ISN - 46462

FINAL

EVALUATION OF EL SALVADOR 519-HG-006 A & B

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DATE: May 23, 1986

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EXECUTIVE SUMMARY

HG ØØ6 A & B has built and financed housing products for 6,2Ø3 below median income beneficiaries, 25% fewer than was originally planned. Sites-and-service type projects replaced home improvements, a key product in the plan. The disbursement period has taken 6 years, instead of the 18 months originally expected.

As an original PP design team member, the author believes the PP initially had major flaws from the start, particularly in many of the underlying assumptions and the institutional analysis. As a result, this evaluation lacks benchmarks to which final results can be realistically compared.

Even with this track record, two out of the three institutional objectives have been met, although not within the timeframe, magnitude or composition originally envisioned:

- Redirection of resources to low income families.
- Expansion of shelter services to low income families in secondary cities.

The third institutional objective, rationalization of interest rates, has not been achieved. Interest rates for low cost housing currently range from 4%-6% at FSV (Fondo Social Para La Vivienda, a parastatal) to 12% at IVU.

The original policy precluded FSV from the HG program because of its 4%-6% interest rate terms charged to below median income borrowers, which seemed to undercut the going interest rates of some financial institutions.

This specification was waived last month, in order to expedite disbursement of the remainder of the $15 million. FSV, while not a HG Implementing Agency, is, in fact, the only institution that provides long term financing to below median income households in substantial volume.

FSV loans were substituted for mortgage value which one of the implementing agencies, CASA (savings and loan), was supposed to submit in exchange for HG disbursements. CASA's sub-par project selection and management, including its financing low cost housing construction, only to let the long term financing partially slip away to FSV, is the reason. This performance is one factor for the delays in HG disbursements.

Delays in HG disbursements have been a continuous problem. The delays have occurred for a variety of reasons:

- The technical inability of IVU and FNV/CASA, the two major implementing agencies, to produce HG eligible projects on any reasonable schedule.

  IVU, from the start, has been unable to design and implement reasonably priced housing projects in less than 2 to 3 years. It is technically unable to prepare project budgets, work plans, and cost schedules that are required and must be approved by AID through SETEFE.

  IVU has many of the same ooperating charactistics as it did in 1980. Its departments function as independent, politically affiliated entities that fight one another. It is over-staffed, with the personnel showing minimal skills. It is totally dependant on the GOES for funds. Graft, corruption and feather-bedding are alleged to dominate its house production activities. Administrations, from middle managers and above, change about once a year. It only produces about 500 housing units per year, most of which are for the lower end of the middle income.

  In essence, HG 006 seems to have had little impact on IVU's operations. This trend has been so disappointing that a coordinating unit was formed within IVU to do IVU's work as far as HG eligible projects are concerned.

  IVU has remained an Implementing Agency, because it is the only institution in the low cost housing business that at least tries to sell its products at lending terms approaching commercial levels- 12%.

  CASA, the savings and loan, borrowed HG funds through FNV for two projects. One project, Prados de Venecia, involved construction financing for low income housing. Upon completion, CASA was only able to come up with mortgages eligible for two thirds of the HG funds that it had borrowed. The developer had apparently sold units to families, who turned around and secured long-term financing through the lower rates offered by FSV.

  CASA's other HG eligible project, La Toma, was only partially built, on account of unexpected guerilla activity in the area, the proximity of illegal communities where land cost about a third of what it cost at the project site, and unexpectedly high sewerage cost requirements , making the finished units unaffordable to below median income borrowers.

These types of developments resulted in major delays as well as 14% HG money ultimately being on-loaned @ 4%-6%.

- The borrower, GOES, has frequently gone into arrears. This position automatically freezes the transfer of HG funds from the Escrow Agent in the US to the Borrower. ANDA generated HG projects have been particularly affected by such external delays over the last year.

- Housing programs carried out by government implementing agencies, once designed, approved and the funds disbursed by the Escrow Agent to the GOES, must wait several months in order to be inserted as a line item in the National Budget. Only then is the GOES authorized to disburse the funds to the Implementing Agency.

I think that the HG should be maintained in EL Salvador, if, for no other reason than to serve as a token reminder to the GOES that there is a cost associated with the foreign aid that we are providing.

On its own, the HG has proven itself not to be the appropriate instrument for the unstable, volatile conditions that the housing sector, and El Salvador in general, face. It has to be mixed more fully with ESF funds. ESF would provide advances to implementing agencies faced with the unexpected external delays or temporary liquidity problems that hold up HG projects in an institutionally unstable country. These funds would also function to bring down the overall interest rate to the borrower.

Also recommended is the formation of full-service HG project development and implementation units in each Implementing Agency. These units would be managed by technical assistance resident advisors and staffed by "rising stars" selected from the Implementing Agency. These advisors would intentionally by-pass the rest of the institution and get the HG related work done on time.

