE BROADER APPROACH OF CHANNELLING FUNDS THROUGH PRIVATE AND PUBLIC INSTITUTIONS. THE FINANCIAL POSITION AND FEASIBILITY OF USING THE VARIOUS ALTERNATIVE FINANCIAL INSTITUTIONS SHOULD BE FULLY DISCUSSED. THE RATIONALE FOR THE MISSION STRATEGY WITH REGARD TO THIS ISSUE SHOULD BE DISCUSSED AND IT SHOULD BE DEMONSTRATED HOW THE TECHNICAL ASSISTANCE

SUPPORTS THE STRATEGY.

(B) THE PP SHOULD INCLUDE A FULL ANALYSIS OF THE S AND L SYSTEM BASED ON THE RECENT STUDY REFERENCED IN THE PID. THIS ANALYSIS SHOULD EMPHASIZE THE CRITICAL ROLE AND RELATIONSHIP OF DECAP TO THE INDIVIDUAL S AND L'S. THE PP SHOULD ADDRESS THE BROADER ISSUE OF THE VIABILITY OF DECAP, TAKING INTO ACCOUNT ITS NEGATIVE RETURN ON INVESTMENT, FOREIGN DEBT SERVICING AND EXCHANGE RISK POSITION. IN ADDITION, THE FEASIBILITY OF THE S AND L SYSTEM PROVIDING COUNTER PART FUNDING, AS WELL AS OTHER ALTERNATIVE SOURCES OF COUNTERPART FUNDING, SHOULD BE DISCUSSED IN THE EVENT THAT THE DOLS. 5.0 MILLION IN ESF FUNDS IS NOT AVAILABLE.

(C) IF THE MISSION DECIDES TO FOCUS ON THE S AND L SYSTEM AS THE PRINCIPAL CHANNEL OF FINANCING, SUGGEST THAT MISSION CONSIDER USING DECAP FOR OVERALL PROJECT COORDINATION RATHER THAN MINISTRY OF HOUSING AND HUMAN SETTLEMENTS. IN ANY EVENT, THE PP SHOULD DETAIL ROLE AND RESPONSIBILITY OF INSTITUTIONS INVOLVED AND ADDRESS THE ISSUE OF WHICH INSTITITION WILL ALLOCATE AND MANAGE RESOURCES AND WHO WILL ASSUME THE RISK PRIOR TO THE SALE OF THE UNITS TO THE BUYERS.

4. ACCEPTABILITY OF PROJECT TO PROPOSED BENEFICIARIES. BECAUSE THE PROPOSED HG REPRESENTS A MAJOR DEPARTURE FROM PAST HGS IN COSTA RICA IN REGARD TO TYPES OF SHELTER AND COSTS, IT NEEDS TO BE EXPLICTLY DEMONSTRATED IN THE SOCIAL ANALYSIS OF THE PP THAT THE TARGET GROUP WILL BE ABLE AND WILLING TO PAY FOR AND ACCEPT HOUSING WITH "LOWER STANDARDS" AND NONSUBSIDIZED COSTS. THE DISCUSSION SHOULD INCLUDE AN ANALYSIS OF THE MARKET SURVEY WHICH THE MISSION IS PLANNING TO CONDUCT AND SPECIFICALLY ADDRESS THE SIZE OF THE POTENTIAL TARGET GROUP, HOUSEHOLD BUDGET DATA AND EFFECTIVE DEMAND. THE PP SHOULD DEMONSTRATE THE RECEPTIVITY AND AFFORDABILITY OF INTEREST RATES PROPOSED IN THE PROJECT. THE PP SHOULD PROVIDE A CAREFUL ANALYSIS OF RECENT TRENDS IN INTEREST RATES AS WELL AS FORECAST WHAT THE INTEREST RATES MIGHT BE DURING LIFE OF PROJECT. THE PP SHOULD ALSO EXAMINE THE SUPPLY OF HOUSES, INCLUDING A DISCUSSION OF HOUSING PROVIDED UNDER EXISTING HG.

5. FUNDING. BASED ON THE SLOW IMPLEMENTATION RECORD OF THE CURRENT HG AND GIVEN THE INABILITY ACCURATELY TO PREDICT ECONOMIC CONDITIONS IN COSTA RICA TWO YEARS HENCE, THE DAEC APPROVED ONLY DOLS 20.0 MILLION FOR THE PROJECT RATHER THAN THE DOLS 40.0 MILLION PROPOSED IN THE PID. SUBJECT TO AN EVALUATION OF THE PROJECT IN 1984 AND AN ANALYSIS OF THE COSTA RICAN ECONOMIC SITUATION AT THAT TIME, A REQUEST OF AN ADDITIONAL DOLS 20.0 MILLION COULD BE MADE, IF APPROPRIATE.

6. URBAN EMPLOYMENT AND COMMUNITY IMPROVEMENT HG (515-HG-006). AN ANALYSIS OF THE PROBLEMS WHICH HAVE AFFECTED 515-HG-006, AS WELL AS A DISCUSSION OF HOW THE PROPOSED NEW HG ADDRESSES THESE CONCERNS, SHOULD BE INCLUDED IN THE PP. IN ADDITION, THE STATUS AND THE LINK, IF ANY BETWEEN THE GRANT FUNDED TECHNICAL ASSISTANCE UNDER THE URBAN EMPLOYMENT PROJECT AND THE ASSISTANCE CALLED FOR IN THE PRESENT PID SHOULD BE EXPLAINED. THE PP SHOULD INCLUDE A PROVISION THAT INVU WILL NOT BE ELIGIBLE TO PARTICIPATE IN THE PROPOSED HG UNTIL IT HAS DEMONSTRATED THAT ACTIVITIES UNDER THE CURRENT HG COULD BE COMPLETED IN A RESONABLE TIME FRAME.

7. PLEASE NOTE THAT IT IS BUREAU POLICY THAT HGS SHOULD BE CONTRACTED WITHIN EIGHTEEN MONTHS AFTER BEING AUTHORIZED BARRING EXTRAORDINARY CIRCUMSTANCES.

8. PLEASE ADVISE AID/W AS TO TIMING OF NEED FOR ANY TDY ASSISTANCE ASAP. HAIG

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

GUARANTY AUTHORIZATION

PROJECT NO. 515-HG-007

PROVIDED FROM: Housing Guaranty Authority

FOR : The Government of Costa Rica

Pursuant to the authority vested in the Assistant Administrator, Bureau for Latin America and the Caribbean, by the Foreign Assistance Act of 1961, as amended (FAA), and the delegations of authority issued thereunder, I hereby authorize the issuance to eligible U.S. investors (Investor) acceptable to A.I.D. of guaranties pursuant to Section 222 of the FAA of not to exceed Twenty Million Dollars ($20,000,000) in face amount. The guaranties shall assure against losses (of not to exceed one hundred percent (100%) of loan investment and interest) with respect to loans, including any refinancings thereof, made to finance housing projects in Costa Rica.

These guaranties shall be subject to the following terms and conditions:

1. Term of Guaranty: The loans may extend for a period of up to thirty years (30) from the date of disbursement and may include such terms and conditions as shall be acceptable to A.I.D. The guaranties of the loans shall extend for a period beginning with the disbursements of the loans and shall continue until such time as the loans have been paid in full.

2. Interest Rate: The rate or rates of interest payable to the Investor pursuant to the loans shall not exceed that prescribed pursuant to Section 223(f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans made in the long term U.S. capital markets.

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3. Fee: The fee of the United States shall be payable in dollars and shall be one-half percent (1/2%) per annum of the outstanding guarantied amount of the loans plus a fixed amount equal to one percent (1%) of the amount of the loans authorized or any part thereof, to be paid as A.I.D. may determine upon disbursement of the loans.

4. Other Terms and Conditions: The guaranties shall be subject to such other terms and conditions as A.I.D. may deem necessary.

