PD-AAB-084 (2)

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AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT PAPER FACESHEET

1. TRANSACTION CODE: A (A ADD, C CHANGE, D DELETE)

PP

2. DOCUMENT CODE: 3

3. COUNTRY ENTITY: HONDURAS

4. DOCUMENT REVISION NUMBER:

5. PROJECT NUMBER (7 digits): 522-HG-005 / 522-0151

6. BUREAU OFFICE: A. SYMBOL: LA; B. CODE: 05

7. PROJECT TITLE (Maximum 40 characters): Shelter for the Urban Poor

8. ESTIMATED FY OF PROJECT COMPLETION: FY 83

9. ESTIMATED DATE OF OBLIGATION: A. INITIAL FY 79; B. QUARTER 1 (Enter 1, 2, 3, or 4); C. FINAL FY 79

10. ESTIMATED COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY B. FX	FIRST FY C. L/C	FIRST FY D. TOTAL	LIFE OF PROJECT E. FX	LIFE OF PROJECT F. L/C	LIFE OF PROJECT G. TOTAL
AID APPROPRIATED TOTAL						
GRANT	13	12	25	51	51	102
LOAN						
OTHER U.S. 1 HG				10,500		10,500
OTHER U.S. 2						
HOST COUNTRY		1,000		--	5,000	5,000
OTHER DONOR(S)						
TOTALS	13	1,012	1,025	10,551	5,051	15,602

11. PROPOSED BUDGET APPROPRIATED FUNDS ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE C. GRANT	PRIMARY TECH. CODE D. LOAN	E. 1ST FY 79 F. GRANT	E. 1ST FY 79 G. LOAN	H. 2ND FY ___ I. GRANT	H. 2ND FY ___ J. LOAN	K. 3RD FY ___ L. GRANT	K. 3RD FY ___ M. LOAN
1) ST	720	720		102					
2)									
3)									
4)									
TOTALS				102					

A. APPROPRIATION	N. 4TH FY ___ O. GRANT	N. 4TH FY ___ P. LOAN	Q. 5TH FY ___ R. GRANT	Q. 5TH FY ___ S. LOAN	LIFE OF PROJECT T. GRANT	LIFE OF PROJECT U. LOAN
1) ST					102	
(2)						
(3)						
(4)						
TOTALS						

12. IN-DEPTH EVALUATION SCHEDULED: MM 06 YY 80

13. DATA CHANGE INDICATOR. WERE CHANGES MADE IN THE PID FACESHEET DATA, BLOCKS 12, 13, 14, OR 15 OR IN PRP FACESHEET DATA, BLOCK 12? IF YES, ATTACH CHANGED PID FACESHEET.

2 (1 NO, 2 YES)

14. ORIGINATING OFFICE CLEARANCE

SIGNATURE: [signature]

TITLE: USAID/Honduras Mission Director

DATE SIGNED: MM 09 DD 08 YY 78

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

AID 1330-4 (3-76)

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT IDENTIFICATION DOCUMENT (PID)

To Be Completed By Operating Office

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

PID

2. DOCUMENT CODE: 1

3. COUNTRY/ENTITY: Honduras

4. DOCUMENT REVISION NUMBER: 1

5. PROJECT NUMBER (7 digits): 522-HG-005 / 522-0151

6. ASSISTANCE CODE: A. Subcode: LA; B. Code: 05

7. PROJECT TITLE (Maximum 40 characters): Shelter for the Urban Poor

8. PROPOSED NEXT DOCUMENT: A. 3 (2 = PRP, 3 = PP); B. DATE: MM 09, YY 78

9. ESTIMATED FY OF AUTHORIZATION/OBLIGATION: a. INITIAL FY 79; b. FINAL FY 79

10. ESTIMATED COSTS ($000 or equivalent, $1 =)

FUNDING SOURCE	AMOUNT
a. AID Appropriated	102
b. OTHER U.S. 1. HG	10,500
2.	
c. Host Country	5,000
d. Other Donor(s)	
TOTAL	15,002

11. PROPOSED BUDGET APPROPRIATE DATA ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH CODE C. Grant	D. Loan	E. FIRST FY 79 E. Grant	G. Loan	LIFE OF PROJECT H. Grant	I. Loan
(1) SI	720	720		102		102	
(2)							
(3)							
(4)							
TOTAL				102		102	

12. SECONDARY TECHNICAL CODES (maximum six codes of four positions each): 660

13. SPECIAL CONCERNS CODES (maximum six codes of four positions each): LEL

14. SECONDARY PURPOSE CODE: 660

15. PROJECT GOAL (not more than 240 characters):

To expand the supply of shelter services affordable by the urban poor in Honduras on an on-going and self-sustaining basis.

16. PROJECT PURPOSE (not more than 480 characters):

To develop within the Housing Institute of Honduras (INVA) the capability to produce and deliver annually approximately 2,000 minimum-cost shelter units and 1,000 home improvement loans affordable by the urban poor in both primary and secondary urban centers in Honduras.

17. PLANNING RESOURCE REQUIREMENTS (staff/funds)

18. ORIGINATING OFFICE CLEARANCE

Signature:

Title: USAID/Honduras Mission Director

Date Signed: MM 09, DD 08, YY 78

19. Date Document Received in AID/W, or for AID/W Documents, Date of Distribution: MM, DD, YY

AID 1330-2 (3-76)

A C R O N Y M S

CABEI - Central American Bank for Economic Integration

CEDEN - National Evangelical Committee for Development and Emergency

CONSUPLANE - National Economic Planning Office

ENEE - National Electric Company

FEHCOVIL - Honduran Housing Cooperative Federation

FINAVI - National Housing Bank

FUNHDESA - Honduran Foundation for Development

INVA - Housing Institute

JNBS - National Social Welfare Board

METROPLAN - Task Force for the Preparation of Metropolitan plan for Tegucigalpa, since converted to the Municipal Planning Office of the Central District.

PADCO - Planning and Development Collaborative

SANAA - National Water and Sewarage Authority

HONDURAS PROJECT PAPER

I. Recommendations and Summary

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   C. Project Issues

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      2. The Housing Situation
      3. GOH Response
      4. AID Support

   B. Detailed Description

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      3. Planned Outputs
      4. Inputs
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         b. Technical Assistance

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(IEE Determination)

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D. DAEC Review Cables
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I. SUMMARY AND RECOMMENDATIONS

A. Recommendations

USAID/Honduras recommends authorization of a $10,500,000 Housing Guaranty in FY 78, and a $102,000 grant in FY 79.

B. Background and Project Description

1. Background. There is a substantial need for new or improved shelter in Honduras. The existing housing stock suffers from major structural and basic service deficiencies. Over sixty percent (60%) of the units in the urban areas are overcrowded and structurally unsound. More than twenty-five percent (25%) are without water and sanitary facilities and more than forty-two percent (42%) of the housing stock consists of one or two room units.

The resulting shelter problem in the urban areas related to the existing housing stock is further aggravated by the inability of the formal housing sector to meet even the annual shelter needs created by population growth and obsolensence alone. As a result, over sixty percent (60%) of the families residing in Tegucigalpa and San Pedro Sula, and over ninety percent (90%) of those residing in other urban areas have had to resort to informal construction and financing mechanisms to meet their shelter needs.

It is unreasonable to expect that the shelter problems of Honduras' urban poor can be solved fully within the next ten or twenty years. But Honduras must begin to undertake to do so in a serious and systematic fashion. Appropriate, low-cost housing solutions must be introduced and proven and equally important, the essential national institutional bases must be established if there is to be sustained progress in attacking the problem.

The Government of Honduras recognizes the significance and magnitude of the shelter problem confronting the urban poor, and, has recently established a national housing policy which provides an adequate framework for beginning the larger tasks ahead. This policy accords the leading role to the Housing Institute (INVA), an institution with some experience and some considerable deficiencies.

This project concentrates on developing INVA's institutional capacity and competence. At the end of the project it is expected that INVA will have the capability to deliver increasing numbers of shelter solutions affordable by Honduras' urban poor.

2. Project Execution. Up to ten (10) person years[1/] of technical assistance will be provided to develop within INVA: a) the planning and management capability to establish and to carry out programs in keeping with the institution's mandate; b) the technical capability to design, construct, deliver and service minimum cost shelter units affordable by the urban poor; c) the financial capability to manage its mortgage and loan portfolios, as well as its other capital assets, and d) the overall capability to extend its programs to urban slum areas and to secondary cities.

A $10,500,000 loan under the Housing Guaranty program will be combined with nearly $6,000,000 in host country resources to finance minimum-cost shelter programs, as follows:

Program	Number	Cost (US$'s)	Affordability by Income Percentile(%)
Sites and Services Lots	2,625	$ 1,500	Major cities = 17 % Sec. cities = 30
Core unit housing	1,575	2,500	Major cities = 30
Expanded core housing	1,050	3,500	Major cities = 39
Home improvement loans	3,500	500	Major cities = 10 Sec. cities = 19

At the end of the project, it is expected that INVA will be a sound financial institution capable of managing the production and servicing of 2,000 minimum-cost units and 1,000 home improvement loans annually.

3. Project costs.

(US$000's)

Component	HG	Grant	AID HG-Fee Funded	AID G O H	Beneficiaries	Total
1. Institutional Development	-	102	300	-	-	402
2. Shelter Programs	10,500	-	-	5,000	987	16,487
	10,500	102	300	5,000	987	16,889

1/ 4.2. PY consultant services and 5.8 PY of participant training.

C. Issues

Issues raised during the DAEC reviews (PID & IR) have all been addressed in this Project Paper. Some were also addressed in great depth in the Interim Report.

The fundamental issue, however, was the redesign of the project to account for the concerns expressed with regard to the length of the project and the size of the commitment of AID resources in light of INVA's institutional capability. The original project was designed on the basis of a $15 M HG and a $7 M GOH contribution and an implementation period of 6 years. In response to this issue raised by DAEC, the project has been redesigned to reduce the scope to the extent possible, without sacrificing the basic project goal: to expand the supply of shelter services affordable by the urban poor on an on-going and self-sustaining basis. It was determined that INVA's minimum contribution to the achievement of this goal would consist of reaching a sustained annual level of production of at least 2,000 new sites and services units and 1,000 home improvement loans. This level was determined on the basis of INVA's potential institutional capability, the yearly increases in production that could be reasonably anticipated, and the need to generate sufficient capital from INVA's production and servicing operations to cover its operating costs. As shown in the Project Planning and Tracking Network, in the Cash Flow Analysis and in the Project Delivery Plan, it was determined that this level could be reached over a four year period. A shorter period with reduced financing, while contributing to the development of INVA, would fall short of achieving the project purpose as INVA would have only begun to reach an efficient production level while still showing net operating losses during the life of the project.

In view of the concern of the Mission and of the GOH with the need to expand the supply of low-cost shelter services to other regions of the country, the project has been designed to include, on a pilot basis, the expansion of the same shelter solutions to secondary cities. The timing for this was predicated on the assumption that the projects in Tegucigalpa and San Pedro Sula had to be well under construction before INVA's planning, design and engineering sections could become involved within the same four year time frame in producing approximately five small projects in three to five secondary cities. Thus INVA should be in a position to implement its programs expeditiously and a follow-on HIG loan for secondary cities and regional market development centers.

The project design also includes three levels of solutions which address the total range of effective demand below median income levels, based on full cost recovery. It was considered important that these three levels be included to demonstrate their effectiveness in addressing the needs of the poor and to be responsive to the policies of both INVA and the GOH which stress the need to provide housing for the full range of low-income families.

The concerns of the DAEC which reviewed the Interim Report for this project have been addressed, and the goal and purpose of the project retained, through an increase in the amount of technical assistance and the mixed use of HG and GOH funds. The additional sub-projects in San Pedro Sula and the secondary cities and the subsequent stages of proposed projects which were initially contemplated have been eliminated. These will be produced subsequent to the implementation of this project, using the continued GOH contribution to INVA, roll-overs from the existing portfolio and that generated by this project, anticipated profits, and a possible follow-on HG loan. The follow-on HG loan is planned for FY82 to substantially expand INVA's production and servicing of affordable housing in the secondary cities. Furthermore, it is anticipated that after achieving the goal of this project, and with a follow-on HG loan, INVA can begin to enter the bond market to capture other local financial resources and eventually become a self-financing institution with a growing and substantial production of low-cost shelter to effectively serve the needs of the poor in Honduras.

II. PROJECT BACKGROUND AND DETAILED DESCRIPTION

A. Background

1. Population Growth and Urbanization: [1/] Honduras is entering a period of rapid urbanization marked by the concentrated growth of population in a number of urban areas. At present, the small size of the Honduran population, its relatively low level or urbanization, and the presence of agricultural frontier growth areas, suggest that its patterns of urban growth may well differ significantly from those experienced in other Latin American nations. While overall population growth, urbanization rates, and migration are high, it appears that migratory trends are consistent with spatial changes in the distribution of economic potential and national development. The predominant direction of migration tends to be toward those areas of rapidly expanding development potential such as the Sula Valley, and away from old settlement areas in the Southern and Western regions of the country characterized by high densities, low agricultural output and relatively low levels of socio-economic opportunity. The present situation affords the Government of Honduras a unique opportunity to encourage urbanization patterns which support its national development objectives and programs.

Despite the highest rate of overall population growth in Latin American (an estimated 3.5%), Honduras' urban population [2/] only increased from 30% to 37% of the national population between 1961 and 1973. While rapid urban growth is a relatively recent phenomenon, characterized by considerable variation in the growth rates of the 24 urban centers with 5,000 or more inhabitants in 1974, ten of those had compound annual growth rates of over 5% between 1961 and 1974. Much of the migration in Honduras is urban as the propensity of the rural population to migrate is only about half that of the urban population, which in part accounts for the variation in urban growth rates and the relatively low level of urbanization despite high overall population growth.

The two largest cities are the Central District of Tegucigalpa and Comayaguela with a 1974 population of 270,000 growing at approximately 5% per annum, and San Pedro Sula with a population of 148,000 and a compound annual growth rate of over 7% between 1961 and 1974. The major focus of much of the country's urban growth, San Pedro Sula is located within 40Km of three other urban centers growing at over

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1/ This section of the paper is based primarily upon the report "Recent trends in Urban and Regional Development in Honduras: Background, Alternative Strategies and a Proposal for an Urban Assessment", prepared for USAID/H by DS/UD.

2/ Refers to inhabitants of settlements with a population of 5,000 or more.

5.5% per year, causing a pronounced concentration of population within the Sula agro-industrial valley which is likely to lead to considerable adjustment and absorption problems. Yet, while preliminary evidence suggests that the rapid growth of cities in Honduras follows and facilitates the current pattern of growth in the modern sector of the national economy, there is some indication that unemployment is greatest at the principal destinations of the migrants. The unofficial rate for Tegucigalpa, for example, is 17%. These areas typically have substantial infrastructure deficits and limited capacity to respond to the increasing demands of rapid urban growth.

2. The Housing Situation: The Housing Census conducted in 1974 ("Censo de Población y Vivienda") by the Dirección General de Estadística y Censos (DGEC) served as the initial basis for the GOH National Housing Policy, issued in 1976. The census indicates that approximately 60% of the national housing stock suffers major structural or basic services deficiencies. Applying minimum standard criteria, this yields an existing national housing deficit in excess of 300,000 units. As can be expected with the majority of the population still in rural areas, a major portion of these units is rural. Yet, there are serious deficiencies in the urban housing stock as well, with 67.5% of the urban units built of adobe, dirt and wood, wood sticks, cane or other temporary materials, over 26% with dirt floors, 25% without running water, 44% with two rooms or less, and over 21% classified as "cuarterías", single rooms rented as living units with shared kitchens and sanitary facilities. In the major cities of Tegucigalpa and San Pedro Sula, approximately 60% of the units are severely overcrowded.

These conditions have been further investigated in a study of low-income urban communities undertaken by a consulting firm for the GOH, 1/ which identified the following problems as characteristic of the sector:

a. The housing stock in these communities is deteriorating, substandard and unsanitary.

b. Inner city communities have insufficient basic services (water, sewer) and peripheral communities tend to lack sanitary services altogether. Health conditions are poor.

c. The level of illiteracy is higher for residents of these communities than for the population in general.

1/ PADCO, "Acciones Específicas Relacionadas con la Elaboración del Plan Nacional de Vivienda para Honduras: Informe Final" and Anexo: Estudio del Sector Vivienda Informal, January, 1978.

d. Consumption of food, water, cooking fuels, electricity, and clothing is low and at high prices.

e. Families in these communities lack the information they need to function in the urban context (e.g. knowledge of job opportunities, of methods of securing legal tenure to land and structures, of services available to meet their needs.)

The study concludes that such problems will tend to increase over time in magnitude (population affected) and intensity (degree of incidence).

The resulting shelter problems in urban areas related to structural deficiencies, lack of minimal infrastructure services, overcrowding, poor environmental health conditions, and lack of privacy, are compounded by the fact that over 70% of the urban population lacks all possibility of financing conventional dwellings in the existing market. The seriousness of this situation is confirmed by the estimated 7,000 to 8,000 low-income urban households which annually solve their housing needs through their own efforts in the informal sector. This activity accounts for approximately 60% of all the units in Tegucigalpa and San Pedro Sula and a much higher percentage in other urban centers.

In addition to the existing deficit, the National Housing Policy has estimated that the annual national housing need arising from population growth and replacement of deteriorated units is approximately 26,000. On the basis of the 1974 census, it is estimated that a total of 73,400, or half, of the urban families were below urban median income levels throughout Honduras. 1/ With an urban population growth of 6% per annum, and an annual replacement factor of 2%, an estimated 5,900 new shelter units will be required each year by urban families which are below median income levels. In recent years, housing produced by the formal sector for all income groups throughout Honduras has averaged slightly more than 2,000 per year. As noted in the National Housing Policy, the annual, national need of 26,000 units to accommodate population growth and obsolescence alone exceeds the total accumulated formal housing production of the country (public and private sectors) between 1970 and 1975.

The implications of this discrepancy are already becoming apparent. Indicators which reflect general cost and availability trends for housing suggest that rental housing, to which most low-income families in Tegucigalpa and San Pedro Sula must resort, is considerably more expensive than equivalent owner-occupied units in these and other larger urban centers, and is particularly expensive in the rapidly-growing North Coast and Sula Valley areas. The close correlation

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1/ The median monthly family income level as of September 1978 is estimated at $181 in Tegucigalpa, $163 in San Pedro Sula and $133 in other urban areas.

between recent rates of urban growth and housing cost increases in such areas suggest that in the absence of major increases in the available supply of housing, continued urban growth cannot be accommodated without considerable housing price and cost increases, which will worsen the already serious housing problems of the urban poor.

3. GOH Response: The articulation of a National Housing Policy in 1976, on the basis of data generated in the 1974 Housing Census as well as in the other studies prepared by consultants for the GOH, provides a clear indication of GOH determination to address the problems of the shelter sector within the context of balanced national development planning. As stated in the National Housing Policy paper:

> "Probably one of the main obstacles to the implementation of a Housing Policy lies in the distorted image of the important part played by the Sector in economic and social development in terms of the direct stimulation it affords in the areas of production, the creation of jobs and savings, and its repercussion on social aspects such as health, education and welfare, all of which are essential to improving the standard of living of the Honduran people.
>
> "It is not intended therefore to continue treating housing as one more element of the social welfare package in which the State's limited resources are allotted in a dispersed and isolated manner among a few beneficiaries without causing a real impact; much less is it intended to postpone specific actions until such time as the country has achieved a certain degree of economic growth . . ."
>
> ("National Housing Policy for Honduras", English Translation, RHUDO, Tegucigalpa, AID, 1978, p. 6 and 7.)

On the basis of this approach to the sector, the National Housing Policy stresses the need to increase investment in housing and to distribute it both to those groups which have not had access to long-term housing finance and to those regions of the country where economic growth and development potential are greatest. It calls for the reorganization and strengthening of public and private institutions in the secor, the initiation of programs to provide such basic and sanitary shelter services as serviced sites and core housing priced within the means of low-income people, and the provision of assistance to the informal housing sector. The Chief of State has created the National Housing Committee*, as a high level sectoral

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*The National Housing Committe is composed of the following seven members: Executive Secretary of CONSUPLANE (National Economic Planning Office), Manager of INVA, President of FINAVI, President of JNBS (National Social Welfare Board), Manager of the FEHCOVIL, one representative of the non-profit associations (FUNHDESA, CARITAS, CARE, CEDEN), and the Manager of the Honduran Chamber of the Construction Industry.

body whose mission consists of "coordinating, processing, promoting and evaluating the guidelines, policies and measures tending to the achievement of objectives and goals of the National Development Plan, the Annual Operative Plan and the functional-philosophic directions of the National Housing Policy." This Committee has been charged with the development of a realistic five-year national housing plan based on the National Housing Policy, to be included in the overall GOH National Development Plan for 1979-1983.

The National Housing Plan, now in preliminary draft form, will identify the Instituto de la Vivienda (INVA), a semi-autonomous public corporation, as the principal public sector institution responsible for the production and financing of low-cost housing, for which the GOH intends to continue and subsequently increase its current $1.5 million annual contribution. Through INVA's Board of Directors (composed of the Minister of Public Works as president, the Minister of Labor, the Minister of Planning, the President of the Central Bank of Honduras, one representative of the Association of Architects and Engineers, and two representatives of the public interest, appointed by the Chief of State), the GOH has initiated a major reform of this institution to improve its efficiency and prepare it for the role it is to play in implementing the national housing plan. In addition, and in recognition of the immediate need to increase the supply of shelter services for the urban poor, the GOH has begun to implement the sites and services program, a critical element of its National Housing Policy, on a pilot basis with financing from the Central American Bank for Economic Integration (CABEI). The GOH has requested additional financing from AID for the significant expansion of this program, and directed INVA to prepare the planning and design work for specific projects, which its staff is presently completing.

4. Other Shelter Institutions. While there are several important shelter institutions in Honduras, they have neither the scope nor the mandate required for addressing all aspects of the low-cost housing delivery system. FEHCOVIL, the Honduran Housing Cooperative Federation, has a relatively smaller scale operation than INVA, having produced approximately 1,800 units in the ten years since its creation on a cooperative housing basis serving mostly middle and lower middle income families. (INVA production during the same period, while irregular due to difficulties in obtaining financing, was over 7,000 units.) FINAVI, the National Housing Bank and a relatively new institution, is receiving assistance from AID in organizing and consolidating the savings and loan system for the role which the National Housing Policy calls for it to play in mobilizing resources for housing finance. Although both of these institutions recognize the need for housing programs at prices affordable by the urban poor, and will to a limited extent participate with INVA in addressing this need, the National Housing Plan calls for them to direct the major part of their efforts to meeting the substantial

housing demand of middle and lower middle income groups. Nevertheless, RHUDO/ROCAP is promoting and supporting the financing of low cost pilot housing projects by FEHCOVIL and FINAVI through CABEI, and will continue to support their efforts in the future; however, the combined production of low-cost housing by these two institutions is expected to amount to approximately 10% of the number of low-cost units which INVA will produce.

5. CABEI's role. AID's policy is to develop within CABEI a self-sustaining secondary mortgage market operation to support the promotion, development and financing of medium and low-cost housing in Central America.

INVA previously requested a $22 million loan from CABEI for its sites and services projects. However, CABEI had committed all of the funds which are available from AID under the 003 loan as well as the $20 million available from its own resources (bond sales) and has not yet fully developed its secondary mortgage operation at a level sufficient to finance the requested loan.

RHUDO/ROCAP is reviewing CABEI's secondary mortgage operations and CABEI's promotional and financing efforts on low-cost housing in order to prepare recommendations as to future AID involvement with CABEI. A major input to this review is the housing policy which is currently being prepared by CABEI which will be available in October after it has been presented to its Board of Governors. The Board of Governors had requested such a policy when CABEI requested an increase in its capitalization from 60 to $200M.

Since CABEI will not complete disbursement of its current $46M HG for at least one year and it is unlikely that CABEI will formulate and begin to initiate its new housing policy with its own financial resources and with an improved staff and organization, which ROCAP and DS/H consider necessary before providing any additional loans to CABEI, within a time frame suitable for the development of this $10.5M project, this loan will not be channeled through CABEI.

Furthermore the objectives of this project can better be served through a bilateral loan since considerable technical assistance will have to be provided to INVA. It is administratively advantageous to fund such projects bilaterally in order to control more closely the interactions between technical assistance activities and loan disbursements. CABEI does not have the technical expertise, nor the manpower available to provide and monitor the TA that is required to implement the proposed project.

6. AID Support: AID has been involved in both rural and urban housing in Honduras for fifteen years. The earliest involvement was financed by four Housing Guaranty loans totaling $7 million

for sixteen hundred middle and lower middle income units which were constructed in Tegucigalpa during a ten-year period starting in 1963. Subsequently, AID has provided two concessional loans (522-W/023 and 028), one for $1 million for rural housing with INVA and another for $4 million for urban housing. Loan agreements on both loans were signed in 1975. The urban housing loan, which is still being disbursed, has been used as a seed capital loan to establish a savings and loan system in Honduras.

As stated in its Annual Budget Submission for FY 1980, USAID/Honduras has determined that its existing and proposed programs aim "at increasing the Government's capability to meet the basic human needs of increasing numbers of poor in Honduras by working directly to overcome obstacles in four major areas, i.e. planning and analysis, development administration, delivery systems and human resources development". Applied to the urban sector, the Mission's strategy is "predicated upon its perception of urban development within a regional. . . development framework as an opportunity to facilitate essentially healthy population movements toward some productive, diversified economic and social environments. Further, the strategy is intended to support, strengthen, and encourage the host country's ability and effort to define and implement urban and regional development goals and programs well in advance of the time that urbanization becomes a major, unmanageable problem". (DAP, Summary Strategy Statement, USAID/Honduras, May, 1978, p.50.) While the Mission intends to formulate a more detailed strategy on the basis of an indepth urban sector assessment to be completed in 1979 with assistance from DS/UD, it contemplates as a primary objective "the expansion of the human resources base in technical fields related to the urban environment, and the creation, strengthening, restructuring and coordination of institutions responsible for development of the urban sector."

7. Project design: RHUDO/ROCAP has focused its efforts on INVA as the primary institution for the production, delivery and financing of low-cost housing for the poor, and has initiated a series of detailed background studies and analyses of INVA's institutional capabilities and needs, its financial condition, and the low-cost shelter activities which consitute the proposed project. Specifically, these include:

- an evaluation of INVA's institutional capability with regard to overall management operations in planning, construction, and delivery of projects;

- an evaluation of INVA's institutional capability with regard to its management of financial resources;

- an assessment of the functional relationship between INVA's Board of Directors and management, including specific recommendations for modification of its internal regulations;

- a review of INVA's home improvement loan program with recommendations for reorientation and expansion of this operation;

- an in-depth financial analysis;

- a technical evaluation of INVA's site development capability and criteria, and an environmental planning and design evaluation of potential project sites.

The findings and analyses of these studies have been incorporated into the design of the proposed project. In addressing the critical shelter needs of low-income Hondurans, the project is designed to strengthen INVA as the primary institution designated by the GOH to serve this group. The project will provide INVA with both the institutional capability and requisite experience for the major expansion of its low-cost shelter programs in the country's primary urban areas, secondary cities and regional market centers as envisioned in the National Housing Policy and in the GOH's overall National Development objectives. In addition to the proposed $10.5 million Housing Guaranty (HG) loan, AID programming tentatively calls for a follow-on HG loan to INVA of approximately $10 to $15 million in 1982 to consolidate the institutional gains achieved with this initial loan and to significantly expand the delivery of low-cost shelter solutions to secondary cities and regional market centers.

B. Detailed Description

1. Project Goal: The project goal is:
To expand the supply of shelter services affordable by the urban poor in Honduras on an on-going and self-sustaining basis.

Underlying this goal is the premise that increased shelter production and financing on the part of formal sector institutions can and does respond to the unsatisfied demand of low-income families by reducing costs to affordable levels and providing long-term credit. Such an approach allows low-income families to build equity as they amortize their units, and provides for replicability by creating a pool of resources from loan repayments which can be re-invested to continue expansion of the supply of low-cost shelter. As noted in the Project Background, the GOH National Housing Policy assigns to INVA major responsibility for the public sector production and delivery of low-cost shelter services for the poor. In focusing on INVA, the project will serve to develop and strengthen the formal housing sector and significantly extend the reach of its resources to serve the shelter needs of the poor. This will be accomplished through: a) the provision of technical assistance to develop and institutionalize improved methods of management and the production of lower cost shelter solutions; b) the provision of a Housing Guaranty loan to finance a major and sustained increase in the annual production of low-cost units; and c) the improvement of INVA's financial position which is expected to result from the combined effects of improved management and increased production. The goal is consistent with the GOH National Housing Policy, with USAID/H urban development objectives, and with AID's shelter and urban development policies and activities (specifically PD/55 and PD/67, as well as FAA Section 106 as amended in 1975).

2. Project Purpose: The purpose of the project is:
To develop within INVA the capability to produce and deliver on an annual basis approximately 2,000 low-cost shelter solutions and 1,000 home improvement loans affordable by families below the median income level in both primary and secondary urban centers in Honduras.

The project is designed to allow for the gradual expansion of INVA's production capability to the point where it can produce and deliver, in accordance with its increasing institutional capacity, the proposed level of new units and home improvement loans in each of the last two years of project implementation. By the end of the project, INVA will have programmed and prepared additional, similar projects, and arranged for the necessary financing, to maintain or expand these levels of production.

With improved management and production capability at this level of production, INVA will achieve overall net positive operating results by the third year of project implementation. The HG loan funds will enable INVA to maintain this level of production for one additional year, thereby further increasing and solidifying the positive cash flow of the institution, and providing additional roll-over funds to finance additional, similar shelter programs in low-income urban barrios and smaller secondary cities and market centers. By the end of the project, on the basis of this annual production level, INVA will be able to cover all of its overhead costs associated with the planning, design, construction and marketing of units, from the mark-up on direct construction costs and from front end fees. The interest spread between the cost of funds to INVA and that charged to the purchaser will enable INVA to cover all its costs associated with servicing mortgages and home improvement loans. Downpayments on new units, improved collections, and maintenance of a low delinquency rate on its portfolio, will result in additional funds (new and roll-over) for re-investment. By 1982, INVA is expected to have net positive operating results. These funds (and funds from the recovery of land purchase costs on the sub-projects to be constructed) will be available for re-investment in the following year to finance increased production (and additional land acquisition) and growth in the institution's mortgage and loan portfolio, a trend which INVA is expected to sustain with re-investments of increasingly larger positive net operating results thereafter.

During the final two years of project implementation, INVA will produce, deliver and service approximately 500 shelter solutions (Levels II and III) and make approximately 100 home improvement loans (Level I) in pilot projects in secondary cities and/or regional market centers. This experience, and the development of appropriate systems and procedures in regard to contracting for construction, inspection, orientation, marketing and, most important, collection and servicing of mortgages and projects, will enable INVA to program and manage widely dispersed small projects. Such procedures will serve as the basis for the expansion of INVA's operations in smaller urban centers in support of overall GOH development planning and programming throughout the country's regions.