This fast-track group's mission would be to expedite HG eligible projects, use the institution where necessary, but otherwise ignore it. AID funds would help the institution meet its payroll.

An underlying but key HG-related objective is that over a period of a few years, the Implementing Agency's staff who are in this unit will have been re-trained and re-motivated to provide more aggressive management within the Implementing Agency. They would eventually be rotated back into the mainstream of their institution.

In this manner, the technical levels of institutional performance would be enhanced and the HG funds would be disbursed more quickly.

This type of arrangement is also necessary for purposes of continuity. The managements of institutions frequently change, with an entirely different set of policies and procedures introduced with each change. As the result, a long-term HG project can lose momentum and continuity.

Other features of the technical assistance initiatives that I am recommending is the establishment of an audit group to regularly monitor the Borrower and undertake negotiations when arrearage and other external delays materialize. In addition, a task force of technical advisors and construction companies to develop and bring to market low cost housing products should be mobilized.

What this evaluation process showed me is that when a country is in the midst of a civil war, their needs, including housing, are more immediate than they would be in under normal conditions. Yet, the institutional and economic conditions in effect make the types of structural institutional improvements that the HG program is in the business of trying to achieve, more difficult than they would normally be.

Mixing the HG with ESF funds, combined with a somewhat heavy-handed dose of technical assistance, is therefore seen to be the appropriate medicine required to:

- Continue to re-direct resources on a timely basis to low income households on as full a cost recovery basis as possible. Part of this objective is to achieve some consistency of financing terms among institutions.

- Assure that AID resources are also used for the development and promotion of housing products that are affordable to the below median income.

- Provide economic support to the GOES in hard currency terms, yet with a built-in mechanism to remind the recipient of the economic realities of this support.

- Eventually expand the low cost housing market by effecting policies that improve the performance of housing finance institutions in increasing the volume of product and resources available to the below median income market.

  The caveat to this expected objective is that, given the economic and political conditions, it is secondary. I say secondary, because tangible results will take longer than usual, to the point that exactly when progress in this area should be expected must be left open.

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1. PROGRAM OUTPUTS

What Went Wrong:

The outputs were substantially revised downward from the original estimates during the course of implementation. The updates, which were usually revised several times, resulted in too many sets of figures generated. From a program management perspective, the result was confusion as far as number and types of units to be constructed and loans to be originated.

The fast disbursing timeframes were not met, taking more than twice as long as initially estimated.

The original composition of output was changed. More than half the number of solutions were initially projected to be home improvement loans. This plan was re-programmed from home improvement loans to new units, based on the assumption that they could be produced more rapidly and that the institutional structure to carry out the home improvement loan program, consisting of FEDECACES and FEDECCREDITO, was inadequate.

A summary of what was planned in 1980 versus how the funds were finally used are presented below in Table 1. Note that the cost figures are in Colones. This denomination is used instead of dollars on account of the currency devaluation distortions that dollar figures would cause. Some HG funds were disbursed after the Colon devaluation, for housing units that were built before the devaluation.

Table 1

Summary Of Actual To Plan For The HG Loan

Type Of Investment	PLAN Solutions Number	PLAN Cost Colones (000) Avg.	PLAN Cost Colones (000) Total	ACTUAL Solutions Number	ACTUAL Cost Colones (000) Avg.	ACTUAL Cost Colones (000) Total
- Home Improvements	5,095	2.0	10,190	--	--	--
- New Shelter						
1 BR	--	--	--	1,182	13.3	15,713
2 BR	--	--	--	1,056	17.7	18,709
	3,200	11.1	35,520	2,238	15.4	34,422
- Basic Services To Illegal Communities	--	--	--	2,391	2.6	6,300
- Sites & Services	--	--	--	490	4.9	2,415
- Sites & Services + Floor/Roof	--	--	--	1,084	10.2	11,056
- Water System Materials (Pipes)	--			n/a	n/a	11,055
TOTAL BENEFICIARIES	8,295			6,203		
DISBURSEMENT PERIOD	18 Months			6 Years		

This data indicates not only that the composition of the HG significantly changed, but that the actual number of direct beneficiaries is 25% below what was planned. For the one investment that the plan and actuals have in common, new units, the actual average cost in Colones of the units financed was 39% over the original estimate.

For the record, the following data sorts the housing product that each implementing agency has built and built with HG 006 funds:

Table 2

Implementing Agency	Housing Product	Units/ Beneficiaries	Cost In Colones (000) Avg.	Total
IVU	1 BR	734	13.0	9,542
	2 BR	591	18.4	10,893
	Sites & Services	490	4.9	2,415
	Sites & Services + Floor/Roof	1,084	10.2	11,055
	Beneficiaries:	2,899		
CASA	1 BR	448	13.7	6,171
	2 BR	465	16.8	7,826
	Beneficiaries:	913		
ANDA	Basic Services To Illegal Communities	2,391	2.6	6,300
	Water System Materials (Pipes)	n/a	n/a	7,243
	TOTAL BENEFICIARIES:	6,203		

This data indicates that IVU has been the dominant implementing agency in terms of number of HG financed housing units generated. ANDA has played an unexpectedly active role in the services to illegal communities sector.