Otto J. Reich
Assistant Administrator
Bureau for Latin America and the Caribbean

Date

Clearances:
PRE/HUD:FAHansen_____ Date_____
PRE/HUD:PVitale_____ Date_____
M/FM/LMD:ESOwens_____ Date_____
GC/LAC:BVeret_____ Date_____
LAC/DR:DJohnson_____ Date_____

GC/HUD:MJWILLIAMS:prj:08/27/82:0473P

THE HOUSING GUARANTY PROGRAM

STATUTORY CHECKLIST

COSTA RICA

PROJECT NO. 515-HG-007

	ANSWER YES/NO, PUT PP PAGE REFERENCES AND/OR EXPLANATIONS WHERE APPROPRIATE
A. General Criteria Under HG Statutory Authority.	
Section 221(a)	
Will the proposed project meet the following criteria.	
(1) is intended to increase the availability of domestic financing by demonstrating to local entrepreneurs and institutions that providing low-cost housing is financially viable;	YES
(2) is intended to assist in marshalling resources for low-cost housing;	YES
(3) supports a pilot project for low-cost shelter, or is intended to have a maximum demonstration impact on local institutions and national policy; and,	NO
(4) is intended to have a long run goal to develop domestic construction capabilities and stimulate local credit institutions to make available domestic capital and other management and technological resources required for effective low cost shelter programs and policies.	YES
Section 222(a)	
Will the issuance of this guaranty cause the total face amount of guaranties issued and outstanding at this time to be in excess of $1,718,000,000?	YES
Will the guaranty be issued prior to September 30, 1984?	YES

Section 222(b)

Will the proposed guaranty result in activities which emphasize:

(1) projects providing improved home sites to poor families on which to build shelter and related services; or	NO
(2) projects comprised of expandable core shelter units on serviced sites; or	YES
(3) slum upgrading projects designed to conserve and improve existing shelter; or	NO
(4) shelter projects for low-income people designed for demonstration or institution building; or	YES
(5) community facilities and services in support of projects authorized under this section to improve the shelter occupied by the poor?	NO

Section 222(c)

If the project requires the use or conservation of energy, was consideration given to the use of solar energy technologies, where economically or technically feasible?	YES

Section 223(a)

Will the A.I.D. guaranty fee be in an amount authorized by A.I.D. in accordance with its delegated powers?	YES

Section 223(f)

Is the maximum rate of interest allowable to the eligible U.S. Investor, as prescribed by the Administrator, not more than one percent (1%) above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development?	YES

Section 223(j)

(1) Will the proposed Housing Guaranty be coordinated with and complementary to other development assistance in the host country? YES

(2) Will the proposed Housing Guaranty demonstrate the feasibility of particular kinds of housing and other institutional arrangements? YES

(3) Is the project designed and planned by A.I.D. so that at least ninety percent (90%) of the face value of the proposed guaranty will be for housing suitable for families below the median urban income for housing in urban areas, in the host country? YES

(4) Will the issuance of this guaranty cause the face value of guaranties issued with respect to the host country to exceed $25 million in any fiscal year? YES

(5) Will the issuance of this guaranty cause the average face value of all housing guaranties issued in this fiscal year to exceed $15 million? NO

Section 238(c)

Will the guaranty agreement provide that will cover only lenders who are "eligible investors" within the meaning of this section of the statute at the time the guaranty is issued? YES

B. Criteria Under General Foreign Assistance Act Authority.

Section 620/620A

(a) Does the host country meet the general criteria for country eligibility under the Foreign Assistance Act as set forth in the country eligibility checklist prepared at the beginning of each year? YES

(2) Is there any reason to believe that circumstances have changed in the host country so that it would now be ineligible under the country statutory checklist? NO

The Permit and Construction Inspection Process

The time required to obtain a permit for subdivision and housing construction is of great importance to the efficient and rapid utilization of financial resources. Development time is directly related to financing cost.

There are two major permit categories. One deals with the single structure construction which represents about 80 percent of the total housing production. The single structure permit process is less cumbersome than the one for projects, requiring as an average three weeks to one month for its issuance if no regulatory variances are sought.

A. Single Structure Permits

The first step is the approval by the Ministry of Health. Concurrently, CFAI afixes a seal to certify that the project is designed by an architect or engineer who is responsible for regulatory compliance and for construction quality control. This step takes approximately eight working days.

The second step is the approval of the municipality which requires another eight working days. The Department of Urban Development (INVU) reviews the plans to ascertain costs on which municipal taxes are based and to ensure, through its Financing Department, that any tax obligations on the property have been fully paid. When the Water Authority is to provide water and sewer services in that municipality, its approval is also required, taking another eight days. Occupancy permits are not issued by official agencies. A registered arquitect/engineer is required to certify to the owner or financing entity that the work has been completed as specfied in construction documents.

B. Project Permits

Permits for housing development projects (Asentamientos) are cumbersome and time consuming taking, at best, around four months. Approvals are required during the preliminary or schematic stage, and a second approval process relates to final construction documentation. The first process has four review activities conducted consecutively, not concurrently: a) the schematic design is submitted to the Electric Institute to determine if any existing or proposed utility easements might be affected by the project; b) the project is submitted to the Public Works Ministry to assess the Project's concurrence with existing or proposed road networks; c) the design is submitted to INVU to determine regulatory compliance. Between 80% and 85% of all projects submitted to INVU have required modifications. Finally, the municipality ascertains compliance with municipal plans. It should be noted that municipalities not willing to accept low-income housing units often utilize this review to discourage the applicant.

Once the design is approved, work begins on necessary construction documents which must be submitted for final approval. This process involves: a) documents are reviewed by ICE, then the Water authority; b)submission to the Ministry of Health and registration with the Federation of Arquitects and

Engineers (CFAI); and c) the documents are submitted to the municipalities for the issuance of the construction permit.

The multiple jurisdictions involved in project approvals constitute an obstacle to the efficient, and, therefore, least-cost review of HG program type projects. It is expected that a large majority of the new solutions will be individual units which would involve the less cumbersome, first process described. Home improvements can be carried out with minimal approvals depending on the nature of the improvements being carried out.

C. S&L Project Approval and Construction Process:

1. The builder presents the S&L with the list of documents required by the FHA division of DECAP for a "guaranty commitment". The guaranty commitment is a promise to provide FHA insurance on the houses once they are sold to eligible purchasers and mortgages registered in the name of the S&L lender.

2. The S&L evaluates the location of the proposed site, its topography and access, as well as the plans and specifications. If the S&L decides that the project qualifies for financing, it sends the documentation to DECAP with the opinion of the S&L's technical department.

3. DECAP has a technical department which reviews the plans and specifications of the S&L, and then approves, disapproves, or requests changes.

4. Once approved by the FHA department, DECAP issues a guaranty commitment and sends the documents back to the S&L. (DECAP charges a fee of 0.5 % on the outstanding mortgage value during the term of the loan for the insurance.

Construction quality is controlled by the arquitect/engineer who registers the project and who is liable for any construction defects for one to two years after completion of the project. He must submit to CFAI a log of periodic certifications of inspection, demonstrating that construction is proceeding according to approved specificacions. Normally inspection services are contracted by the builder, and usually this has worked without complication. However, one mutual requires that the inspection fee be placed in an escrow account to control project development and the quality of construction.

Lending institutions maintain their own technical staffs. Often, however, they are not accredited professionals since their function is to determine units of work completed rather than to verify the quality of work performed.

ANNEX VII

INITIAL ENVIRONMENTAL EXAMINATION
THRESHOLD DECISION

Project Location:	Costa Rica
Project Title:	Savings and Loan Low Cost Housing Development (515-HG-007)
Funding:	FY 1982: Housing Guaranty Loan - $20 million FY 1983: $0.3 million Grant.
IEE Prepared by:	Victor Rivera, Engineer, RHO, Panama July, 1982

Environmental Action Recommended: The USAID Project Committee has undertaken an Initial Environmental Examination of the potential impacts of the proposed Program and has arrived at a recommendation of a Negative Determination. No adverse environmental impacts are anticipated.

Mission Director's Concurrence:

Daniel Chaij
Director
USAID/Costa Rica

DISCUSSION OF ENVIRONMENTAL IMPACTS

Several of the program elements such as the home improvement loans and the institutional development activities mechanisms will have no environmental impact.

The program will undertake the financing of individual solutions as well as medium-size construction projects. These activities will be developed throughout the country. Adverse environmental impact will happen only where land will be cleared and prepared for new construction. Special considerations should be taken on high slopes because of heavy rainfall conditions in Costa Rica and potential problems of erosion.

The potential impacts have been identified through the use of an Impact Identification and Evaluation Form attached below.

A. Land Use. The construction preparation will obviously change characteristics principally when medium sized projects are built. These projects would foreclose other uses while the small projects will have reduced land use impacts. Applying a proper selection criteria will assure that other land uses as important as low-cost housing will be considered.

B. Water Quality. Water quality is not expected to be a problem in urban areas since most cities have integrated systems with treatment plants. Provisions should be taken to minimize water pollution because of the use of Imhoff and septic tank sewerage systems that will be constructed in less urbanized areas. There is, however, a tendency in Costa Rica to build Imhoff tanks rather than septic in rural areas.

