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UNCLASSIFIED

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

ECUADOR

PROJECT PAPER

NATIONAL SHELTER DELIVERY SYSTEM PROGRAM

Amendment No. 1

82

AID/LAC/P-384
CR P-200

Project Number: 518-0076
518-HG-007

UNCLASSIFIED

PROJECT DATA SHEET

1. TRANSACTION CODE

C
A = Add
C = Change
D = Delete

Amendment Number
1

DOCUMENT CODE
3

2. COUNTRY/ENTITY
Ecuador

3. PROJECT NUMBER
518-0076 518-HG-007

4. BUREAU/OFFICE
LAC 05

5. PROJECT TITLE (maximum 40 characters)
NATIONAL SHELTER DELIVERY SYSTEM PROGRAM

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
08 31 90

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

A. Initial FY 87 B. Quarter 4 C. Final FY 90

8. COSTS (\$000 OR EQUIVALENT \$1 = 190)

| A. FUNDING SOURCE | FIRST FY | | | LIFE OF PROJECT | | |
|------------------------|------------|--------|------------|-----------------|---------|------------|
| | B. FX | C. L/C | D. Total | E. FX | F. L/C | G. Total |
| AID Appropriated Total | | | | 855 | 145 | 1,000 |
| (Grant) | () | () | () | (855) | (145) | (1,000) |
| (Loan) HG | (30,000) | () | (30,000) | (30,000) | () | (30,000) |
| Other U.S. | | | | | | |
| 1. | | | | | | |
| 2. | | | | | | |
| Host Country | | 17,500 | 17,500 | | 17,500 | 17,500 |
| Other Donor(s) | | | | | | |
| TOTALS | 30,000 | 17,500 | 47,500 | 30,855 | 17,645 | 48,500 |

9. SCHEDULE OF AID FUNDING (\$000)

| A. APPRO- PRIATION | B. PRIMARY PURPOSE CODE | C. PRIMARY TECH. CODE | | D. OBLIGATIONS TO DATE | | E. AMOUNT APPROVED THIS ACTION | | F. LIFE OF PROJECT | |
|-----------------------|-------------------------------|--------------------------|---------|------------------------|---------|-----------------------------------|---------|--------------------|---------|
| | | 1. Grant | 2. Loan | 1. Grant | 2. Loan | 1. Grant | 2. Loan | 1. Grant | 2. Loan |
| (1) SD | 723 | 867 | | 0 | | 1,000 | | 1,000 | |
| (2) HG | 723 | | 862 | | 30,000 | | 0 | | 30,000 |
| (3) | | | | | | | | | |
| (4) | | | | | | | | | |
| TOTALS | | | | 0 | 30,000 | 1,000 | 0 | 1,000 | 30,000 |

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

11. SECONDARY PURPOSE CODES

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

| A. Code | BU | COOP |
|-----------|--------|--------|
| B. Amount | 31,000 | 10,500 |

13. PROJECT PURPOSE (maximum 180 characters)

To increase the supply of low cost housing and other shelter services by helping the GOE to implement the National Shelter Delivery System Program

14. SCHEDULED EVALUATIONS

Interim MM YY 06 89 Final MM YY 06 90

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

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

To provide grant funding to support the National Shelter Delivery System Program. To provide U.S. and local assistance as required to ensure efficient and timely implementation of Program

I concur in the proposed methods of implementation and financing for this project as summarized in Annex C.

Robert Clark, Controller, USAID/Ecuador

17. APPROVED BY

Signature: Frank Almaguer
Title: Frank Almaguer, Director, USAID/Ecuador

Date Signed: MM DD YY 08 19 87

18. DATE DOCUMENT RECEIVED IN AID/W OR FOR AID/W DOCUMENT DATE OF DISTRIBUTION

MM DD YY

PROJECT AUTHORIZATION

Name of Country: Ecuador
Name of Project: National Shelter Delivery System
Number of Project: 518-0076

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1. Pursuant to Section 106 of the Foreign Assistance Act, as amended, I hereby authorize the National Shelter Delivery System Program grant for Ecuador involving planned obligations of not to exceed \$1,000,000 in grant funds over a three year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help finance the foreign exchange and local currency costs for the project. The planned life-of-project is three years from the date of initial obligation.