Achievement of the project purpose assures that INVA will have complied with the objectives set for it in the National Housing Policy by producing housing on a national scale that is affordable by and suitable to the needs of low-income groups. It will have demonstrated the viability of such projects and thus provide for their replication and for the production of the maximum number of solutions from the resources available. Furthermore, INVA's activity will represent the first large-scale institutional effort to address directly the shelter needs of the urban poor in Honduras.

3. Planned Outputs: The project will lead to the development within INVA of:

a) The planning and management capability to establish and carry out shelter programs in keeping with the institution's mandate.

Early in the project, the functions and responsibilities of INVA's management and Board of Directors will be clearly established. The Board will delineate overall institutional policy and the responsibility for operations will be delegated to management. By the end of the project, in keeping with its increased responsibilities, INVA's top and middle management will have received training in such fields as personnel administration, auditing, accounting and general management practices. Systems for internal reporting, auditing and budgeting for all divisions and offices will have been developed and implemented, allowing for more effective internal policy and operational control. Management will have developed improved project planning and programming procedures for: the evaluation, selection, and acquisition of project sites; the budgeting and financing of projects to be developed on these sites; and the inter-agency coordination for providing infrastructure services.

b) The technical capability to the design, construct and deliver minimum cost shelter solutions affordable by the urban poor.

Implementation of the project will result in INVA's having adopted significantly reduced design standards in regard to unit, urbanization and site design; established construction cost and schedule control systems, and trained personnel in their use; developed procedures for timely inspection and unit accpetance; and have improved contracting and disbursement procedures in use. In addition, INVA will have personnel trained and procedures established for the promotion of its low-cost shelter solutions and the selection, orientation and organization of beneficiaries for self-help and community activities, and have personnel trained and procedures established for making and managing the collections on small home improvement loans for low-income residents of its sites and services projects and of urban slums. Finally, INVA will have prepared low-cost shelter project designs and specifications for post-project continuation of the production and delivery of shelter solutions for low-income families, and developed and implemented procedures for the production and delivery of low-cost shelter projects in secondary cities.

c) The financial capability to manage its mortgage and loan portfolios, as well as its other capital assets.

As a result of project implementation, INVA will have developed and implemented effective overall internal cost accounting systems which allow for allocation of costs to income-generating operations and incorporate construction cost control and accounting procedures. INVA's accounting systems and its portfolio accounts will have been fully mechanized. Improved loan collection, delinquency control and eviction procedures will have been developed and implemented, substantially reducing delinquencies to an average of no more than one month (or 8%) on INVA's entire portfolio. INVA will have personnel trained and procedures established for the management of portfolio operations and other financial resources and the investment of re-flows, and will have evaluated potential sources of capital (domestic and external) for investment in low-cost shelter services.

The restructuring of INVA's shelter programs will further lead to: d) A major increase in INVA's production and delivery of minimum cost shelter solutions affordable by the urban poor.

By the end of the project 5,250 minimum-cost shelter units and 3,500 home improvement loans will have been produced and delivered by INVA. In the last two years of project implementation INVA will have reached an annual production level of 2,000 units and 1,000 loans.

Prices on the shelter units will range from $1,500 to $3,500 and will be affordable to families in the seventeenth (17th) to fiftieth (50th) income percentile groups in Tegucigalpa and San Pedro Sula. Only the least costly solutions will be offered in the secondary cities, where they will be affordable to families in as low as the thirtieth (30th) income percentile group. An average home improvement loan of $500 is expected. Such a loan would be affordable to families at or above the tenth (10th) income percentile group in the major cities and at or above the twentieth (20th) group in the secondary cities. (The affordability of the proposed shelter services is analysed in section III B.2)

The least costly shelter unit will consist of serviced lots ranging in size from 70 m2 in Tegucigalpa to probably 120 m2 in secondary cities. The only structure on the lot will be a 6 to 7 m2 sanitary core with basic water and electrical connections. The most costly solution will include a 75-80 m2 lot with a 40 m2, two-room core unit on it. Three additional solutions will be offered between these minimum and maximum solutions. The average home improvement loan of $500 typically will finance new sanitary facilities, an additional bedroom, a new roof or improved foundations. (A detailed description

of each proposed solution can be found in the Technical Analysis, section III B.1)

The following table summarizes the projected physical outputs of the project. Unit prices are based on costs as of September, 1980. Since the solutions indicated as Levels III and V include a mix of some 2,400 home improvement loans with an equal number of shelter units, the total number of solutions shown in the table does not correspond to the number of units and loans that will be produced.

EXPECTED PHYSICAL OUTPUTS OF THE PROJECT

TYPE OF SOLUTIONS	UNIT PRICE	NUMBER OF SOLUTIONS	TOTAL INVESTMENT
LEVEL I: Home improvement loan	$ 500	1,060	530,000
- Primary cities	500	960	480,000
- Secondary Cities	500	100	50,000
LEVEL II: Urbanized lot and sanitary core	1,500	930	1,395,000
- Primary Cities	1,500	745	1,117,500
- Secondary Cities	1,500	185	277,500
LEVEL III: Urbanized lot, sanitary core and loan	1,900	1,695	3,220,500
- Primary Cities	1,900	1,380	2,622,000
- Secondary Cities	1,900	315	598,500
LEVEL IV: Urbanized lot and core house	2,500	845	2,112,500
LEVEL V: Urbanized lot, core house and loan	2,900	730	2,117,000
LEVEL VI: Urbanized lot, core house with 1 or 2 rooms	3,500	1,050	3,675,000
TOTALS		6,310	13,050,000
PLUS INFLATION FACTOR			3,437,000
TOTAL INVESTMENT			$ 16,487,000

e) The expansion and reorientation of INVA's home improvement loan program to serve families living in existing low-income communities.

More than 1,000 of the 3,500 home improvement loans are expected to be extended to families living in existing low-income communities. This will provide INVA with its first experience in meeting the needs of these communities and will contribute to the improvement and upgrading of the existing housing stock.

Such a program is particularly important in view of the fact that there is an accumulated stock of some 65,000 urban shelter units in need of improvement or expansion. In fact INVA's home improvement loans will become an important component of any future urban upgrading program.

Finally, these loans have the additional advantage of being affordable by a full decile of the population that cannot meet the monthly payments on the mortgage on the least costly shelter unit.

f) The extension of the home improvement loan and sites and services programs to secondary cities on a pilot basis.

INVA will provide a total of 500 sites and services solutions in secondary cities, approximately 315 of these coupled with home improvement loans (Level III). Approximately 100 home improvement loans (Level I) will be made to low-income residents of slum areas in secondary cities. This will prepare INVA for the major expansion of its shelter activities into these areas which will be required to support the spatial distribution of national economic development expected as a key part of the GOH National Development Plan for the period 1979-1983, as noted in the Background section above.

4. Inputs

a. Financial Inputs: Total project funding of $16,889,000 will be provided from the following sources:

AID:	$ 10,902,000
USAID/H (Grant funds)	102,000
DS/H (fee funded)	300,000
HG loan	10,500,000
Host Country:	5,987,000
GOH	5,000,000
Beneficiary Downpayments	987,000
T O T A L	$ 16,889,000

These project resources will be utilized among the various project components as follows:

Project Activity:	A I D	Host Country	Total	%
Technical Assistance 1/	402,000	-	402,000	
Level I Solutions	445,000	85,000	530,000	16.8
Level II Solutions	1,116,000	694,000	1,810,000	14.7
Level III Solutions	2,603,000	1,374,000	3,977,000	26.9
Level IV Solutions	1,690,000	1,051,000	2,741,000	13.4
Level V Solutions	1,706,000	954,000	2,660,000	11.6
Level VI Solutions	2,940,000	1,829,000	4,769,000	16.6
T O T A L S	$ 10,902,000	$ 5,987,000	16,889,000	100

Technical Assistance	402,000	---	402,000
Home Improvement Loans	1,260,000	240,000	1,500,000
Mortgage Loans	9,240,000	4,760,000	14,000,000
Downpayments	---	987,000	987,000

(N.B. The total costs of solutions at each of the six levels include downpayments and inflation computed on the basis of the scheduled delivery of each component of the project)

b. Technical Assistance Inputs: In support of project goal and purpose, and to achieve project outputs, AID will provide a total of $402,000, including a grant of $102,000 for approximately 70 person/months of participant training, and the balance, $300,000, from HG fee income to finance approximately 26 person/months of short-term and 24 person/months of long-term technical assistance to INVA. The project will involve INVA in the first major institutional effort to address the shelter needs of low-income families in Honduras on a large scale, for which INVA will be required to develop and implement a wide variety of appropriate systems and procedures. Considerable

1/ While not an input under the authorizations required for this project, additional funding of approximately $100,000 has been allocated under a DS/H OPG, which is already providing approximately 2 person/years of TA for INVA. Similarly, INVA itself has a $35,000 contract with outside management consultants.

technical assistance will be essential for INVA to plan and implement the sub-projects financed with this HG loan, and based on this experience, to develop the institutional capability to plan and implement similar projects at the level of production envisioned for it. Technical assistance will therefore be provided in the areas of overall institutional management, production and delivery of low-cost shelter solutions, and management of portfolio operations and financial resources, as summarized in the following table, and described below.

TECHNICAL ASSISTANCE INPUTS
(person/months)

PROPOSED ASSISTANCE	Short-term Advisors	Long-term Advisors	Participant Training
1. Overall Management:	4.5	8	36
- Board/management functions	1.0	-	--
- Control/monitoring/reporting procedures	1.0	-	--
- Project programming	0.5	-	--
- Site selection	(1.5)*	-	--
- Secondary cities program	2.0	-	--
- Coordination for programming	-	8	--
- Pilot project evaluation workshop	(0.5)*	-	--
- Management training	-	-	36
2. Production/Delivery:	13.0	16	16
- Project cost accounting/ construction management	5.5	-	--
- Production related training	-	-	8
- Coordination for production	-	16	--
- Promotion/selection/orientation/organization of beneficiaries	4.5	-	-
- Social-related training	--	-	8
- Coordination for delivery	-	(7.5)*	-
- Home improvement loan program	3.0	-	-
3. Financial Management:	8.5	-	18
- Internal cost accounting	4.0	-	-
- Mechanization of accounting	1.0	-	-
- Collection/delinquency control	2.0	-	6
- Study alternative capital sources	1.5	-	-
- Finance-related training	-	-	12
PROJECT TOTALS	26	24	70

* Approximately 2 person/months of short-term assistance and 7.5 person/months of long-term assistance will be funded under an OPG which has already been authorized, and these amounts, in parentheses, are not included in the project totals.

i) Overall management capability: To overcome problems arising from inadequate definition and pursuit of institutional objectives, short-term technical expertise will be provided to assist INVA in delineating overall policy functions of the Board of Directors, and delegating to management responsibility for operations. Short-term technical expertise will also be provided to assist in the development and implementation of an internal post auditing system, budgeting procedures for administrative cost control, and periodic reporting systems for both the Board and management to monitor operations and policy controls. Additional short-term expertise will be provided for assistance in developing advanced project programming functions, site selection and acquisition procedures, and coordination with utility agencies for provision of infrastructure services at these sites. Short-term assistance in arranging and conducting an evaluation/design workshop, which will evaluate pilot sites and services projects in Tegucigalpa and other Central American cities, will also be included. Short-term TA will be provided to assist in developing and implementing procedures for the production and delivery of low-cost shelter projects in secondary cities. A long-term resident advisor will assist in coordination of the short-term advisors and of the participant training to be provided in management techniques and general administration for senior and middle level managers. Total technical assistance in overall management will include 4.5 person/months of short-term advisors, 8 person/months of a long-term resident advisor, and 36 person/months of participant training.

ii) Production and delivery capability: To achieve a major and sustained increase in INVA's production of shelter solutions affordable by the urban poor, short-term technical expertise will be provided to INVA's Projects Division in developing minimum-standard unit and site designs, and in designing and implementing project contracting, cost accounting and control procedures, and project management systems. Participant training in production-related activities will be provided, as will the long-term assistance of a resident technician to advise and coordinate the short-term technical assistance related to the implementation of HG financed sub-projects, construction activities, and training.

To improve INVA's capability with regard to project beneficiaries, short-term technical expertise will be provided to its Social Integration Division to assist in the development and implementation of procedures for promotion of solutions, selection and orientation of purchasers, and organization of self-help and community activities within project areas. The long-term assistance of a resident technician will be provided (under the OPG) to coordinate the short-term

expertise and the implementation of beneficiary related procedures and systems.

In support of INVA's effort to re-orient and expand its home improvement loan program, short-term expertise will be provided to its Savings and Loan Department to assist in designing and implementing procedures for making small loans to residents of the sites and services projects and low-income urban slum areas, and for managing the collections on these loans.

Total technical assistance inputs related to INVA's production and delivery capability will include 13 person/months of short-term advisors, 16 person/months of a long-term resident advisor, 16 person/months of participant training.

iii) Financial management capability: To institute financial procedures which assure full recovery of costs and re-investment of recuperations, INVA's Finance Division will be provided with short-term expertise to assist in developing and implementing an effective overall internal cost accounting and allocation system, which incorporates the project cost accounting system to be devised for the Projects Division. Short-term expertise will provide assistance in the mechanization of this accounting system and of portfolio administration. Additional short-term expertise will be provided in designing and implementing effective loan collection and delinquency control procedures as a follow-up to those reforms in this area which INVA has already initiated. Short-term expertise will be made available to INVA to assist it in investigating possible external sources (domestic and foreign) of capital which could be available to INVA to finance its future low-cost shelter investments. Finally participant training will be provided in the overall management of portfolio operations and financial resources. Total short-term TA in financial management will include 8.5 person/months, as well as 18 person/months of participant training.

III. PROJECT SPECIFIC ANALYSES

A. Social Analysis

1. Description of the Target Group:

a. Housing Conditions: Beyond the level of aggregate data reported in the Housing Situation sub-section of the Project Background, few statistics are available which allow for a comprehensive and detailed presentation of Housing conditions among the urban poor in Honduras. The study on the informal housing sector cited earlier, however, does provide a diagnostic description of the "marginal barrios" of the Central District of Tegucigalpa and Comayaguela (PADCO, 1978). After preliminary investigation, it identified the "marginal population" as having the following characteristics:

i. The capital and human resources of the majority of marginal families are extremely limited.

ii. The institutional supply of housing services is very limited in relation to the number of marginal families which could pay for such services.

iii. In general, the rental housing which is within the means of marginal families is badly deteriorated due to lack of maintenance. In "cuarterías" (one room rental units with shared facilities) located in central barrios, infrastructure services are inadequate while in peripherally-located "cuarterías", these are generally non-existent.

iv. Unsanitary conditions are prevalent in both central and peripheral marginal barrios, and the latter are often subject to flooding, soil erosion and landslides.

v. Literacy rates are lower among the marginal population than among the population in general.

vi. Among marginal families, the consumption of food, water, cooking fuels, clothing, etc., is low and at relatively high prices.

vii. Marginal families generally have limited access to information concerning their rights and opportunities for betterment, particularly with regard to housing.

viii. Families among the marginal population who purchase property generally do not have knowledge of their rights as buyers, of the terms and conditions of sale, nor of methods of securing title.

ix. Employment opportunities among the marginal population are limited, and employment is frequently unstable, which severely limits access to institutional sources of credit. Those who do borrow in the informal sector generally pay usurious rates for the short-term credit they receive.

x. Independent artisans and small businessmen among the marginal population lack access to credit and equipment needed for their enterprises.

On the basis of this identification, and surveys carried out in 1977, the PADCO study estimated that approximately 18,000 families, or 32% of those in the Central District of Tegucigalpa and Comayaguela, could be classified as marginal families, for a total marginal population in the Central District of approximately 96,000. These marginal families can, in general, be grouped into one of the following four typical housing solutions: 1) Owners, including those with some form of informal financing; 2) Renters of rooms in "cuarterías"; 3) Renters of small houses; and 4) Squatters on invaded land, including those on invaded land which the municipal government has taken control of.

The majority of all families (over 60%) in Tegucigalpa and San Pedro Sula occupy one, two, or three room units, and many of these are built of scrap lumber, tin or tar paper, in groups of 8 or 10 units on small compounds of 150 to 200 M2, (with as many as 40 to 60 residents). Open space in such compounds is at a premium, allowing only for access to units built at the rear and a shared water tap or well, a single toilet or latrine, and a bath or washing area. The buildings themselves, with dirt floors, cloth, paper, or stick interior partitions, are structurally unsound, unsanitary and inadequate by any minimally acceptable standards. Other families rent units in one and two story buildings of more permanent materials, sharing a single sanitary facility among a dozen or so other tenant-families, for a total of 50 to 75 inhabitants. These one or two room units, many with a total living area of no more than 10 or 12 M2, opening on a single narrow corridor, are often completely windowless, as the buildings are built right up to the lot lines. Another typical housing solution among the urban poor are "cuarterías" or long shed-like buildings divided into 8 to 10 one-room units on deep lots. Across a narrow open yard are rows of temporary shacks used as kitchens, as well as a toilet or latrine. Overcrowding tends to be severe with families of 6 to 10 people occupying a single room and little or no space for children to play outside. Available data on mortality suggests that unsanitary conditions are a major contributing factor in infant and childhood deaths. These data indicate that among "post-neonatal" infants (from 1 to 12 months of age, whose mortality is considered to result from exogenous, i.e. environmental and nutritional, conditions) and among children 1 to 4 years of age, one-fourth to one-third of all deaths are caused by amoebic and bacterial dysenteries, and enteritis and other diarrhea-related diseases. ("Encuesta Demográfica Nacional de Honduras", Tegucigalpa, CELADE, 1975). These are directly related to water supply and sanitary conditions,

which are generally well below acceptable standards among many of the urban poor.

Rooms and open spaces as small and crowded as those described above, in large part account for densities of 600 to 900 persons per hectare in many of the barrios of the Central District, and add an important dimension to the classification of units in Table III.A according to the number of rooms per unit. In the Central District of Tegucigalpa and Comayaguela and in San Pedro Sula, over 42% of the entire housing stock consisted of one or two room units in 1974. Among rental units, the percentage of one and two room dwellings was significantly higher: 62% in the Central District and 56% in San Pedro Sula. Statistics such as these afford a more accurate understanding of conditions among the urban poor when it is recognized that the one or two room units in which the majority of low-income people presently live contain only 10 to 20 M2 of living space for families which average over 6 people, in buildings which are basically unsound and unsanitary, on shared and crowded lots with little if any open outside space.

TABLE III.A

TOTAL NUMBER OF HOUSING UNITS AND

RENTAL UNITS BY NUMBER OF ROOMS PER UNIT

(1 9 7 4)

Rooms per unit:	One	Two	Three	Four	Five & More	Totals
CENTRAL DISTRICT:	6,753	15,162	9,665	6,530	13,955	52,065
% of Total:	13.0%	29,1%	18.6%	12.5%	26.8%	100.0%
Rental Units:	5,102	8,853	3,650	1,832	3,013	22,449
Rental Units as % of units of each size:	75.6%	58.4%	37.8%	28.1%	21.6%	41.3%
% of all Rentals:	22.7%	39.4%	16.3%	8.2%	13.4%	100.0%
SAN PEDRO SULA:	6,719	8,499	7,551	4,820	8,384	35,973
% of Total:	18.7%	23.6%	21.0%	13.4%	23.3%	100.0%
Rental Units:	4,742	4,670	3,618	1,704	2,054	16,788
Rental Units as % of units of each size:	70.6%	54.9%	47.9%	35.4%	24.5%	46.7%
% of all Rentals:	28.2%	27.8%	21.6%	10.2%	12.2%	100.0%

(Data drawn from 1974 National Census of Housing and Population)

b. Socio-economic Characteristics: Available data on income distribution in Honduras originates in the findings of the Family Income and Expenditures Survey, carried out in 1967-1968, which is generally considered to be an acceptable portrait of the family income distribution status in Honduras for urban and rural areas. Data obtained from that survey have been projected in the PADCO study (1978) and the Honduras Shelter Sector Assessment Up-Date of February 1978, to yield the following estimates of the distribution of incomes in Tegucigalpa, San Pedro Sula, and other urban areas as of September 1978.

TABLE III.B

ESTIMATED INCOME DISTRIBUTION

FOR BELOW MEDIAN INCOME FAMILIES

(monthly family income in US dollars as of September 1978)

DECILE	PERCENTILE	Tegucigalpa	San Pedro Sula	Other Urban
	50th	181	163	133
Fifth				
	40th	150	132	100
Fourth				
	30th	119	112	85
Third				
	20th	89	86	58
Second				
	10th	60	56	37
First				
Approximate Number of Families per Decile		5,500	3,750	7,750

Within these estimated income ranges are found a wide variety of employment categories. While little statistical data are available which would indicate the percentage of low-income workers in the labor force employed in each occupation, informal surveys carried out in Tegucigalpa during project development and analyses of approximately 2,000 applications for housing received by INVA and FEHCOVIL, the National Housing Cooperative Federation, reveal some common occupations and corresponding estimates of monthly wages, shown in Table III.C.

TABLE III.C

OCCUPATIONAL CATEGORIES OF

BELOW MEDIAN INCOME WORKERS:

TEGUCIGALPA; 1978

Common occupations	Monthly Salaries (US dollars)
Market and street vendors	20 - 60
Mechanics	125 - 200
Service employees	60 - 100
Watchmen	30 - 100
Unskilled construction workers	35 - 45
Domestic workers	25 - 100
Masons	40 - 150
Store clerks	40 - 110
Bus drivers	40 - 120
Truck drivers	100 - 175
Factory workers (unskilled)	40 - 75
Office clerks	75 - 150

Much more difficult to ascertain is the level of unemployment among the target population as the sole source of total open unemployment data (defined as the unemployed labor force seeking jobs at current salary rates) comes from the macroeconomic model developed as part of the preparation for National Development Plan. This model estimated open unemployment rates ranging from 12% in 1973 to 7.5% in 1978, which may well be under-estimates even for the economy as a whole. Three surveys carried out in Tegucigalpa provide significantly different estimates. The 1974 METROPLAN survey, which is regarded as the most complete, indicated that the open unemployment rate was above 21% for the labor force below the median income level, and from 10 to 21% for the labor force above the median. While these rates may well be over-estimates, since it could be assumed that some job-seekers are presently employed at least on a part-time or occasional basis, they do suggest that securing employment is a considerable problem for the urban poor.

Incomes among this group are frequently augmented by the presence of more than one income-earner per family, with estimates suggesting an average of 1.5 per family below the median income level. The second wage earner is typically a spouse, in which case a grandparent, a neighbor or an older child, provides day care; but working adult siblings are also included in family groups. Low-income families generally average 5.5 to 6 persons per family within a range from 4 to over 10 in many cases. Many of these are single-parent families with women heads of household sharing responsibilities for home and child care (as well as family income) with female relatives or older children. INVA sells to women heads of household, and applications

for housing received by INVA, (as well as by FEHCOVIL and the Municipal Council of the Central District), suggest that from one-third to one-half of low-income applicants are women, often with large families to support. While aggregate statistics indicate that only 16% of the total national labor force (economically active population) in 1974 were women, they appear to represent a much larger proportion of workers among the urban poor. On a national basis, women account for 57% of all those working in communal, social and personal services categories, 40% of those in commerce, 38% in manufacturing industries, and 29% in financial and insurance institutions, versus only 2% in agriculture, forestry and fisheries. (Source: National Economic Planning Council, Human Resources Division, Diagnóstico de los Recursos Humanos: 1961-1974, Tegucigapla, 1976).

Finally, there are a variety of estimates of the proportion of income which low-income families typically allocate for housing expenditures. The Shelter Sector Assessment Up-date suggests that approximately 17 to 18% of family income is spent for housing by families at the 50th percentile of the urban income distribution, while the PADCO study (1978), using the 1967-1968 Encuesta de Gastos e Ingresos Familiares, estimates a range from 16 to 24% for marginal families. This study notes, however, that it included in the base those marginal families who as squatters pay no rent at all, so it tends to underestimate. These indicators reflect the sharp supply constraints and the increased demand which results from the apparent recent increases in urban population growth at low income levels. Such families commonly pay between $12.50 and $45 per month in rent alone, for the one and two room units described in the section above on housing conditions.

2. Need and Effective Demand:

Available information indicates that considerable demand exists at present among low-income urban families for improved shelter services. While it is difficult to actually measure effective demand, because an effective supply of appropriately priced and financed shelter has not been available to low-income families, the common presence of such groups as "patronatos", (organizations of low-income families who join together to seek among other things, improved housing services), suggests that unsatisfied demand among the urban poor is great, and will continue to remain so into the foreseeable future. There are some 4,400 new units needed each year by below-median income urban families due to urban population growth alone. In addition, there are approximately 14,000 families in Tegucigalpa and 9,400 families in San Pedro Sula now renting one or two room units, most of which are sub-standard. The great majority of these families can be assumed to have incomes below the median (approximately 10,600 renters in Tegucigalpa were classified as "marginal" in the PADCO study with incomes well below the median), and are presently paying rents comparable to the monthly payments which

will be required for amortization of the shelter solutions envisioned in this project. In almost all cases, the provision of potable water and sanitary services on lots with sizable open or buildable areas and secure tenure, will make the project's solutions far preferable to units now available for rent.

There are approximately 8,000 additional families in one and two room units in Tegucigalpa, which are "owner-occupied" (i.e. non-rental), and 5,800 in San Pedro Sula. While a large number of these are squatter units without land title, (on the basis of the PADCO study, which estimated that there are 2,400 squatter units in Tegucigalpa, and assuming that all of these are one or two room units, then approximately 30% of the "owner-occupied" units are squatters), there remain approximately 9,660 owned units in the two primary cities built in the informal sector, most of which are substandard. Almost all of these families are below median income levels and the great majority are estimated to have more than sufficient incomes to amortize the small home improvement loans to be offered as solutions in this project.

Some of this demand has already been expressed. INVA, for example, has a backlog of over 900 fully documented applications, and since instituting simplified pre-qualifying procedures has been receiving well over 25 such applications per day for the past several months. Despite the fact that these have been received in response to a promotion campaign for INVA's lower-middle and middle-income San José project, which clearly states that a minimum income of $200 per month is required, a large number of them are from families below the median income level. It is expected that as a result of INVA's promotion efforts for the low-cost sites and services solutions of this project, it will receive from low-income families a far larger number of applications than it has been receiving for the San José project, particularly since this lower income group has never before been offered the opportunity to participate in the formal sector at an affordable level. In addition, FEHCOVIL, through its involvement in the pilot sites and services project now being implemented, and the Municipal Council of the Central District, through its social programs, have a total backlog of over 2,200 formal applications for low-cost housing units. all from families with incomes below the median. The Municipal Council is receiving over 150 additional applications each month from individual low-income families, even though it has no formal program for providing shelter assistance.

Quite clearly, housing for the urban poor is in critically short supply, despite their willingness to pay, and the evidence apparent in the rental market that they already do pay a relatively large portion of income for the substandard housing services available to them. But without access to a supply of appropriately designed and priced housing solutions and the long-term financing mechanisms which bring them to levels affordable by low-income

families, their demand has not been expressed in a housing market. It is this supply constraint which the project is designed to relieve, in an effort to bring INVA to a level of production which will serve at least a part of the enormous unmet demand among the urban poor.

3. Participation of Beneficiaries and INVA in the Social Development Process.

The project design allows for and encourages the involvement of beneficiaries in developing their own solutions to meeting their needs, both on an individual and group basis.

In terms of the individual, the Home Improvement Loan Program will allow the beneficiary maximum latitute to adapt a basic shelter to his/her particular needs, preferences, family size, and budget. INVA will provide orientation to beneficiaries with regard to the program and the project options available. INVA will also provide an advisory service before and a supervisory service during the construction of the improvements. However, the beneficiary will determine whether or not unit improvements are desired by himself/herself, what type of improvement is desired, whether it is to be by contract or self-help construction methods, and also whether INVA financing is desired.

Since INVA must concentrate its resources on increasing its production of shelter solutions and on improving its servicing of mortgages, it should not be the public-sector agency which is held responsible for providing all services to meet the other socio-economic needs of project residents as well. INVA can assist its project beneficiaries to some extent in seeking these services for themselves. This will be accomplished partially through its orientation program, and possibly through its assistance in the establishment of community associations or "patronatos". However, the viability and continuity of such organizations practically speaking cannot become the responsibility of INVA. This form of social organization is part of a strong tradition in Honduras.

Initially, therefore, the degree of involvement of the community in pursuing the provision of public services in this project will tend to follow basically the existing pattern for such activities in Honduras. Nonetheless, there are several efforts either already underway or proposed for the near future which should have a significant, positive effect in altering these patterns.

The long term advisor under the existing DS/H OPG is presently working with officials from INVA, FEHCOVIL and the Central District (of Tegucigalpa) in the area of community organization. Officials of INVA have been taken to visit housing institutions and sites and services projects in El Salvador and Guatemala to acquaint them with

the approaches used in these other countries in organizing families and communities. Short-term consultants under the OPG will provide additional advice and assistance with regard to the community development aspects of sites and services projects. This will assist INVA in developing its ultimate procedures in this regard.

In addition, discussions have been held with the Peace Corps in Honduras on the possiblity of involving volunteers in the promotional (particularly in secondary cities) and community development aspects of the project. The response was highly favorable and the subject will be pursued.

Furthermore, the urban sector assessment currently being undertaken by USAID/H and the GOH will provide additional valuable information, such as the identification and evaluation of other municipal and national institutions which could assume the responsibility for providing assistance to low-income families in improving their socio-economic conditions.

Finally, a grant under the DS/B Improvement Program for the Urban Poor, combined with Mission grant resources, tentatively scheduled for FY 80, if approved, will provide for the experimental, low-cost delivery of social services with low-income community participation.

B. Technical Analysis

1. Description of Solutions: The project design proposes the development and delivery of six types of shelter solutions at various cost levels. The selection of these levels and the proposed mix of solutions are designed to take account of both construction cost constraints and affordability in a broad range below the median family income. The three basic design levels for project units, combined with home improvement/construction loan options for the two lower cost levels, yield five basic project solutions. In addition, a home improvement loan program will address existing housing inadequacies outside the proposed project areas and extend the range of INVA's activities among low-income groups.

a. Technical Description: The six proposed solutions to be provided include:

L E V E L I: Home Improvement Loans. (1060 loans at $500 average)

Loans for improving units owned and occupied by below median income families will be made by INVA's Savings and Loan department. The loans will be used to improve or add to existing units by self-help or informal sector construction services and will principally finance materials purchased by the owners. The estimated loan amounts will range from $200 to $800, with an average of $500. This level of financing can typically provide for the construction of one or more of the following: new sanitary facilities, water and drainage installation, an additional bedroom, a new roof or new concrete or wood floor, or improved foundations. Such improvements will upgrade existing housing units to a minimum acceptable standard of occupancy and/or sanitary conditions. Loans will be offered in Tegucigalpa, San Pedro Sula and in secondary cities. The loan amount and terms can be individually tailored to income. The interest rate will be approximately 13 percent annually, for an average loan term of eight years.

L E V E L II: Urbanized Lot and Sanitary Core. (930 units at $1,500)

Urbanized lots with a basic sanitary core will be provided as the lowest cost new solution in the project. The lots will be fully serviced with water, sewerage, storm drainage, electricity and pedestrian or vehicular access. The typical lot size in Tegucigalpa will be 70 to 80 square meters. Lots in San Pedro Sula and secondary cities will be larger (approximately 120 M2) due both to climatic conditions and local standards. The units will be built mostly in large scale urbanization areas in Tegucigalpa and San Pedro Sula and in smaller (50 to 100 units) projects in secondary cities.