The former provides a better sewage treatment because water is retained for longer periods of time. A. y A. (Potable Water and Sewerage System Institute) is able to provide potable water if project sites are below the elevation of 1,300 meters. A. y A.'s water treatment plant is at this elevation, and San José is approximately 1,100 meters above sea level.

C. Atmospheric. The program will cause no adverse environmental impact on air or noise. However, there are some hurricane prone areas in the country such as Limón and surrounding areas. In these regions project sites should be located far from the shore, or protected by a hill or tree barrier.

D. Natural Resources. The program will not affect natural resources at all.

E. Cultural. If the new urbanization standards are approved the generous lot sizes and urbanization standards which included wide streets, communal areas and extensive parks will be affected. Such amenities are beyond the paying capacity of most low income families and will be eliminated over time. The tradition of heavily subsidized housing with ample dimensions and facilities will change.

IMPACT IDENTIFICATION AND EVALUATION FORM

A. Land Use.

1. Changing the character of the land through:

a. Increasing the population	L
b. Extracting natural resources	N
c. Land clearing	L
d. Changing soil character	N
2. Altering natural defenses	N
3. Foreclosing important uses	L
4. Jeopardizing man or his work	N
B. Water Quality.	
1. Physical state of water	M
2. Chemical and biological status	L
3. Ecological balance	L
C. Atmospheric.	
1. Air additives	N
2. Air pollution	N
3. Noise pollution	N
4. Hurricanes	M
D. Natural Resources.	
1. Diversion, altered use of water	N
2. Irreversible, inefficient, commitments	N
E. Cultural.	
1. Altering physical symbols	L
2. Dilution of cultural traditions	L
F. Socio-Economic.	
1. Changes in economic/employment patterns	L
2. Change in population	L
3. Changes in cultural patterns	L

Impact Areas and Sub-Areas

G.	Health.	
	1. Changing a natural environment	L
	2. Eliminating an ecosystem element	N
H.	General.	
	1. International impacts	N
	2. Controversial impacts	N
	3. Larger program impacts	N

The following are the symbols used:

H - High environmental impact

U - Unknown environmental impact

N - No environmental impact

L - Little environmental impact

M - Moderate environmental impact

IDENTIFICATION OF THE TARGET POPULATION AND ITS NEEDS

The research base in Costa Rica is good, but information pertinent to the housing sector must be pieced together from different sources since the ways of classifying information, the variables used, and the time periods vary widely.

A. The Urban-Rural Distribution

Despite the predominance of agriculture in the economy of Costa Rica, almost half of the population lives in urban centers. The densest area is the central plateau which is delineated by two volcanic chains, and where four provinces converge (San Jose, Alajuela, Cartago, and Heredia). Because of this area's urban nature and its geography, data are often divided by "Central Valley" and "Rest of the Country". The former is comprised of the four central provinces, with the exception of nine peripheral, underpopulated "cantones". The "Rest of the Country" includes the western, cattle-producing province of Guanacaste, the two coastal provinces of Limon and Puntarenas, and the nine cantones mentioned above. While the central provinces have only about 40% of the national territory (20.2K^2), they have 64% of the country's population, and 79% of the total urban population. The following table shows the proportion of urban population for the two geographic categories. The Central Valley includes the Metropolitan Area of San Jose which is displayed in parentheses.

Est. Urban Population and Households (HHs)
by Central Valley and Rest of the Country - 1981
(in 000's)

	Tot. Pop.	Urb. Pop.	% Urb.	Tot.HHs	Urb.HHs	%Urb.HHs
CentralValley	1,463.2	849.8	58.1%	310.7	194.3	62.5%
(Metr. Area)	(638.1)	(567.3)	(88.9%)	(139.5)	(124.1)	(88.9%)
Rest/Country	825.2	227.5	27.6%	166.1	47.6	28.6%
TOTALS	2,288.4	1,077.3	47.1%	476.9	241.9	50.7%

Source: "Encuesta Nacional de Hogares - Empleo y Desempleo", Ministerio de Economia, Industria y Comercio, Direccion General de Estadistica y Censos/ Ministerio de Trabajo y Seguridad Social, Direccion General de Planificacion del Trabajo y Empleo. Nov. 1981.

Although statistical evidence is not available, a pattern of reverse migration is beginning to be noted, i.e. urban dwellers relocating in agro-industrial areas in search of work. If this trend is confirmed, it may increase the importance of smaller cities in the outlying provinces, as well

as further moderate the rate of growth in the Metropolitan Area which has been diminishing in the past few years.

B. Housing Needs

The lack of current census data, and the fact that recent surveys have concentrated on issues like employment, make it difficult to accurately assess housing needs. Based on 1973 census figures and the 1980 "Encuesta de Hogares", the Direccion General de Estadistica y Censos prepared an estimate of global housing needs. The housing stock was classified in three categories:

Est. National Housing Conditions - Dec. 1980

Classification	% Structures	No. Structures	
(1) Adequate	47.2%	222,531	
(2) Deficient	34.9%	164,459	
(3) Deficits	17.9%	84,392	
	100.0%	471,382	Total existing stock

NOTE: An additional 11,879 new dwelling units were needed for households sharing structures, for a total deficit of 96,271.

Definitions: (1) "Adequate" - Completely serviced, in good repair, and meets space standards.

(2) "Deficient" - Structure lacks at least one basic service,e.g. electricity, water, etc., is in need of repair, or presents crowded conditions (defined as two or more persons per room).

(3) "Deficit" - The structure is considered beyond repair, or is needed for a household sharing an existing structure.

Using the proportion of urban households as a general guide, roughly 83,800 units were in need of improvement and 48,800 new units were required in urban areas in 1981, which represents about 55% of the total urban households.[1/]

While demand for services is concentrated in the central provinces by weight of sheer numbers, the coastal areas have important urban concentrations as well, in particular the port cities of Puerto Limon and Puntarenas. Also,

1/Other estimates place housing needs at even higher levels. The AID/Office of Housing study "Necesidades Basicas de Vivienda en Centro America 1981-2000" (April, 1981) estimated that between 64-67% of Costa Rica's urban households were in need of housing services, either new dwellings or improvement of existing structures, in 1980. The need in rural areas was estimated as high as 80%.

the levels of services and living conditions in these cities are by far inferior to cities in the Central Valley. Free Port facilities have been constructed to stimulate the economies and growth of these cities,which willincrease the already high demand for housing services. The estimates of deficits and deficencies in the housing stock by province demonstrate that the worst conditions exist in the peripheral provinces of Limon, Puntarenas and Guanacaste.

Est. Housing Conditions by Province - Dec.1980
(based on total households)

Province	% Adequate	% Deficient	% Deficits	Est. HHs (in 000's)
San Jose	57%	26%	17%	185.5
Alajuela	43%	36%	21%	81.7
Cartago	53%	32%	15%	49.7
Heredia	65%	24%	11%	33.3
Guanacaste	23%	49%	8%	42.5
Puntarenas	24%	46%	30%	58.0
Limon	26%	47%	27%	32.4

The city of Limon, in particular, presents both a high level of need for housing services and a series of obstacles for providing those services. About three-fourths of the city is made up of invasion areas, some only a few years old and others formed more than 20 years ago. A large part of the city is subject to flooding which prevents the installation of infrastructure, unless massive drainage projects are carried out. About half of the households do not have tenure, although various institutions have been attempting to formalize titles in recent years.

C. The Economic Conditions of the Urban Population

For years, Costa Rica enjoyed a stable and relatively prosperous economy, producing a high level of consumption of goods and services. Until recently, comfortable housing has been within the reach of a majority of the population. As a whole, the population is highly educated and, up through the decade of the 1970's, workers had ready access to employment opportunities. Almost 80% of the workforce is employed in the formal sector,i.e. salaried jobs, which is extremely high compared with other Latin American countries where the informal sector often accounts for about half of the workers.

Active Urban Workforce/as of March, 1982

Category	%	No.
Salaried	79.0%	289,075
Self Employed	14.1%	51,482
Employer	4.2%	15,528
Family (non-sal.)	2.7%	9,822
Total Urban	100%	365,907

Source: "Encuesta Nacional...", March, 1982.

This distribution may change as unemployment rises. The ambulatory street vendor was seen rarely a few years ago and is a highly visible presence today. The statistics on rising unemployment are synthesized below:

Open Unemployment/Urban Areas

Area	1980	1982*	% Change
Central Valley	6.7%	9.8%	+3.1%
(Metr. Area)	(7.7%)	10.5%)	(+2.8%)
Rest/Country	7.2%	10.6%	+3.4%
General Urban	6.8%	10.0%	+3.2%

*Source: Figures as of March, 1982."Indicadores Sociales y Economicos", Abril, 1982, Ministerio de Economia, Industria y Comercio/Direccion General de Estadistica y Censos, No. 4, Año II.