Table 1 above shows how little, from a housing program perspective, the original plan has in common with the actuals, a direct comparison is impossible. I feel that it is misleading to extract the original three institutional objectives, which were based on the planned outputs, and overlay them on the actuals to determine whether they, by chance, accomplished what the planned outputs were supposed to accomplish.

The one item that plan and actual do have in common is the final amount in US dollars that has been loaned to the GOES:

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Plan:	(ØØØ)
Loan Amount:	$ 15,ØØØ
+ Interest Earned To Date (As Of April 3Ø, 1986) From The Escrow Account:	$ 2,Ø73
	$ 17,Ø73

Actually Disbursed:

Type Of Investment	
- New Shelter	
1 BR	$ 5,78Ø
2 BR	$ 6,222
- Basic Services To Illegal Communities	$ 1,26Ø
- Sites & Services	$ 483
- Sites & Services + Floor/Roof	$ 2,432
- Water System: Materials (Pipes)	$ 715
- AID Disbursement Fees	$ 181
	$ 17,Ø73

Lessons Learned:

Errors were made in the original project design, particularly in the area of institutional and economic evaluation. Key judgments and recommendations made by project design team members were not incorporated into the final PP. In addition, a variety of assumptions were ultimately applied to the PP analysis which part of the project design team opposed, e.g.,:

- No shortage of building materials;

- Qualified directors remain as head of key institutions involved in project implementation;
- Programs supported by other donors;
- Political stability achieved;
- No currency devaluations.

The size of a project team should be limited to a few specialists whose input and responsibilities are more carefully defined and who have the final word as far as what the project is all about and what is presented in the PP.

What the field team produces should be based on much closer working ties with counterpart implementing agency officials as far as the assembling the technical aspects of project design are concerned. Instead, the plan of attack was numerous general policy type meetings, which never got to the details, after which each project team specialist ran back to the hotel or AID Mission and independently designed his aspect of the project.

In addition, what the field team produces should not be so heavily edited, revised and tampered with. After all, who was closest to the action, Washington or the field team?

For highly volatile economies like El Salvador, develop far more specific assumptions directly tied to the project as well as indirectly related (e.g., political and economic conditions). Draft several alternative but acceptable project output and disbursement plans as if a risk analysis were being conducted, each based on a highly specific set of assumptions.

Do not quantify the output in terms of precise units, prices and scheduled delivery for an obviously unstable country like El Salvador. Instead, develop quantitative ranges of output that cover worst to best scenario.

After a HG program has gone through more than one or two major revisions, it cannot be further changed, without causing irreparable confusion on the part of the borrower and/or implementing agency as well as within AID about what is going on and what we are trying to accomplish.

If more than one major revision is necessary, the HG should be de-obligated (an analysis of why should be distributed to all parties involved) and the project development process started over. Clean lines of design, implementation and operation are essential for a program with objectives as complex as the HG.

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2. ADMINISTRATION BOTTLENECKS

What Went Wrong:

The following Catch-22 process resulted in a slow disbursement pattern:

- HG loan disbursements are contracted in stages, as a function of HG eligible production completed during the previous period of time.

- Developers, who had liquidity problems, needed construction financing before HG related production could get underway.

- Institutions did not give construction loans tied to HG related production until the HG loans were contracted.

  To alleviate the delays associated with this liquidity bottleneck, some HG and PL 480 funds were used as advances for as much as 80% of new project construction financing. The Implementing Agencies subsequently had a difficult time presenting enough HG eligible mortgages to liquidate these advances.

- Without production, the HG funds went into an escrow account, inaccessible to the GOES as foreign exchange.

Other administrative delays occurred on account of:

- The borrower, the GOES, going into arrears;

- Housing project, once designed and approved, having to wait several months to be inserted as a line item in the National Budget before the GOES could legally disburse the funds and;

- The frequent submission, particularly by IVU, the most active implementing agency, of project design, cost estimates and implementation plans being unsatisfactory quality to SETEFE, the HG project reviewer.

These problems are analyzed in more detail below.

Lessons Learned:

In an economy that is so obviously bankrupt, and has been since the PP was written, make ESF type funds available to the implementing agency for working capital to carry the entire HG project schedule. The strings attached to these funds would be that they would have to be used for projects that, in terms of composition, beneficiaries, terms, and interest rates, are consistent with HG financed projects.