The urbanization areas will have full road access and include provision for schools, community facilities, health clinics, police

and fire protection, public transportation, recreation and commercial areas. These services will be provided by appropriate GOH and/or municipal authorities. The introduction of public services will be coordinated by INVA as the projects are developed and as the population size warrants.

The sanitary core unit will provide shower, toilet and laundry/washing facilities and will consist of 5 to 7 square meters of covered construction. Preliminary designs of the units will allow easy addition of a core house and additional rooms by the beneficiaries. The total cost of these units is estimated to be approximately $1,500 (in September, 1978 prices) which includes land, urbanization, construction, other direct costs and INVA's indirect costs. Purchasers will make a 5% downpayment, with the balance financed with 20 year mortgage at 12% interest.

L E V E L III: Urbanized Lot and Sanitary Core with a Home Improvement/Construction Loan. (1695 units at $1,500) (1695 loans at $400 average)

This level will offer the same basic provisions as Level II, urbanized lot and sanitary core, and in addition provide a small loan to finance the self-help or informal construction of additional living space. The loans will be used principally for purchase of materials and specific labor skills required by beneficiaries for the expansion. The range of loans is estimated to be from $200 to $600 with an average of $400. The terms of these loans may be adjusted to the terms for the mortgage loan, and in effect could be an addition to the mortgage. A 5% downpayment will be required for the basic sites and services unit as in Level II. The combined average cost will be approximately $1,900 with a loan of $1,825 for 20 years at 12%. (The home improvement may also be treated as a separate operation with shorter terms.) Taking into account the self-help labor, the proposed amounts will be sufficient to construct a basic living area of 15 to 20 square meters.

L E V E L IV: Urbanized Lot with Core Shelter. (845 units at $2,500)

Urbanized lots with a basic core shelter will provide beneficiaries with the same basic lot sizes and services as for Level II, with the addition of approximately 20 to 25 square meters of living space constructed as a core unit. This will contain one room which could be partitioned for sleeping and living uses, as well as the same basic sanitary facilities of Levels II and III. The designs will also allow for easy self-help expansion. The estimated sales prices for these units is $2,500, including all project costs. The units will be sold for a 5% downpayment, with a 20 year mortgage at 12% interest on the balance.

LEVEL V: Urbanized Lot, Core Shelter, and Home Improvement/Const. Loan. (730 units at $2,500) (730 loans at $ 400)

This level offers the same basic provisions as Level IV: core shelter on an urbanized lot with the addition of a loan for self-help expansion under the same provisions of Level III. Loans of from $200 to $600 with an average of $400 are proposed. These will finance material and skilled labor services required for adding living space to the core unit. The combined estimated cost of this solution will be $2,900, with a mortgage loan of $2,375, and a home improvement loan of approximately $400 which can be combined with the mortgage loan under the same conditions or be treated as a separate operation with different terms. A 5% downpayment will be required for the basic core unit as in Level IV, and amortization of the mortgage (and home improvement loan, where appropriate) will be at 12% for 20 years.

LEVEL VI: Urbanized Lot and two-room/ shelter. (1050 units at $3,500)

This is the most expensive option to be offered under the project and will provide the same elements of the Level IV core unit and urbanized lot with the addition of up to two bedroom areas. The total construction area will be approximately 40 square meters on a lot of the same 75 to 80 square meters as those in Level II. The estimated sale price for these units is $3,500 including all project costs. These units will be sold with a 10 percent downpayment and a 20 year mortgage loan of $3,150 at 12%. No additional loans will be necessary at this level since the solution provides a complete low-cost housing unit.

The mix of the various levels of solutions corresponds to the income distribution of the areas served; that is, the number of each solution which will be produced is in the same proportion to the total number of solutions as the number of beneficiaries who can afford that solution are to the total target group. This proportion was adjusted slightly to reflect production capability. The project proposes a total of 2,890 solutions in Tegucigalpa, 2,820 solutions in San Pedro Sula and 600 solutions in the secondary cities for a project total of 6,310 solutions. Only solutions Levels I, II and III will be offered in the secondary cities due to their lower median income levels. The following table gives the proposed distribution for each solution level:

TABLE III.D

PROPOSED DISTRIBUTION OF SOLUTIONS

	LEVEL I	LEVEL II	LEVEL III	LEVEL IV	LEVEL V	LEVEL VI	TOTALS
TOTALS	1,060	930	1,695	845	730	1,050	6,310
(% of total)	16.8%	14.7%	26.9%	13.4%	11.6%	16.6%	100.0%

b. Cost Breakdown: Design sales prices for each solution level have been estimated as of September, 1978. Total project costs, however, take account of the inflation expected over the four year implementation period. Thus, while the design sale prices are not actual project cost estimates, they represent the most current prices applied to the three basic project design levels (II, IV and VI) and have been estimated using the INVA and FEHCOVIL pilot projects presently under construction as a basis. Overall construction costs for Tegucigalpa and San Pedro Sula are similar, although there may be some variation in land costs. A summary breakdown of the total project costs among the various solution levels and the major cost components is presented in Annex F. The total project cost breakdown including inflation follows:

COMPONENT		TOTAL ESTIMATED COST	%
Housing Projects			
Land		$ 1,292,000	8.6
Construction		10,698,000	71.4
a) Urbanization	3,820,000 (25.5)		
b) Structures	6,878,000 (45.9)		
Other Costs		750,000	5.0
INVA Indirect Costs		2,247,000	15.0
Subtotal Projects:		14,987,000	100.0
Home Improvement Loans			
In Projects		970,000	N/A
Outside Projects		530,000	N/A
TOTAL		$ 16,487,000	

2. Affordability/Acceptability:

a. Affordability: Assessing the affordability of each of the six proposed project solutions requires an estimate of the family income distribution and a projection of this to the scheduled delivery date of each of the project's components, including consideration for anticipated inflation on construction costs and family incomes. In fact, the project solutions and the number of each solution to be provided, have been designed within the income constraints of families below projected median income levels. Figure III.A (and Table III.B) presents projected monthly family incomes for the lower half of the income distributions in Tegucigalpa, San Pedro Sula, and other urban areas (with 1974 populations of 5,000 or more) as of September, 1978. These projections are based on the

income distribution survey conducted in 1967-1968 by the General Directorate of Statistics and Census and published in 1970. The Honduras Shelter Sector Assessment, up-dated in February 1978, projected median family income in Tegucigalpa to be $175 per month as of Januray 1978. Using the same projected rate of increase yields a median family income of $181 for Tegucigalpa in September 1978, which is consistent with estimates derived in the 1977 PADCO study from more recent household surveys, and with current GOH estimates. Projections for San Pedro Sula and other urban areas, and for income percentiles below the median, were estimated on the same basis, and were used in designing the project solutions to determine affordability.

Table III.E shows the loan amounts, terms, required monthly payments, required family incomes, and the approximate income percentile range served for each level of solution proposed. This breakdown clearly indicates the affordability of each level. It was also used to establish the number of solutions at each level.

Figure III.B indicates the projected affordability of each level in Tegucigalpa for the life of the project. Incomes are assumed to increase at the same rate used to develop the 1978 income distribution. The unit costs, and the income required for affordability at each level, have been increased at the same inflation rate used to calculate overall project costs. The projection indicates that despite continuous inflation in costs, all proposed project solutions will be affordable by below median income families throughout the period of project implementation.

TABLE III.E

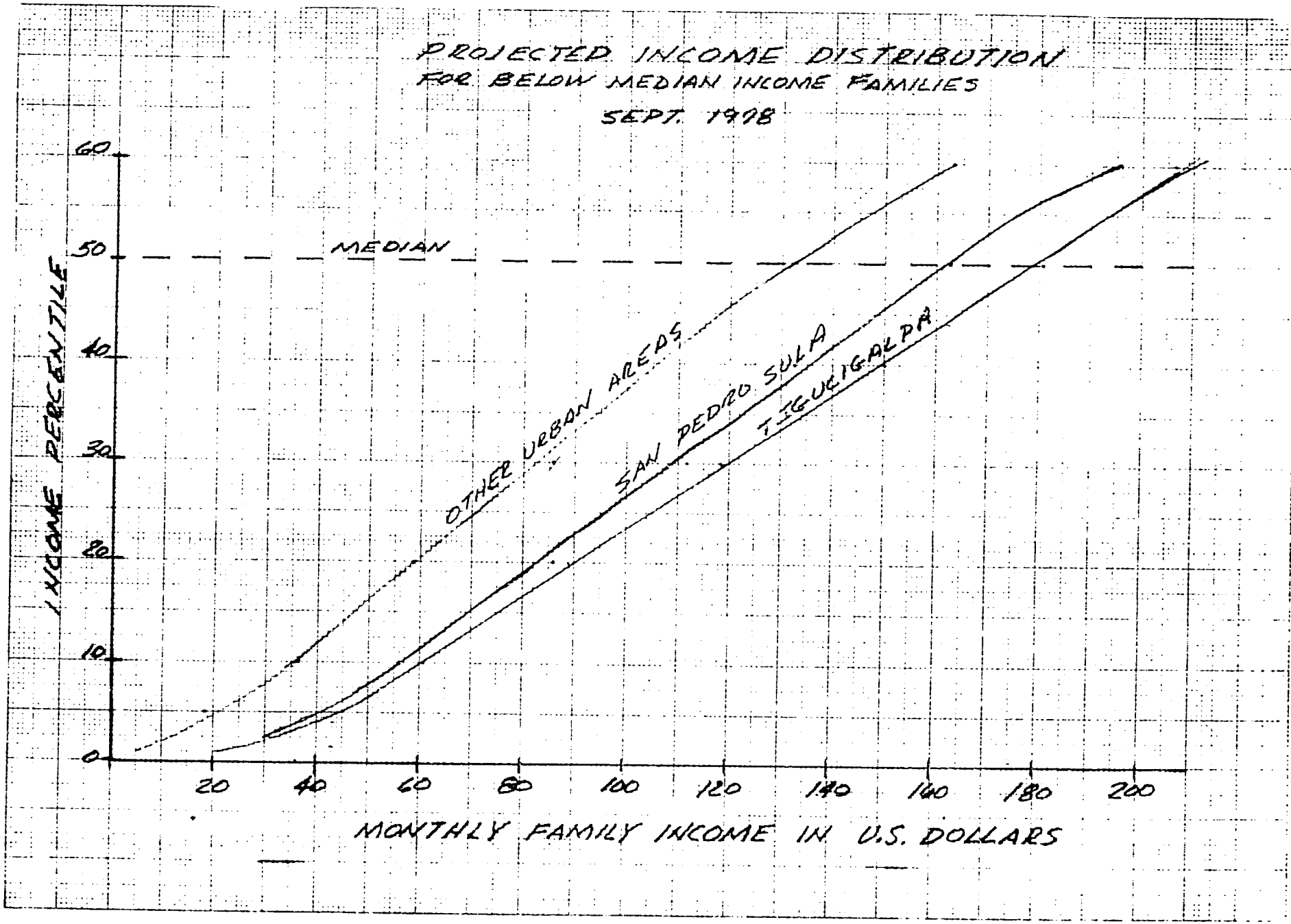
AFFORDABILITY OF SOLUTIONS

(Incomes & Prices for September 1978)

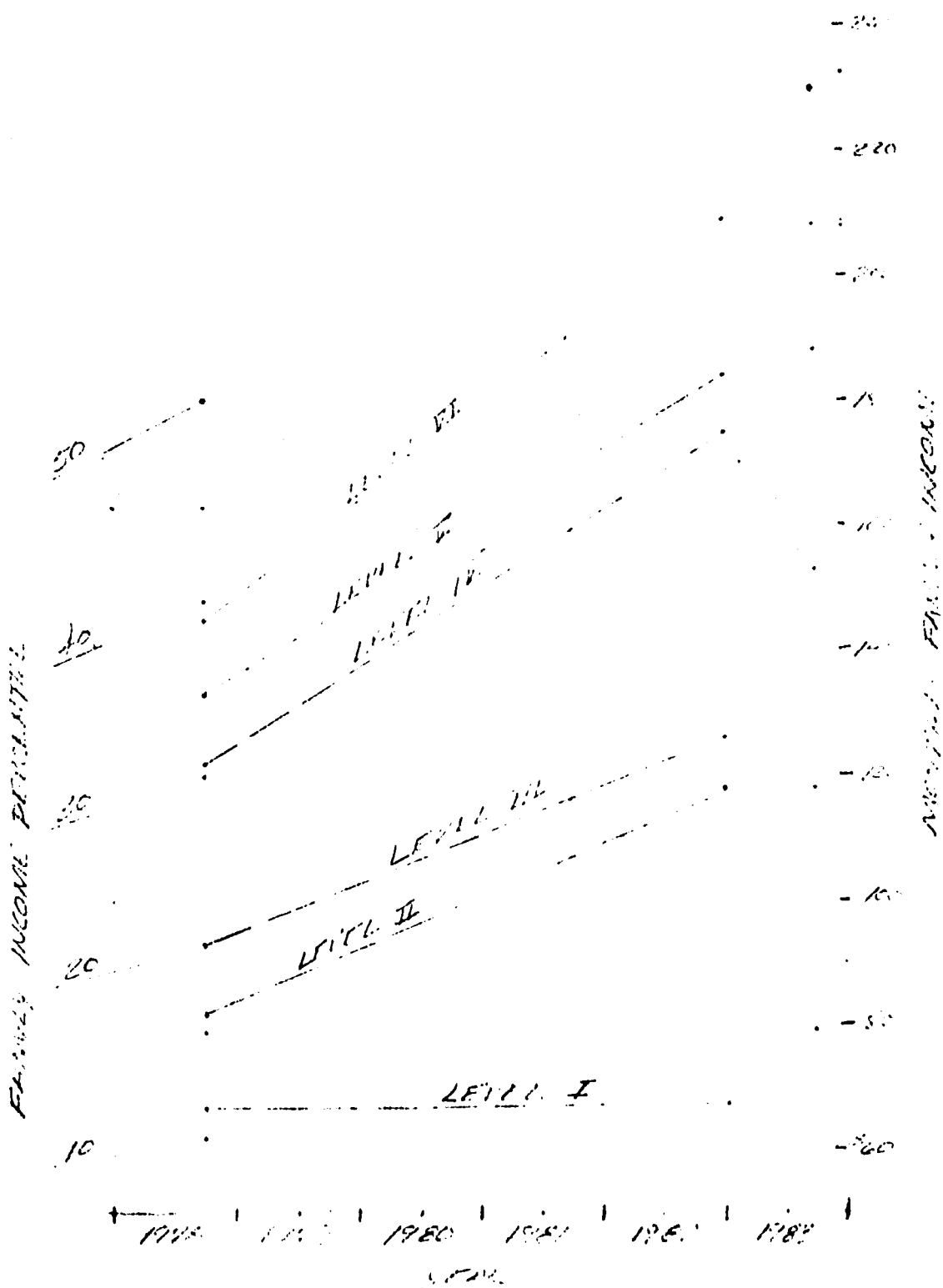
SOLUTION LEVEL	I HOME IMPV. LOAN (HIL)	II Sanitary Core	III TYPE A/ & HIL	IV Core Shelter	V Core Shelter & HIL	VI Expanded Shelter Core
TERMS:						
Years (mortgage)	-	20	20	20	20	20
Years (Ave HIL)	8	-	20	-	20	-
Interest Rate %	13%	12%	12%	12%	12%	12%
Downpayment %	-	5%	5%	5%	5%	10%
SALES PRICES:						
Average Unit Price	-	$1,500	$1,500	$2,500	$2,500	$3,500
Average HIL Amount	$500	-	400	-	400	-
Total	$500	$1,500	$1,900	$2,500	$2,900	$3,500
LOANS:						
Downpayment	-	$ 75	$ 75	$ 125	$ 125	$ 350
Mortgage Loan		1,425	1,425	2,375	2,375	3,150
Home Improvement Loan	500	-	400	-	400	-
Total Loan	$500	$1,425	$1,825	$2,375	$2,775	$3,150
ESTIMATED PAYMENTS:						
Mortgage Loan	-	$15.69	$15.69	$26.15	$26.15	$34.68
Home Improvement Loan	$8.40	-	4.40	-	4.40	-
(1) Other Charges (5%)	-	.78	1.01	1.31	1.53	1.73
Total Monthly Payments	$8.40	$16.47	$21.10	$27.46	$32.08	$36.41
% OF INCOME FOR SHELTER:						
Max. % Income	15	20	22.5	22.5	24	25
Min. % Income	10	18	18.5	20.5	22.5	22.5
INCOME RANGE						
Minimum	$56	$ 82	$94	$122	$134	$146
Maximum	84	92	114	134	143	162
INCOME PERCENTILE:						
Tegucigalpa - Min.	8th	17th	21th	30th	34th	39th
Max.	18th	20th	27th	34th	38th	44th
San Pedro Sula-Min.	10th	20th	24th	34th	38th	44th
Max.	20th	23th	32th	39th	43th	50th
Other Urban Areas-Min.	19th	30th	39th	-	-	-
Max.	30th	34th	43th	-	-	-
PROPOSED DISTRIBUTION OF SOLUTIONS						
	16.8%	14.7%	21.9%	13.4%	11.6%	16.6%

(1) This includes such charges as insurance.

FIGURE III.A


PROJECTED INCOME DISTRIBUTION
FOR BELOW MEDIAN INCOME FAMILIES
SEPT. 1998
INCOME PERCENTILE
60
50
40
30
20
10
0
MEDIAN
OTHER URBAN AREAS
SAN PEDRO SULA
TEGUCIGALPA
20
40
60
80
100
120
140
160
180
200
MONTHLY FAMILY INCOME IN U.S. DOLLARS

PROJECTED ACCOMPLISHMENTS
FOR LIFE OF PROJECT



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b. Acceptability: The proposed solution levels are not only affordable by the target group but also offer acceptable solutions to their housing needs and provide far better shelter and infrastructure services than alternatives now available to them. The only other source of shelter for this group is available from the informal sector construction activities, mostly in quasi-legal subdivisions. While this provides some supply of shelter at a relatively low-cost, no urban services are included, sanitary standards are inadequate and densities high. Formal financing is practically non-existent and informal financing is either very limited or very costly, and for short periods. The proposed solutions, especially the home improvement loans, will support informal sector construction efforts by providing the resources for upgrading the standard of shelter now being built. As such, they will be highly sought after.

The acceptability of the other types of solutions can also be demonstrated. The social analysis (Section III.A) outlines present housing conditions among the urban poor. The high incidence of relatively costly rental space, the low level of infrastructure services, the high densities and the general short supply are problems the project solutions aim to address. Each level of solution represents an appropriate shelter approach for the income level it is designed to serve. Progressive development of the basic units provided through self-help and informal sector construction activities will make the units even more acceptable and adapted to individual family needs. The Level II solution is again supportive of the informal sector and aims to provide the basic infrastructure services which the informal sector shelter activities do not supply. The legal tenancy, adequate space, access, adequate water supply, sewage, regular public transportation, schools and installed basic sanitary core facilities are all elements lacking in much of the present rental and much of the non-rental housing. This provides an ideal base for self-help construction of the basic shelter requirements, for the most part supported by the informal sector. Level III provides additional credit for those families who can afford it in order to improve the Level II solution.

Levels IV and V, in addition to the basic services of previous levels, provide a basic shelter for those families who can afford it. Again this is an acceptable solution in that it addresses the basic problem of lack of adequate services in addition to those of tenancy and minimum shelter. The only real alternative shelter available to families with the required incomes are the now limited and relatively expensive rental units which do not provide either the space, ownership or level of services to be provided and are located in much higher density areas.

The Level VI solution offers an almost complete unit, although it is still very basic in both size and quality. At present these can be considered highly acceptable solutions for families who

can afford them. There are virtually no other comparable solutions on the market which provide the same level of services and shelter for the same monthly cost.

In summary, the proposed solutions are clearly acceptable and preferable alternatives for meeting the target group's housing needs particularly since all the other options provide fewer services and reduced living and sanitary conditions at equal or higher monthly costs. Even though these levels may not meet each and every individual family's long-range aspirations, the units are initially designed to permit the progressive construction and completion through self-help within the informal and formal sector to eventually allow for realization of these aspirations at monthly cost levels clearly affordable by the target group.

3. Planning/Design: Final plans and specifications for specific project are now being completed for the probable sites where construction of units funded under this project will occur. In most cases in Tegucigalpa and San Pedro Sula, the availability of ideal sites is limited. Basic infrastructure in central locations is presently over-used and infrastructure in peripheral areas is almost non-existant. Plans for infrastructure expansion generally lag behind the actual demand. Despite this situation, INVA owns several sites on which, with investment in off-site infrastructure, it will be feasible to produce the total number of units planned for Tegucigalpa and San Pedro Sula. Sites in secondary cities will be selected at a later date when a program analysis for secondary cities is completed. While final selection of specific sites will depend on a more thorough analysis of urbanization costs, INVA has preliminarily identified the site of Hato de Enmedio in Tegucigalpa, and the sites of Los Castaños, El Cid, López Arellano, and Chamelecón in San Pedro Sula as potentially good locations for implementation of the proposed solutions. All of the sites have potential for the development of a total number of units far in excess of that planned under this project, so the availability of land is not a problem.

The locations of the sites identified above are fully consistent with the existing development and zoning plans of both Tegucigalpa and San Pedro Sula. (See the maps in Annex F.) All sites are located in areas specifically zoned for the type of housing solutions envisioned as part of the project, and the proposed site plans have been reviewed by appropriate municipal planning officials to assure that they are consistent with the approved development plans for these municipalities. Future rights-of-way for highways or collector roads, commercial space, land use allocations, densities, etc. are all in accordance with approved development plans or directives. Final plans will be approved by the respective municipal planning offices prior to issuing of construction permits. Urbanization work will be inspected and approved by the appropriate authorities, municipal or autonomous agency, upon completion. Specific data and planning information on these sites are included in the Technical Annex.

Notwithstanding the availability of land, the development of these sites poses some problems, especially with respect to water and sewerage. For the Hato de Enmedio site in Tegucigalpa these problems are now being resolved during the final plan phase by careful engineering analysis and design, and close planning and implementation cooperation with SANAA, the water and sewerage authority. Furthermore, in order to avoid conflicts and to provide for the timely delivery of water and sewerage services, INVA will enter into formal agreements with the corresponding government agencies with regard to the installation, delivering and maintenace of the required services. A detailed review by INVA of the plans prepared by its architectural and engineering firm, has led to redesign of some of the site grading and sewer and drainage to appropriate standards which are acceptable to both INVA and SANAA. The off-site water line and the sewer collector will be designed as part of the final plans. In San Pedro Sula, water supply will for the most part come from on-site wells and facilities constructed specifically for the projects, or, in the case of the López Arellano site, by improving and expanding the present on-site supply system. All San Pedro Sula projects will have full sewer service to each lot. The disposal options of off-site sewerage collectors or sewerage lagoons will depend on the site location and engineering feasibility analysis during the final design phase.

The proposed sites in Tegucigalpa and San Pedro Sula, while not ideal from all standpoints, are considered to be feasible and suitable sites for the type of units planned and in view of the families to be housed. The level of services to be provided with the units and the provisions for additional services to be provided over time are also considered to be compatible with the needs and incomes of the target group. Defects of these sites, such as availability of water and sewer, topography and distance from city center, as indicated in the review cable are not limited to the proposed sites, but are general problems affecting the majority of the available land in both Tegucigalpa and San Pedro Sula. Land in more centrally located areas is not available in sufficient quantities at prices which would permit the construction of an affordable shelter. A recent study on the land market and on the creation of a land bank prepared by PADCO for CONSUPLANE found that three factors contribute to the reduced availability (feasible availability) of land suitable for low-cost housing development. 1) Physical characteristics unsuitable for development; 2) speculation in land causing aberrations in all aspects of urban development, especially residential development; 3) the high cost of developed and undeveloped land and the high rate of inflation of this cost, (the reason or cause of speculation). The basic effect of these factors has been to eliminate centrally located areas from consideration as a possible present or future location for housing solutions at any level, especially for the poor.

The proposed sites for this project have been selected considering their relative merits and can be considered as good as any other sight that could be found given the general availability of land and the constraints imposed by the target groups, such as the need for a large volume of solutions at reduced costs. Nonetheless, the project will provide for technical assistance to INVA in setting up procedures for the review and selection of sales in order to optimize the site selection for future developments.

Preliminary plans for all sites provide space for such basic community services as health clinics, police and fire stations, community/administrative buildings, public transport, schools, churches, commercial property and recreational areas. The land for these facilities is usually turned over to the municipality or to the appropriate authority. In the case of schools, the Ministry of Education is responsible for the final determination of the type and size of facilities required and, through the Ministry of Public Works for construction. In such cases, and for other community service facilities, INVA will coordinate their establishment and location with the respective authorities during project construction as demand for these services grows in each project area. All public areas such as streets, green areas, walks, etc. are assigned to respective municipalities, which are responsible for maintainence. Where on-site water supply systems are developed, INVA may have to operate and maintain these facilities and charge the project beneficiaries for water service. INVA will use this option only if the local authority, if any, cannot assume control of these systems.

4. Project Delivery: The proposed delivery plan for the physical outputs of the projects is based on a gradual increase in production and delivery of units over the four year period. The 2,000 units yearly production level of the last two years is based on an assessment of the probable capability of INVA's present permanent staff, particularly the production department. The present staff, assisted by the technical assistance inputs, will have the capacity to produce and deliver the overall planned outputs within the project schedule. Table III.F presents a project delivery schedule which indicates the proposed gradual increased unit production throughout the project and the geographic distribution of solutions. As seen in the schedule, design work is now in progress for projects in Tegucigalpa and San Pedro Sula. Final plans and specifications for the Hato de Enmedio project will be complete in December 1978. Therefore, bidding for the first units can take place in January and February 1979, with construction work starting as early as March 1979. Each project will have scheduled completion of units by contractors and INVA will undertake partial acceptance of total projects according to the established construction schedule. Completion of the first units should occur in July 1979 with monthly completions of about 50 units during the last half of 1979.

The delivery plan phases the start of future projects at about six month intervals. With this phasing, only two projects are in

the design phase at one time and only one project will be in the bidding stage at any one time. INVA's present Projects Division staff is adequate to handle this workload. The technical assistance for construction management and project cost accounting, scheduled for the last quarter of 1978, will establish systems and train INVA personnel in their operation prior to the bidding process for the first project.

Table III.F also indicates that most of the completions will be in 1981 and 1982 when INVA will deliver approximately 2,000 units per year. The sales and financing required according to the schedule for the long-term mortgages and loans is shown in Table III.G, project delivery plan. The required financing for each semester is shown both for the GOH and HG funds. Table III.H presents a cash flow based on the construction schedule and on the proposed drawdowns of HG funds. Construction financing will be required both from GOH funds and HG funds, with advances of $500,000 on each of the first two drawdowns for a total of $1,000,000 in HG construction advances. These advances will be deducted from the last two drawdowns of HG funds in 1981 and 1982. The GOH will provide up to $1,000,000 in each of the first three years for construction financing. The total of $3,000,000 will be converted to long-term financing along with an additional $2,000,000 of GOH funds in the fourth year long-term financing. The project cashflow projection demonstrates a positive balance of funding over project costs for each semester indicating adequate construction financing.

Project delivery will require close coordination between the Projects Division and the Social Integration Division, which has responsibility for promotion, organization and sale of units, and with the Legal Department, which must finalize the sales and mortgage agreements. While the schedule provides for some lag between completion and sale, the rates of sales and mortgage generation must be approximately equal to the production of units. Each subproject will have a delivery schedule for completed units, on a monthly basis. The Hato de Enmedio project alone will produce up to 67 units monthly which will have to be sold and occupied in the shortest time possible so that there will be sufficient interim funds available. Technical assistance to INVA will address this requirement, and assist in organizing and systematizing the delivery of completed units.

The design, bidding, inspection and supervision of projects will be carried out by INVA's Projects Division. The actual construction work will be done by private contractors. Ten (10) construction firms have just been prequalified by INVA for both urbanization and unit construction and their services will be procured through public bidding. INVA will establish a project manager/coordinator for each project and also full-time on-site inspection, which may be contracted with individual engineers or firms. No constraints to project progress are expected from construction firm

capability or materials' suppliers. The supply of skilled construction labor, especially masons may be restricted and cause difficulties when the project is in full production in 1981 and 1982. The use of construction methods not dependent on masons, such as poured concrete walls can eliminate problems which this temporary short supply might cause.