Other sources have placed the unemployment level in the Metropolitan Area as high as 12%. In comparison, rural areas have a much lower rate of open unemployment, averaging 5% and 8% in the two years indicated, which would support the trend of outward migration from the cities. (It should be noted that rural employment is highly seasonal, producing greater underemployment than might be found in urban areas.)

Income data cannot be presented succinctly since a number of different classifications are used by institutions, and since the wage structure has been in constant flux over the last few years. For example, the Direccion de Estadistica y Censos tends to present analyses of only salaried workers because these data are more reliable than those based on other income sources. It has also developed a poverty index for households based on per capita income, which is not readily convertable to a distribution of household income alone. However, the available data, including information on changes in the minimum wage and consumer price indices (only available for the

Metropolitan Area of San Jose), provide a picture of the uncertain economic conditions in Costa Rica.

Wages of Salaried Workers as of March, 1982

Wage Levels	Tot.No.	% Workers	No. Urb.	% Urb.	% Change from 1981 (urban)
less than C/800	41,144	8.5	14,377	5.7	-2.4%
800-1999	153,522	31.6	50,335	19.8	-8.3%
2000-3999	180,491	37.2	102,310	40.3	+1.3%
4000-5999	68,287	14.1	50,587	19.9	+5.3%
6000 or more	41,735	8.6	36,187	14.3	+4.3%
Totals	485,179*	100%	253,796	100%	

*NOTE: Only for workers with information available on income.

As can be noted from the final column, wages improved slightly between the end of 1981 and March, 1982 with a proportion of workers moving to the middle and higher ranges. The last major wage increase was in March, 1982 when public sector employees received a general increase of C/.1,300 per month. Recent government policy has been to give flat increases which most benefit the lowest salaried employees in the public sector. This policy has caused criticism by large groups of workers and some segments of the government because the overall range of salaries is being greatly reduced; the salaries of many clerical staff are approaching those of professionals, creating a lack of incentives and discontent among technical and management personnel.

Unlike the public sector, the private sector has not yet put into effect an increase for 1982. A proposal was made in April 1982, but is still being negotiated.1/ The mechanism used for the private-sector wage structure is the Consejo Nacional de Salarios which establishes annual changes in the minimum wage. (The Consejo is made up of representatives from labor unions, management and the government.) The new minimal wage, by job category, is approved by a majority vote for the subsequent fiscal year. In the past, increases for all workers have been based to some degree on the percentage increases in the minimum wage, but that practice is changing. Businessmen who are in economic trouble have been less forthcoming with general salary increases, complying only with the legal requirements at

1/A minimum wage is established for many different job categories. The proposal made in April was to increase the minimum wages falling below C/.100 per day by 13.25%, and those above C/.100 by 12%.

the minimum level. In effect, it has caused the same shrinking of the overall wage structure as was noted for the public sector, with higher salaried employees getting fewer and smaller increases than workers at the lowest levels. Also, since the government has been increasing salaries across-the board,
sometimes more than once a year, the public sector wage scale has begun to outpace the private sector.

Despite a series of salary increases over the past two years, the wage structure has lagged behind inflation which has reduced the purchasing power at all levels. Even though households at the lower end of the income continuum have most benefitted from the recent increases, many still need more than one worker to make ends meet in such inflationary times.

The seriousness of the situation can be appreciated by the changes in the average minimum wage. Data exist from 1960 when the nominal minimum wage per day was C/.6.80. The average wage reached C/.80.00 per day as of April, 1982. In 1981, a 27% increase was approved (29% in agricultural activities). However, the real value of the minimum wage declined. The following provides data for comparable years, converted to monthly figures.

Changes in the Average Minimum Wage 1980-1982
(Figures for April of each year)

	Minimum Wage in Current C/s	Real Value/Based on 1975 C/s
April/1980	C/. 936.60	C/.617.28
April/1981	C/.1,191.60	C/.612.00
April/1982	C/.2,040.00	C/.569.76

The consumer price index is updated every few months and is prepared specifically for low and median income families in the Metropolitan Area. Data is available for the February/March, 1982 period which can be compared with figures from last year. The general Price Index for March 1982 was 315.64, up from 173.24 for that period in 1981. (The base year is 1975.) While in March 1981, the annual rate of increase was 21.3%, projecting the current rate would indicate an inflation rate of over 82% annually. The food component of the Index is currently responsible for the major part of the price increases.

Annual Rate of Change (%)

	1981	1982
Food	15.7%	107.5%
Clothing	23.5%	92.5%
Housing(Rents)	25.9%	45.8%
Miscellaneous	26.4%	75.8%
General	21.3%	82.2%

The poverty level established by the government in 1981 was based on per capita income of C/.716. (The estimates of poverty level are based on a basket of consumer items which are considered basic needs.) Data are available for July of that year.

% Population At or Below the Poverty Line
by Region - July 1981

Region	% Total HHs	% Urban HHs
Central Valley (Metr. Area)	49.8% (37.5%)	38.2%
Rest/Country	69.5%	50.4%
General	56.3%	40.4%

A substantial new wage increase is expected for both sectors in August, 1982. The Ministry of Labor (which sponsors most increases for public employees) favors another flat increase of perhaps C/.1,000 per month, but critics see this policy as damaging to the labor market and would like a lare percentage increase which maintains current differences between professional and non-professional job-categories, instead of biasing wage increases toward the lowest earners. Both are likely to be enacted, i.e. an increase of C/.1,000 for public employees, and a percentage increase (perhaps has high as 50%) for the private sector.

D. The Savings and Loan System's Coverage of the Target Population

The average loan sizes for each Mutual in 1981 are compared below with loans made by INVU during the same year. This year's activities are not comparable, first because the Mutuales are currently lending to higher income groups. (Due to the rising cost of money, the terms of loans have risen to the point that only higher income groups can be attracted.) Second, the only program being implement by INVU is HG 006 (Serviced Lots), which is considerably more economic than its traditional projects.

MUTUALES	Average Loan Size - 1981
Alajuela	C/.108,900
Heredia	92,200
Cartago	77,000
La Vivienda	99,444 (San Jose)
Guanacaste	76,100
Puntarenas	70,500
INVU	
San Jose	98,146
Puntarenas	79,083
Limon	119,524

Very little difference can be seen in the types of loans made by INVU and those made by the Savings and Loan System in the past.

D.1 The Geographic Coverage of the Target Population

The performance of the Savings and Loan system over a number of years demonstrates both efficiency as a lending institution and an ability to reach low-income families. One issue which merits attention, however, is the geographic coverage of the urban target group by the associations. The four largest associations---Cartago, Alajuela, Heredia, and La Vivienda (San Jose)---are within a radius of a 40-50 kilometers of each other and tend to serve families in the surrounding area. The Mutuales are not limited to their respective provinces, and it is interesting to note that for the Mutual Alajuela and the Mutual Heredia, 35% and 30% of their respective portfolios pertain to San Jose. The Mutual Cartago even has a collections office in San Jose. In brief, 80-90% of the loans given over the years have been concentrated in San Jose and its immediate environs. Relatively few loans are made in the more distant urban centers of each province or in the peripheral provinces by the four big Mutuales.

The two smallest Mutuales, Guanacaste and Puntarenas, represent only 4% of the system's total portfolio. Limon does not have a Mutual of its own. It is covered by a branch office of the Cartago association. (Cartago is the only Mutual with branch offices: Limon, Turrialba, and a collections office in San Jose.) Also, these two associations are the newest and the weakest financially.

Public institutions have been only somewhat more active in the peripheral provinces. Only INVU has developed major projects in the outlying provinces in the past few years, particularly in Puntarenas. The distributions of the number of units and the amounts invested by nine private and public institutions in the various provinces is provided for 1980. SNAP is not included.

% Distributions of Investments* by Province - 1981

Province	%Units	% Change 80-81	% Funds	% Change 80-81
San Jose	48%	-1%	64%	+7%
Alajuela	9%	-5%	8%	-2%
Cartago	22%	+11%	11%	-1%
Heredia	3%	-3%	3%	-4%
Guanacaste	4%	-2%	3%	-1%
Puntarenas	11%	+1%	8%	+1%
Limon	3%	-1%	3%	0

Totals 5,784 units C/.594,444,500

*Institutions: Banco Credito Agricola de Cartago, Banco Anglo Costarricense, Banco de Costa Rica, Banco Nacional de Costa Rica, CCSS, INS, Banco Popular, IMAS, INVU.