With these funds, momentum is provided to the HG project related production cycle. Such funds should be made an option in the PP that AID can elect to exercise, only if production stalls on account of implementing agency liquidity, borrower arrearage or related financial problems.

Once these funds were used for HG product, the appropriate amount of HG funds would be disbursed. The original ESF funds would then be freed up to provide construction financing or working capital for additional HG related product.

3. IMPLEMENTING AGENCY: FNV/CASA (SAVINGS AND LOAN ASSOCIATION)

What Went Wrong:

a. 10.5 million Colones of HG funds to promote the financing of low income housing by the seven savings and loan associations were given to FNV. FNV was mandated to lend HG funds to savings and loans @ 16% for the construction period of a project, after which the funds, when converted into long term loans to borrowers, were loaned @ 14%.

Only one of the savings and loan associations, CASA, became interested in these funds, given the conditions required by the HG funds- loans to below median income borrowers at commercial rate terms (16% and 14%). FNV loaned CASA 7.3 million Colones for two projects- Venecia 1 & 2, and La Toma.

In the case of Venecia 1 & 2, involving 1,158 loans outstanding to date, Casa only presented 448 HG eligible mortgages worth 5.9 million Colones. The other 710 long term loans for houses, the construction financing for which was financed by CASA, were originated by FSV. CASA had not specified that the developers require the home purchasers to obtain long term financing through CASA, or from an institution offering comparable rates.

FSV loans were not eligible for HG reimbursement, on account of the 4%-6% interest rate lending terms- considered below-market rates. However, with CASA not likely to present HG eligible loans in the near future, Implementation Letter # 11 dated April, 1986, waived the interest rate requirement just for the first $15 million of the HG, thereby making FSV loans HG eligible.

HG funds loaned to CASA were also targeted for La Toma. The project, whose plan calls for 321 units, has failed to date- 21 units finished, others in partial stages of completion, none

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The site is near a guerilla stronghold. It is adjacent to an illegal settlement where land is selling a quarter of the price of land in La Toma, thereby representing a dis-incentive to the potential purchaser. ANDA is required that an 800,000 Colon sewerage installment be constructed. As a result, costs will increase by at least 2,500 Colones per unit. The units therefore became unaffordable to below median income households.

FSV loans are also being substituted for the loans that were supposed to be generated by La Toma.

A substantial portion of the HG funds that were loaned to the savings and loan system @ 14% for the Prados de Venecia and La Toma projects, for the purpose of providing long term financing at commercial rates, have ultimately been used for 4%-6% long term loans.

FNV has not been able to place the remaining 3.2 million Colones of HG funds that it has borrowed from the GOES, which CASA did not borrow. CASA is has requested 1.5 million Colones, leaving 1.7 million Colones still unplaced.

b. FNV has been required by the GOES to pass HG funds to IVU at below cost, thereby not providing any margin to FNV. FNV assumed the subsidy involved in this transaction- 10% for IVU I and 12% for IVU II, versus 14% for the HG loan. With projects sponsored by the savings and loans, FNV had a small margin during the construction period while there is interim financing, but none during the mortgage period.

With FNV basically transferring HG funds to project development related institutions at cost, FNV justifiably did not see what benefits it was getting from participating in the HG program. As a result, it did not monitor what the savings and loans did with the HG funds.

Lessons Learned:

FNV has not been able to stimulate a well-balanced interest in HG funds. CASA, the only savings and loan that borrowed HG funds mis-managed them:

- Allowing developers using HG funds for construction to sell the units to below income families, without requiring all sales to involve long term financing terms that are HG eligible.

- Allowing a large project, La Toma, to go out of control, to the point that significant funds have been spent, with the likelihood that the project will not be completed in the near future, or ever.

FNV did not make an effort or attempt to exercise control or supervise how the HG funds were used by CASA. Furthermore, it has never made a concerted effort to actively sell the borrowing of HG funds. It has proven itself to be an totally ineffective supervisory agency, with the HG program paying the price. Worse yet, it doesn't even see its role as involving direct project supervision or aggressively pushing funds that it has borrowed and earmarked for the savings and loans.

From my interviews and the track record reviewed, the quality and training of personnel that make up the savings and loan industry in El Salvador has proven itself to be extremely weak. This impression was confirmed by several private sector contacts with whom I discussed this industry. Their track record of financing unprofitable projects and loans proves that the private sector which the savings and loans had until recently doesn't guaranty technical competence.

Before AID considers in future housing strategies bringing this industry private again by perhaps re-capitalizing it, AID should invest in heavy duty, intensive basic training.

Send the entire corps of senior and middle managers to the US League of Savings Institutions' Institute for Financial Education for as comprehensive a series of semirars as is available. Don't let them out of there until they show that they at least understand the basics of construction project management, credit analysis, accounting, regulatory supervision, computer applications and loan processing.