ILLUSTRATIVE

TABLE III.F. PROJECT DELIVERY SCHEDULE

Construction, Sales & Loans

(Number of Units)

P= Period
C= Cumulative

		YEAR & SEMESTER							
		1979		1980		1981		1982	
		1st	2nd	1st	2nd	1st	2nd	1st	2nd
TEGUCIGALPA									
Hato de Enmedio									
Starts	P	50	300	300	400	400	400	400	150
	C	50	350	650	1050	1450	1850	2250	2400
Completions	P		300	300	400	400	400	400	200
	C		300	600	1000	1400	1800	2200	2400
Sales/Mortgages	P		250	250	350	400	400	400	350
	C		250	500	850	1250	1650	2050	2400
Improvement Loans	P	120	200	200	200	250	250	230	110
	C	120	320	520	720	970	1220	1450	1560
SAN PEDRO SULA									
Project (López Arellano)									
Starts	P		50	200	200	200	100		
	C		50	250	450	650	750		
Completions	P			200	150	200	200		
	C			200	350	550	750		
Sales/Mortgages	P			150	150	200	200	50	
	C			150	300	500	700	750	
Project (Chamelecón)									
Starts	P			100	250	300	300	400	250
	C			100	350	650	950	1350	1600
Completions	P			50	150	250	300	500	350
	C			50	200	450	750	1250	1600
Sales/Mortgages	P				150	250	350	450	400
	C				150	400	750	1200	1600
Improvement Loans	P		100	220	280	290	190	160	270
	C		100	320	600	890	1080	1240	1510
SECONDARY CITIES									
Various projects									
Starts	P					50	200	200	50
	C					50	250	450	500
Completions	P						200	200	100
	C						200	400	500
Sales/Mortgages	P						150	200	150
	C						150	350	500
Improvement Loans	P						100	150	165
	C						100	250	415
TOTAL PROJECT									
Starts	P	50	360	600	850	950	1000	1000	450
	C	50	400	1000	1850	2800	3800	4800	5250
Completions	P		300	550	700	850	1100	1100	650
	C		300	850	1550	2400	3500	4600	5250
Sales/Mortgages	P		250	400	650	850	1100	1100	900
	C		250	650	1300	2150	3250	4350	5250
Improvement Loans	P	120	300	420	480	540	540	540	545
	C	120	420	840	1320	1860	2400	2940	3485

TABLE III.G

ILLUSTRATIVE

PROJECT DELIVERY PLAN

Sales, Downpayments & Loans

P= Period
C= Cumulative

		CALENDAR YEAR AND SEMESTER							
		1979		1980		1981		1982	
Number of:		1st	2nd	1st	2nd	1st	2n.	1st	2nd
Units Sold	P		250	400	650	850	1100	1100	900
	C		250	650	1300	2150	3250	4350	5250
Improvement Loans	P	120	300	420	480	540	540	540	545
	C	120	420	840	1320	1860	2400	2940	3485
SALES			(In Thousands of Dollars)						
Value of Sales	P		608	1016	1720	2363	3160	3291	2829
	C		608	1624	3344	5707	8867	12158	14987
Downpayments	P		40	67	114	155	208	217	186
	C		40	107	221	376	584	801	987
LENDING									
Mortgage Loans	P		568	949	1606	2208	2952	3074	2643
	C		568	1517	3123	5331	8283	11357	14000
Improvement Loans	P	60	120	180	210	240	210	240	240
	C	60	180	360	570	810	1020	1260	1500
Total Loans	P	60	688	1129	1816	2448	3162	3314	2883
	C	60	748	1877	3693	6141	9303	12617	15500
FINANCING									
HG Long-term	P		748	1129	1816	2448	3162	1197	
	C		748	1877	3693	6141	9303	10500	
GOH Long-term	P							2117	2883
	C							2117	5000
Total Long-term	P		748	1129	1816	2448	3162	3314	2883
	C		748	1877	3693	6141	9303	12617	15500

ILLUSTRATIVE

TABLE III.H

Project Costs & Funding
(In Thousands of U.S. Dollars)

P= Period C= Cumulative		CALENDAR YEAR-SEMESTER 1979 1st	2nd	1980 1st	2nd	1981 1st	2nd	1982 1st	2nd
CASH USES									
Project Costs									
Land	P		45	49	237	238	347	347	29
	C		45	94	331	569	916	1263	1292
Construction	P	279	906	1405	1610	1842	2036	1707	913
	C	279	1185	2590	4200	6042	8078	9785	10698
Other & Indirect	P	113	349	440	400	435	464	464	332
	C	113	462	902	1302	1737	2201	2665	2997
Total Projects	P	392	1300	1894	2247	2515	2847	2518	1274
	C	392	1692	3586	5833	8348	11195	13713	14987
Improvement Loans	P	60	120	180	210	240	210	240	240
	C	60	180	360	570	810	1020	1260	1500
Total Uses	P	452	1420	2074	2457	2755	3057	2758	1514
	C	452	1872	3946	6403	9158	12215	14973	16487
CASH SOURCES									
Downpayments	P		40	67	114	155	208	217	186
	C		40	107	221	316	581	801	987
GOH Construction Funds	P	1000		1000		1000		(-417)	(-2583)
	C	1000		2000		3000		2583	0
GOH Long-term	P							2117	2883
	C							2117	5000
NET GOH	P	1000		1000		1000		1700	300
	C	1000		2000		3000		4700	5000
HG Construction	P		500	500			(-500)	(-500)	
	C		500	1000			500	0	
HG Long-term	P		748	1129	1816	2448	3162	1197	
	C		748	1877	3693	6141	9303	10500	
Net HG	P		1248	1629	1816	2448	2662	697	
	C		1248	2877	4693	7141	9803	10500	
Total Funding	P	1000	1248	2629	1816	3448	2662	2397	300
	C	1000	2248	4817	6693	10141	12803	15200	15500
Total Sources	P	1000	1288	2696	1930	3603	2870	2614	486
	C	1000	2288	4984	6914	10517	13387	16001	16487
BALANCE									
Net Flow		548	-132	622	-527	848	-187	-144	-1028
Balance		548	416	1038	511	1359	1172	1028	0

C. Institutional Analysis.

The National Housing Institute (Instituto de la Vivienda -- INVA) was created in January, 1957 by Decree No.30 of that year as a semi-autonomous public corporation with the mandate to serve as the principal public sector housing institution in the country. INVA is subject to effective policy and operational control by the GOH, through the composition of its Board of Directors, which includes three government Ministers (Public Works, Labor, Planning), the Manager of the Central Bank, and two representatives of the Chief of State, and through the annual review of INVA's capital and current budgets by the Ministries of Finance and Planning. In the decade from 1968 through 1977, INVA produced a total of approximately 7,000 units, with an overall investment of $14.2 million for an average value of $2,000 per unit. With financing provided principally by the Inter-American Development Bank, INVA is presently completing 1,500 units in the lower-middle and middle-income San Jose project in Tegucigalpa, on which unit prices are expected to average from $4,000 to $5,000. More recently, however, INVA's traditional orientation to these income groups has been changing as a result of GOH housing policy.

Rapid increases in urban population growth and the several assessments of shelter conditions among the urban poor conducted during preparation of the National Housing Policy, have raised the place of housing and the shelter needs of the urban poor in the GOH's national development priorities. The National Housing Policy, recognizing both the positive economic impacts on national development of increased investment in housing and its social impacts in such areas as health and welfare, as well as the constraints imposed by limited national resources, calls for a major increase in the public sector production of low-cost shelter services which are within the means of the urban poor. As the national housing agency and the basic instrument for realization of GOH housing policy objectives, INVA has assumed the central role in the design, implementation, promotion/ delivery, and financing of low-cost shelter for low-income groups.

Its considerable progress in effecting this reorientation is reflected in the preparation of the 257-unit pilot sites and services project at Faldas del Pedregal in Tegucigalpa for which INVA has completed final site and unit designs, specifications, and bidding documents. Bids from pre-qualified contractors are now being prepared for submission to INVA. In addition, as noted in the Technical Analsys, INVA has already prequalified the contractors and is now in the process of preparing final plans and specifications for

the 2,400 unit sites and services project at Hato de Enmedio, which is included as the initial sub-project to be financed under the proposed HG loan. While some of its present efforts remain directed toward overcoming problems with the San Jose project, the major focus of its activities is now directed toward the development and planning of low-cost shelter solutions for the urban poor.

As part of this activity, INVA has undertaken a significant effort at internal reform and reorganization, both to develop the institutional capability required for its central role in serving the shelter needs of low-income urban families, and to overcome past problems in its operations. These have centered around: a) poorly distributed responsibilities between the Board of Directors and INVA's management which has resulted in ineffective control of operations and little overall policy direction; b) a lack of coordinated institutional planning and programming and consequently irregular production levels which prevented INVA from being able to cover its on-going administrative expenses; c) poor control of production costs resulting in considerable cost overruns, losses on production, and home-owner dissatisfaction; and d) ineffective financial management systems with inadequate accounting procedures for the allocation of costs, high delinquency rates on INVA's portfolio, and little if any re-investment of portfolio recuperations.

These problem areas were studied and analysed by INVA initially in late 1976 with the UNDP-funded assistance for Dr. Pedro Pablo Morcillo, and subsequently with the consulting firm of Leopoldo Torres y Asociados, which is still retained by INVA, resulting in a revised organizational structure which provides for clearer functional linkages and better synchronization of operations. Basically, the new organization divides the institution along functional lines which parallel the normal flow of development and implementation of projects, with support offices (Legal, Planning, Personnel, Administration) distinct from major operations divisions for design and construction (Projects Division), financial and portfolio management (Finance Division), and promotion, sales and community organization (Social Integration Division), as can be seen in Figure III.C. This has resulted in the establishment of a number of new mid-level management positions, which allows for a more practical and efficient functional distribution of responsibilities along operational lines. The reorganization of staff to fit this new structure was accompanied by an initial 25% reduction in force to reduce overhead costs, eliminate unnecessary staff and provide positions within the new approved personnel ceiling for more qualified personnel. Several key management positions have subsequently been filled from outside the agency, in particular the Sub-Manager, a highly qualified professional with considerable private sector experience in both finance and management, who has been

effective at beginning to develop within the institution the comunication and coordination of functions envisioned in the reorganization. The creation of the Organization and Methods Unit, attached to the Office of the Sub-Manager and the Administrative Office, is a significant indication of the Board's and top management's determination to follow through with the structural reorganization in that it gives management the technical capability to establish and refine intra-institutional communication and functional synchronization.

The position of Manager of the Social Integration Division is slated to be filled in the immediate future by one of the several qualified candidates who have been interviewed. While the Manager of the newly-formed Finance Division is expected to be appointed within the next several months, the Sub-Manager's professional expertise and experience in finance are considered more than adequate to provide this division with needed direction. With the exception of these two vacancies, both the number and level of qualification of INVA's present staff (Table III.I) appear more than sufficient. within the new organizational structure, for the major expansion of low-cost shelter services which INVA has been given the mandate to provide.

Beyond its reorganization and staffing, intensive analyses conducted by consultants for PHUDO/ROCAP have assessed in detail the causes of many of INVA's institutional problems and provided the basis for designing the technical assistance inputs contained in this project. Both the specific weaknesses and the technical assistance designed to overcome them, have been divided into three general areas overall institutional management and administration, production and delivery, and financial management.

FIGURE III.C

INVA ORGANIZATIONAL STRUCTURE
(1978)

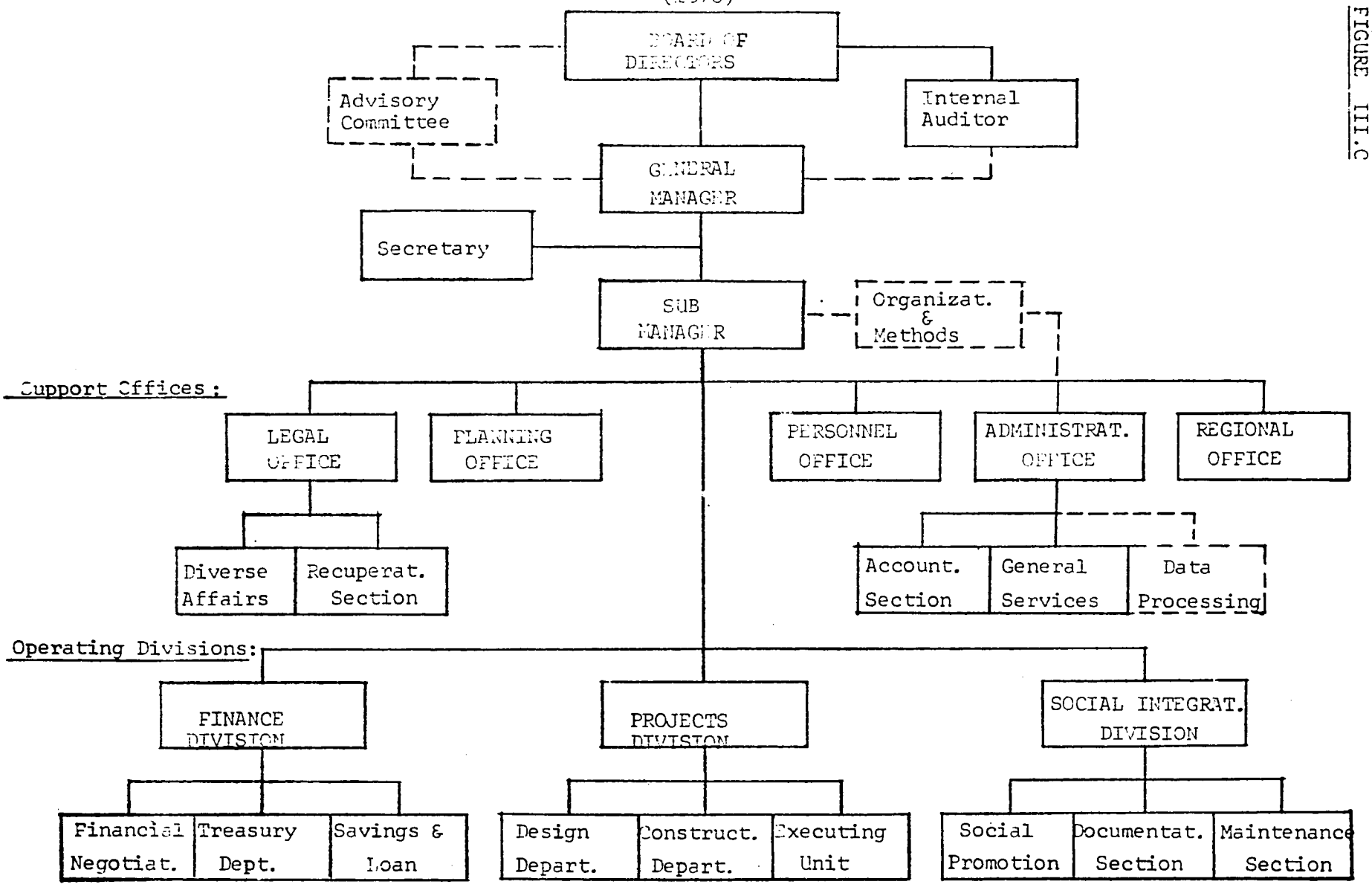

TABLE III.I

INVA STAFF
(September 1978)

PERSONNEL LEVEL	NUMBER
Management:	21
Level I (top management)	2
Level II (division/office/audit heads)	7
Level III (department/section chiefs)	12
Professionals:	40
Legal	6
Accounting/Auditing/Finance	15
Architecture/Engineering/Topography/ Planning	12
Social Service Professionals	7
Para-Professionals:	24
Assistant Engineers/draftsmen	12
Social Workers	6
Assistants in Finance	6
Support Staff:	76
Secretarial	22
Clerical	12
Skilled construction (foremen)	6
Laborers	3
Watchmen/maintenance personnel	18
Drivers	15
TOTAL STAFF	161

1. Overall Management Capability: As indicated in the foregoing section (Institutional Analysis , management and operations of INVA are seriously deficient in many respects. While a recent institutional reorganization and the establishment of middle management positions and corresponding functional responsibilities have occured, there remains the task of converting and developing this initiative into a workable and productive organization. Technical assistance in developing internal administrative control, budgeting, monitoring and reporting systems is expected to provide the Board of Directors and management with tools and procedures by which Board control can be maintained and assured without its having to become involved in day-to-day operations. Equally important. technical expertise will be provided to assist the Board in setting overall institutuinal policies and priorities and in establishing criteria for evaluating operational conformance with thse policies. Within the framework of redefined Board/management relations and reporting systems, technical expertise will assist INVA to establish advance programming and coordination procedures for developing an on-going stream of project activities. This will include the selection, acquisition, and urbanization of sites for future projects, and identifying and securing sources of financing for them, and will initially be applied to developing the secondary cities sub-projects included in this project. Within the limited context of the secondary cities activities. INVA is expected to be able to gain important experience in implementation of project planning and programming procedures. Finally, participant training, including attendance at management seminars and courses, will be provided for senior and middle management. It is expected that with its reorganized institutional structure, clearer policy determination and corresponding reporting systems, advanced programming procedures, and management training, INVA management will be better equipped to administer the increased production of low-cost shelter which the GOH expects it to provide. (See Annex G for a time-phased presentation of TA inputs planned to coordinate with project implementation).

2. Production and Delivery: With considerable technical assistance provided by RHUDO/ROCAP during much of 1978, INVA's Projects Division has begun reorienting its site and unit design standards and gained experience in their application in developing the Faldas del Pedregal and Hato de Enmedio projects. Technical assistance in the development and implementation of project and construction cost control and construction management systems is already being provided and will continue through the end of 1978 with a follow-up activities scheduled for the first three quarters of 1979 as production begins in the initial HG financed sub-projects.

Under OPG funding, long-term technical assistance has been provided to the Social Integration Division since May, 1978 for assisting in the development and implementation of promotion and orientation procedures for beneficiaries of the pilot sites and services project. This will

continue and be supplemented with short-term expertise to assist in refining promotion activities and beneficiary selection procedures, as well as in orientation of beneficiaries in terms of their rights and obligations as home buyers, and in organizing for self-help and community activities. It is widely recognized within INVA that the services of the Social Integration Division are extremely important to assure that project beneficiaries understand the nature of the long-term financing mechanisms, and are given assistance and direction in expanding and completing the sites and services solutions they receive. Management's commitment to strengthening this Division, along with the resident and short-term expertise and participant training in social out-reach methods, should assure that the Division is fully capable of undertaking its essential functions.

Technical expertise provided since August 1978 for a three month period to the Savings and Loan Department will assist that office in designing and implementing procedures for making home improvement loans to low-income residents of the sub-projects and to urban slum dwellers. Participant training will further increase the capability of this office to evaluate loan applicants and manage loan repayments. The home improvement loan program is a significant extension of INVA's service to the urban poor in that it will be the first direct formal sector support for the informal shelter sector. Recognizing that some of the existing housing stock represents an important shelter resource, the National Housing Policy specifically directs formal sector institutions to develop procedures for assisting in the upgrading of existing units owned by the urban poor. It is expected that a reoriented and expanded program of the kind now being developed by INVA will serve to demonstrate the feasibility and value inherent in directly supporting the informal sector. INVA will find it necessary to expand the staff of the Savings and Loan Department in order to successfully manage this program, but both management and the Board recognize the importance of the program and are expected to fully support the effort to implement it.

3. Financial Management: For INVA to cover its internal operating expenses and successfully manage capital investments in low-cost shelter, its Finance Division requires further upgrading. To a certain extent, the creation of such a division within the new organizational structure is itself an indication of awareness within the institution that the variety of its financial functions needs to be coordinated and improved. Technical assistance which is presently being provided to the Treasury Department is building on the reorganization and on the new manager of the Department. The Treasury Department is responsible for collections and controlling delinquencies.

When a mortgage is six months delinquent it is transferred to the legal office for action. The technical assistance, which has been initiated on mortgage financing will result in improvements in the payment receipt form, collection locations and processing, transfer of payments from payroll deduction and authorized agents to INVA, accounting of payments, notification of delinquent payments, mail and door-to-door follow-up on delinquent owners, preliminary and final legal action and eviction when required. In addition, INVA will mechanize its portfolio accounts to improve the accounting and information flow on collections and delinquencies. This is also the subject of the technical assistance being provided and will include a cost benefit analysis by INVA on computer purchase, time sharing, etc. Short-term expertise will be provided to develop appropriate computer programs for this procedure. Finally, the technical assistance will be supplemented by related training of INVA's staff outside Honduras.

Central to improving overall management control of administrative expenses, and project and construction cost control, is the improvement of the accounting system to allow for allocation of costs to income-generating operations. Technical expertise to assist in the development and implementation of cost accounting systems is expected to significantly improve internal accounting, and provide management and the Board with the basis for evaluating INVA's operational effectiveness.

4. Assessment: The clear recognition within INVA of the need to reform, evidenced initially by its major reorganization and the establishment of a new operational structure, and subsequently by the continuing effort to up-grade and improve the institution's functional procedures, provides perhaps the most significant indicator of its future effectiveness. Despite considerable problems INVA has begun to effect both the internal reform and reorganization, and the re-orientation to serving the shelter needs of low-income urban families. The extensive technical assistance inputs of this project, aimed at improving internal operations at all key levels of activity, are well designed and phased with INVA's own institution-building priorities, and should, together with the HG and GOH financing, prove to be an effective program for achieving both the purpose and goal of the project.

D. Economic Factors.

1. Economic Effects: Shelter construction, has strong positive economic benefits for developing economies in that it creates a demand for finished building materials and the raw materials needed to produce them. This is particularly true in Honduras which meets nearly all of the demand for building materials from domestic secondary (manufacturing) and primary (extractive) industries. The shelter solutions designed for this project will use domestic materials for 95% to 98% of the needed construction materials, and thus the project's linkages to the domestic economy will be especially strong. Locally produced materials include a wide variety of cement products, including block, cement and clay pipe, asbestos cement roofing sheets and cement sinks and wash tubs, as well as wood, brick, stone, reinforcing bars, PVC pipe and tin roofing sheets manufactured from imported tin rolls. The only imported materials will include electrical circuitry and wiring, toilets and valves.

Econometric analysis based on data for Peru, Colombia and Korea has established that under such circumstances, housing investment can be shown to have a higher multiplier effect than that for investments in plant and equipment, and only slightly less than that for exports. An unpublished study of the consumption function in Honduras, completed by an economist at the University in Tegucigalpa, estimates the multiplier effect on income throughout the whole economy to be 5.56 times initial capital investment for all sectors. A similar study by an economist at the Central Bank of Honduras found a higher multiplier of 6.67. While it could be assumed that shelter investment would yield a higher multiplier, taking an average of the estimates available for the Honduran economy, the combined multiplier effect of HIG investments in shelter will yield an increase in national income at least 6 times as great as the initial investment. During the project implementation period, the GOH $5M capital investment in INVA will yield approximately $30M in additional national income. The annual $3M GOH investment in INVA expected thereafter, will add approximately $18M in national income. Re-investments made possible from the rollover of recuperations will enhance this multiplier effect even further.

One particularly important aspect of shelter production and investment is the increased direct and indirect employment expected to result from construction and related activities. Studies of the employment effects of housing investment based on data drawn from Mexico, Peru, Colombia, Venezuela, Brazil, Korea, Pakistan and India have demonstrated that each $10,000 of housing investment produces between 7 and 14 additional jobs. Moreover, some studies suggest that the direct and indirect employment effects derived from investment in low-cost housing is slightly greater than that derived from

higher-cost, or luxury housing. (See, for example, C. Arand et al in Studies on Employment in the Mexican Housing Industry, Paris; OECD, 1973; and Paul Strassman's "Employment Generation through Residential Construction in Rio de Janeiro", Michigan State University, 1975).

Using an average of 10 jobs per $10,000 investment, for the shelter investment of $15.5 million included in the project, this yields a total of approximately 15,500 additional person/years of employment. To the extent that the level of production envisioned for INVA is maintained, this would represent a permanent increase in employment opportunities in the economy.

2. Debt Service Considerations: If the HG loan to Honduras carries the terms which have been assumed in the Financial Analysis (approximately 10% interest with 5 year grace and 25 year amortization periods), approximately $125,000, $470,000, and $980,000 in foreign exchange will have to be repaid to the US investor in the first, second and third years, respectively, during the period of disbursement, $1.05 million in the remaining two years of the grace period, and approximately $1.147 million for repayment of principal and interest, if quarterly payments are made. (In terms of foreign exchange, a higher interest rate of say 10.5% in the US capital market would make a relatively small difference in the annual payment and could be off-set by extending the term of maturity, after the grace period, to 30 years).

While growth prospects for Honduras during 1978-1982 are considered good, with real GDP expected to increase more rapidly than in the past and exports projected to grow by 8.5% per annum, the significant development effort being undertaken by the GOH through substantially increased public investment may drive the debt service ratio (debt service as a percentage of export earnings) to approximately 13% by 1985, up from 6.6% reported for 1977. CONSUPLANE estimates that total external debt service for 1978 will be approximately $47.3 million only slightly more than World Bank projections. As development progresses more rapidly, it is likely that external borrowing and debt service will increase as the economy's borrowing capacity increases.

It is anticipated that there will be an average of $90 million per year in new commitments by the government in addition to increase of approximately $49 million annually in disbursements on existing commitments. This would increase annual debt service requirements by approximately $9.75 million per year (at the 5.75% average 30 year concessional terms which the World Bank estimates will be available to the GOH), only slightly more than the $8.1 million increase between 1977 and 1978 which CONSUPLANE estimates.

If this rate of increase were sustained without increasing more rapidly, the debt service on the HG loan would be equal to approximately one percent of total external debt service by the end of the grace period (1983) when the loan would be fully disbursed, and decline continously as a percentage of annual external debt service thereafter during the full amortization period. The impact of the HG obligation on total external debt service requirements could then be considered negligible.

E. Environmental Factors

On the basis of Initial Environmental Examination (IEE) the proposed project has been given a negative determination requiring no further environmental review. The IEE concluded that among the potential critical areas of concern, AID's proposed shelter activities will not result in significant changes to the natural and human environments. The evaluation determined that in the identified areas of environmental concern, INVA's awareness of and technical capability to deal with -- these potential problems are adequate to avoid any significant negative impacts.

RHUDO/ROCAP will follow-up on the environmental concerns identified in the IEE by including them among the criteria used in its evaluation and approval of project and unit designs.

Specifically, as identified in the IEE, this will include:

1) A determination that a cost-effective and environmentally sound sanitary collection and disposal system will be utilized.

2) A determination that site design, including designation of residential and school areas, grading, retaining walls, etc minimizes the potential adverse effects of natural hazards.

3) A determination that INVA and SANAA have a formal agreement with regard to the supply of water, and that an arrangement has been made with regard to the other physical infrastructure services.

4) A determination that project sites are in conformance with land use plans and with the need to protect the natural environment. (Note: This determination has been made already with regard to sites in Tegucigalpa and San Pedro Sula. This criteria will affect the approval of sites in secondary cities).

5) A determination that unit and site designs and costs are responsive to the basic needs of the target group.

IV. FINANCIAL ANALYSIS AND PLAN

1. Financial Plan

The proposed project will combine a Housing Guaranty loan with approximately $402,000 for technical assistance including a $102,000 grant for participant training, and approximately $300,000 in HG fee funded short-and long-term technical expertise. The proposed HG loan will total $10.5 million with a 30 year term and an interest rate of 10%, including the ½% AID guaranty fee. The term includes a 5 year grace period during which interest only is paid, with the principal amortized over the remaining 25 year. A 1% fee will be charged. In addition, the GOH will contribute a total of $5.0 million as a capital investment in low-cost shelter, during the four years of project implementation, at the rate of $1 million in each of the first three years and $2 million in the fourth year. Finally, beneficiary cash downpayments over the life of the project are estimated to total $987,000 with 5% downpayments on Level II, III, IV and V solutions (exclusive of the small loans provided on Level III and V solutions), and 10% on Level VI solutions.

Technical assistance funding will provide a total of 26 person/months of short-term expertise, 24 person/months of a long-term resident advisor, and 70 person/months of participant training. This technical assistance will be provided in the general areas of overall institutional management, production and delivery of low-cost shelter solutions, and management of portfolio operations and financial recources. Table IV.A, the Summary Cost Estimate and Financial Plan, presents a breakdown of the sources of project funds and their applications among various project components, based on the preliminary cost estimates included in the Technical Analysis and Technical Annex, which contemplate and allow for an annual inflation rate of 10% on the undisbursed portion of project funds during the four year implementation period.

2. Financial Statement Analysis.

A RHUDO/ROCAP commissioned evaluation of INVA's institutional capability, completed in February 1978, contains a financial evaluation based mostly on ratio analysis, which details the poor financial condition of INVA. As a public sector development institution, INVA had not been managed on a full cost recovery basis, and has received contributions totaling $5.6 million from the GOH during the three years from 1975 through 1977 ($1.4, $1.6, and $2.6 million in 1975, 1976, and 1977 respectively). While the GOH will continue to support INVA in approximately the same annual amounts, it intends for its constributions to be used only as investments in low-cost shelter and not to cover INVA's operating losses. Condensed Comparative Income Statements for these years, included in Annex H, page 2, indicate operating losses of $1.9 million during 1975-1977 caused primarily by: a) a relative stagnation in the growth of interest income; b) a $500,000 loss

TABLE IV.A

SUMMARY COST ESTIMATE

and FINANCIAL PLAN
(Thousands of US dollars)

	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983 (1st.quarter only)	TOTALS
Project Activity:						
Technical Assistance	$ 215	$ 122	$ 65	-	-	$ 402
Level I	33	129	179	177	12	530
Level II	112	441	613	603	41	1,810
Level III	245	970	1,347	1,325	90	3,977
Level IV	168	668	929	914	62	2.741
Level V	164	649	901	886	60	2,660
Level VI	294	1,163	1,615	1,589	108	4,769
TOTALS	1,231	4,142	5,649	5,494	373	16,889
Source of Funds:						
AID/HG	-	2,877	4,264	3,359	-	10,500
AID/TA	215	122	65	-	-	402
GOH	1,000	1,000	1,000	1,700	300	5,000
Beneficiaries (Downpayments)	16	143	320	435	73	987

on construction operations in 1977; and c) a dramatic increase in operating expenses.

The stagnation in interest income growth is evidenced by the fact that INVA while increasing its working capital only increased its portfolio by $1.7 million during the three year period, and therefore did not change its earnings base significantly. Because of a variety of factors, INVA's production of units was unusually low in 1975 and 1976, and the 800 rural units it produced in 1977 have yet to be added to the portfolio due to the slow pace of agrarian land reform, on which the registration of land title, and therefore mortgage origination, must depend. In fact, INVA has an inventory of over 2,000 units at present, which have yet to be added to its portfolio because of similar legal and site problems. With these units not accounted for in its portfolio, growth in interest income has been sharply limited. It is expected that at least 1,000 of these units will be added to INVA's portfolio by 1980, and this is reflected in the cash flow projections discussed below.

The loss on construction operations resulted from INVA's being required to sell units at less than cost because of a provision in and IDB loan which financed the construction of the project. Low sales prices were established in the IDB loan for several reasons, chief among them INVA's failure to project the rapid rise in construction costs, and the inadequacy of its construction cost control, management and accounting procedures. The considerable technical assistance being devoted to developing and implementing appropriate procedures is expected to improve INVA's technical capability significantly in this regard.

Finally, the increase in operating expenses, partly a result of INVA's having been over-staffed for a number of years, reflects, among other extraordinary expenses, the unusually high severance and pension expenses incurred in 1977, which totaled over $250,000 due to the 25% reduction in force. The increase also reflects the expenses which were incurred in setting up a rural housing office and in carrying out the construction of rural units by force account during the period 1976-77. In developing the cash flow projections INVA's 1977 operating expenses, its highest on record, were used. With the allowance for an annual increase 6%, compounded, (the expected rise in the cost of living), the projection should represent a reasonable estimate of INVA's future expenses.

3. Financial Feasibility and Viability.

A fifteen year cash flow projection of INVA's operations has been prepared on the basis of underlying assumptions developed in conjunction with INVA. (Annex H, pages 4 through 12). Critical to the assumptions is the expectation that the technical assistance inputs will improve INVA's institutional capability to the point

where it can sustain the level of production, delivery and financing of low-cost shelter services programmed for each of the last two years of project implementation. Also important to the cash flow are the assumptions that INVA will have no beginning cash in 1979, despite its having large cash reserves at present, as an allowance for it to cover further anticipated losses on the IDB San José project, and that the GOH will provide the necessary cash to cover projected shortages in 1979 and 1980. The projected level of GOH capital contributions for investment totaling $5 million during the four years of project implementation is reported by CONSUPLANE to have been incorporated into the investment budget for the five year national development plan beginning in 1979. The annual $3.0 million GOH capital investment projected to be available to INVA from 1983 onward represents only slightly more than the GOH has contributed to INVA in the last several years, and should be forthcoming if, as expected, INVA uses the GOH resources included in this project as investments to expand the supply of low-cost shelter.

As shown in the projections, INVA will continue to experience net operating losses and cash shortages during the first two years of project implementation. In year three and thereafter, the impact of increased GOH and HG financing begins and a large annual cash surplus begin to build. The projections do not, however, account for INVA's reinvesting its excess cash, but simply carries the net cash flow forward to the beginning of the following year (Annex H, page 4). It can be assumed that an increasingly large cash suplus will not accumulate, but rather be re-invested.

The cash flow projections do demonstrate that as a direct result of the GOH and HG financial inputs, INVA will have the resources to expand its production and consequently its income from the construction mark-up and interest earnings to more than cover its operating expenses by the third year of the project. The project provides INVA with sufficient resources in the last year of implementation to maintain this level of production, and the projections indicate that INVA will have positive net operating results of over $400,000 by the end of that year. This remarkable improvement in its financial condition is attributable to its ability to sustain a high rate of production and consistent growth in its portfolio earnings, with both the financial resources and increased institutional capability which this project is designed to provide.