Some limitations exist for working in the outlying provinces. As has been noted, Limon presents conditions which are particularly difficult with problems of tenure, infrastructure, etc. Construction capacity is limited in all of these areas. On the other hand, these provinces represent a large market for the types of units included in HG 007 and good possibilities exist for expansion of the Savings and Loan system, at least in Guanacaste and Puntarenas, if not in Limon as well. The role of SNAP in the coastal communities and Guanacaste needs study, to determine how it can better serve these populations. The small associations should be analyzed to determine whether corrective steps can produce long-term viability, or whether they should be absorbed into the larger associations, with different outreach mechanisms.

A. DECAP

El DECAP, en tanto que organismo central del sistema, enfrenta, entre otras, tres situaciones críticas:

a) Alto porcentaje de la cartera a tasa fija apoyada en recursos de tasa variable y creciente.

b) Porcentaje mayoritario de los recursos, está conformado por endeudamiento externo, donde el pago de diferencial por nuevo tipo cambiario, de serle aplicable alteraría totalmente su sanidad financiera.

c) Debilitamiento de la posición financiera de las asociaciones de ahorro y préstamo, y necesidad de mejorar los instrumentos productivos de las mismas.

A.1 Estructura de recursos del DECAP

La operación de descuento hipotecario a las entidades aprobadas, se efectúa en base a tres canales de recursos que prestan al 30-4-82, la siguiente estructura:

1-1	Captación en el mercado local:	C 147,471,000	(10%)
	- Participaciones hipotecarias:	C 39,058,000	
	- Depósitos a plazo:	C 108,413,000	
1-2	Recursos aportados por Organismos Nacionales:	C 337,835,000	(23%)
	- Banco Central de Costa Rica:	C 331,400,000	
	- Gobierno de Costa Rica:	C 6,435,000	
1-3	Recursos Adeudados a Organismos Internacionales:	C1,007,399,000	(67%)

	A	B
- A.I.D.	C 19,171,000	C 8,143,000
- B.I.A.P.E.	C 131,500,000	C 56,150,000
- B.C.I.E.	C 256,728,000	C256,728,000
- Orion Bank	C 500,000,000	C213,500,000
- Canadian American Bank	C 100,000,000	C 42,700,000
TOTAL.....	C1,007,399.000	C577,221,000

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a. Es preciso dejar establecido que en este caso las sumas debidas están incrementada en C430,177,000, en concepto de ajuste por devaluación para cuyo pago aún no se ha fijado el origen de los fondos. La contrapartida en el activo es "Cuentas por cobrar varios".

b. La cifras corresponden a los colones que efectivamente están incorporadas a la cartera hipotecaria.

No obstante la distorsión creada por la partida en mención, [illegible]remos el pasivo Internacional por 1,007 millones tal y como aparece en el [illegible]e.

De lo anterior, claramente se desprende la dependencia del DECAP de [illegible]sos externos para el apoyo al sistema de ahorros y préstamo.

A.2 Costo de los Recursos:

De acuerdo a la composición de la cartera se tienen las siguientes [illegible]s efectivas al 30-4-82:

- Mercado Interno:
- Mercado Secundario: 16%
- Depósitos a Plazo: 21%
  Tasa media: 19%

- Organismos Nacionales: 9%
- Organismos Internacionales: 8%

A.3 Activos Productivos

El activo productivo por excelencia del DECAP es la Participación [illegible]tecaria que compra a las entidades aprobadas. En el último período han [illegible]do relevancia las inversiones debido a la alta liquidez generada por las [illegible]tidas pendientes de pagos a cartera internacional.

Situación al 80 - Abril 1982:

- Inversiones en bonos y valores	138,434,000	12%
- Participaciones Hipotecarias compradas	989,945,000	88%
TOTAL	1,128,379,000	100%

Tasa de Retorno:
- Inversiones 24%
- Participaciones Hipotecarias 14%

A.4 Relación Activos Productivos/Costos de Recursos:

En el transcurso del presente año, el efecto combinado de fuertes [illegible]rsiones y bajo costo del dinero en el mercado internacional, ha permitido [illegible]volverse al DECAP, con una relación financiera saneada.

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- Ingresos cartera	C43,639,000 -
- Gastos financieros	C43,835,000 -
Diferencia	(196,000)
- Ingresos de inversiones	C 9,516,000 -
- Gastos generales	4,529,000)-
- Otros ingresos	1,098,000 -
- Resultado final	5,889,000 -

...TO (000)	ESTRUCTURA DE BALANCES				PARTICIPACION PORCENTUAL			
	1979	1980	1981	1982 (A)				
...ible/Inversiones	10,508	77,888	71,060	138,966	2%	9%	5%	9%
...ipaciones Hip.	621,511	764,367	923,277	989,945	95%	88%	62%	60%
...Activos	19,781	30,620	483,771	500,311	3%	3%	33%	31%
TOTAL	651,800	872,875	1,478,108	1,629,222	100%	100%	100%	100%
...IVO								
...itos	35,569	46,191	86,762	108,413	6%	6%	6%	7%
...ipaciones Hip.	100,210	80,764	43,336	39,058	15%	9%	3%	2%
...mos Internos	105,810	160,350	265,935	337,835	16%	18%	18%	21%
...mos Externos	380,426	549,400	985,755	1,007,398	58%	63%	67%	62%
...Pasivos	5,371	10,766	63,127	96,581	1%	1%	4%	6%
...vas Técnicas	13,332	16,741	18,919	19,774	2%	2%	1%	1%
...Neto	11,082	8,653	14,274	20,163	2%	1%	1%	1%
TOTAL....	651,800	872,875	1,478,108	1,629,222	100%	100%	100%	100%

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A.5 Posición Financiera:

Como anteriormente se ha examinado, los ingresos de cartera, justo cubren los gastos financieros. Los gastos generales, se pagan de otros ingresos, en la situación actual, si se quisiera asumir con cargo a cartera, dichos gastos es necesarios aumentar el diferencial en un 1% como se ve a continuación, operando los datos al 30 de abril de 1982:

Gastos financieros: 43,835 - Rendimiento requerido: 15%
Gastos generales: 4.529 - Rendimiento efectivo: 14%
TOTAL.....48.364

Cualquier variación sensible en el mercado internacional del dinero directamente afecta a la rentabilidad del DECAP, dado que al presente no existe relació alguna entre Ingresos Hipotecarios y Gastos Financieros.

B. Asociaciones:

La crítica situación que ha afectado al mercado financiero del país, producto de una severa recesión incidió en el sistema de ahorro y préstamo alterando seriamente su posición financiera.

Las causas básicas se encuentran en la:

1. Pérdida de rentabilidad debida a un rápido aumento en el costo de los recursos no compensado con una mayor rentabilidad en la cartera.

2. Reducción de actividad, efecto de una menor captación y consiguientemente un fuerte descenso en el ritmo de colocaciones.

B.1. Operaciones pasivas - Captación de recursos

B.1.1 Ahorro libre:

El ahorro libre ha sido el instrumento típico de captación de recursos en los sistemas de Ahorro y Préstamo. No ha sido esta la caracaterística en lo que a el sistema Costa Ricense se refiere, y por ello un recurso barato que pudiera haber ayudado en un período como el actual, es escaso en el sistema.

Cuadro de Captación
(000 de Colones)

Mutual	979		1980		1981		30 IV 82	
Cartago	11.443	26%	13.573	26%	16.006	24%	16.788	26%
La Vivienda	7.445	17%	9.366	18%	10.949	17%	11.258	17%
Heredia	8.295	19%	9.542	19%	13.842	21%	13.207	20%
Alajuela	13.382	30%	16.160	32%	20.777	32%	29.575	30%
Punta Arenas	2.068	5%	1.717	3%	2.458	4%	3.129	5%
Guanacaste	1.223	3%	1.207	2%	1.551	2%	1.610	2%
TOTAL	43.856	100%	51.565	100%	65.383	100%	65.586	100%

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El crecimiento absoluto apenas alcanzó un 50% en más de tres años, lo que atendida la inflación no es muy significativo.

Para evaluar esto con más precisión, a continuación los datos del ahorro libre en el Sistema Bancario Nacional.

Depósitos de ahorro (000)	1979	1980	1981	%
a. Sistema Bancario	1.309.000	1.267.300	1.443.800	10.3%
b. Sistema de Ahorro y Préstamo	43.856	51.565	65.583	49.5%
% B/A	3.35%	4.07%	4.5%	34.3%

Si bien los ahorros en el sistema tienen un mejor comportamiento que en el mercado en general, la penetración, a diez años del sistema, un 4.5% es mínima, efecto lógico de la practicamente nula promoción realizada.