The HG mechanism lacks adequate checks and balances required to prevent commercial rate loans to the borrower from being used by implementing agencies to on-lend at sub- commercial rates such as 4%-6%. More stringent safeguards have to be developed and built into future implementation agreements.

The requirement that the borrower make the appropriate legal arrangements so that HG funds can be directly transferred from the borrower (e.g., GOES) to the project implementing agency, whether it be a public or private sector institution, should be a standard Implementation Agreement condition. A related condition should be a guaranty by the borrower that the implementing agency will have a two to four point margin on the HG funds it uses.

The only exception to this direct lending process is if the FNV type intermediary is ready to play a strong supervisory project management role in exchange for channelling the funds to the final institutional destination.

4. LOW COST HOUSING

What Went Wrong:

With rapid disbursement being high priority, higher cost solutions were financed, because institutions like IVU and CASA claimed that such projects could be built more quickly. IVU and the savings and loans provided housing to below median income households by dealing with the market and the builders as they existed. They did not try to make or change the rules. As a result, this output was based on consumer preference and expectation, not on what was affordable.

What IVU and CASA did was to continue their traditional programming, using HG as a vehicle to do so. It adjusted projects currently in hand in order to fit into the HG structure.

They did not change the scope of its low income project involvement by designing and promoting new low-cost type products which meet the paying capacities of the low income and which can be financed without artificially low lending terms. IVU has undertaken some sites and services projects, but they are not in the mainstream of what it produces.

The savings and loans did produce low cost units for the first time in its history, selling them at market rates. However, since incurring the serious financial problems, resulting in them being nationalized, they left this market.

It therefore appears that the HG did not have any long term impact on the low cost housing production policies of the institutions it worked with.

Lessons Learned:

A critical component of a HG should include substantial technical assistance to promote, develop and, if necessary, import housing construction, materials and product technology. Development of cross subsidy schemes in terms of lending terms as well as mixing higher cost with lower cost upgrading or sites and service type products should also be included in this technical assistance.

This technology should be intended to change the housing market and home construction practices, at least for the low income housing market and the institutions associated with developing and financing it.

How each implementing agency works with this technology and applies it should be meticulously spelled out. The idea here is to assure that the lowest cost product that is acceptable to the target population is financed with HG funds, not whatever is out there that carries the cheapest price. Also included should be a mechanism that assures that this technology will be built into the mainstream of the project work of the implementing agency after the HG related projects are completed.

This type of structural change of a housing market obviously cannot be fully effected in a rapid disbursement, emergency room climate like El Salvador. If there is no time for anything much beyond rapid hard currency transfer, using low income housing as the justification, than the HG is not an appropriate vehicle.

AID forgot that fast disbursement of substantial funds runs against what a HG is all about. One HG goal is to increase resources for low income housing. This goal can be accomplished as part of a fast disbursement plan.

However, the other perhaps even more important HG goal is to effect lasting changes that transcend the housing units that the funds might be helping to build. This activity involves implementing structural changes in terms of the housing market, institutional reform and housing policy changes that promote low cost housing with non-subsidized financing terms.

Achieving progress in reaching this goal is time consuming and risky. It therefore does not lend itself to a quick-turnaround crisis. The HG should therefore not be applied to a country with a short time fuse. The HG program is a long-term instrument whose relatively extensive time requirement is critical if it has a shot at being successful.

5. WATER AND ELECTRICAL CONNECTIONS

What Went Wrong:

a. The most recent problem involves $1.25 million of HG loans to ANDA (water authority) for construction and five year financing (for beneficiaries) of 2,800 water and sewerage connections in 66 informal communities. Two types of delays have constrained this project:

- AID reviews and authorizes disbursement to ANDA through SETEFE (Secretaria Tecnica de Financiamiento Externo- the government agency in charge of coordinating foreign aid to government programs), only to be notified by Riggs Bank, the Escrow Agent, that the GOES (Borrower) is in arrears on HG loan payments. As a result, all disbursements to the GOES were delayed.

- On funds authorized in a period when the GOES was not in arrears, such as in April, 1986, the funds could still not be disbursed to ANDA. Once a disbursement has been approved, SETEFE and ANDA are required to establish a budgetary line item in the National Budget for introducing basic services in informal communities. This action is forthcoming but will most likely take another few months.

Due to these delays, SETEFE has advanced ANDA 1.8 million Colones until the HG funds are disbursed, enough to complete work in 27 of the 66 communities. SETEFE does not have the resources to advance the entire amount. So, while the project plans have been drawn up, the actual work and HG disbursements remain unavailable due to these external problems.

A more minor problem that unexpectedly developed was that the project was too large in scope for ANDA's capabilities and resources (66 communities/ 10 contractors to do the work). As a result, a consulting firm had to be hired as a coordinator and manager to expedite and review plans. This additional assistance increased the budget of this venture by 10%.

b. Prior to 1981, ANDA and CAESS (electric company) supplied off-site infrastructure for new developments, once a project was completed. With these utilities financial condition deteriorating, the rules changed, requiring the builders to install all off-site as well as on-site infrastructure.