V. IMPLEMENTATION PLAN

RHUDO/ROCAP will be responsible to the Mission for managing the TA and the HG loan and for the review and approval of HG disbursements.

A. Project Monitoring: The Mission will monitor the implementation and performance of the project particularly as it relates to AID's overall strategy for Honduras.

RHUDO/ROCAP will be responsible to the Mission for monitoring INVA's performance in this project. This activity will include maintaining the schedule for the technical assistance inputs. The Project Planning and Tracking Network will be used to assure the timely development of the various tasks associated with the institutional development of INVA, and will be updated periodically as necessary.

RHUDO/ROCAP will also review and approve the plans, specifications, costs, and any change orders for specific shelter projects to insure, inter alia, that the final costs of the solutions are affordable to the intended beneficiaries. The Project Delivery Plan (Table III.G) will be updated quarterly and used to monitor the timing and volume of the delivery of the solutions and the drawdowns of the HG and GOH resources.

B. Disbursement Procedures: The Housing Guaranty funds will be disbursed over a period of three years. INVA will act as a borrower and will seek and enter into contracts with an eligible U.S. investor directly. AID will concur in the final selection of the investor. Despite the relatively short disbursement period, INVA may have to drawdown the funds in two separate contracts, as it is possible that prevailing conditions in the U.S. capital markets will make it impractical to enter into a single, three-year loan disbursement agreement with a U.S. investor.

In either case, the drawdowns of HG funds will be supported by evidence of completed investments, that is, by the representation of either eligible mortgages or acceptable sales contracts and fully-disbursed home improvement loans. It is anticipated that GOH funds will be used for interim financing to the maximum extent possible; however, the projections in the Project Delivery Plan indicate the need for an advance of up to about $1 million in HG funds to serve as additional interim financing.

C. Procurement Procedures: Contracting for HG fee income funded advisors will be handled by RHUDO/ROCAP and/or the Office of Housing (DS/H) and approved by USAID/H. USAID/H grant funded participant training will be contracted by RHUDO/ROCAP together with the Mission. Both will follow established AID procedures for such contracts.

Contracting for the HG-GOH financed shelter projects will be done by INVA. RHUDO/ROCAP will review bid and contracting procedures, pre-bid estimates and final contracts in accordance with standard HG program procedures.

D. Conditions, Covenants and Negotiating Status: The project will require the signature of five separate documents. INVA and AID will subscribe an Implementation Agreement setting forth the implementation procedures, the conditions precedent to disbursement for HG-financed projects and the special covenants. A separate Project Agreement will obligate grant funds for participant training.

A Guaranty Agreement, signed by AID, will assure the U.S. investor against any loss. The Host Country Guaranty, signed by the Ministry of Finance acting for the Government of Honduras, will provide a similar assurance to AID. Finally the Loan Agreement, to be signed by INVA and the U.S. investor, will set forth the terms of the loan.

The Implementation Agreement and the ProAg will be negotiated and signed first. The other three documents will be negotiated and signed subsequently, allowing such time as may be needed to permit INVA to seek the loan at the most propitous moment in the U.S. capital market, prior to the first disbursement.

1. Conditions Precedent to Signing the Loan Agreement.

Prior to the signature of the Loan Agreement, INVA shall submit to AID in form and substance satisfactory to AID:

a. Evidence that it has completed its revision of the regulations concerning the division of responsibilities between INVA's Board of Directors and Management, tending to strengthen the Board's policy functions and to increase Management's authority over operational matters.

2. Conditions Precedent to the Disbursement of the HG Funds.

a. Prior to the first disbursement of HG funds, INVA shall submit to AID in form and substance satisfactory to AID:

i) Evidence of having initiated the implementation of procedures relevant to construction cost accounting and management; selection, orientation and organization of project beneficiaries; internal cost accounting; and collections and control of delinquencies.

ii) A revision of the standards and procedures of INVA's Savings and Loan Department, to establish a home improvement loan program accessible to intended project beneficiaries.

iii) Evidence of having hired the directors of the Finance Division and the Social Integration Division.

iv) Evidence that the GOH has agreed to allocate within its annual budgets sufficient funds to finance in a timely manner the counterpart elements of the Project agreed to in the financial plan, as well as to provide the necessary budgetary support for INVA's operations.

b. Prior to the last disbursement of HG funds, INVA shall submit to AID in form and substance satisfactory to AID:

i) Evidence of having initiated the implementation of project programming procedures.

ii) Evidence that INVA has a program for an expanded delivery of minimum-cost shelter solutions in secondary cities.

iii) Evidence that INVA has conducted, with AID assistance, a study of the alternate domestic and international sources of long-term capital available to it.

3. Special Covenants:

The Board of Directors of INVA will adopt a policy committing INVA to reach and maintain an annual production and delivery level of 2,000 shelter units and 1,000 home improvement loans affordable by the poorer half of urban residents in Honduras, to the extent feasible within the limits of the financial resources available to the institution.

4. Negotiating Status:

The conditions precedent and special convenants have been discussed at several meetings between representatives of AID and INVA's management.

They were discussed partially at a meeting between representatives of AID and the members of INVA's Board of Directors held on April 25, 1978. They were discussed in final form at a similar meeting held on September 5, 1978. A representative of the Ministry of Finance, which is not represented on INVA's Board, was in attendance at this last meeting.

Given these previous meetings on the subject, it is not anticipated that there will be any difficulties in negotiating the project documents.

E. Evaluation Plan

The evaluation of the project will center on three areas:

1. The impact of the proposed project minimum-cost shelter solutions on the intended beneficiaries;

2. The feasibility of instituting such an approach in secondary cities and urban slums in Honduras; and

3. INVA's success in attaining the institutional capability described in the project Logical Framework.

The first area of the evaluation will begin with the collection of baseline date on project beneficiaries as they are screened and selected. The impact of project solutions on these beneficiaries will be measured in a survey to be conducted as a special task in the final project evaluation.

The second area of the evaluation will draw on the assessment of the constraints and possibilities affecting secondary cities and urban slum home improvement loan programs as well as on the actual experience in developing, delivering and servicing minimum-cost solutions in such areas during the life of the project. The evaluation will also be included as a special task in the end of project evaluation.

The third area of the evaluation, involving INVA's institutional development, will be the most difficult to ascertain beyond the verification of the attainment of project outputs specified in the Logical Framework. As a first step, the management and financial analyses of INVA performed by consultants in early 1978 will be updated during the first months of project implementation. During this process, a series of indicators, in addition to those specified in the Logical Framework, and more closely related to the various targets of the technical assistance, will be developed and their baseline values recorded. These will be updated during a follow-up management and financial analysis conducted six months later and then as a part of the regular and end of project evaluations.

This process will serve not only to determine the success in attaining the project's purpose, but also to adjust the technical assistance program as needed during the life of the project.

F. Project Planning and Tracking Network

The following chart presents the entire range of project activities, including technical assistance and physical inputs and outputs; as they have been phased throughout the life of the project.

PROJECT PLANNING AND IMPLEMENTATION

	Oct.-Dec/78	Jan.-Mar/79	Apr.-Jun/79	Jul.-Sept/79	Oct.-Dec/79	Jan.-Jun/80	Jul.-Dec/80	Jan.-Jun/81	Jul.-Dec/81	Jan.-Jun/82	Jul.-Dec/82
PROJECT DEVELOPMENT:											
1. Milestones	Impleg.Agr.		Loan Agr.		1st Drawdown					Last Drawdown	Last Project
2. Monitoring/evaluation	Base Eval.			Mon./Fin An.		Mid. Eval.		Mid. Eval.			Final Eval.
INPUTS/TECHNICAL ASSISTANCE:											
3. Consultants (person/months) 1/	18.5				19.5		12.25	1.75		Total =	50.0
4. Training (person/months) 1/	5.0				25.0		25.0	10.0		Total =	70.0
INPUTS/FINANCING:											
5. HG Funds ($000's) 2/					748	1129	1616	2448	3162	1197	
6. GOH funds ($000's) 2/										2117	2881
7. Downpayments ($000's) 2/				16	14	67	114	115	218	217	186
OUTPUTS:											
8. IMPROVED MANAGEMENT				Design	Initial Implementation						Routine Implementation
Internal control procedures 1/											
Advanced programming procedures 1/			Design	Initial Implementation							
Trained managers (number) 1/					2		2		2		
9. PRODUCTION CAPABILITY											
Production of units (number) 2/				100	150	400	650	850	1100	1100	900
Production improvement loans (No.) 2/		60	60	150	150	420	450	540	540	540	540
Construction management procedures 1/	Design	Initial Implementation							Routine Implementation		
Beneficiary selection/orient. procedures 1/	Design	Initial Implementation							Routine Implementation		
Trained staff (number) 1/	5				7		4				
10. IMPROVED FINANCIAL STANDING											
Collections/delinquency control procedures 1/	Design	Initial Implementation						Routine Implementation			
Internal cost accounting 1/	Design	Initial Implementation							Routine Implementation		
Trained staff (number) 1/					4		4				
11. SECONDARY CITIES PROGRAM											
Procedures/program 1/				Publication	Design	Initial Implementation					Routine Implementation
INSTITUTIONAL INDICATORS:											
12. Annual rate of product.(units) 3/	440	400	600	600	600	800	1300	1700	2000	2000	2000
13. Annual net operating results($'s) 4/	Negative				(812,000)		(369,000)		36,000		396,000
14. Reinvestment of recuperation($'s) 4/	None				None		None		None		230,000

Footnotes:

1/ Refer to Technical Assistance Annex and to Table page

2/ Refer to Technical Annex

3/ The initial figure, 440 is historical. The others reflect delivery of HG-financed units.

4/ Refer to Financial Annex

AID 1020-28 (7-71)
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 [illegible] to FY [illegible]
Total U.S. Funding [illegible]
Date Prepared [illegible]

Project Title & Number: HONDURAS Low-Income Shelter 5[illegible]

PAGE 1

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program or Sector Goal: The broader objective to which this project contributes: To expand the supply of shelter services affordable by the urban poor on an on-going and self-sustaining basis.	Measures of Goal Achievement: Formal sector institutions provide an increasing proportion of the shelter services and long-term financing needed by the urban poor.	- Comparison with base year data - GOH updated estimates - GOH plans for housing sector in post project years	Assumptions for achieving goal targets: - GOH will facilitate and support implementation of its National Housing Policy, and overall GOH fiscal policie do not restrict resources available to the sector.

ANNEX A

AID 1020-28 (7-71)
SUPPLEMENT I

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY _____ to FY _____
Total U.S. Funding _____
Date Prepared: _____

Project Title & Number: _____

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Purpose: To improve INVA's capability to produce, and deliver on a sustained basis an increased number of low-cost shelter solutions and improvement loans affordable by the urban poor in both the urban and secondary cities.	Conditions that will indicate purpose has been achieved: End of project status. a. Annual production levels reach 3,000 new units in the $1500 to $3500 (1978$) sales price range and 1,000 home improvement loans of $1,000 or less. INVA has programed and prepared projects and resources to maintain or expand these levels. b. INVA operates on a full cost recovery basis with positive net income (approx.$400,000) in the fourth project year and projected increases in net income for following years. c. The pilot activity in the secondary cities demonstrates that INVA can efficiently produce, deliver and service housing units in secondary cities on an expanded scale.	a. Financial audit reports, semi-annual financial analyses and financial projections contained in end of project evaluation. b. End of project evaluation including review of INVA's post-project programing, site acquisition status and progress on other pre-production tasks. c. Evaluation of pilot activity with particular focus on the administrative effectiveness with which the pilot activity was implemented.	**Assumptions for achieving purpose:** - INVA maintains determination to hold down administrative costs.

AID 1020-23 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY _____ to FY _____
Total U.S. Funding _____
Date Prepared _____

Project Title & Number: _____

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
OUTPUTS: The project will lead to the development within INVA of: a) The planning and management capability to establish and carry out shelter programs in keeping with the institution's mandate. b) The technical capability to design, construct and deliver minimum cost shelter solutions affordable by the urban poor. c) The financial capability to manage its mortgage and loan portfolios, as well as its other capital assets. The restructuring of INVA's shelter programs will further lead to: d) A major increase in INVA's production and delivery of minimum cost shelter solutions affordable by the urban poor. e) The expansion and reorientation of INVA's home improvement loan program to serve families living in existing low-income communities. f) The extension of the home improvement loan and sites and services programs to secondary cities on a pilot basis.	Magnitude of Outputs: a. -Roles and responsibilities of INVA management and INVA Board established. -Increased responsibility for operations to INVA management. -Internal reporting system, internal auditing system and budgeting procedures for all divisions for cost control developed and implemented. -Improved advanced project programming, site selection and acquisition planning, budgeting, and interagency coordination procedures adopted. - Pilot sites and services projects evaluated. b. -Construction cost control system established and personnel trained on its use. -Minimum unit and site design standards adopted and preparation of low-cost design. -Timely unit inspection and acceptance procedures in operation. -Personnel trained and procedures established for promotion, orientation and organization of beneficiaries. -Personnel trained and procedures established for making and collecting on small home improvement loans. -New low cost project designs prepared for post-project continuation of low cost shelter delivery. -Improved contracting and disbursement procedures in operation. -Procedures developed and implemented for delivery of low-cost shelter projects in secondary cities. c. -Developed and implemented effective overall internal cost accounting, allocation and information system which incorporates the construction cost accounting system.	a) INVA Board resolutions -Evaluation of formal and informal administrative procedures. -Evaluation of budgeting and control systems. -Review of internal INVA reports, records and pilot project evaluations. -Comparison of original administrative cost projections with actuals. b) Consultants reports and training records. -Review of designs used and for future projects. -Comparison of original project completion schedules with actuals. -Comparison of original cost estimates, contract prices and eventual construction costs. -Evaluation of delivery and collection procedures, sales records and beneficiary attitudes toward the service received. c) Consultant reports and training records. -Analysis of overall internal cost accounting system. -Review of delinquency control procedure, including analysis of improved collection records. -Review of revisions in portfolio management operations, including measure of reinvestment of internal generated capital. d) INVA and A.I.D. records e) INVA and A.I.D. records f) INVA and A.I.D. records	Assumptions for achieving outputs: - INVA receives adequate cooperation from other GOH institutions, e.g. municipalities, utility companies and the Ministry of Finance.

-Accounting system including the portfolio fully mechanized.
-Improved loan collection, delinquency control and eviction procedures developed with reduction of delinquency to an average of one month on overall portfolio collections.
-Personnel trained in management of portfolio operations, reflows and other financial resources.
-Study of domestic and internal sources for future financing.

d. Over 4,750 sites and services delivered in primary cities.

e. Over 3,070 improvement loans delivered in primary cities.

f.
-500 sites and services units produce and
-415 home improvement loans averaging $500 extended in at least 3 secondary cities.

AID 1020-25 (7-71)
SUPPLEMENT 1

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY _____ to FY _____
Total U.S. Funding _____
Date Prepared: _____

Project Title & Number: _____

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Inputs:	Implementation Target (Type and Quantity)		Assumptions for providing inputs:
1. Financial:	1. a. $10.5 million b. Approx. $300,000 c. $102,000 d. Approx. $5.0 million e. Approx. $587,000	1. Project Monitoring	1. HG loan capital will be available in the U.S. market. GOH investment capital will be available.
a. AID/HG Loan b. AID/HG fee income (for TA) c. AID/Grant d. GOH cap[illegible] [illegible]nts in INVA e. Beneficiary cash down payments.	2. a. Approx. 4.2 person years b. Approx. 5.8 person years	2. Periodic evaluations	2. Suitably qualified technicians and consultants are available.
2. Technical Assistance:			
a. Consultant Services b. Participant Training			

ANNEX B

STATUTORY CHECKLISTS

Exhibit I - Statutory Checklist HG program Honduras

Exhibit II - Statutory Criteria Checklist

ANNEX B

Exhibit I

STATUTORY CHECKLIST HG PROGRAM

HONDURAS

Section 222 (b)

The proposed guaranty will enable financing of self liquidating housing projects in Latin America for lower income families and persons as provided in Section 222 (b) (3).

Section 222 (e)

The total face amount of the guaranties issued and outstanding at any one time shall not exceed $1,030,000,000.

Section 223 (a)

The AID Guaranty fee will be in an amount authorized by AID in accordance with its delegated powers.

Section 223 (i)

The maximum rate of interest allowable to the eligible U.S. investor, to be prescribed by the administrator, will not be more than one per cent above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development.

Section 223 (j)

(1) Honduras is a country that is presently receiving development assistance under Chapter 1, Part I of the Act.

(2) The proposed housing project will be coordinated with and complimentary to other development assistance to Honduras.

(3) The proposed housing project will be designed to demonstrate suitability and feasibility of particular kinds of housing or of financial or institutional arrangements involving inter alia sites and services, core housing and home improvements.

The project is designed and planned by AID so that at least ninty per cent (90%) of the face value of the proposed guaranty will be issued for housing suitable for families with incomes below the median income (below the urban median income for the housing in urban areas) in Honduras.

The face value of guaranties issued with respect to Honduras in this fiscal year will not exceed $25 million nor will the average face value of all housing guaranties issued in this fiscal year exceed $15 million.

Section 238 (c)

The Guaranty will cover only lenders who are "eligible investors" as defined in this section of the act at the time the guaranty is insured.

Section 620

No section 620 sanctions are applicable.

5C(1) - COUNTRY CHECKLIST

Listed below are, first, statutory criteria applicable generally to FAA funds, and then criteria applicable to individual fund sources: Development Assistance and Security Supporting Assistance funds.

A. GENERAL CRITERIA FOR COUNTRY

1. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights?	The Project Paper demonstrates that the assistance will benefit the needy.
2. FAA Sec. 481. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?	No such determination has been made.
3. FAA Sec. 620(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?	N/A (Provision repealed in 1977).
4. FAA Sec. 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?	The Secretary of State has determined that Honduras is not controlled by the international communist movement.
5. FAA Sec. 620(c). If assistance is to governments, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?	A.I.D. knows of no such cases.
6. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?	There is no evidence of such action.

A

7. FAA Sec. 620(f); App. Sec. 102. Is recipient country a Communist country? Will assistance be provided to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia or Laos?

Honduras is not a communist country. Assistance will not be provided to North or South Vietman, Cambodia or Laos.

8. FAA Sec. 620(i). Is recipient country in any way involved in (a) subversion of, or military or other aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?

A.I.D. has no evidence of any subversion or agression or of plans for such action.

9. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?

In the past there have been incidents where the GOH had been unsuccessful in containing demonstrations aimed at the U.S. Embassy. This has not been the case during the past year.

10. FAA Sec. 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason?

The OPIC Investment Guaranty Program is in operation in the country.

11. FAA Sec. 620(o); Fisherman's Protective Act of 1967, as amended. Has country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters?

a. Has any deduction required by Fisherman's Protective Act been made?

b. Has complete denial of assistance been considered by AID Administrator?

Honduras has not seized or imposed any penalties or sanctions against U.S. fishing vessels because of their activities in international waters during recent years.

12. FAA Sec. 620(q); App. Sec. 500. (a) Is the government of the recipient country in default on interest or principal of any AID loan to the country? (b) Is country in default exceeding one year on interest or principal on U.S. loan under program for which App. Act appropriates funds, unless debt was earlier disputed, or appropriate steps taken to cure default?

Honduras is not in default on any such loans.

* 13. FAA Sec. 620(s). "If contemplated assistance is development loan (excluding Alliance loan) or security supporting assistance, has the Administrator taken into account the percentage of the country's budget which is for military expenditures, the amount of foreign exchange spent on military equipment and the amount spent for the purchase of sophisticated weapons systems?" (An affirmative answer may refer to the record of the taking into account, e.g.: "Yes as reported in annual report on implementation of Sec. 620(s)." This report is prepared at the time of approval by the Administrator of the Operational Year Budget.*

N/A

* Revised

A13

* Upward changes in the Sec. 620(s) factors occurring in the course of the year, of sufficient significance to indicate that an affirmative answer might need [illegible] should still be reported, but the statutory checklist will not normally be the preferred vehicle to do so.) *

14. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?	No.
15. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget?	Honduras is not in arrears to the extent described in Article 19 of the U.N. Charter.
16. FAA Sec. 620A. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism.	NO.
17. FAA Sec. [illegible]. Does the country object, on basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. there to carry out economic development program under FAA?	NO.
18. FAA Sec. [illegible]. Has the country delivered or received nuclear reprocessing or enrichment equipment, materials or technology, without specified arrangements on safeguards, etc.?	NO.
19. FAA Sec. 901. Has the country denied its citizens the right or opportunity to emigrate?	NO.

B. FUNDING CRITERIA FOR COUNTRY

1. Development Assistance Country Criteria	
a. FAA Sec. 102(c), (d). Have criteria been established, and taken into account, to assess country efforts and progress in effectively involving the poor in development, on such indexes as: (1) small-farm labor intensive agriculture, (2) reduced infant mortality, (3) population growth, (4) equality of income distribution, and (5) unemployment.	Criteria for assessing progress in involving the poor in development have been set through Sector and Subsector assessments in Agriculture, Education, and Nutrition, and will be set in this years urban-regional and health sector assessments.
b. FAA Sec. 281(b)(5), (7) & (8); Sec. 209; 211(a)(1), (2). Describe extent to which country is:	
(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.	Major investment is being made in agricultural credit, technical assistance and other services for farmers aimed at increasing food production. Major storage facilities and rural buying stations are being upgraded and enlarged.

* Revised

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

(3) Increasing the public's role in the developmental process.

(4) (a) Allocating available budgetary resources to development.

(b) Diverting such resources for unnecessary military expenditure and intervention in affairs of other free and independent nations.

(5) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

(6) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

c. FAA Sec. 201(b), 211(a). Is the country among the 20 countries in which development assistance loans may be made in this fiscal year, or among the 40 in which development assistance grants (other than for self-help projects) may be made?

d. FAA Sec. 116. Will country be furnished, in same fiscal year, either security supporting assistance, or Middle East peace funds? If so, is assistance for population programs, humanitarian aid through international organizations, or regional programs?

2. Security Supporting Assistance Country Criteria

a. FAA Sec. 502B. Has the country engaged in a consistent pattern of gross violations of internationally recognized human rights? Is program in accordance with policy of this Section?

b. FAA Sec. 531. Is the Assistance to be furnished to a friendly country, organization, or body eligible to receive assistance?

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

A favorable climate for investment exists and specialized GOH agencies such as the National Development Corp. and the Ministry of Economy are being effective in attracting internal and external resources for private investment.

(3) The Government is pursuing a clear policy aimed at increasing the participation of all sectors in the development of Honduras. In the past few years the number and size of programs that benefit the poor has been greatly expanded.

(4) Honduras has been allocating approximately 25% of the budget in the recent past to investment programs.

(b) While military expenditures have increased they seem to be reasonable in comparison with total government expenditures. Honduras has not interfered in the affairs of other free and independent nations.

(5) Major reforms initiated during the last years include a strong agrarian reform investment (under which tens of thousands of hectares have been distributed to poor farmers) and land taxation program (which is being assisted through an A.I.D. Loan).

(6) The National Development Plan and the Government's action programs clearly define its commitment to help raise the incomes of the poor majority, and to shift development efforts more towards rural areas where the majority of the poor are found.

(c) Congress has been informed that A.I.D intends to confirm development assistance and grant activities in Honduras.

(d) Honduras is not a recipient of security supporting assistance or Middle East peace funds.

2. (a) N/A

(b) N/A

N/A

5C(2) - 1 PROJECT CHECKLIST

Listed below are, first, statutory criteria applicable generally to projects with FAA funds, and then project criteria applicable to individual fund sources: Development Assistance (with a subcategory for criteria applicable only to loans), and Security Supporting Assistance funds.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT.

1. App. Unnumbered; FAA Sec. 653(b)

   (a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that figure plus 10%)?

   A Congressional Notification will be required because the grant project was not included in the FY79 Congressional Presentation. The assistance is within the A.I.D. allocation reported to Congress.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of $100,000, will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

   Yes.

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

   No legislative action will be required within recipient country.

4. FAA Sec. 611(b); App. Sec. 101. If for water or water-related land resource construction, has project met the standards and criteria as per Memorandum of the President dated Sept. 5, 1973 (replaces Memorandum of May 15, 1962; see Fed. Register, Vol 38, No. 174, Part III, Sept. 10, 1973)?

   N/A

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?

   N/A

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A.

6. FAA Sec. 209, 619. Is project susceptible of execution as part of regional or multilateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or plans to the maximum extent appropriate?

The project is not suitable for execution as part of a regional or multilateral project.

7. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

The project will marginally contribute to increasing international trade due to import component of construction. Bidding procedures plus small scale home improvement construction will discourage monopolistic practices. Technical efficiency of formal housing sector to be improved.

8. FAA Sec. 601(b). Information and conclusion on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of pvo's to utilize charitable and the services of U.S. private enterprise).

A portion of training is to be conducted in the U.S;

9. FAA Sec. 612(b), Sec. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.

The Government of Honduras is contributing $5.0 million in local currency to help defray local cost expenditures.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency and, if so, what arrangements have been made for its release?

The U.S. does not own such excess currency.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(c); Sec. 111; Sec. 281a. Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions?

Shelter solutions are offered to poor who could not otherwise afford their own homes. Individual and group initiative is encouraged through the home improvement program and the establishment of community groups.

B1

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [include only applicable paragraph -- e.g., a, b, etc. -- which corresponds to source of funds used. If more than one fund source is used for project, include relevant paragraph for each fund source.]

(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers;

(2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor;

(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:

(a) technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;	Project will finance training in U.S. institutions.
(b) to help alleviate energy problem;	N/A
(c) research into, and evaluation of, economic development processes and techniques;	N/A
(d) reconstruction after natural or man-made disaster;	N/A
(e) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;	N/A
(f) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.	Small labor intensive construction entities will be involved in home improvement program.

B1

(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.

c. FAA Sec. 110(a); Sec. 209(e). Is the recipient country willing to contribute funds to the project, and in what manner has or will it provide assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived for a "relatively least-developed" country)?

A condition Precedent to disbursement of HG funds requires a GOH commitment to provide $5.0 million in counterpart funds, Beneficiary downpayments will provide an additional $987,000. Total A.I.D. inputs including the HG, HG fee resources and A.I.D. Grant amount to $10,902,000.

d. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing?

NO.

e. FAA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on; (1) encouraging development of democratic, economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained worker-power in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy.

The project is aimed at improving the institutional capacity of Honduras' Housing Institute, so that it can better perform its function of providing low-cost housing solutions to the urban poor. Many of the beneficiaries will be women who are heads of households.

f. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

The project's design provides for the construction of various types of low-cost housing tailored to the needs, desires and capacities of beneficiaries. All training and technical assistance will be provided to the Housing Institute's own personnel who will be responsible for project implementation.

B1

a. FAA Sec. 201(b)(2) (4) and -(8); Sec. 201(c); Sec. 211(a)(1)-(3) and -(b). Does the activity give reasonable promise of contributing to the development: of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives? And does project paper provide information and conclusion on an activity's economic and technical soundness?

The goal of the project is to increase the supply of housing for the urban ppor. By providing the initial long-term financing and improving. The institutional capacity to channel effective demand, the project will stimulate the productive sector that will have to supply this demand. The project is consistent with Honduras development plans. The project will contribute to realizable long-range objectives. The project paper demonstrates the economic and technical feasability of the project.

b. FAA Sec. 201(b)(6); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position.

Some construction materials may be imported from the U.S. Portions of the technical assistance and the participant training will be procured in the U.S.

2. Development Assistance Project Criteria (Loans only)

a. FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within U.S.

b. FAA Sec. 201(b)(2); 201(d). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.

c. FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds $100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

d. FAA Sec. 201(f). Does project paper describe how project will promote the country's economic development taking into account the country's human and material resources requirements and relationship between ultimate objectives of the project and overall economic development?

B2

e. FAA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources?

f. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

3. Project Criteria Solely for Security Supporting Assistance

FAA Sec. 531. How will this assistance support promote economic or political stability? N/A

4. Additional Criteria for Alliance for Progress

[Note: Alliance for Progress projects should add the following two items to a project checklist.]

a. FAA Sec. 251(b)(1), -(8). Does assistance take into account principles of the Act of Bogota and the Charter of Punta del Este; and to what extent will the activity contribute to the economic or political integration of Latin America? The assistance takes into account the principles of the Act of Bogota and the Punta del Este Charter. The project is not expected to significantly contribute to the political or economic integration of Latin America.

b. FAA Sec. 251(b)(6); 251(h). For loans, has there been taken into account the effort made by recipient nation to repatriate capital invested in other countries by their own citizens? Is loan consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress (now "CIPCIES," the Permanent Executive Committee of the OAS) in its annual review of national development activities? N/A

ANNEX C

REQUEST FROM GOH/INVA

Exhibit I - HG Loan and TA Request

Exhibit II - GOH Support for Program

ANNEX C
Exhibit I

INSTITUTO DE LA VIVIENDA
APARTADO POSTAL NUMERO 667
DIRECCION CABLEGRAFICA INVA
TEGUCIGALPA, HONDURAS

No.534-G, 6 de setiembre de 1978

Sr Fredrik A. Hansen,
Jefe RHUDO/ROCAP
Tegucigalpa, D. C.

Estimado señor Hansen:

El objeto de la presente es hacer de su conocimiento que el Instituto de la Vivienda, consciente de su responsabilidad como organismo rector de la problemática de vivienda a nivel nacional, se encuentra sumamente interesado en lograr la reorientación e incremento de su gestión, a efecto de beneficiar en mayor medida con programas habitacionales a los estratos de menores ingresos.

Con tal fin, se ha planificado para el período de 1979-1983, la ejecución de diversos proyectos de vivienda, en terrenos propiedad del Instituto ubicados en Tegucigalpa y San Pedro Sula. En dichos proyectos se ha considerado construir viviendas con precios de venta que oscilen entre 3.000 a 7.000 lempiras aproximadamente.

También se desea ampliar nuestro programa de préstamos para el mejoramiento habitacional, y ampliarlo a otras ciudades del país.

Para la ejecución de los proyectos que se han planteado anteriormente, el Instituto de la Vivienda ha invertido la cantidad de aproximadamente 2.000.000 de lempiras en la compra de terrenos para los mismos. Se ha estimado que para financiar la construcción de las viviendas habremos de requerir aproximadamente L.31,000.000; de esta suma, alrededor de L.10.000.000 serán aportados por el Gobierno Central. Sin embargo, para hacer realidad estos proyectos, existe como factor limitante la imposibilidad de obtener de fuentes internas los recursos económicos adicionales que se requieran para lograr el financiamiento de los mismos.

En base a la exposición anterior, y considerando de urgencia la obtención de financiamiento externo, este Instituto manifiesta a usted en su carácter de Representante de ese prestigiado organismo internacional, formal intención de utilizar los recursos financieros que esa

INSTITUTO DE LA VIVIENDA
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Para: Sr Fredrik A.Hansen,ROCAP
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entidad pueda suministrarnos en calidad de préstamos, hasta por la cantidad de L.21,000.000, con la certeza de que los mismos contribuirán al desarrollo económico y social del país, y a mejorar el bienestar del pueblo hondureño. Asimismo, para la ejecución de estos proyectos deseamos solicitar su colaboración en proporcionar al Instituto, la asistencia técnica necesaria.