El total de cuentas de ahorro en el sistema al 31-XII-81, sumaban 65.615, de las que 26.677 es decir un 40.7% correpondían a prestatario de financiamiento de vivienda, y el 59.3% de las cuentas correspondían a ahorro realmente libre.

Finalmente, en un período en que el problema básico del sistema viene dado por el alto costo de los recursos, el ahorro con una tasa nominal del 8% tuvo el siguiente costo:

	1979	1980	1981	30-IV-82
Interés efectivo pagado	6.48%	6.27%	6.32%	6.53

B.1.2 Captación de depósito a plazo -

Este instrumento se ha convertido en la principal fuente de recursos del sistem, y en el más importante mecanísmo de ahorro inversión en todo el sistema Bancario. El costo creciente de estos recursos, a los que tiene que acceder el sistema de A y P en el mercado de libre competencia ha sido una de las causas fundamentales de la pérdida de rentabilidad del mísmo.

En la actualidad, el depósito a plazo más demandado es a 6 meses con un retorno del 21.75%.

El cuadro comparativo de captación de depósitos a plazo es el siguiente (en 000 de colones):

Mutual	1979		1980		1981		30-IV-82	
Cartago	33,507	26%	56.309	25%	82.149	22%	81.735	22%
La Vivienda	30.204	23%	57.329	25%	91.496	25%	76.840	21%
Heredia	19.010	15%	32.596	14%	46.286	13%	51.295	14%
Alajuela	46.082	35%	76.402	33%	139.767	38%	149.940	40%
Punta Arenas	646	0.6%	2.959	1%	3.701	1%	4.337	1%
Guanacaste	463	0.4%	3.730	2%	4.407	1%	5.497	2%
TOTAL	129.912	100%	229.325	100%	367.806	100%	369.644	100%

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El crecimiento absoluto alcanzó un 184% lo que atendida la situación es importante como recurso interno establece. Para evaluar el comportamiento comparativo se relacionarán las cifras anteriores con las del mercado de depósitos a plazo en el sistema bancario.

Depósitos a Plazo (en 000 de colones)

	1979	1980	1981	%
a. Sistema Bancario	3.569.000	4.716.300	6.488.700	82%
b. Sistema de Ahorro y Préstamo	129.912	229.325	367.806	183%
% b/a	3.64%	4.86%	5.67%	56%

El desarrollo del anterior cuadro muestra primero la perfecta aptitud de A y P para competir y segundo la escasa penetración en el sector.

La tasa efectiva de costo de estos recursos, evolucionó como sigue:

	1979	1980	1981	1982(April)	%
Interés pagado	14.27%	16.24%	20.76%	20.55%	44.6%

Con claridad se ve la sensibilidad de estos recursos a la tasa de interés y su impacto en la rentabilidad de la asociación.

B.1.3 Venta de Participaciones Hipotecarias

Este instrumento ha perdido la importancia que como recurso tuvo en otro momento al no ofrecer hoy ninguna atractivo adicional sobre el depósito a plazo para el inversionista.

La evolución aparece en el siguiente cuadro:

	1979	1980	1981	1982(Abril)	%
Participaciones hipotecarias (en 000 de Colones)	118.687	138.600	93.774	101.576	(14.4)
Interés pagado)	11.57%	14.74%	13.73%	18.64%	61.1%

Proporcionalmente ha sido el recurso que más rapidamente ha aumentado el costo ya que las renovaciones han tenido que ajustarse a la tasa efectiva del mercado.

B.1.4 Financiamiento del DECAP -

Historicamente, la fuente más importante de recursos ha sido el DECAP, operando a través del descuento de participaciones hipotecarias a las asociaciones. La magnitud de esta actividad, aparece en el siguiente cuadro:

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(000 de Colones)

Mutual	1979		1980		1981		30-IV-82	
Cartago	112.244	25%	151.743	27%	200.790	29%	225.097	70%
La Vivienda	158.206	36%	189.031	33%	215.569	31%	230.547	30%
Heredia	92.866	21%	110.350	20%	122.449	17%	129.778	17%
Alajuela	56.791	13%	85.137	15%	103.028	15%	106.785	14%
Punta Arenas	10.126	2%	14.337	2%	32.055	5%	37.022	5%
Guanacaste	11.255	3%	16.703	3%	24.690	3%	26.330	4%
TOTAL...	441.488	100%	567.301	100%	698.580	100%	755.559	100%

La tasa de crecimiento ha sido en el período de un 71%, e indiscutiblemente factor esencial de la actividad del sistema, asi como de su rentabilidad.

A continuación el análisis del costo de estos recursos:

	1979	1980	1981	1982 (Abril)
Interés pagado al DECAP:	11.92%	13.24%	13.75%	13.75%

Para evaluar con propiedad la importancia de cada una de las fuentes de fondos y su evaluación, brevement se presentan, a continuación, los datos relevantes de las mismas.

	1979		1980		1981		30-IV-82	
	Monto	%	Monto	%	Monto	%	Monto	%
Ahorro Libre	43.856	6%	51.565	5.1%	65.583	5.2%	65.586	5%
Depósito a Plazo	129.917	17.6%	229.325	23.3%	367.806	30%	369.644	28.6%
Participaciones Hipotecarias	118.687	16.4%	138.600	14.1%	93.774	7.8%	101.576	7.9%
Sub-total A	292.455	40%	419.490	42.5%	527.163	43%	536.806	41.5%
Financiamiento Decap	441.488	60%	567.301	57.5%	698.580	57%	755.559	58.5%
Sub-total B	441.488	60%	567.301	57.5%	698.580	57%	755.559	58.5%
TOTAL A&B	733.943	100%	986.791	100%	1.225.743	100%	1292.365	100%

De acuerdo con la situación precedente, los costos de los recursos del público conforman el siguiente cuadro:

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	1979			1980			1981			1982 (Abril)		
	1	2	3	1	2	3	1	2	3	1	2	3
Ahorro Libre	15%	6.48%	0.97	12.3%	6.27%	0.77	12.4%	6.53%	0.80	12.2%	6.79%	0.83
Depósito a Plazo	44.4%	14.27%	6.34	54.7%	14.24%	7.79	69.8%	20.76	14.49	68.8%	20.55%	14.14
Participaciones Hipotecarias	40.6%	11.57%	4.7	33%	14.74%	4.86	17.8%	13.73%	2.45	19%	18.64%	3.54
TOTAL	100%	----	12.01	100%	---	13.42	100%		17.72	100%		18.48

1. Participación en el total de recursos del público
2. Costo efectivo en el período
3. Costo ___ (1x2)

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El costo de los recursos en el mercado creció en el período un 58%. La tasa total, incluyendo los recursos del DECAP, respondió a los siguiente índices:

	1979			1980			1981			1982 (Abril)		
	1	2	3	1	2	3	1	2	3	1	2	3
Recursos del Mercado	40%	12.01%	4.8	42.5%	13.42%	5.7	43%	17.71%	7.62	41.5%	18.48%	7.67
Financiamiento DECAP	60%	11.92%	7.15	57.5%	13.42%	7.61	57%	13.75%	7.84	58.5%	13.90%	8.14
	100%		11.95%	100%		13.31	100%		15.46	100%		15.81

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B.2 Operaciones Activas -

Las operaciones productivas básicas, hasta el presente, están conformadas por los préstamos hipotecarios, las inversiones en depósitos y valores, asi como una comisión en el cierre de los préstamos.

B.2.1 Préstamos hipotecarios -

A continuación, la evolución de la cartera que es la base esencial de los recursos de la asociación:

(000 de Colones)

Mutual	1979		1980		1981		1982(Abril)	
Cartago	214.367	30%	271.965	29%	335.700	29%	338.384	21%
La Vivienda	224.157	31%	292.166	31%	333.813	29%	341.436	29%
Heredia	125.979	17%	153.540	16%	174.311	15%	180.861	15%
Alajuela	134.125	18%	189.571	20%	238.256	21%	238.309	20%
Punta Arenas	11.985	2%	18.452	2%	37.191	3%	40.155	6%
Guanacaste	11.357	2%	18.578	2%	28.477	2%	30.023	3%
TOTAL.....	721.970	100%	944.272	100%	1.147.748	100%	1.169.168	100%

El crecimiento total de la cartera alcanzó un 62%. De estos antecedentes de desprende la pérdida de velocidad en las colocaciones, ya que durante el primer cuatrimestre de 1982, se prestaron 20,420.000 Colones, frente a 68,158.000, Colones en el mismo período del pasado año, es decir un descenso del 70%.