Developers like IVU either resorted to contracting ANDA for the work (or a contractor to do this work) or did it in-house. Developers therefore had to gear up for work which they had no experience in. The result was long delays and cost overruns that were passed on the to the final beneficiaries- as in the case of the IVU I project.

In addition, there was confusion about what constituted acceptable design/approval standards for the water and electric connections which ANDA and CAESS are required to approve. Projects were first approved in principle by ANDA and CAESS, when the plans were drawn up. The developers then prepared the final plans, secured financing and began construction.

Frequently, when ANDA and CAESS reviewed the actual water and electric connections, as in the case with the electricity initially installed in the Prados de Venecia project, they were not satisfied with the work and required revisions. The builders then had to spend 5% over the original cost of each unit in Prados de Venecia for additional electrical work.

Another example involved installed sewerage having to be redone on account of ANDA not being satisfied with the developer's work occurred with La Toma project.

Lessons Learned:

Some form of ESF type advance system is required to handle the unexpected external problems such as borrower arrearage or government budget requirements that can delay or shut down HG disbursements.

Part of any PP should be a thorough financial and institutional evaluation of all involved parties, including peripheral ones that are not directly involved, such as the utility companies.

For instance, in the institutional evaluation of FSV concurrently underway, just analyzing FSV is not sufficient. I would add a second phase to this evaluation, in which third parties would be evaluated.

In this second phase, I would analyze the Instituto Salvadoreno de Seguro Social, the agency that collects the contributions for FSV. I would also assess conditions with the major employers making contributions. I would also investigate all government agencies that have the legal potential of earmarking FSV funds and assess the likelihood of this happening. And I would try to project from interviewing construction companies, what is likely to happen with the housing market that FSV contributors are in.

If any of the parties even indirectly involved look unstable, overloaded with work, not aggressively managed, or financially unsound, up to 25% more time and up to 10% more costs should be built into the project implementation schedule.

In developing countries, focusing the evaluation mainly on institutions directly involved with the HG is risky. In most cases, they are prone to be heavily affected by external factors, such as what is happening in the companies, institutions or government agencies with which they work.

6. IMPLEMENTING AGENCY: IVU

What Went Wrong:

$10.6 million of the HG have been used by IVU to build and finance @ 12%, 20 years 2,899 units. HG funds have dominated IVU's operations. From 1981 through 1985, IVU built and financed a total of 3,320 units, with an average cost of 19,861 Colones.

The units that IVU constructed were the highest cost solutions allowable under the HG program. Their product in terms of price and design is mainly for the lower end of the middle class in terms of income. However, such projects were approved in order to expedite faster program development and subsequent HG disbursements.

IVU has a small slum upgrading and sites and services program funded with internal resources, but represents a drop in the bucket in magnitude that did not develop into a major activity.

Administrative costs are extremely high and collections are a serious problem. Its current financial condition is extremely weak as the result of low-cost funds from the Government having been almost eliminated. Allegations of graft, corruption and feather-bedding continue to plague its operations at present, resulting in over-priced units.

IVU's low-quality, incompetent staff slowed down the transfer of HG and other AID funds, thereby slowing down HG projects e.g.,:

- For each HG financed housing project, IVU is required to submit a work plan to SETEFE for review and approval. These plans were frequently found to be full of arithmetic errors and inconsistencies. In checking unit costs, they were frequently found to be highly inflated. The methodology applied to these work plans were not consistent, with each engineer applying his own.

  These plans get returned, IVU re-submits them with more such errors, and the HG office finally ends up writing the plan for IVU.

  IVU's President claims that SETEFE's criteria for approving a HG project are arbitrary and not well-defined, thereby resulting in delays. This evaluation found this allegation not to be true, finding that there actually were numerical consistencies of significant magnitude, along with unrealistic cost estimates.

  AID finally developed a cost estimation and control methodology for IVU, including some training associated with it. Whether such a tool alleviates this problem remains to be seen.

- IVU's submissions to AID for project advances are usually so late that it runs out of cash and has not been able to pay some its bills. Receipts for these bills are required to replenish the advances already spent, which are required to proceed with the HG project.

  IVU has proven to be incapable of putting together basic cost control paperwork- bill receipts, work completed, work planned, costs associated with this work, etc.