No está demás informarle que el INVA continuará con el perfeccionamiento de su reorganización interna y la revisión de los reglamentos existentes, a fin de adecuarlos a una mayor flexibilidad en su mecánica operacional.

En consecuencia, mucho agradeceríamos a usted proporcionarnos información detallada sobre las posibilidades de obtención del financiamiento requerido, condiciones, tipo de interés, plazo de pago, período de gracia a otorgarse y demás aspectos que a su criterio resulten convenientes.

En espera de sus amables noticias sobre el asunto que nos ocupa, aprovechamos la oportunidad para saludarle con muestras de nuestra consideración y estima, lo saluda cordialmente,

CARLOS AVILA BRENES
Gerente General

CAB/anr

ANNEX C
Exhibit II

INSTITUTO DE LA VIVIENDA
APARTADO POSTAL NUMERO 667
DIRECCION CABLEGRAFICA: INVA
TEGUCIGALPA, HONDURAS

No.533-G, 6 de setiembre de 1978

Sr. John B. Robinson
Director de la AID
Embajada Americana
Tegucigalpa, D. C.

Estimado señor Robinson:

El objeto de la presente es hacer de su conocimiento que la Junta Directiva y el Ministerio de Hacienda y Crédito Público están de acuerdo en respaldar al Instituto de la Vivienda en el programa de $US.15.5 millones para financiamiento habitacional planteado por el INVA y AID.

Este respaldo incluye:

1- La garantía del Gobierno de Honduras al INVA para el préstamo de $10.5 millones de la AID.

2- La aportación de $ 5 millones y los fondos necesarios para cubrir los gastos de administración del INVA en los próximos cuatro años.

3- La utilización del financiamiento para la construcción de viviendas de bajo costo con un precio de venta de 3.000 a 7.000 lempiras para las familias con ingresos inferiores o iguales a la media del ingreso familiar en los distintos sectores donde se realizarán los programas sujeto a revisiones periódicas; y,

4- La adopción como norma operacional de que el INVA habrá de exigir el pago de las cuotas mensuales por parte de sus adjudicatarios y habrá de tomar todas las acciones necesarias, incluyendo la ejecución de hipotecas y el desahucio por vía legal, para reducir la morosidad en su cartera hipotecaria.

INSTITUTO DE LA VIVIENDA
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DIRECCION CABLEGRAFICA INVA
TEGUCIGALPA HONDURAS

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Para: Sr. John Robinson,Director de AID
pág. 2

Asegurándole nuestro mayor esfuerzo para la consecución de los programas de interés social del INVA, con un aporte de préstamo del AID antes relacionado, nos es grato reiterarle nuestro agradecimiento por la atención que se sirva darle a la presente.

De usted, muy cordialmente,

MARIO FLORES THERESIN
Presidente de la Junta Directiva del INVA, y Ministro de Comunicaciones, Obras Públicas y Transporte

RENE PINEDA MEJIA
Ministro de Hacienda y Crédito Público Por Ley

/anr

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INCOMING TEGUCIGALPA ANNEX D

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TEGUCIGALPA FOR USAID AND RHUDO/ROCAP; GUATEMALA FOR ROCAP

E.O. 11652: N/A

TAGS:

SUBJECT: REVIEW OF LOW COST HOUSING (HIG) INTERIM REPORT - HONDURAS
REF:STATE 046661

1. THE DAEC REVIEWED THE SUBJECT INTERIM REPORT (IR) ON JULY 26. SERIOUS DOUBTS WERE EXPRESSED ABOUT THE WISDOM OF THE MISSION'S PROPOSAL TO UNDERTAKE A 15 MILLION DOLLAR HOUSING PROGRAM OVER A SIX-YEAR PERIOD, INVOLVING BOTH AN URBAN AND RURAL FOCUS, IN LIGHT OF INVA'S LACK OF INSTITUTIONAL CAPACITY. IT WAS RECOGNIZED THAT ONE OF THE MAJOR PROJECT OBJECTIVES IS TO STRENGTHEN THE CAPACITY OF INVA TO PLAN, DESIGN AND CARRY OUT FINANCIALLY SOUND SHELTER PROGRAMS FOR LOW INCOME PEOPLE. HOWEVER, AS ACKNOWLEDGED IN THE IR, IT WILL TAKE SEVERAL YEARS TO OVERCOME INVA'S BASIC WEAKNESSES. UNTIL THERE IS EVIDENCE THAT THE PLANNED INVA INSTITUTION-BUILDING EFFORT IS TAKING HOLD, AND THAT INVA HAS GAINED THE CAPACITY TO DEVELOP AND MANAGE THE HIGHER VOLUME OF HOUSING WHICH THE IR ARGUES IS NECESSARY FOR INVA TO OVERCOME MANY OF ITS PROBLEMS, THE OBLIGATION AT THIS TIME OF DOLS. 15 MILLION OF GUARANTY AUTHORITY FOR A SIX-YEAR PROGRAM WAS JUDGED TO BE INADVISABLE.

FURTHERMORE, BASED ON DISCUSSIONS AT THE REVIEW, IT APPEARS CLEAR THAT THE GII-TYPE PROJECT PLANNING AND ANALYSIS NECESSARY TO UNDERGRID THE SOUNDNESS OF WHAT WAS TERMED THE QUOTE SECOND TRANCHE UNQUOTE WOULD NOT BE AVAILABLE IN THE PP. INDEED, ONE OF THE KEY FEASIBILITY QUESTIONS IN THIS REGARD WAS HOW INVA WOULD PLAN, DEVELOP, MANAGE AND SERVICE SHELTER PROGRAMS IN RURAL AREAS.

THE CONCLUSION REACHED WAS THAT THE PROPOSED LENGTH OF THE PROJECT AND SIZE OF THE COMMITMENT WERE EXCESSIVE RELATIVE TO INVA'S INSTITUTIONAL CAPACITY AND THE DEGREE OF PROJECT PLANNING LIKELY TO HAVE BEEN COMPLETED BY THE TIME OF THE PP. ACCORDINGLY, INTENSIVE REVIEW IS AUTHORIZED FOR A HOUSING GUARANTY PROGRAM OF THE APPROXIMATE SCOPE AND DURATION OF WHAT WAS DESCRIBED AS THE QUOTE FIRST TRANCHE UNQUOTE IN THE IR. IT WAS ALSO AGREED THAT A FOLLOW-ON GUARANTY, MID-WAY INTO THE IMPLEMENTATION OF THE FIRST PROGRAM, WOULD BE APPROPRIATE IF INVA HAD EVIDENCED THE INCREASED INSTITUTIONAL CAPACITY. IT WAS SUGGESTED THAT A PID-EQUIVALENT FOR THE FOLLOW-ON PROJECT BE INCORPORATED INTO THE PP TO AVOID HAVING TO PREPARE A SEPARATE PID AT A LATER DATE.

2. IN ADDITION TO THE CONCERNS CONTAINED IN PID DAEC CABLE REFERENCED ABOVE, THE PP SHOULD ALSO ADDRESS THE FOLLOWING POINTS:

--A. URBAN MASTER DEVELOPMENT PLANS. THE IR NOTES THAT SOME TOWNS AND CITIES, IN PARTICULAR TEGUCIGALPA AND SAN PEDRO SULA, HAVE ADOPTED MASTER URBAN DEVELOPMENT PLANS. IN VIEW OF THE FACT THE GOH HAS NO FORMAL URBAN POLICY THE PP, IN LAYING OUT THE RATIONALE FOR IMPLEMENTING THIS PROJECT PRIOR TO THE ESTABLISHMENT OF A FORMAL URBAN POLICY, SHOULD DISCUSS HOW THE PROPOSED HOUSING PROJECTS FIT INTO THOSE DEVELOPMENT PLANS, AND EXPLAIN HOW NECESSARY PHYSICAL INFRASTRUCTURE, WHICH THE PLANS REFLECT, AS WELL AS SOCIAL SERVICES, WHICH ARE OMITTED IN THE PLANS, WILL BE INTEGRAT-

--D. LOAN COLLECTION AND FINANCIAL SOUNDNESS. THE DAEC NOTED THE LARGE NUMBER OF DELINQUENT LOANS IN INVA'S PORTFOLIO AND CONCLUDED THAT A THOROUGH ANALYSIS OF INVA'S SYSTEM OF DELINQUENT LOAN COLLECTION SHOULD BE CARRIED OUT DURING INTENSIVE REVIEW, INCLUDING AN ANALYSIS OF THE VARIOUS CAUSES OF DELINQUENT LOANS. REVIEW OF INVA'S NEW ORGANIZATIONAL STRUCTURE REVEALED THAT THERE WAS NO OPERATING DEPARTMENT CHARGED WITH MORTGAGE SERVICING OR COLLECTION. IN VIEW OF THE HIGH RATE OF DEFAU[illegible] IN INVA'S EXISTING PORTFOLIO, THIS WAS JUDGED A SERIOUS GAP IN ORGANIZATIONAL PLANNING WHICH IS INTENDED T[illegible] STREN[illegible] INVA'S FINANCIAL SITUATION AS WELL AS ITS I[illegible]GE AS A

FINANCIAL INSTITUTION. IN THIS AREA, THE PP SHOULD DESCRIBE THE [illegible] EXISTING DELINQUENCY PROBLEM AND LAY OUT PROPOSED POLICIES AND PROCEDURES FOR AVOIDING/MINIMIZING DELINQUENCIES ON NEW SHELTER LOANS.

--C. PROPOSED SHELTER SOLUTIONS AND TARGET GROUP. PP SHOULD SET FORTH THE BASIS FOR PROPOSED ALLOCATION OF PROJECT RESOURCES AMONG VARIOUS SHELTER SOLUTIONS AND INCLUDE A TARGET GROUP PROFILE INDICATING INCOME LEVELS, TYPICAL OCCUPATIONS, WHERE CURRENTLY LIVING, CURRENT SHELTER CONDITIONS, ETC.

--D. TECHNICAL ASSISTANCE AND INSTITUTION BUILDING PLAN. THE DAEC NOTED THE LARGE INPUT OF TECHNICAL ASSISTANCE UNDER THE PROJECT AND QUESTIONED HOW IT WOULD BE COORDINATED. IT WAS SUGGESTED THAT DURING INTENSIVE REVIEW, THE POSSIBILITY BE CONSIDERED OF HIRING A FULL-TIME SENIOR ADVISOR TO INVA WHO WOULD WORK WITH THE UPPER MANAGEMENT LEVELS OF INVA AS WELL AS ORCHESTRATE THE PROVISION OF OTHER TA.

--WITH REGARD TO THE PROJECT'S INSTITUTION-BUILDING OBJECTIVE, THE PP SHOULD LAY OUT A TIME-PHASED PLAN SHOWING HOW SEQUENCE AND INTER-RELATIONSHIP OF TRAINING, TECHNICAL ASSISTANCE, ORGANIZATIONAL, PROCEDURAL AND POLICY CHANGES WILL BRING ABOUT IMPROVED PLANNING AND MANAGERIAL CAPACITY AND IMPROVED FINANCIAL MANAGEMENT.

--E. DELEGATION OF AUTHORITY. DURING THE DAEC REVIEW, IT WAS NOTED THAT PROBLEMS CONCERNING THE DIVISION OF RESPONSIBILITY BETWEEN THE GENERAL MANAGER AND THE BOARD OF DIRECTORS STILL EXIST. GIVEN THE IMPORTANCE ACCORDED TO HAVING GREATER AUTHORITY FOR INVA OPERATION VESTED IN GENERAL MANAGER, IF THIS PROBLEM CANNOT BE RESOLVED DURING INTENSIVE REVIEW, IT SHOULD BE TREATED AS CONDITION PRECEDENT TO SIGNING GUARANTY AGREEMENT.

--F. ENVIRONMENT. THE FIELD INSPECTION REPORT AND REVISED IEE REVEALED THAT SOME OF THE PROPOSED HOUSING SITES SUFFER FROM DEFECTS SUCH AS REMOTENESS FROM EMPLOYMENT AND SHOPPING CENTERS OR SOILS CONDITIONS AND TOPOGRAPHY THAT INTERFERE WITH THE PROVISION OF SEWAGE AND WATER SERVICES. THE MISSION IS REQUESTED TO ASCERTAIN THAT SUCH DEFECTS DO NOT CAUSE DEVELOPMENT COSTS TO RISE BEYOND WHAT THE TARGET GROUP CAN AFFORD. THE MISSION SHOULD EXPLORE THE FEASIBILITY OF ESTABLISHING GUIDELINES FOR FUTURE SITE SELECTION AND THE NECESSITY FOR PROVIDING TECHNICAL ASSISTANCE IN THIS AREA.

--G. PP PREPARATION. TO AVOID PROBLEMS WHICH HAVE ARISEN IN CONNECTION WITH SCOPE OF ANALYSIS IN SOME HIG PPS IN OTHER LAC COUNTRIES AND TO ASSURE THAT THE SCOPE AND FOCUS OF PROJECT ANALYSES ADDRESS ALL RELEVANT AREAS AND ISSUES

NORMALLY CONSIDERED IN THE CASE OF DIRECT AID LOANS, SUGGEST MISSION CONSIDER INVOLVING LOAN STAFF OR TEAM WHICH WILL BE DEVELOPING PP. VANCE

BT

#6806

TEGUCIGALPA

PAGE 1

UNCLASSIFIED

FEB 2 3 1978

CLASSIFICATION

FROM RUEHZ 1HB 7G 1
IN SECRETE WASHDC
TO RUESTR/AMEMBASSY TEGUCIGALPA 2318
INFO RUESGI/AMEMBASSY GUATEMALA 1496
BT
UNCLAS STATE 046661.

AIDAC, TEGUC. FOR USAID AND RHUDO/ROCAP; GUATEMALA FOR ROCAP

E.O. 11652: N/A

TAGS:

SUBJECT: DAEC REVIEW OF LOW COST HOUSING PID
(HIG- DOLS. 15.4 MILLION)

1. SUMMARY. THE DAEC REVIEWED THE SUBJECT PID ON JANUARY 24, 1978. INTENSIVE REVIEW APPROVED SUBJECT TO SUBMISSION OF INTERIM REPORT. WHILE THE NEED FOR IMPROVED HOUSING IN TEGUCIGALPA AND SAN PEDRO SULA WAS RECOGNIZED, THE PROJECT WAS VIEWED AS VERY AMBITIOUS IN VIEW OF INVA'S WEAK INSTITUTIONAL CAPABILITY. THIS AND TWO OTHER IMPORTANT ISSUES--THE RELATION OF THE PROJECT TO USAID'S DEVELOPMENT STRATEGY AND THE ROLE OF CADEI--SHOULD BE FULLY ADDRESSED IN AN INTERIM REPORT (IR).

THERE WAS CONSIDERABLE SENTIMENT FOR GREATLY REDUCING THE PROPOSED FUNDING LEVEL. HOWEVER, NO SPECIFIC REDUCTION WAS DEFINED AT THIS TIME AS ESTABLISHING A MORE APPROPRIATE LEVEL WOULD REQUIRE DETAILED KNOWLEDGE OF INVA'S DEFICIENCIES AND THE PROSPECTS FOR RAPID IMPROVEMENT, NEITHER OF WHICH COULD BE ADEQUATELY GAUGED FROM THE PID. MISSION SHOULD BE AWARE THAT FUNDING FOR MORE THAN A PILOT EFFORT WILL REQUIRE SIGNIFICANT PROGRESS IN IMPROVING INVA'S INSTITUTIONAL CAPACITY, AND SOME CHANGES IN INVA'S PRESENT POLICIES

(DISCUSSED BELOW). ONE POSSIBLE OUTCOME OF AID/W REVIEW OF THE IR WOULD BE A DECISION TO TRANCHE THE PROGRAM, E.G., PROVIDING TECHNICAL ASSISTANCE AND GUARANTY FOR A PILOT EFFORT IN A FIRST TRANCHE WITH FUNDING FOR A SECOND TRANCHE DEPENDENT ON SUCCESS IN INSTITUTIONAL STRENGTHENING OF INVA UNDER THE FIRST TRANCHE.

2. INTERIM REPORT (IR). THE REPORT SHOULD ADDRESS THE FOLLOWING:

--A. CONSISTENCY WITH MISSION STRATEGY AND AID POLICY. UNLESS USAID/H'S FORTHCOMING DAP IS PREVIOUSLY SUBMITTED AND TREATS THE FOLLOWING, THE INTERIM REPORT SHOULD PROVIDE AN ARTICULATION AS TO USAID'S STRATEGY FOR URBAN SECTOR DEVELOPMENT. THIS STRATEGY SHOULD: DESCRIBE THE STATUS AND LIKELY FUTURE DIRECTION OF GOH URBAN POLICY AND PROGRAMS; DISCUSS THE ROLE OF HOUSING PROGRAMS AS A KEY ELEMENT OF THE GOH'S URBAN POLICY; AND IDENTIFY THE POSITIVE CONTRIBUTIONS OF THE PROPOSED PROJECT TOWARDS IMPROVING GOH HOUSING POLICIES. THE IR SHOULD ALSO ADDRESS THE RELATIONSHIPS BETWEEN THE MISSION'S URBAN AND RURAL SECTOR STRATEGIES AND INDICATE WHY URBAN HOUSING IS GIVEN PRIORITY OVER RURAL HOUSING. THE IMPACT OF THE PROPOSED PROJECT ON RURAL-URBAN MIGRATION SHOULD ALSO BE TREATED.

--B. ROLE OF CADEI. THE USAID SHOULD ASSURE THAT ITS URBAN STRATEGY HOUSING COMPONENT IS CONSISTENT WITH AID POLICY REGARDING THE ROLE OF CADEI, OR INCLUDE IN THE IR THE RATIONALE AS TO WHY THE PROJECT SHOULD BE AN EXCEPTION.

--C. INVA'S INSTITUTIONAL CAPACITY AND FINANCIAL CONDITION. A THOROUGH ANALYSIS OF INVA'S INSTITUTIONAL CAPACITY SHOULD BE INCLUDED IN THE INTERIM REPORT. THIS ANALYSIS SHOULD INCLUDE A STUDY OF INVA'S GOALS AND PERFORMANCE; THE FACTORS THAT HAVE CONTRIBUTED TO ITS APPARENT LACK OF SUCCESS IN HOUSING CONSTRUCTION AND MANAGEMENT; AND ITS PLANS AND PROSPECTS FOR SUCCESSFULLY CARRYING OUT THE ROLE ASSIGNED TO IT BY THE RECENTLY PROPOSED GOH HOUSING SECTOR STRATEGY. THE REVIEW SHOULD COVER: ADEQUACY OF INVA'S LEGISLATION, REGULATIONS AND PROGRAM AND OPERATIONAL POLICIES WITH REGARD TO ITS NEW ROLE; MANAGEMENT EFFECTIVENESS, INTERNAL ORGANIZATION AND STAFFING; HOUSING DESIGN STANDARDS AND CONSTRUCTION [illegible]; LAND ACQUISITION POLICY AND PRACTICE; APPLICATION PROCEDURES AND [illegible]

CRITERIA FOR HOUSING PURCHASERS/TENANTS; AND OTHER FACTORS NOT SPECIFICALLY MENTIONED BUT NEEDED TO ENABLE A FULL REVIEW OF INVA'S INSTITUTIONAL CAPACITY. THE FINANCIAL ANALYSIS SHOULD COVER INVA'S FINANCIAL GROWTH, PRESENT CONDITION AND PROJECTIONS; LENDING TERMS TO MORTGAGEES AND ANALYSIS OF SUBSIDY EFFECTS; DEFAULT RATES ON MORTGAGES; AND SOURCES OF FINANCING AND COMPLIANCE WITH LENDER AGREEMENTS.

--D. GOH COMMITMENT TO REFORM INVA. IT WAS NOTED THAT ONE OF THE FACTORS CONTRIBUTING TO INVA'S DISAPPOINTING PERFORMANCE HAS BEEN LACK OF A STRONG GOH EFFORT TO REFORM THE INSTITUTE. THE INTERIM REPORT SHOULD DISCUSS GOH INTENTIONS REGARDING REFORM OF INVA, INCLUDING THE RESULTS OF HIGHEST LEVEL MISSION/GOH COMMUNICATIONS, AND PROVIDE EVIDENCE OF THE GOH'S CONCERN AND WILLINGNESS TO TAKE STRONG MEASURES TO DEVELOP INVA INTO THE PUBLIC SECTOR'S PRINCIPAL LOW INCOME HOUSING DEVELOPER/MANAGER.

--E. PLAN FOR INSTITUTIONAL STRENGTHENING. BASED ON THE CONCLUSIONS OF THE INSTITUTIONAL ANALYSIS, INVA'S PROJECTED ROLE IN THE HOUSING SECTOR (PER THE NATIONAL HOUSING STRATEGY), AND GOH COMMITMENT TO REFORM THE INSTITUTE, THE OUTLINE OF A PLAN FOR INSTITUTIONAL STRENGTHENING SHOULD BE DEVELOPED. THE PLAN SHOULD INDICATE ALTERNATIVE AND PREFERRED SOLUTIONS FOR PROBLEMS IDENTIFIED IN SUCH AREAS AS INVA POLICIES, HOUSING PROGRAM DEVELOPMENT AND IMPLEMENTATION, AND FINANCIAL CONDITION. FINALLY, THE PLAN SHOULD OUTLINE THE KIND AND MAGNITUDE OF ASSISTANCE THAT INVA WILL NEED TO ADDRESS ITS INSTITUTIONAL WEAKNESSES AND BEGIN DEVELOPMENT OF A NEW PROGRAM FOR PUBLIC SPONSORED HOUSING IN HONDURAS, INCLUDING EFFORTS TO ASSIST THE PROJECT'S TARGET GROUP.

THERE ARE TWO AREAS WHERE REFORMS MUST BE ACHIEVED IN ORDER FOR INVA TO QUALIFY FOR AID SUPPORT (OTHER THAN GRANT FUNDED TECHNICAL ASSISTANCE). FIRST, INVA MUST BE WILLING TO SHIFT FROM CONSTRUCTING HOUSING WITH ITS OWN EMPLOYEES TO CONTRACTED CONSTRUCTION ON ALL BUT THE SMALLEST PROJECTS. SECOND, A LONG TERM SOURCE OF CAPITAL MUST BE FOUND. IN THIS CONTEXT, THE DAEC QUESTIONED THE ADVANTAGES--BOTH TO INVA AND TO THE HONDURAN ECONOMY--OF THE PROPOSED NEW SOCIAL FUND PAYROLL TAX OVER OTHER POTENTIAL METHODS OF MOBILIZING CAPITAL FOR LOW INCOME HOUSING INVESTMENT (E.G., INVA BOND ISSUES, INVESTMENT OF SOCIAL SECURITY

FUNDS IN HOUSING, INCREASED USE OF SECONDARY MORTGAGE FACILITIES). IT WAS FURTHER AGREED THAT A GOOD TEST OF INVA'S COMMITMENT TO REFORM ITSELF AND IMPROVE ITS FINANCIAL CONDITION WOULD BE A STRENUOUS EFFORT TO [illegible] THE [illegible] DELINQUENCY RATE ON ITS

--A. PROJECT DESIGN. THE DAEC AGREED WITH THE PROJECT'S DUAL PURPOSE: TO STRENGTHEN INVA'S INSTITUTIONAL CAPACITY AND TO FURTHER IMPLEMENTATION OF GOH'S POLICY TOWARDS SITES AND SERVICES HOUSING SOLUTIONS. HOWEVER, THE ONLY CLEARLY IDENTIFIED PROJECT OUTPUT IN THE PID IS APPROXIMATELY 6,300 SHELTER SOLUTIONS. IN VIEW OF INVA'S INSTITUTIONAL WEAKNESSES, CONSIDERABLE TECHNICAL ASSISTANCE AND PERHAPS SOME TRAINING WILL PROBABLY BE NEEDED TO ACHIEVE THE PROJECT'S INSTITUTIONAL STRENGTHENING OBJECTIVE. THE PROPOSED ARRANGEMENT--IN PER N MONTHS OF TECHNICAL ASSISTANCE BEING MADE AVAILABLE THROUGH THE FCH/ORG, SUPPLEMENTED BY PERIODIC ASSISTANCE FROM ROCAP OFFICERS--WAS CONSIDERED INSUFFICIENT FOR THIS PURPOSE. APPROPRIATE OUTPUTS (E.G., ADMINISTRATIVE REORGANIZATION, REDUCTION IN FORCE, ADOPTION OF NEW MATERIAL

POLICIES AND PROCEDURES, TRAINED STAFF) WHICH, IN SUM, ADDRESS THE DEFICIENCIES IDENTIFIED IN THE INSTITUTIONAL ANALYSIS SHOULD BE INCLUDED IN THE PROJECT DESIGN.

--B. APPROPRIATENESS OF PROPOSED HOUSING SOLUTIONS. THE PID PROVIDES THREE EXAMPLES OF SHELTER SOLUTIONS THAT COULD BE BUILT UNDER THE PROJECT, RANGING FROM A LOT AND SERVICES TO A THREE-ROOM HOUSE WITH SERVICES. IT IS UNCLEAR HOW THE MIX OF DIFFERENT SOLUTIONS WILL BE DETERMINED AND WHETHER THESE SOLUTIONS ARE ACCEPTABLE TO AND AFFORDABLE BY THE TARGET GROUP. THE RATIONALE FOR SELECTING THE PROPOSED MIX OF SOLUTIONS IN REFERENCE TO ALTERNATIVES SUCH AS REHABILITATION, UTILITIES CONNECTIONS, AND SITE LEGALIZATION (WHICH WOULD ALLOW FOR PARTICIPATION OF EVEN LOWER INCOME FAMILIES THAN THE TARGET GROUP DEFINED IN THE PID) SHOULD BE DISCUSSED IN THE PP. THE POSSIBILITY OF INCLUDING A CREDIT FUND FOR HOUSING MATERIALS PURCHASES WAS DISCUSSED DURING THE REVIEW

AND SHOULD BE EXPLORED FURTHER WITH INVA. THE PP SHOULD FULLY DISCUSS THE SOCIO-ECONOMIC CHARACTERISTICS OF THE PROJECT'S TARGET GROUP AND PROVIDE EVIDENCE OF DEMAND FOR AND ACCEPTABILITY OF THE PROPOSED SOLUTIONS FOR THIS GROUP. THE PP SHOULD ALSO DISCUSS THE FACTORS THAT WILL ENCOURAGE THE TARGET GROUP TO CONTINUE LIVING IN THE HOUSING CONSTRUCTED THROUGH THE PROJECT (E.G., ACCESSIBILITY TO TRANSPORTATION, SHOPPING, AND GOVERNMENT SERVICES; INVA'S HOUSING MANAGEMENT SERVICES).

--C. LEASE-PURCHASE OPTION ARRANGEMENT. THE DAEC WAS CONCERNED THAT THE EQUITY INTEREST OF LOW INCOME FAMILIES BE PROTECTED UNDER THE PROPOSED LEASE-PURCHASE ARRANGEMENT IN THE EVENT OF THEIR FAILURE TO MEET SUBLOAN OBLIGATIONS.

--D. CONSTRUCTION ARRANGEMENTS. THE PP SHOULD ASSESS THE EFFECT OF THE PROPOSED PROJECT ON HONDURAS' CONSTRUCTION INDUSTRY CAPACITY, AND ANALYZE THE ADEQUACY OF THE BUILDING MATERIALS SUPPLY SYSTEM.

4. ANALYTICAL BACKGROUND. SUBSEQUENT TO THE DAEC REVIEW, ADDITIONAL INFORMATION WAS RECEIVED IN A/D/U WHICH SHOULD BE USEFUL IN CARRYING OUT THE INVA INSTITUTIONAL ANALYSIS AND FURTHER ANALYZING TARGET GROUP NEEDS AND CHARACTERISTICS. COPIES OF THESE DOCUMENTS--PADCO'S RECENT REPORT ON THE INFORMAL HOUSING SECTOR AND UNDP CONSULTANT MORGILLO'S REPORT ON INVA'S ADMINISTRATION--ARE BEING POUCHED TO ROCAP/TEGUCIGALPA. THE DAEC UNDERSTANDS THAT THE 1974 SHELTER SECTOR ASSESSMENT IS BEING UPDATED AS PART OF THE PROJECT DEVELOPMENT PROCESS. PLEASE ADVISE WHEN THAT ASSESSMENT WILL BE SUBMITTED FOR

ANALYTICAL REVIEW. THANKS

ANNEX I

DRAFT AUTHORIZATIONS

Exhibit I - Draft HG Authorization

Exhibit II - Draft Grant Authorization

ANNEX E
Exhibit 1

GUARANTY AUTHORIZATION

Provided from: Housing Guaranty Authority

Borrower: The Housing Institute of Honduras (INVA)

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 of guaranties pursuant to Section 222 of the FAA of not to exceed ten million five hundred thousand dollars ($10,500,000) in face amount, assuring against losses of not to exceed one hundred percentum (100%) of loan investment and interest with respect to loans by eligible U.S. investors acceptable to A.I.D. made to finance housing projects in Honduras.

This guaranty shall be subject to the following terms and conditions:

1. Term of Guaranty: The loan shall extend for a period of up to thirty years (30) from the date of disbursement of the first installment of the loan, including a grace period on the repayment of principal not to exceed ten (10) years. The guaranty of the loan shall extend for a period beginning with the first disbursement of the loan and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loan.

2. Interest Rate: The rate of interest payable to the Investor pursuant to the loan shall not exceed the allowable rate of interest prescribed pursuant to Section 223 (f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans.

3. Government of Honduras Guaranty: The Government of Honduras shall provide for a full faith and credit guaranty to A.I.D. in United States dollars assuring agains any and all losses to A.I.D. by virtue of A.I.D.'s guaranty to the Investor or from non-payment of the guaranty fee.

4. Fee: The fee of the United States shall be payable in dollars and shall be one-half of one percentum (½%) per annum of the outstanding guarantied amount of the loan plus the fixed amount of $105,000 to be paid as A.I.D. may determine upon disbursement of the loan.

5. Other terms and conditions: The guaranty shall be subject to the following terms and conditions:

a. Prior to the signature of the loan agreement, INVA shall submit to AID in form and substance satisfactory to AID a revision to its regulations concerning the division of responsibilities between INVA's Board of Directors and management.

b. Prior to the first disbursement of HG funds, INVA shall submit to AID in form and substance satisfactory to AID a revision of the standards and procedures of INVA's Savings and Loan Department, to establish a home improvement loan program accessible to intended project beneficiaries.

c. Prior to the last disbursement of HG funds, INVA shall submit to AID in form and substance satisfactory to AID:

i) Evidence that INVA has a program for an expanded delivery of minimum-cost shelter solutions in secondary cities.
ii) Evidence that INVA has conducted, with AID assistance, a study of the alternate domestic and international sources of long-term capital available to it.

d. Such other terms and conditions as A.I.D. may deem necessary.

_____
Assistant Administrator
Latin America and Caribbean Bureau

_____
Date

ANNEX E

Exhibit II

DRAFT PROJECT AUTHORIZATION FOR USAID/H GRANT COMPONENT

Country : Honduras

Project : Shelter for the Urban Poor

Project No.: 522-0151

Pursuant to Part I, Chapter 1, Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize a grant to the Instituto de la Vivienda (INVA), a semi-autonomous agency of the Government of Honduras, of not to exceed one hundred and two thousand United States Dollars ($102,000) to help in financing certain foreign exchange and local currency costs of goods and services required for the project as described in the following paragraph.