El rendimiento que esta cartera proporcionó fue como sigue:

	1979	1980	1981	1982 (Abril)
Tasa efectiva:	12.73%	13.95%	15.29%	15.75%

El rendimiento de la cartera creció en el período un 24%, frente a un 32% en el costo de los recursos.

B.2.3. Proyección de resultados (30-Abril-82)

a. Cartera Promedio en período: C/.1,158.458.000
-Intereses producidos 60.657,507
-Tasa de retorno anual 15,71%

b. Total promedio de recursos de terceros C/.1,259.054.000
- Intereses pagados 66,347.805
- Costo anual 15.81%

c. Proyección de Pérdida:

1.158.458.000 X 0.1571 = 181.993.750 - Ingreso por intereses
1.259.054.000 X 0.1581 = 199.056.440 - Pagos por intereses
Resultado = (17.06.870)

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Existe un manejo netamente negativo que exijiría una rentabilidad mínima de la cartera de un 17.61%, es decir 1.86% más sobre el actual 15.75%.

C. Situación financiera del sistema de Ahorro y Préstamo -

C.1 Análisis de los Balances:

Brevemente se desarrollan los balances del sistema tomando, en primer lugar, los valores en colones corrientes y seguidamente, como porcentaje de participación de cada rubro.

-ACTIVO- (000)	ESTRUCTURA DE BALANCE				PARTICIPACION PORCENTUAL			
	1979	1980	1981	1982 (Abril)	1979	1980	1981	1982
Disponible	8.437	12.278	13.278	29.439	1.11%	1.25%	1.05%	2.22%
Inversiones	9.885	21.702	37.728	45.639	1.30%	2.13%	2.99%	3.44%
Prestamos	721.970	944.272	1.147.748	1.169.168	94.81%	92.52%	90.95%	88.24%
Activo Fijo	3.709	7.734	12.281	13.339	0.49%	0.76%	0.97%	1.01%
Otros Activos	17.455	33.304	50.938	67.497	2.29%	3.27%	4.04%	5.09%
Total	761.456	1.019.793	1.261.976	1.325.082	100%	100%	100%	100%
PASIVO-								
Depositos	292.455	419.490	527.163	536.791	38.41%	41.13%	41.77%	40.51%
F. DECAP-	441.489	567.302	698.582	755.559	57.98%	55.63%	55.36%	57.02%
Otros Pasivos	12.989	16.763	24.937	27.816	1.71%	1.64%	1.98%	2.1%
Reservas	7.396	9.585	13.779	12.218	0.97%	0.94%	1.09%	0.92%
Utilidades	7.127	6.653	(2488)	(7302)	0.94%	0.66%	(0.2)	(0.55%)
TOTAL	761.456	1.019.793	1.261.973	1.325.082	100%	100%	100%	100%

Si bien una descripción y análisis integral sería en estos momentos demasiado extensa, es preciso destacar los siguientes puntos que inciden en los resultados negativos del sistema:

a. Los fondos líquidos del sistema han crecido de un 2.41% en 1979, a un 5.66% para Abril de 1982. Lo que si bien puede tener justificación como protección frente a situaciones de iliquidez, afecta la rentabilidad.

b. Los activos productivos, considerando como tales, las inversiones y los préstamos, pasaron de un 96.11% en 1979 a un 91.68% en Abril de 1982, con la consiguiente pérdida de rendimiento global y la carga adicional que ello supone de sportar un pasivo.

c. Los recursos de capital, entendiendo como tales las reservas y utilidades, pasaron de ser el 1.91% de los activos en 1979, a un 0.37%, con un un descenso del 80.6%. Se está próximo a la descapitalización total del sistema.

d. Dado que los índices arriba mostrados traducen una realidad promedio, las estrategias internas que el sstema adopte deberán considerar lo dispar del estado de situación las diferentes asociaciones.

A modo indicativo, compararemos los índices al 31 de abril de 1982, de las que están en mejor y peor situación y que denominaremos A.R. a la primera, B.R. a la segunda, o alta rentabilidad.

ACTIVO	A. R.	B. R.
Disponible	1.39%	0.75%
Inversiones	3.82%	8.50%
Préstamos	91.72%	82.02%
Activo Fijo	0.62%	0.59%
Otros Activos	2.45%	8.14%
TOTAL..	100%	100%

PASIVO		
Depósitos	34.03%	62.73%
Fondos DECAP	61.93%	36.75%
Otros Pasivos	1.94%	1.71%
Reservas	1.23%	0.29%
Utilidades	0.87%	(1.48%)
TOTAL	100%	100%

1. Fondos liquidos - A.R.= 5.21%
   B.R.= 9.25%

2. Activos Produtivos- A.R.=95.54%
   B.R.=90.57%

3. Recursos de Capital-A.R.= 2.10%
   B.R.=(1.19%)

4. En el pasivo se destaca el fuerte uso de fondos de costo medio del DECAP, 61.93%, usado por A.R., frente a con el 62.73%, de recursos caros de mercado base del financiamiento en B.R.

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Para este análisis individual, no se ha considerado la mutual Guanacaste, cuya situación de pérdida e indices distorsionaría cualquier comparación y que exige un tratamiento especial y urgente de parte de la DECAP.

C.2 Análisis del estado de pérdidas y ganancias -

Para cuantificar la incidencia de los cambios en la situación financiera, se desarrolla a continuación el estado de pérdidas y ganancias del sistema de A y P.

ANEX IX

Ingresos (000)	ESTRUCTURA DE RESULTADOS 1979	1980	1981	1982 (Abril)	PARTICIPACION PORCENTUAL 1979	1980	1981	1982 (A)
Int. s/Inversiones	394	1.382	4.825	2.63	0.44%	1.05	2.66%	3.8%
Int. s/Préstamos	75.771	116.258	160.038	60.657	85.1%	88.05	88.12%	88. %
Comisiones	12.013	13.346	14.900	5.220	13.49%	10.11%	8.2%	7.6%
Varios	869	1.049	1.851	337	0.97%	0.79%	1.02%	0.5%
TOTAL..	89.047	132.035	181.614	68.851	100%	100%	100	100%
Gastos (000)								
Generales	13.057	17.472	20.873	7.956	14.66%	13.23%	11.49%	11.56%
Financieros	71.718	114..302	168.662	66.347	80.54%	86.57%	92.87%	96.36
Varios	122	382	612	366	0.14%	0.29	0.34%	0.53
Sub-total	84.897	132.156	190.147	74.670	95.34%	100.09%	101.7%	108. %
Utilidad	4.150	(121)	(8.533)	(5.819)	4.66%	(0.09)%	(4.7%)	(8.)
TOTAL...	89.047	132.035	181.614	68.851	100%	100	100%	100%

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Con preocupante claridad aparece como la causa del deterioro, el aumento en los gastos financieros que superan los ingresos financieros, al tiempo que las comisiones, producto de los préstamos, han descendido en un 42% debido a la falta de actividad en el sector. Se detectan ciertas acciones positivas como el control de los gastos generales, que porcentualment descienden un 18.5% y el aumento de los intereses sobre inversiones, que crece un 836%, pero todo ello no absorve el aumento de costo de los fondos poniendo en peligro la situación al sistema.

Por las mismas razones anteriormente expuestas, se hará, a continuación, una referencia comparativa de índices entre las dos asociaciones con resultados más dispares.

INGRESOS	A.R.	B.R.
Int/S Inversiones	2.68%	10.3%
Int/S Préstamos	89.16%	84.39%
Comisiones	7.69%	5.13%
Varios	0.47%	0.18%
TOTAL....	100%	100%

Claramente aparece que el peso de los costos financieros ha distorsionado la función de la asociación de B.R.

GASTOS		
Generales	10.12%	9.18%
Financieros	94.82%	100.09%
Varios	-----	------
Sub-total	104.94%	109.27%
Utilidad	(4.94)	(9.27%)
TOTAL.....	100%	100%

C.3 Estructura de índices -

C.4 Resultados sobre los activos promedios -

Tomando como punto de referencia los activos promedios, el comportamiento del sistema ha evolucionado de acuerdo a los siguientes índices:

	1979	1980	1981	1982 (A)
Ingresos por operación	14.04%	14.71%	15.76%	15.07%
Gastos de administración	(2.08%)	(1.96%)	(1.83%)	(1.81%)
Ingresos operacionales neto	11.96%	12.75%	13.93%	13.26%
Gastos financieros	(11.42%)	(12.83%)	(14.78%)	(14.38%)
Ingresos-Gastos no operacionales	0.12%	0.07%	0.11%	0.07%
RESULTADO.....	0.66%	(0.01%)	(0.74%)	(1.05%)

El crecimiento de los gastos financieros ha dejado de ser soportado por los ingresos de operación, pese a la reducción en los gastos generales.