As a result of IVU's technical incompetence in developing projects, the HG funds disbursed to IVU have been very slowly converted into housing units and loans, taking two to three times longer than it should, resulting in excessive administrative costs:

For a 200 unit HG project on flat land:	Months
- Conceptualize the project:	3
- Design the project, develop the work plans and conduct all required surveys, land purchase and logistical arrangements:	6
- Submit work plan and cost estimates to SERTEFE for approval:	3
- Construction:	20
- Price units built based on costs incurred and sell them *:	5
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* The problem here has been, once the units are completed, IVU has let displaced families move in. Then, IVU tries to determine how much the units actually cost, from which it sets a price. The residents usually dispute the price, resulting in the conflict being resolved in the General Assembly- e.g., La Fuerteza project (480 units) and San Bartolo I (192 units).

IVU's departments as well as the unions that construct the houses are strongly affiliated with different political parties. The result is a total lack of inter-department cooperation.

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Political affiliation and how a project is interpreted as far as which political interests it serves, determines the technical performance or quality of output of a department for a project.

In housing construction, labor usually makes up 40% of the total cost and materials 60%. With IVU, it is the reverse. The construction union which has a leftist political affiliation and opposes the Duarte administration, practices a form of price extortion that IVU management cannot control. This problem makes IVU units more expensive than their private sector counterparts.

IVU's lack of accounting, particularly cost accounting, is a major reason why it has no idea of what projects really cost or the status of any of its accounts at any point in time. Frequently field engineers develop a project budget as the project is being built. IVU tries to determine what a project actually costs after the fact.

Usually the actual cost that IVU determines represents a price that no one is willing to pay. IVU then has to arbitrarily reduce the price.

IVU's lack of capability in installing any meaningful cost control and financial reporting make its financial condition difficult to assess or improve. It is known that it is fully dependant on government grants and AID funds. Although IVU's new President of six months is conscientiously targeting these areas for improvement, it remains to be seen what impacts, if any, will result.

Lessons Learned:

6 years and $10.6 million of HG funds seems to have had little to no impact on IVU's operations, type or cost of output, or financing terms that it offers. It is as financially weak and technically incompetent an institution today as it was in 1980 before the HG.

IVU has not shown substantive interest in changing its housing product, marketing, clientele or operations in exchange for the HG money. Instead, it extracted from its traditional line of business what is HG eligible and has continued to operate exactly as it had prior to the HG. AID and IVU never came to an understanding about what this loan was really all about.

Reaching such an understanding probably would not have made much of a difference in the case of IVU. Since 1980, there have been five different presidents and general managers which have brought in their own corps of middle managers. Each change of administration has resulting in major changes in operating practices. This lack of continuity has added to the overall confusion and slow pace of projects.

What IVU offers the HG program is a conduit to below median income housing that is financed @ close to market rates (12% at present). If AID wants to deliver a significant volume of low income housing at close to market lending terms, it has no choice but to work with IVU. No other institution provides the volume of product and the financing terms to the below median income.

Despite AID guidance, IVU continues to be unable to put together a reasonably efficient operation. I therefore recommend that the most practical option to consider, if such institutional objectives as increased resources for low income housing @ market interest rates are to be promoted, is for AID to mobilize an elite project implementation unit within IVU.

This unit would be managed by AID contractors on a technical assistance basis. Several of the more motivated IVU employees that would be identified, with the help of IVU's President, would leave their respective departments and become this unit's staff.

The rest of IVU would be unofficially written off as a productive input as far as HG profects go. This unit would essentially take over as many of IVU's responsibilities as possible so that the HG's projects and institutional objectives are expedited. In terms of technical work, this unit would intentionally bypass the rest of the institution, except in cases where it is not possible, such as the union dominated construction activity.

The IVU employees that make up this unit's staff would be groomed to run IVU. The timeframe for eventually placing them back in their departments and returning responsibilities to the various departments would not be set. It is impossible to determine how long such a unit would be needed.

Such a coordinating unit has already been established by AID for expediting the project design and cost estimation of HG projects. Its only deficiency is that what it does is not all-encompassing enough in terms of taking over IVU's entire operations.

7. THE BORROWER'S INTEREST IN HG FUNDS

What Went Wrong:

Not all GOES officials were convinced that it was the most appropriate time to contract the funds. This lack of consensus resulted in confusion and inaction on the part of GOES when Paine Webber submitted an offer for the loan.

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Lessons Learned:

AID should spend more time with the Borrower in presenting the issues, the mechanics of the loan, and what AID expects to get from the loan. An extra comprehensive effort should be made to assure that a consensus is reached on the timing of bids and negotiations.

8. AID ADMINISTRATION

What Went Wrong:

From 1980 to 1985, there was no full-time AID official in El Salvador, to expedite loan implementation and meet on a daily basis with the Implementing Agencies on issues, problems and plans related to the HG.

AID's strategy was that a few-day visits every two months or so by the RHUDO would be a sufficient level of management for a implementing HG in one of the most difficult countries to apply foreign assistance to on a cost recovery basis, partly due to the civil war.