The project consists of providing participant training to INVA officials in support of the institutional development objectives of the HG Low-Cost Housing project to be implemented by INVA. Training will be provided in the area of general management, portfolio management, capital resources management, social promotion and housing production. The entire amount of AID financing herein authorized for the project will be obligated when the Project Agreement is executed.

I hereby authorize the initiation of negotiation and execution of the Project Agreement by the offices to whom authority has been delegated in accordance with AID regulations and Delegations of Authority subject to the following major conditions, together with such other terms and conditions as AID may deem appropriate. Goods and services financed by AID under the project shall have their source, origin and nationality in member countries of the Central American Common Market or in the United States except as AID may otherwise agree in writing. No ocean shipping will be financed under the Grant.

F. TECHNICAL ANNEX

EXHIBIT

F/1 Illustrated Map - Tegucigalpa

F/2 Illustrated Map - San Pedro Sula

F/3 Zoning Map - Tegucigalpa

F/4 Zoning Map - San Pedro Sula

F/5 Preliminary Site Plan - Hato de Enmedio

F/6 Illustrative Unit Plans

Level II
Level IV
Level VI

F/7 Unit Cost Estimate - Level II

F/8 Summary Project Cost Breakdown

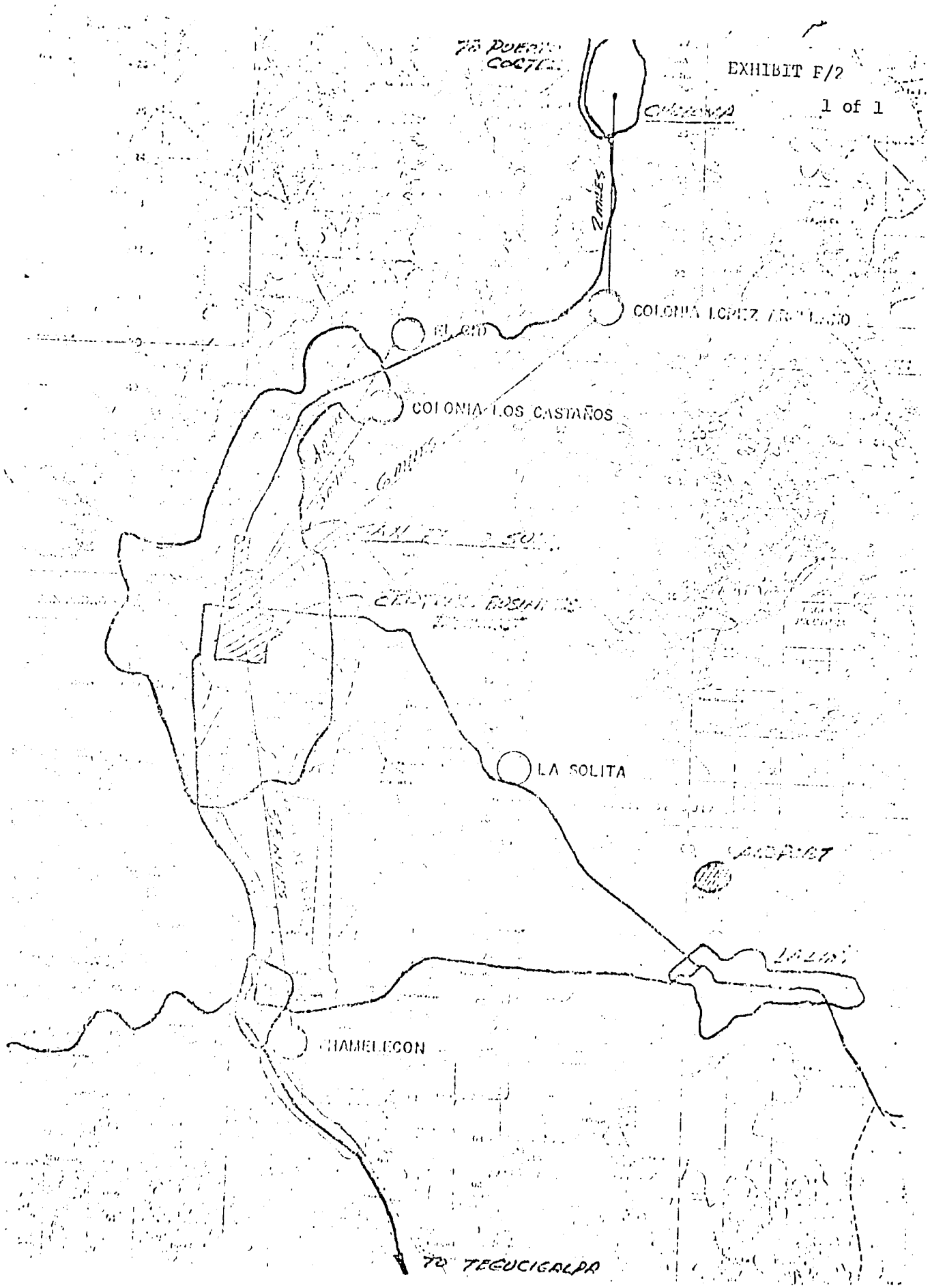
F/9 Cost Breakdown by Level of Solution

F/10 Proposed Distribution of Units

F/11 Illustrative Project Implementation Schedule

DEPARTAMENTO DE FRANCISCO MORAZAN 1:50.000
EXHIBIT F/1
1 OF 1
TEGUCIGALPA

EXHIBIT F/2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COLONIA LOPEZ
EL RIO
COLONIA LOS CASTAÑOS
LA SOLITA
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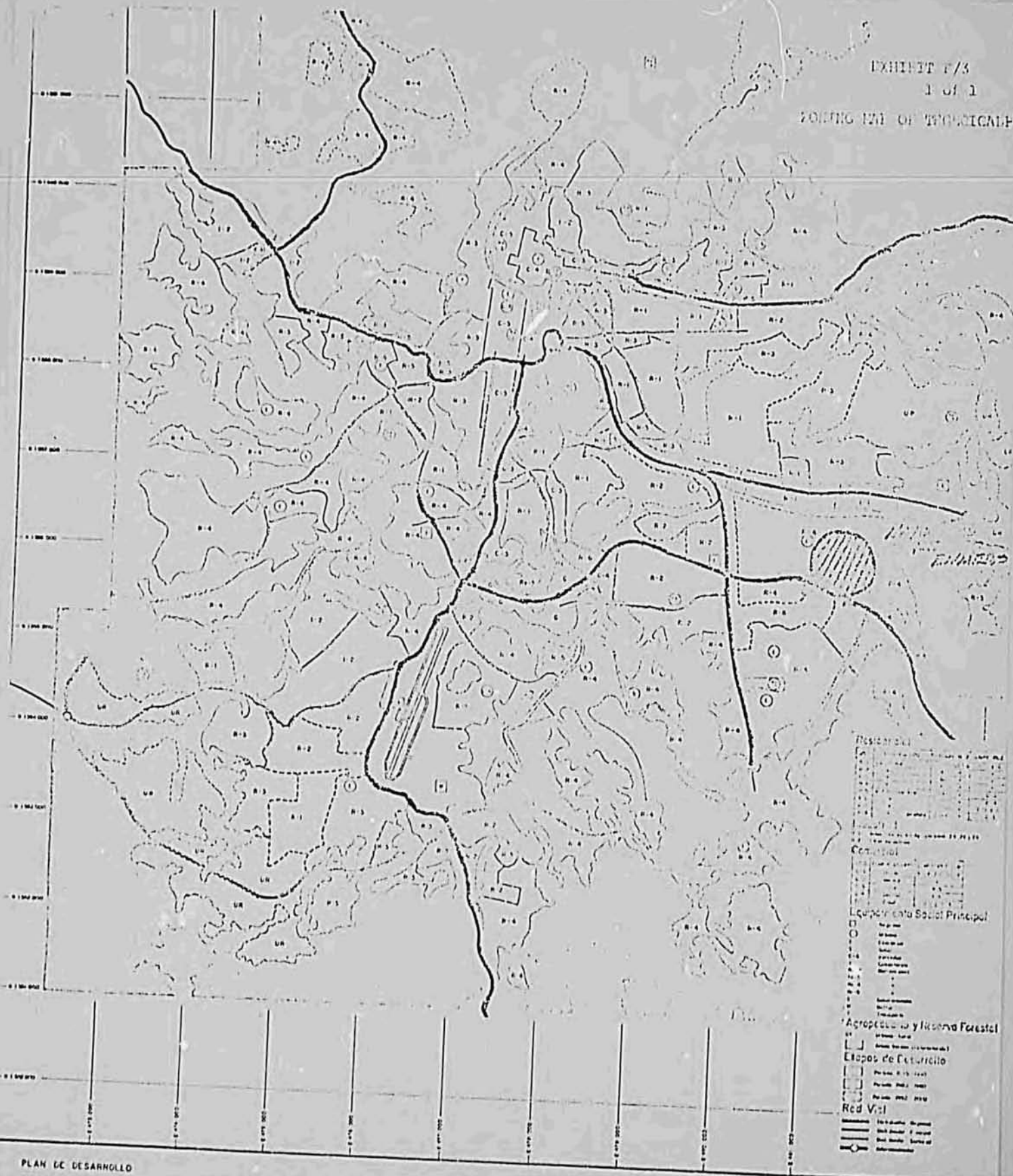
TO TEGUCIGALPA

EXHIBIT F/3
1 of 1
ZONING MAP OF TEGUCIGALPA



PLAN DE DESARROLLO
METROPOLITANO DEL
DISTRITO CENTRAL

METROPLAN
TEGUCIGALPA, D.C.
HONDURAS, C.A.

DIRECCION GENERAL DE URBANISMO
CONCEJO DEL DISTRITO CENTRAL

ESQUEMA DIRECTOR DE ORDENAMIENTO METROPOLITANO 1975 _ 2000

Area Urbana

Zonificación General

EXISTING MAJOR ROADS

ESCALA:

FECHA: Marzo, 1975

REFERENCIAS:

FUENTE:

ANEXO Nº2 ZONIFICACION URBANA

PLAN DE DESARROLLO URBANO DE SAN PEDRO SULA

HONDISERVICE - Ingeniería de Proyectos Ltda.
CINCA - Consultores en Ingeniería S.A. de C.V.

EXHIBIT F/1

1 of 1

PRELIMINARY SITE PLAN
URBANIZACION "HATO DE ENMEDIO"
PLANO DE LOCALIZACION
MUESTRAS DE SUELO

NUMERO	PROFUNDIDAD	LOCALIZACION
1	0 - 100	Entrada Avda. Central
2	0 - 80	Calle Avda. Central
3	0 - 100	Calle Avda. Central
4	0 - 100	Calle Avda. Central
5	0 - 100	Calle Avda. Central
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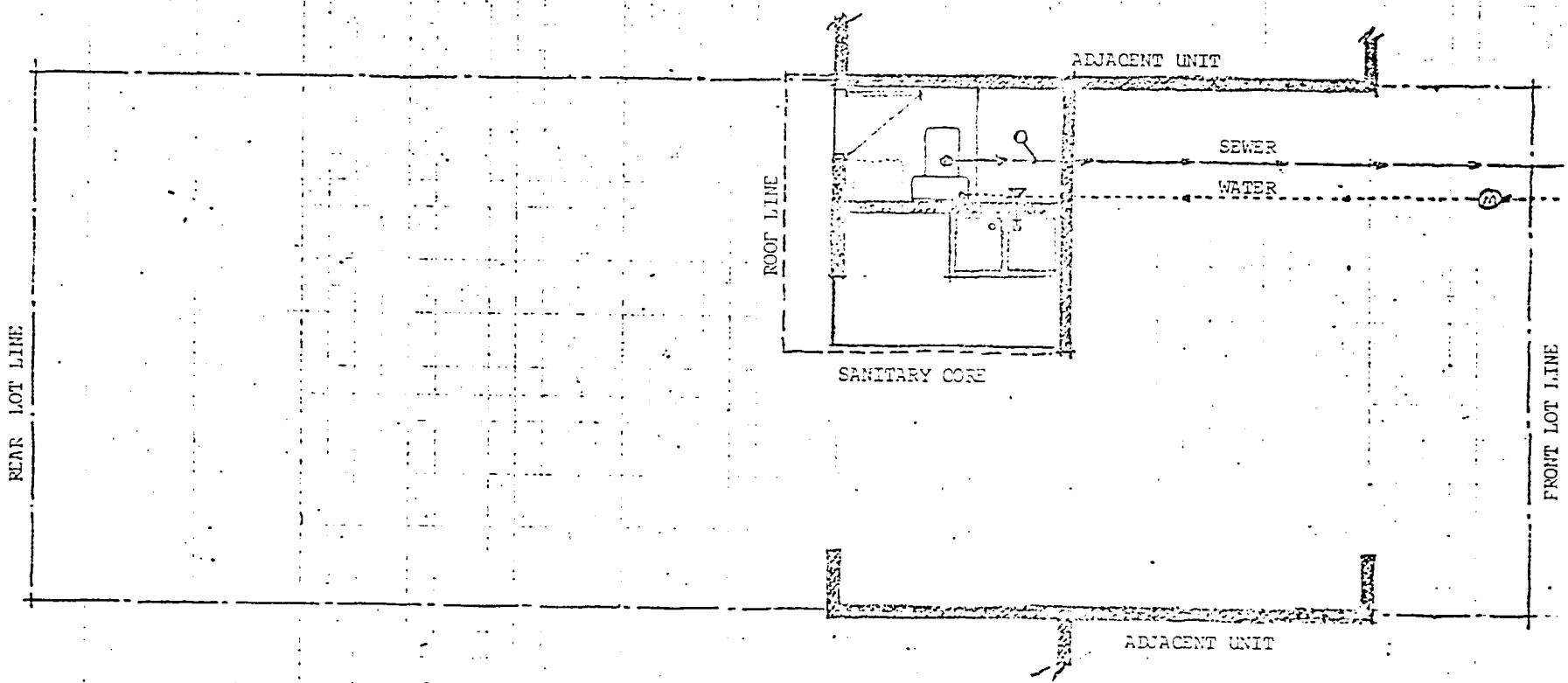
NOTA:
V = MUESTRA EN CALLES VEHICULARES
P = MUESTRA EN PLANTILLAS

ILLUSTRATIVE TYPICAL UNIT



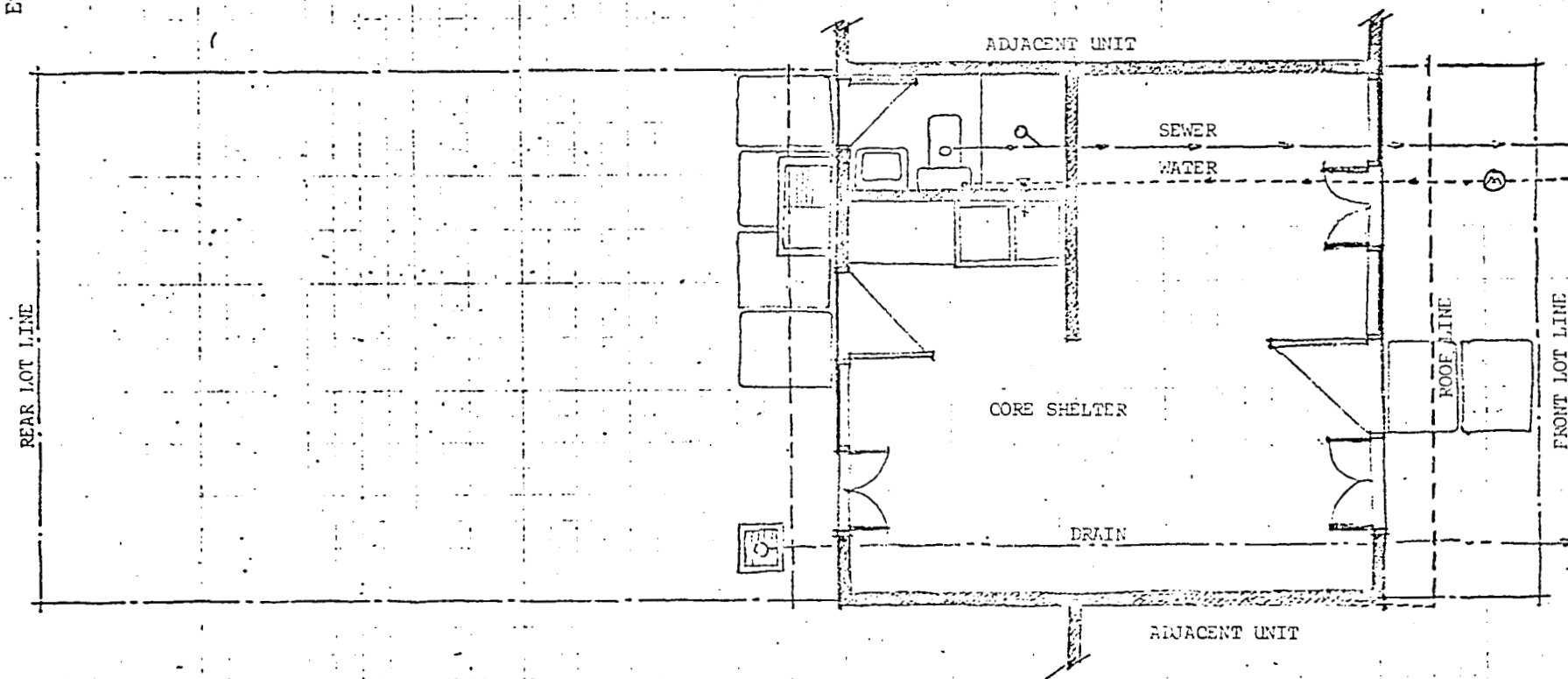
LEVEL II - URBANIZED LOT AND SANITARY CORE

LOT SIZE - 70.2
CORE - 5.10 M2

Exhibit F/6

2 of 3

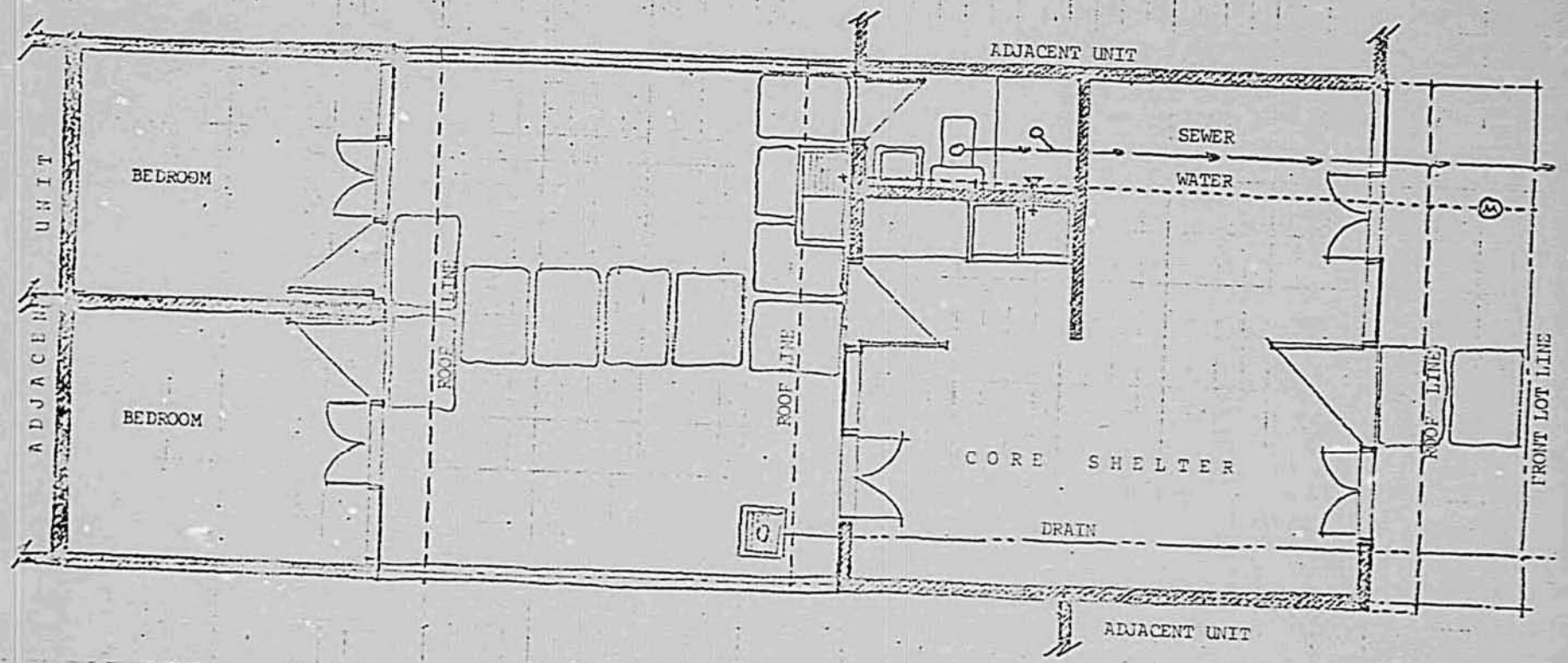
ILLUSTRATIVE TYPICAL UNIT



LEVEL IV - URBANIZED LOT AND CORE SHELTER

Lot - 70 M2
Core - 25M2

ILLUSTRATIVE TYPICAL UNIT



LEVEL VI - URBANIZED LOT AND TWO ROOM SHELTER

Lot - 70M2
House - 40M2

EXHIBIT F/7

COST ESTIMATE-SANITARY CORE

(Contract Costs)

	ITEM	Unit	Quantity	Unit Cost Lps.	Total Cost
1	Preliminaries				15.00
1-1	Layout and leveling	Global	1	15.00	15.00
2	Excavation & Backfilling				50.10
2-1	Foundations Excav.	M3	2.50	6.50	16.25
2-2	Sewer-Excav. & Fill	M3	2.00	9.00	18.00
2-3	Water-Excav. & Fill	M3	1.00	9.00	9.00
2-4	Compacted select fill	M3	1.10	11.70	12.85
3	Foundations				55.25
3-1	Reinf. concrete footings	LM	8.50	6.50	55.25
4	Walls				289.50
4-1	Foundation (12" brick)	M2	1.80	22.50	40.50
4-2	Walls (6" brick)	M2	22	11.50	253.00
5	Roof				56.30
5-1	CGI over wood frame	M2	6.20	9.40	58.30
6	Floor				52.00
6-1	Concrete slab	M2	5.00	10.40	52.00
7	Doors				
7-1	Bathroom door/frame	ea.	1	35.00	35.00
8	Water & Sewer				100.20
8-1	PVC, GI & fittings	Outlet	3	15.00	45.00
8-2	4 ø concrete pipe	ML	6.00	5.20	31.20
8-3	Clean out box	ea.	1	30.00	30.00
9	Electric				49.00
9-1	Wiring & fixtures	Outlet	2	12.00	24.00
9-2	Meter, panel & switch	Global	1	25.00	25.00
10	Sanitary Fixtures				125.00
10-1	Shower & finish	ea.	1	20.00	20.00
10-2	Toilet	ea.	1	70.00	70.00
10-3	Concrete sink	ea.	1	35.00	35.00
	Total Contract Cost - Lempiras				791.35
	Total Contract Cost - US Dollars				$ 395.68
		Rounded use			$400.00

SUMMARY PROJECT COST BREAKDOWN

(Thousands of U.S. dollars)

COSTS COMPONENTS	LEVEL I	LEVEL II	LEVEL III	LEVEL IV	LEVEL V	LEVEL VI	TOTALS
Housing Projects							
- Land	-	216	395	218	189	274	1,292
- Urbanization	-	628	1,145	659	569	819	3,820
- Structures	-	603	1,099	1,316	1,137	2,723	6,878
- Other costs	-	91	165	137	118	238	749
- INVA-Indirect	-	292	495	411	355	715	2,248
Sub-Total Projects:	-	1,810	3,299	2,741	2,368	4,769	14,987
- Loans in Projects	-	-	678	-	292	-	970
- Loans outside	530	-	-	-	-	-	530
TOTALS (000$)	-- $530	$1,810	$3,977	$2,741	$2,660	$4,769	$16,487

COST BREAKDOWN

BY LEVEL OF SOLUTION

(September 1978 Base prices & Inflation)

LEVEL	I T E M	No. of Solutions	Cost per Solution	Total Cost per Level	Total Cost With Inflation
I	Home Improv. Loans				
	Loans (secondary cities)	100	$ 500	$ 50,000	
	Loans (primary cities)	960	500	480,000	
	TOTAL	1,060		530,000	
					$ 530,000
II	Urbanized Lot & Sanitary Core (Secondary Cities)				
	Land	185	$ 100	$ 18,500	
	Urbanization	185	200	37,000	
	Structures	185	900	166,500	
	Other Costs	185	75	13,875	
	INVA Indirect	185	225	41,625	
	Sub-Total	185	$ 1,500	$ 277,500	
	Inflation			40,000	
	TOTAL (Secondary Cities)				$ 317,500
II	Urbanized Lot & Sanitary Core (Primary Cities)				
	Land	745	$ 200	$ 14,900	
	Urbanization	745	600	447,000	
	Structures	745	400	298,000	
	Other Costs	745	75	55,875	
	INVA Indirect	745	225	167,625	
	Sub-Total	745	$ 1,500	$1,117,500	
	Inflation			375,000	
	TOTAL (Primary Cities)				$ 1,492,500
	TOTAL LEVEL II (Primary and Secondary Cities)				$ 1,810,000
III	Urbanized Lot & Sanitary Core & Loan (Secondary Cities)				
	Land	315	$ 100	$ 31,500	
	Urbanization	315	200	63,000	
	Structures	315	900	283,500	
	Other Costs	315	75	23,625	
	INVA Indirect	315	225	70,875	
	Sub-Total	315	$ 1,500	$ 472,500	
	Inflation			182,600	
	Loan	315	400	126,000	
	TOTAL (Secondary Cities)				$ 781,100
III	Urbanized Lot & Sanitary Core & Loan (Primary Cities)				
	Land	1,380	$ 200	$ 276,000	
	Urbanization	1,380	600	828,000	
	Structures	1,380	400	552,000	
	Other Costs	1,380	75	103,500	
	INVA Indirect	1,380	225	310,500	
	Sub-Total	1,380	$ 1,500	$2,070,000	
	Inflation			573,900	
	Loan	1,380	400	552,000	
	TOTAL (Primary Cities)				$ 3,195,900
	TOTAL LEVEL III (Primary and Secondary Cities)				$ 3,977,000

COST BREAKDOWN

BY LEVEL OF SOLUTION

(September 1978 Base prices & inflation)

LEVEL	ITEM	No. of Solutions	Cost per Solution	Total Cost per Level	Total cost with Inflation
IV	Urbanized Lot & Core Shelter				
	Land	845	$ 200	$ 169,000	
	Urbanization	845	600	507,000	
	Structures	845	1,200	1,014,000	
	Other Costs	845	125	105,625	
	INVA Indirect	845	375	316,875	
	Sub-Total	845	$2,500	$2,112,500	
	Inflation			628,500	
	TOTAL LEVEL IV				$ 2,741,000
V	Urbanized Lot & Core Shelter & Loan				
	Land	730	$ 200	$ 146,000	
	Urbanization	730	600	438,000	
	Structures	730	1,200	876,000	
	Other Costs	730	125	91,250	
	INVA Indirect	730	375	273,750	
	Sub-Total	730	$2,500	$ 1,825,000	
	Inflation			543,000	
	Loans	730	400	292,000	
	TOTAL LEVEL V				$ 2,660,000
VI	Urbanized Lot & 2 Room Shelter				
	Land	1,050	$ 200	$ 210,000	
	Urbanization	1,050	600	630,000	
	Structures	1,050	2,000	2,100,000	
	Other Costs	1,050	175	183,750	
	INVA Indirect	1,050	525	551,250	
	Sub-Total	1,050	$3,500	$3,675,000	
	Inflation			1,094,000	
	TOTAL LEVEL VI				$ 4,769,000
	T O T A L				$16,487,000
	TOTAL PROJECT SUMMARY				
	Land	5,250	$ 190	$ 947,500	
	Urbanization	5,250	560	2,970,000	
	Structures	5,250	1,010	5,302,500	
	Other Costs	5,250	110	577,500	
	INVA Indirect	5,250	330	1,732,500	
	Sub-Total	5,250	$ 2,200	$ 11,550,000	
	Inflation			3,437,000	
	Sub-Total Projects				$14,987,000
	Loans in Projects	2,425	400	970,000	
	Loans Outside	1,060	500	530,000	
	Sub-Total Loans				$ 1,500,000
	T O T A L C O S T S				$16,487,000

COST BREAKDOWN

BY LEVEL OF SOLUTION

(September 1978 base prices & inflation)

LEVEL	ITEM	No. of Solutions	Cost per Solution	Total Cost per Level	Total cost with Inflation
IV	Urbanized Lot & Core Shelter				
	Land	845	$ 200	$ 169,000	
	Urbanization	845	600	507,000	
	Structures	845	1,200	1,014,000	
	Other Costs	845	125	105,625	
	INVA Indirect	845	375	316,875	
	Sub-Total	845	$2,500	$2,112,500	
	Inflation			628,500	
	TOTAL LEVEL IV				$ 2,741,000
V	Urbanized Lot & Core Shelter & Loan				
	Land	730	$ 200	$ 146,000	
	Urbanization	730	600	438,000	
	Structures	730	1,200	876,000	
	Other Costs	730	125	91,250	
	INVA Indirect	730	375	273,750	
	Sub-Total	730	$2,500	$ 1,825,000	
	Inflation			543,000	
	Loans	730	400	292,000	
	TOTAL LEVEL V				$ 2,660,000
VI	Urbanized Lot & 2 Room Shelter				
	Land	1,050	$ 200	$ 210,000	
	Urbanization	1,050	600	630,000	
	Structures	1,050	2,000	2,100,000	
	Other Costs	1,050	175	183,750	
	INVA Indirect	1,050	525	551,250	
	Sub-Total	1,050	$3,500	$3,675,000	
	Inflation			1,094,000	
	TOTAL LEVEL VI				$ 4,769,000
	T O T A L				$16,487,000
	TOTAL PROJECT SUMMARY				
	Land	5,250	$ 190	$ 947,500	
	Urbanization	5,250	560	2,970,000	
	Structures	5,250	1,010	5,302,500	
	Other Costs	5,250	110	577,500	
	INVA Indirect	5,250	330	1,732,500	
	Sub-Total	5,250	$ 2,200	$ 11,550,000	
	Inflation			3,437,000	
	Sub-Total Projects				$14,987,000
	Loans in Projects	2,425	400	970,000	
	Loans Outside	1,060	500	530,000	
	Sub-Total Loans				$ 1,500,000
	T O T A L C O S T S				$16,487,000

PROPOSED DISTRIBUTION OF SOLUTIONS

	LEVEL I	LEVEL II	LEVEL III	LEVEL IV	LEVEL V	LEVEL VI	TOTALS
TEGUCI-GALPA	490	385	690	415	380	530	2,890
% of total project	7.8%	6.1%	10.9%	6.6%	6.0%	8.4%	45.8%
(% of solutions in Tegucialpa)	(17.0%)	(13.3%)	(23.9%)	(14.4%)	(13.1%)	(18.3%)	(100.0%)
SAN PEDRO SULA	470	360	690	430	350	520	2,820
% of total project	7.4%	5.7%	10.9%	6.8%	5.6%	8.2%	44.7%
(% of solutions in San Pedro Sula)	(16.7%)	(12.8%)	(24.5%)	(15.2%)	(12.4%)	(18.4%)	(100.0%)
SECONDARY CITIES	100	185	315	--	--	--	600
% of total project	1.6%	2.9%	5.0%				9.5%
(% of solutions in secondary cities)	(16.7%)	(30.8%)	(52.5%)				(100.0%)
TOTALS	1,060	930	1,695	845	730	1,050	6,310
(% of total)	16.8%	14.7%	26.9%	13.4%	11.6%	16.6%	100.0%

ILLUSTRATIVE PROJECT IMPLEMENTATION SCHEDULE

Project Units

	Start	Project / Stage	1978				1979				1980				1981				1982			
		Quarter	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
2		Hato de Enmedio																				
3		Design																				
4	12/78	Bidding																				
5	3/79	Offsite works																				
6	3/79	Urbanization Works																				
7	6/79	Unit Construction																				
8	9/79	Unit Delivery																				
9		San Pedro Sula #1																				
10	9/78	Design																				
11	6/79	Bidding																				
12	9/79	Offsite Works																				
13	9/79	Urbanization Works																				
14	12/79	Unit Construction																				
15	4/80	Unit Delivery																				
16		San Pedro Sula #2																				
17	12/78	Design																				
18	12/79	Bidding																				
19	3/80	Offsite Works																				
20	3/80	Urbanization Works																				
21	6/80	Unit Construction																				
22	9/80	Unit Delivery																				
23		Secondary Cities																				
24	7/79	Analysis																				
25	1/80	Design																				
26	12/80	Bidding																				
27	3/81	Urbanization																				
28	5/81	Unit Construction																				
29	7/81	Unit Delivery																				
30																						
31																						

TECHNICAL ASSISTANCE

ANNEX

Pages

Exhibit I:

Technical assistance related to the improvement of INVA's overall management capability I-1/3

Exhibit II:

Technical assistance related to INVA's Production and delivery capability. II-1/3

Exhibit III:

Technical Assistance related to INVA's financial soundness. III-1/3

Exhibit I:

Technical assistance related to the improvement of INVA's overall management capability.