La situación deficitaria se incrementa de modo permanente y rápido que exige acciones radicales e inmediatas.

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D. Impacto del programa HG en lo financiero.

D.1. Tasa de cambio a aplicar -

Para poder cuantificar en el momento de proyectar el programa el volúmen de moneda local aplicable, se precisa conocer la tasa de cambio.

A la fecha y por las especiales circunstancias que atraviesa el país, existen tres diversos régimenes cambiarios a saber:

a. Paridad 20 colones por dólar o tasa oficial. En la práctica sólo se aplica a transacciones especiales de tipo prioritario.

b. Paridad de 38 colones por dólar, o tasa interbancaria. Es la tasa establecida por el Banco Central y a través de la cual se efectúan la casi totalidad de las transacciones financieras.

c. Mercado Libre - En la actualidad, y con un cambio de 63 colones por dólar este mercado paralelo queda sujeto a la libre especulación y es usado por el público y comerciantes para obtener dolares en todos aquellos casos en que no los pueden conseguir o con dificultad del Banco Central, o Banca Comercial. Aqui no puede hablarse con propiedad de tasa de cambio legal.

A los efectos del préstamo HG debe asumirse como la tasa de cambio probable la interbancaria, es decir colones 38 por dólar.

Con esto, el impacto de recursos para el sector cualificado de vivienda sería de colone 1013 millones integrados por

HG	US$20.000.000x38 = Colones 760.000.000		
SINAP	US$ 4.000.000x38 = Colones 152.000.000	(se entiende que es equivalente su aporte a US$4)	
TOTAL.....	Colones 912.000.000		
Aporte prestatarios 10%	Colones 101.000.000		
TOTAL.....			1.013.000.000

D.2 Promoción del Ahorro -

Uno de los objetivos básicos del programa es fortalecer el componente de ahorro interno que el sistema use en su financiamiento, reduciéndose asi la dependencia del recurso externo. En esta misma líne se busca lograr una fuerte penetración del ahorro por libreta de modo de hacer menos oneroso el costo promedio de los recursos. En este orden de cosas se cuenta con los siguientes antecedentes:

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D.2 Potencial de ahorro -

El ahorro interno a efectos de captación por parte de las asociaciones se distribuye en ahorro corriente y depósitos a plazo, recursos estos que muestran el siguiente confortamiento en el sistema bancario en su comparación con A y P.

(MILLONES DE COLONES)

AÑO	Depósitos de Ahorro			Depósitos a Plazo		
	S/Bancario	SINAP	%	S/Bancario	SINAP	%
1978	1.272.1	33.6	3%	2.546.6	47.6	2%
1979	1.309.	43.8	3%	3.569	129.9	4%
1980	1.267.3	51.6	4%	4.716	229.3	5%
1981	1.443.8	65.5	5%	6.488	367.8	6%

El índice de penetración del SINAP no ha sido considerable, en ningúno de ambos campos y en especial en ahorro corriente. La historia comparativa destaca el menor crecimiento del ahorro corriente frente al depósito a plazo.

D.3 Participación de recursos internos en el HG -

Con el fin de incentivar la penetración del SINAP en el mercado del ahorro libre, se deben establecer nuevos mecanísmos que produzcan este resultado. Con base en los antecedentes de mercado, se estima prudente considerar una mezcla de fondos de acuerdo a los siguientes limites para enterar la contrapartida local equivalente a 12 millones de dólares.

40% de ahorro libre equivalente a Colones 182.4 millones -
60% de depósitos a plazo a Colones 273.6 millones-

De acuerdo a las actuales tasas efectivas pagads, los fondos asi captados tendrían un 15% de costo promedio de interés.

D.4 Estrategias de captación de ahorros-

Un cambio de esta naturaleza en cuanto a la posición del SINAP frente al ahorro exige ciertas medidas básicas.

a. Estudio del mercado del ahorro y del comportamiento de los Ahorristas.

b. Cambio del comportamiento del SINAP

b-1: Estrategia de preparación de personal
b-2: Estrategia de desarrollo de puntos de venta.

c. Campaña de promoción y publicidad considerando -

c-1: Nuevos servicios
c-2: Campañas específicas (Ahorro Escolar Heredia).

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d. Análisis y diseño de nuevos instrumentos de captación del ahorro, combinando..

d.1 Alta liquidez

d.2 Bajo costo: (Análisis especial de recursos en cuentas corrientes en Bancos comerciales).

d.3 Receptividad del mercado a nuevos instrumentos.

D.5 Aplicación de la tasa variable -

La acción combinada de cartera a tasa fija y costos de recursos variables es factor fundamental de la actual posición negativa del sistema.

Apartir de marzo de 1979, se introdujo en las escrituras la cláusula que autoriza variar la tasa. En consecuencia, la cartera anterior a dicha fecha no es susceptible de modificación. Historicamente, sólo se ha aplicado la variación una sola vez, en 1981, este es un aspecto que debe dinamizar el SINAP, para mejorar su rendimiento.

a. Estructura actual de la cartera: (al 31 de marzo-82)

TOTAL CARTER SINAP (millones)	Colones	1.178	100%
Tasa Fija	Colones	715	61%
Tasa Variable	Colones	463	39%
PARTICIPACION PORCENTUAL			
Tasa Fija-total	Colones	715	100%
DECAP	Colones	504	70%
A y P	Colones	211	30%
TASA VARIABLE	Colones	463	100%
DECAP	Colones	222	48%
A Y P	Colones	241	52%
ESTRUCTURA DE LA CARTERA VARIABLE			
CARTERA VARIABLE	Colones	463	100%
PHG	Colones	195	42%
Cartera 24% y 26%	Colones	63	14%
Cartera a 21.75%	Colones	205	44%

La cartera que actualmente puede movilizarse es la correspondiente al 21.75%. la cartera PHG, por ser programa gubernamental con costos específicos, su variación no está en la discrecionalidad del sistema. De otro lado la cartera al 24% y 26% no es susceptiblr actualmente de cambio.

b. Incidencia de la variación en la tasa de interés -

Asumiendo que en un futuro próximo permanecerán los costos del dinero en los límites actuales, pudiera programarse el aumento de las tasas al 21.75, hasta llevarlas al 24, en tres ajustes de 0.75.

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Podría establecerse como hipótesis de trabajo -

30- 9-82 aumento de 21.75% a 22.50%
30- 6-83 aumento de 22.50% a 23.25%
31-12-83 aumento de 23.25% a 24%

Durante el desarrollo del programa HG la incidencia de estos ajustes producirá en lo financiero un aumento de ingresos superior a los trece millones de Colones.

PERIODO	ACTUAL	AJUSTADA (000 de Colones)	DIFERENCIA	%
30-9-82/30-06-83	37.822.5	38.763.45	940.95	+2.49
01-7-83/31-12-83	25.215.	26.481.90	1.266.9	+5.02
01-1-84/31-12-86	151.290.	162.729.	11.439.	+7.56
TOTAL....	214.327.5	227.974.35	13.646.85.	+6.37

La diferencia en el impreso es como puede observarse sustancial, y cualquier alza en el costo de los recursos debe conllevar una movilización global de todos los activos ajustables.

D.6 Problemas en la aplicación de la tasa variable -

Ha existido una sensible demora en la aplicación de la tasa variable debido a una pluralidad de causas entre las que cabe destacar:

a. Dificultad de introducir el concepto de tasa variable en el prestatario por inexistencia de experiencias previas en el mercado.

b. Falta de generalización en el procedimiento. Al ser las únicas instituciones de vivienda en aplicar la tasa variable, aparecieron ante la opinión pública como gravando la cartera de modo arbitrario, con el consiguiente impacto, en la imagen del sistema.

c. Falta de reglamentación adecuada, lo que produjo:

c.1 Inseguridad del público en cuanto a la previsibilidad de las condiciones de aumento futuro.

c.2 Ausencia de plainificación y programación sobre aumentos periódicos que evitaran el impacto de un alza brusca de las tasas.

Deben, para ajustes futuros, considerarse estos problemas y no verse enfrentados de nuevo a situaciones tan delicadas.

d. Como un mecanísmo para paliar el peso de la cartera a tasa fija, las asociaciones están exigiendo aumento de tasa en los préstamos morosos que piden renegociación de la deuda.

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