As a result of RHUDO's rather thin follow-up after the PP, HG progress reporting was superficial quarterly reporting. Little in-depth, substantive analysis and recommendations regarding the delays and new developments are evident from the AID files reviewed.

Starting in 1985, a Resident Housing Officer, with several PSC support staff, was installed. This operation is located in the General Development Office, an engineering and construction oriented office.

This relationship seems to be a mis-match. The issues of major concern to the housing group, such as short and long term financing, cost recovery, interest rate parity and training, do not have much in common with the construction/engineering interests of GDO. As a result, what the housing group is doing and the problems it is struggling with have been given a relatively low priority, and are therefore not well-understood.

The level of understanding shown by GDO to date is- why haven't they moved the HG at a faster pace when other housing programs such as rural housing progress according to schedule?

IVU's President reported that AID has not shown adequate interest in what it is doing and the problems it has had with SETEFE. It wanted more direction from AID as to the application of the HG funds for projects, what the HG's housing policy objectives are, and who really runs AID housing policy. The following examples of AID's lack of communication were cited:

- Inadequate interface with AID Housing personnel- the El Salvador Housing Officer and the RHUDO was said to only have visited IVU twice over the past year. Marcelo Miranda, a PSC that has worked regularly with IVU, is not seen by IVU as being AID. It seems to be looking for communications with AID "gringo" officers on certain matters.

- Several letters over the past year from the President of IVU to Robin Gomez, the AID Mission Director, weren't even answered.

In summary, IVU expects to get to know and meet with more regularly AID's senior management responsible for housing.

This approach to IVU was brought about by a new AID GDO operating policy put into effect in September, 1985. It called for the Housing Officer and all related personnel to reduce its emphasis on working and meeting with HG Implementing Agencies. Instead, they were directed to focus primarily on the development of PRONAVIPO.

This organization, is awaiting authorization by the GOES General Assembly to draw down AID funds as well as other international donor funds. At present, 25 million Colones of ESF and $20 million of IDB funds have been earmarked for it. The vote in the General Assembly is expected in another month.

In the meantime, PRONAVIPO, assisted by visits by the Housing Officer and his staff several times a week, is working on draft legislation for additional funding and developing a roster of potential low cost housing producers- construction companies, parastatals. It is also promoting what it will do and how it will function to the various institutions that play a role in the low income housing market.

Lessons Learned:

A special project unit in each implementing agency or a clearinghouse organization to promote and expedite projects that directly support HG objectives is a necessary ingredient.

GDO's policy to de-emphasize the HG program, in view of the limited staff, may well have been a detriment to expedited drawdown of the escrow.

9. CONSISTENCY OF HOUSING POLICIES

What Went Wrong:

In theory, the El Salvador's low income housing sector operating guidelines were supposed to be established by the Vice Ministry of Housing. It was supposed to set, with input from AID and housing related ministries, the following types of standards:

- Housing product mix to be built and design standards- traditional 2 BR, 1BR, sites and services, sites and services with floor and ceiling, condominiums.
- Unit costs by type of solution.
- Geographic distribution of low income housing: San Salvador versus rest of country.
- Cost recovery and financing terms;
- Loan affordability and HG eligibility criteria.

Once these standards were set by the Vice Ministry of Housing, they would be applied to the operations of all public institutions involved in housing- IVU, FSV, ANDA, IMPEP, FNV, ANTEL, DUA etc.

This ideal for achieving consistency in government-sponsored low income housing activity has failed, because the GOES has not given the Vice Ministry of Housing the authority to set, supervise and force government institutions to comply with a common set of operating standards.

As a result of the Vice Ministry of Housing not having any muscle, the HG program, through SETEFE, has had to cut its own deals with each institution. There is an inconsistency of standards and operating practices among institutions with which the HG program is dealing.

Lessons Learned:

The GOES elected to exercise the HG and has regularly supported HG-style housing assistance in terms of rhetoric. However, housing does not seem to be high enough priority to the GOES in terms of action. If it were, more directives would have been implemented to eliminate the inconsistencies among institutions and give the Vice Ministry of Housing the authority to implement one set of operating standards to apply to low income housing funds.

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Such a policy would reduce confusion within the institutions themselves as to what are the low income housing objectives and how they should be contributing towards accomplishing these objectives.

Without such a mechanism, HG funds loans are on-loaned at 12% as well as at 4%-6% for the same income level beneficiaries. It funds the construction of two bedroom units as well as sites and service units for the same target population. Such conflicting activities has made it unclear as to what this program is trying to accomplish.

The bottom line of these circumstances is that low income housing progress is being made in terms of number of affordable units produced by the HG and at least partial cost recovery. However, institutional development has been minimal, partially because the low income housing sector remains dis-organized and adversely affected by contradictions.

The AID Mission is just now coming to terms with these circumstances. It is in the process of exploring alternative strategies to address these issues more pragmatically.