PROBLEM: Poor track record in defining and pursuing institutional objectives.

SOLUTION: Develop the Board of Director's role in defining INVA's policies and improve management capability and methods.

METHOD:

1. Redefine Board-management relations to enhance the policy function of former and the operational function of the latter.
2. Develop management tools related both to policy control, such as monitoring and evaluation, and to internal control of operations and expenses such as auditing, budgeting and periodic reporting.
3. Train management at top and middle levels.
4. Improve pre-project activities specifically by developing a pipeline of projects in suitable sites with particular concern for developing a pipeline of such projects in secondary cities.

PROPOSED ASSISTANCE:

1. Short term assistance in defining the proper role for the Board of Directors and management and in instituting the reforms necessary for implementing the required changes. (20 pd/3 tr/60 days ct/IQC).

(Note: This assistance will be combined with AID's monitoring

efforts and will be provided at the time of the first three audits or evaluations of the project. In carrying out the audits and evaluations an attempt will be made to perform these jointly with INVA's staff, thus providing on the job training, leading to the development of an internal policy and management review capability.)

3. Participant training in management techniques and general administration in areas such as personnel management, internal auditing, with candidates taken from among department, division and office chiefs and assistant management. (720 pd/6 tr/3 yrs. et/USAID/H participant training). (1)

4. Short term assistance in developing the advanced project programming functions, in determining the proper unit to assume these functions, in designing site selection and acquisition procedures, and procedures to coordinate the provision of services for these sites (10 pd/1 tr/10 det/IQC) (30 pd/1 tr/ 30 det/OPG).

5. Short term assistance in developing procedures for the delivery and servicing of projects in secondary cities, including an assessment of the constraints affecting such an effort as well as assistance in the design and implementation of appropriate procedures to carry out such projects. (40 pd/3 tr/10 det/IQC). Short term assistance in setting up a workshop to evaluate the pilot sites and sites services project. (10 pd/1 tr/10 det/OPG).

(1) Heads of Projects, Social Integration Divisions, heads of Personnel, Administration and Internal Auditing Office and Assistant manager for six months each academic trainig in US or Central America.

Exhibit I - TA Related to INVA's overall management capability/Delivery Schedule

	Sep-Dec/78	Jan-Mar/79	Apr-Jun/79	Jul-Sep/79	Oct-Dec/79	Jan-Mar/80	Apr-Jun/80	Jul-Sep/80	Oct-Dec/80	Jan-Mar/81	Apr-Jun/81	Jul-Sep/81
Benchmarks:												
1. HG project development	Auth/TA		Loan Agreement		First drawdown							
2. Project monitoring				Man/Fin Audit		Man/Fin Audit				Man/Fin Audit		
3. Project evaluation	Update Eval.					Regular Eval.				Regular Eval.		
Technical Assistance												
1. Board/management functions study	Des/Imp.											
2. Management tools				Des/Imp		Follow-up				Follow-up		
3. Management training (a)		Training (1)	Training (cont)	Training (1)	Training (cont)	Training (1)	Training (cont)	Training (1)	Training (cont)	Training (1)	Training (cont)	Training (1)

(a) Asst. manager; Head of Project Div. Social Int. Div., Personnel Office, Admn. Office; Internal Auditor or head of San Pedro regional office.

Exhibit II:

Technical assistance related to INVA's Production and delivery capability.

PROBLEM: Erratic production at cost unaffordable by the urban poor, lack of effective capacity in secondary urban centers.

SOLUTION: Sustained increase in production with a reduction in unit costs and with a progressive involvement in secondary urban centers.

METHOD:

1. Improve project execution by developing acceptable minimum cost unit and site designs, by implementing an effective cost control during production and by improving construction management.

2. Improve post project activities particularly with regard to the promotion of the proposed shelter solutions among the urban poor and to the orientation and organization of beneficiaries with regard to evolutionary shelter improvement.

3. Develop a complementary home improvement loan program.

PROPOSED ASSISTANCE:

1. Short term assistance in designing and implementing a construction cost accounting and project management system as well as a construction project financial projection and control procedure (110 pd/± 1 yr. et/REDECO local contract) (100 pd (8 pm)/ 8 tr/2 yrs. et/USAID/H participant training). (1)

(1) 5 engineers from Projects Division for one month each.
3 accountants from Admin. Div. for one month each on the job training in Central America.

2. Long term assistance by resident technician (engineer/ architect with low-cost housing background and management experience) in designing and implementing HG-financed projects and in overseeing other construction - related TA. (480 pd (2 py)/ RHUDO local contract.)

3. Short term assistance in developing the functions of the Social Integration Division (with appropriate recommendations on organization and staffing), in designing and implementing procedures for promoting the proposed shelter solutions among the target grup, selecting and orienting the buyers, and for encouraging and supporting post-delivery community and shelter improvement efforts. (96 pd/5 tr/16 mos. et/IQC). (2)

4. Long term assistance by a resident technician in implementing beneficiary - related TA. (240 pd/2 yrs. et/OPG).

5. Short term assistance in designing and implementing procedures to convert INVA's small-loan program into a home improvement loan program accesible to residents of INVA's minimum cost shelter projects as well as of existing low-income communities. (60 pd/1 tr/3 mos, et/(PCH)).

(2) 8 social workers from the Social Integration Division for one month each on the job training in Central America.

Exhibit II - TA Related to INVA's Production and Delivery Capability/Delivery Schedule

	Oct-Dec/78	Jan-Mar/79	Apr-Jun/79	Jul-Sep/79	Oct-Dec/79	Jan-Mar/80	Apr-Jun/80	Jul-Sep/80	Oct-Dec/80	Jan-Mar/81	Apr-Jun/81	Jul-Sep/81
Project Tegucigalpa (#) of loans	Design	Bidding	Start Cons.	150 (150)	150 (300)	150 (450)	150 (600)	200 (800)	200 (1,000)	200 (1,200)	200 (1,400)	200 (1,600)
Project San Pedro Sula (#) of loans	Design		Bidding	Start Cons.		100 (100)	150 (250)	150 (400)	150 (550)	200 (750)	250 (1,000)	250 (1,250)
Projects Secondary Cities (#) of loans				Start Const.		Design				Bidding	Start Const.	100
Home Improvement Loans (#)		60 (60)	60 (120)	150 (270)	150 (420)	210 (630)	210 (840)	210 (1,050)	270 (1,320)	270 (1,590)	270 (1,860)	270 (2,130)
HG drawdowns ($'s)					1,048,000		1,629,000		1,816,000		2,448,000	
Pilot S & I project	Start Cons.	100 (100)	150 (250)									
Project programming procedures			Des/Imp									
Site selection procedures (OPG)					Design/Imp							
Secondary cities program				Assessment	Design/Imp							
Design workshop (OPG)					Workshop							(Second follow-up visit to assess experience and design followed, begin 2nd. or 3rd. quarter CY81)
Gst.Acct./Const.mg.proc.	Des/Imp	Follow-up	Follow-up	Follow-up								
Related Training (a)	Trng. (3)	Trng. (1)	Trng. (1)	Trng. (1)					Trng. (2)			
Funct.Soc. Int.Div.	Design											
Beneficiary selection proc.	Des/Imp.	Follow-up	Follow-up	Follow-up								
Social outreach procedures	Design	Implement		Follow-up	Follow-up							
Related Training (b)	Trng. (2)	Trng. (2)	Trng. (1)	Trng. (1)					Trng. (2)			
Home Improvement Loan Prog.	Des/Imp											
Resident Technician (HG)		Start						End				
Resident Technician (OPG)	Ongoing				End							
(a) 3 Acct./5 Eng.												
(b) Social workers (8)												
Monitoring	(Update)X				X		X			X		

Exhibit III:

Technical Assistance related to INVA's financial soundness.

PROBLEM: Persistent net operating losses, lack of internal capitalization and insufficient external sources of capital.

SOLUTION: Institute an operating method based on full recovery of costs and on reinvestment of recuperations, among other reasons as a mean of expanding the potential for tapping external sources of capital.

METHOD:

1. Improve the accounting system to allow for allocation of costs to income-producing operations.
2. Improve control of delinquencies and collections.
3. Improve the management of the financial resources in the mortgage and loan portfolios.
4. Initiate the development of external sources of capital.

PROPOSED ASSISTANCE:

1. Short term assistance in developing and implementing an effective internal cost accounting system (to include the construction cost accounting system described elsewhere) (10 pd/1 tr/10 det/NSLL) (70 pd/5 tr/1 yr. et/IQC).
2. Short term assistance in the mechanization of the accounting system and of the administration of the portfolio (20 pd/1 tr/ 30 det/IQC).

3. Short term assistance in designing and implementing effective collection and delinquency control procedures (40 pd/2 tr/3 mos. et/NSLL) (120 pd/2 tr/2 yrs. et/USAID/H participant training). (1)

4. Training in the management of financial resources as it applies to housing finance (240 pd/2 tr/2 yrs. et/USAID/H participant training). (2)

5. Short term assistance in carrying out a study on the alternative external sources (domestic and foreign) of capital available to finance INVA's programs (30 pd/3 tr/4 mos. et/IQC).

(1) Heads of Treasury and Savings and Loan Departments for three months each on the job training in Latin America.

(2) Head of Finance division and one financial analyst for six months each academic training in Central America.

Exhibit III - TA Related to INVA's Financial Soundness/Delivery Schedule

	Sep-Dec/78	Jan-Mar/79	Apr-Jun/79	Jul-Sep/79	Oct-Dec/79	Jan-Mar/80	Apr-Jun/80	Jul-Sep/80	Oct-Dec/80	Jan-Mar/81	Apr-Jun/81	Jul-Sep/81
Benchmarks:												
1. HG drawdowns					1,240,000		1,629,000		1,816,000		2,445,000	
2. Portfolio (#of loans)(a)	7,500				9,700				11,000			13,250
3. Portfolio ($ value) (a)(b)												
Technical Assistance:												
1. Internal cost accounting	Assessment /Des.	Implemen-tation	Follow-up		Follow-up							
Mech. of accounting	Des/Imp											
2. Collections and control of delinquencies proc.	Des/Imp		(")		(")							
Related Training (c)		Trng. (1)				Trng. (1)						
3. Financial management training				Trng. (1)	Trng. (1)			Trng.(1)	Trng.(cont.)			
4. Alternate sources of capital - study										Study	Study(cont)	
(a) Includes entire current and HG-financed portfolio												
(b) End of year value												
(c) Heads Treasury and SIL Section												
(d) Head Finance Div./financial officer												
Project monitoring (AID)(up	Update) X			X			X				X	

FINANCIAL ANNEX

P.1	Condensed Comparative Balance Sheets
P.2	Condensed Comparative Income Statements
P.3	Statements of Changes in Financial Position
P.4	Projections of Net Operating Results and Cash Flow
P.5	Construction Operations - Existing Portfolio
P.6	Projected Performance Existing Portfolio
P.7-8	Assumptions for Cash Flow Projections
P.9	Cash Flow Projection - Mortgage Loan
P.10	Cash Flow Projection - Home Improvements Loans
P.11	Construction Operations From HIG/GOH Funds
P.12	Number of Mortgage and Home Improvement Subloans per Year.

INVA

Condensed Comparative Balance Sheets
As of December 31, 1975, 1976 & 1977
(U.S. $000)

	1975	1976	1977
Assets			
Current Assets			
Cash	$ 229	$ 466	$715
Time Deposits	--	30	--
Temporary Investments	122	94	88
Notes Receivable - Current	583	925	1,085
Accounts Receivable	466	38	768
Prepaid Expenses	--	--	2
Total current assets	$1,400	$1,553	$2,658
Investments	--	$ 2	$ 2
Notes receivable - Long Term	$6,215	$6,137	7,825
Furniture & Equipment (net)	111	113	103
Other Assets	6,454	7,051	5,875
Total assets	$14,180	$14,856	$16,463
Liabilities & Capital			
Current Liabilities			
Accounts Payable	$ 454	$ 57	$ 38
Deposits	107	199	223
Restricted Funds	--	282	73
Short Term Financial Operations	146	222	275
Total current liabilities	$ 707	$ 760	$ 609
Long Term Financial Operations	2,705	2,558	2,666
Deposits	116	147	269
Reserve for Contingencies 1/	514	599	696
Other Reserves	38	--	--
Capital	10,100	10,792	12,223
Total Liabilities & Capital	$14,180	$14,856	$16,463

Notes:
1/ Represents an insurance reserve relating to mortage insurance on sub-loans.

INVA

Condensed Comparative Income Statements
For the Years Ending December 31, 1975, 1976, 1977
(U. S. $000)

	Year Ended		
	12-31-75	12-31-76	12-31-77
INCOME			
Construction	--	$ 54	$(506)
Income from foreclosed loans	$ 2	19	1
Interest Commissions and Fees	531	550	590
Rent	14	22	15
Other Income (Expense) Net	(81)	(9)	84
Prior Year Adjustments 1/	85	134	(18)
Total Income	$551	$770	$166
Expenses			
Operating Expenses	$ 750	$1,127	$1,487
Net Loss	$ 199	$ 357	$1,321

1/ These adjustments would normally be made directly to the equity section of the Balance Sheet since their inclusion in the income statement tends to distort results of current year operations.

I N V A

PROJECTIONS OF NET OPERATING RESULTS AND CASH FLOW

(US $000)

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
NET OPERATING RESULTS															
1/ Existing Portfolio	716	892	894	898	900	903	907	913	915	917	920	925	927	932	934
2/ HIG/GOH Mortgage Operation	5	---	55	392	873	1,204	1,539	1,862	2,186	2,509	2,832	3,154	3,475	3,795	4,117
2/ HIG/GOH Home Improv. Operation	7	12	22	37	73	103	133	162	190	219	250	280	310	339	368
Total	728	904	971	1,327	1,846	2,210	2,579	2,937	3,291	3,645	4,002	4,359	4,712	5,066	5,419
3/ Gross Admin. Cost	1,671	1,771	1,877	1,990	2,109	2,236	2,370	2,512	2,663	2,823	2,992	3,172	3,362	3,564	3,778
4/ Less Const.Opns. Existing Portfolio	45	99	120	111	111	111	111	111	111	111	111	111	111	111	111
4/ Less Const. Op. AID/HIG Portfolio	91	409	832	959	546	593	591	621	648	679	710	743	776	812	849
Net Admin, Cost	1,535	1,263	925	920	1,452	1,532	1,668	1,780	1,904	2,033	2,171	2,318	2,475	2,641	2,818
Total Operating Results	(807)	(359)	46	407	394	678	911	1,157	1,387	1,612	1,831	2,041	2,237	2,425	2,601
NET CASH FLOW															
Less INVA Principal Payments	341	150	151	152	153	154	155	156	157	158	159	159	102	102	102
Add: Down Payments															
5/ INVA Existing Portfolio	411	46	56	52	52	52	52	52	52	52	52	52	52	52	52
5/ AID/GOH Existing Portfolio	42	191	388	448	255	276	276	290	303	317	331	347	362	379	396
Ending Cash	(695)	(272)	339	755	548	852	1,084	1,343	1,585	1,823	2,055	2,281	2,549	2,754	2,947
6/ Beginning Cash	---	---	---	339	1,094	1,642	2,494	3,578	4,921	6,506	8,329	10,384	12,665	15,214	17,968
Net Cash Flow (Shortage)	(695)	(272)	339	1,094	1,642	2,494	3,578	4,921	6,506	8,329	10,384	12,665	15,214	17,968	20,915

1/ Represents income from point spread only; e.g. it allows for payment of IDB interest as only expense. Annex H page 6
2/ Represents net results from cash flows for HIG/GOH Mortgage and Home Improvement operations. Annex H pages 9 and 10
3/ FY 1977 Administrative Cost per audit report grossed up 6% year i.e. allows for inflation but not employment of additional personnel.
4/ Represents 15% of sales price of all new construction to be used to cover part of administrative costs. Annex H page 11.
5/ Represents 7% of sales price of all new construction. Annex H page 11.
6/ Assume no beginning cash in FY 79 and that annual cash shortages will be made up from outside sources. Also assumes that excess cash available at the end of any given year will be available for re-investment.

I N V A

CONSTRUCTION OPERATIONS - EXISTING PORTFOLIO

(US $000)

Year	Beginning Portfolio	Principal 1/ Collections	Less 2/ Delinquent Payments	Plus 2/ Delinquent Recoveries	Less Bad Debts 3/	Net 4/	New Loans	Ending Portfolio	Average Portfolio	Interest Collect. 6/	Sales Price 7/	Down Payment 8/	Per Cent for Adm. Cost 9/
1979	8,910	446	76	---	90	280	5,487 5/	14,027	11,469	780	5,5[illegible]	[illegible]	[illegible]
1980	14,027	701	105	76	55	617	617	13,972	14,000	952	663	46	99
1981	13,972	699	56	105	6	742	742	13,966	13,969	950	798	56	120
1982	13,966	698	56	56	7	691	691	13,959	13,963	949	743	52	111
1983	13,959	698	56	56	7	691	691	13,952	13,956	949	743	52	111
1984	13,952	698	56	56	7	691	691	13,945	13,949	948	743	52	111
1985	13,945	697	56	56	7	690	690	13,938	13,942	948	742	52	111
1986	13,938	697	56	56	7	690	690	13,931	13,935	948	742	52	111
1987	13,931	697	56	56	7	690	690	13,924	13,928	947	742	52	111
1988	13,924	696	56	56	7	689	689	13,917	13,921	947	741	52	111
1989	13,917	696	56	56	7	689	689	13,910	13,914	946	741	52	111
1990	13,910	696	56	56	7	689	689	13,903	13,907	946	741	52	111
1991	13,903	695	56	56	7	688	688	13,896	13,900	945	740	52	111
1992	13,896	695	56	56	7	688	688	13,889	13,893	945	740	52	111
1993	13,889	694	56	56	7	687	687	13,882	13,886	944	739	52	111

1/ Average loan term 20 years or repayment 5% per year.
2/ Delinquent payment provision of 17%, 15% and 8% for the first, second and third through 15 years. Delinquent payments will be recovered the year after they become delinquent.
3/ The first year (1979) based on 1% of beginning portfolio to cover probable losses, after 1979 1% of all prior year new loans.
4/ Principal payments less delinquencies plus recoveries less bad debts. The result being actual cash collections during any year.
5/ For 1979 it includes all projects in process at 6/30/78 and all net collections.
6/ At a weighted rate of 6.8% on average portfolio.
7/ All new loans grossed up by 7% (down payment) to get sales price, except for the $5,207 in new loans for 1979 for which sales price was already considered.
8/ At a rate of 7% of sales price except in 1979 for which $390,096 was taken on construction in process plus $21,000 on new loans from rollovers.
9/ At a rate of 15% of sales price except for $5,207 new loans made in 1979 which in the majority of cases were sold at less than cost.

I N V A

PROJECTED PERFORMANCE

EXISTING PORTFOLIO

(US $000)

YEAR	AVERAGE PORTFOLIO	INTEREST INCOME	INTEREST EXPENSE 1/	NET INCOME
1979	11,469	780	64	716
1980	14,000	952	60	892
1981	13,969	950	56	894
1982	13.963	949	51	898
1983	13,956	949	49	900
1984	13,949	948	45	903
1985	13,942	948	41	907
1986	13,935	948	35	913
1987	13,928	947	32	915
1988	13,921	947	30	917
1989	13,914	946	26	920
1990	13,907	946	21	925
1991	13,900	945	18	927
1992	13,893	945	13	932
1993	13,886	944	10	934

1/ IDB Loans per amortization schedule.

INVA

Assumptions for Cash
Flow Projections

1. HG Loan of $10 5 million will be made for 30 years at 10% including the AID Guaranty Fee of .5%. The 30 year term will include a 5 year Grace Period. Additionally, a 1% one-time fee will be charged on drawdowns of HG funds.

2. HG Funds will be drawndown as follows (used for Interest and Principal Computations).

(U.S. $000)

	Purpose		
Year	Construction	Home Imp.	Total
1979	$1,068	$ 180	$1,248
1980	3,055	390	3,445
1981	4,660	450	5,110
1982	457	240	697
	$9,240	$1,260	$10,500

3. HG Funds drawndown in (2) above will be sub-loaned as follows:

(U.S. $000)

	Type of Loan		
Year	Mortgage Loans	Home Imp. Loans	Total
1979	$ 568	$ 180	$ 748
1980	2,555	390	2,945
1981	5,160	450	5,610
1982	957	240	1,197
	$9,240	$1,260	$10,500

4. GOH contributions for sub-lending purposes will be drawndown as follows:

(U.S. $000)

	Type of Loan		
Year	Mortgage Loans	Home Imp. Loans	Total
1982	$4,760	$ 240	$5,000
After 1982	2,760/PA	$ 240/PA	3,000/PA

5. Sub-loan terms, and rates will be as follows:

   a) Mortgage Loans - 20 years, 12% interest, no grace.
   b) Home Improvement Loans - Average 8 years, 13% interest, no grace.

6. A front-end fee of 1% of total loan will be charged on all new loans.

7. HG funds, GOH funds and delinquent payments are sub-loaned the year in which they become available.

8. Cash available at the beginning of a year plus 75% of prior years sub-loan principal collections are reloaned to the extent cash requirements allow.

9. Annual interest receipts are based on the average portfolio of the respective years.

10. Annual collections of principal on all sub-loans are made the first day of the year following that in which the sub-loan was made.

11. A provision for Delinquent Payments is included in the cash flow projections as a percentage of principal collections in the following manner:

Year	Mortgage Loans	Home Improvement Loans
1	17%	15%
2	15%	12%
3 and thereafter	8%	8%

12. All delinquent payments are recovered the year following that in which they become delinquent.

13. A bad debt expense of 1% is applied on all new loans.

14. Net income each year is applied to administrative costs to the extent cash requirements allows.

I N V A

CASH FLOW PROJECTION - MORTGAGE LOAN

(US $ 000)

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
SOURCE															
Beginning Cash	---	6	27	167	340	403	263	306	339	381	421	465	507	554	599
HIGH Drawdowns	568	2,555	5,160	957	---	---	---	---	---	---	---	---	---	---	---
GOH Credit Contribution	---	---	---	4,760	2,760	2,760	2,760	2,760	2,760	2,760	2,760	2,760	2,760	2,760	2,760
Principal Collections	---	24	133	380	654	811	980	1,140	1,327	1,511	1,705	1,906	2,118	2,340	2,573
Interest Collections	34	218	670	1,304	1,798	2,128	2,454	2,767	3,080	3,390	3,699	4,006	4,311	4,613	4,913
Delinquent Recoveries	---	---	5	23	33	57	70	85	100	115	131	148	166	184	203
Front End Fee	6	25	52	59	34	37	37	38	40	42	44	46	48	50	53
Total Sources	608	2,828	6,047	7,650	5,619	6,196	6,564	7,105	7,646	8,199	8,760	9,331	9,910	10,501	11,099
USES															
Subloans HIG & GOH Contr.	562	2,535	5,158	5,717	2,760	2,760	2,760	2,760	2,760	2,760	2,760	2,760	2,760	2,760	2,760
Subloans Rollover Funds	---	---	---	230	624	914	904	1,087	1,260	1,448	1,641	1,845	2,054	2,276	2,504
HIG Principal Repayments	---	---	---	---	---	94	103	114	125	138	151	167	183	203	222
HIG Interest Payments	18	209	568	906	925	924	915	904	893	880	867	851	835	817	796
HIG Fee	11	31	47	5	---	---	---	---	---	---	---	---	---	---	---
Bad Debt Expense	6	26	52	60	34	37	37	39	41	43	44	47	49	51	53
Net Income for Admin. Cost	5	---	55	392	873	1,204	1,539	1,862	2,186	2,509	2,832	3,154	3,475	3,795	4,117
Total Uses	602	2,801	5,880	7,310	5,216	5,933	6,258	6,766	7,265	7,778	8,295	8,824	9,356	9,902	10,452
Cash End of Year	6	27	167	340	403	263	306	339	381	421	465	507	554	599	647
Average Portfolio	281	1,818	5,583	10,865	14,986	17,737	20,447	23,061	25,644	28,251	30,825	33,383	35,923	38,444	40,945

I N V A

CASH FLOW PROJECTION - HOME IMPROVEMENTS

LOANS

(US $000)

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
SOURCE															
Beginning Cash	---	2	24	50	80	102	87	106	123	144	145	146	145	146	173
HIG Drawdowns	180	390	450	240	---	---	---	---	---	---	---	---	---	---	---
GOH Credit Contributions	---	---	---	240	240	240	240	240	240	240	240	240	240	240	240
Principal Collections	---	20	63	121	189	237	293	353	419	472	513	545	572	621	662
Interest Collections	12	47	99	155	199	229	258	285	312	339	368	396	424	450	476
Delinquent Recoveries	---	---	3	9	11	16	21	25	31	37	42	45	48	50	54
Front End Fee	2	4	5	6	4	5	5	6	7	7	8	8	8	9	9
Total Sources	194	463	644	821	723	829	904	1,015	1,132	1,239	1,316	1,380	1,437	1,516	1,614
USES															
Subloans HIG-GOH Contr.	178	388	450	480	240	240	240	240	240	240	240	240	240	240	240
Subloans Rollover Funds	---	---	40	100	178	255	281	345	412	489	533	568	594	616	684
HIG Principal Repayments	---	---	---	---	---	13	14	16	17	19	21	23	25	28	31
HIG Interest Payments	3	31	72	116	126	126	125	123	122	120	118	116	114	111	108
HIG Fee	2	4	5	2	---	---	---	---	---	---	---	---	---	---	---
Bad Debt Expense	2	4	5	6	4	5	5	6	7	7	8	8	8	9	9
Net Income for Admin.Cost	7	12	22	37	73	103	133	162	190	219	250	280	310	339	368
Total Uses	192	439	594	741	621	742	798	892	988	1,094	1,170	1,235	1,291	1,343	1,440
Cash End of Year	2	24	50	80	102	87	106	123	144	145	146	145	146	173	174
Average Portfolio	89	362	758	1,195	1,529	1,759	1,984	2,191	2,395	2,606	2,825	3,043	3,259	3,459	3,655

CONSTRUCTION OPERATIONS FROM

HIG/GOH FUNDS

(US $000)

Year	HIG/GOH Funded Sub-Loans	Rollover Funded Sub-Loans	Total Sub-Loans	Sales Price Sub-Loans Gross Up At 7%	7% Down Payment	15% Mark-Up For Adm. Cost
1979	562	---	562	604	42	91
1980	2,535	---	2,535	2,726	191	409
1981	5,158	---	5,158	5,546	388	832
1982	5,717	230	5,947	6,395	448	959
1983	2,760	624	3,384	3,639	255	546
1984	2,760	914	3,674	3,950	276	593
1985	2,760	904	3,664	3,940	276	591
1986	2,760	1,087	3,847	4,137	290	621
1987	2,760	1,260	4,020	4,323	303	648
1988	2,760	1,448	4,208	4,525	317	679
1989	2,760	1,641	4,401	4,732	331	710
1990	2,760	1,845	4,605	4,952	347	743
1991	2,760	2,054	4,814	5,176	[illegible]	776
1992	2,760	2,276	5,036	5,415	[illegible]	812
1993	2,760	2,504	5,264	[illegible]	[illegible]	849

I N V A

NUMBER OF MORTGAGE AND HOME IMPROVEMENT SUBLOANS PER YEAR

Estimated Unit Cost			Subloans (US $000)				Unit Loans per Year		Cumulative Unit Loans	
			Mortgage							
Year	Mortgage	Home Improvement	HIG/GOH 1/	Existing 1/	Total	Home Improvement	Mortgage	Home Improvement	Mortgage	Home Improvement
1979	2,432	430	604	5,508	6,112	178	2,227 2/	414	2,227	414
1980	2,606	430	2,726	663	3,389	339	1,300	902	3,527	1,316
1981	2,832	430	5,546	798	6,344	490	2,240	1,140	5,767	2,456
1982	3,060	430	6,395	743	7,138	580	2,333	1,349	8,100	3,805
1983	3,366	473	3,639	743	4,382	418	1,302	884	9,402	4,689
1984	3,703	520	3,950	743	4,693	495	1,267	952	10,669	5,641
1985	4,073	572	3,940	742	4,682	521	1,150	911	11,819	6,552
1986	4,480	630	4,137	742	4,879	585	1,089	929	12,908	7,481
1987	4,928	693	4,323	742	5,065	652	1,027	941	13,935	8,422
1988	5,421	762	4,525	741	5,266	729	971	957	14,906	9,379
1989	5,963	838	4,732	741	5,473	773	918	922	15,824	10,301
1990	6,559	922	4,952	741	5,693	808	863	876	16,692	11,177
1991	7,215	1,014	5,176	740	5,916	834	820	822	17,512	11,999
1992	7,937	1,115	5,415	740	6,155	856	775	768	18,287	12,767
1993	8,731	1,227	5,660	739	6,399	924	733	753	19,020	13,520

/ Original Sub-Loan amount grossed up 7% to account for down payment.

/ Includes 1,855 subloans from existing projects at different sales prices and 372 subloans at the average sales price of $2,432 per unit