2. The project will consist of technical assistance and training for various institutions participating in the National Shelter Delivery System Housing Guaranty Program (Project No. 518-HG-007) in Ecuador. The objectives of this training and technical assistance will include increased private sector participation in shelter and service delivery for low income families; more effective mechanisms for financing shelter and improvements; and improved inter-institutional coordination in shelter and urban development.

3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms, covenants, and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

a. Source and Origin of Commodities, Nationality of Services

Commodities financed by A.I.D. under the Grant shall have their source and origin in the United States or in Ecuador, except as A.I.D. and the Grantee may otherwise agree in writing. Except for ocean shipping, the suppliers of

commodities or services shall have Ecuador or the United States as their place of nationality, except as A.I.D. and the Grantee may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall, except as A.I.D. and the Grantee may otherwise agree in writing, be financed only on flag vessels of the United States.


Frank Almaquer
Mission Director
USAID/Ecuador

Clearances:

O/DR: MDeal (in draft)
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O/DP: PMalagono (in draft)
D/DIk: SSmith
CONT: RClark (in draft)

Drafted by: O/DR: JStanley: kC (0232m) (07-07-67)

National Shelter Delivery System
Project Paper Amendment No. 1

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I. SUMMARY AND RECOMMENDATION

A. Project Title: National Shelter Delivery System Program Grant

B. Project Number: 518-0076

C. Implementing Mechanism: A.I.D. will execute a Handbook 3 Project Agreement with the Central Bank of Ecuador to obligate the grant funds. Subsequently, A.I.D. will execute contracts as required for technical assistance, including long-term and short-term, U.S. as well as locally-procured.

D. Amount: \$1 million - Grant

E. Life of Project: 3 years from the date of initial obligation.

F. Goal: To improve the quality of life for low-income families in urban areas throughout Ecuador by increasing their access to housing and urban services financed and developed by both public and private sector institutions.

G. Strategy: The National Shelter Delivery Program provides an initial funding level of \$40 million (\$30 million Housing Guaranty Loan Funds and \$10 million equivalent GOE counterpart) for home and community improvements and mortgages for low income families. A \$1 million grant supports and complements the initial input of \$40 million. The grant component will be used to support program development as well as fund technical assistance and training which will be aimed at increased private sector participation in shelter and service delivery for low income families, consistency in lending and resource mobilization for shelter and improvements, and improved inter-institutional coordination in shelter and urban development.

F. Recommendation: To authorize a three-year grant component to the National Shelter Delivery System Program for \$1 million in place of the \$350,000 originally proposed.

II. BACKGROUND AND JUSTIFICATION

A. Background

The National Shelter Delivery System Program (518-HG-007) was designed to address two major problems in the Ecuadorean housing system: (1) the lack of absorptive capacity of the public sector to use additional resources to increase housing production; and (2) the absence of long-term financing to enable the private sector to produce low cost housing more efficiently.

The HG 007 Program contemplated the use of Housing Guaranty (HG) loan funds (\$30 million) to finance home and community improvements and mortgage loans for A.I.D.'s target population, and grant funds for complementary Program activities, e.g., to analyze the resource base of credit institutions; to promote and develop low cost typologies and project designs; to develop financial linkages and secondary mortgage markets; to evaluate the impacts of the Program, etc.

The Program was expected to finance new shelter units and home or community service improvements. The Program design also focused on policy issues related to removing obstacles to financing and production in order to increase the housing stock and related services for low income families over the medium and longer term.

The HG resources were authorized in September 1984 (\$20 million), October 1984 (\$5 million), and January 1986 (\$5 million). The complementary grant resources anticipated to support implementation of the Program have not yet been authorized. The grant funded support activities are now needed to ensure efficient Program implementation, as detailed below.

B. Implementation Status of 518-HG-007

The Ministry of Finance, Central Bank and A.I.D. signed the Implementation Agreement for \$30 million in HG resources in January 1986. In July 1986, the Central Bank of Ecuador, the host country implementing agency, established a Financial Fund for Housing (FFH) and defined the operating parameters and procedures for use of the Fund. The GOE capitalized the FFH with the equivalent of US\$ 2 million in counterpart resources in October of that year. To complement the long-term mortgage credit offered by the Fund, the Central Bank created a supplementary short-term construction loan fund capitalized with S/. 2,000 million (approximately US\$14 million).

The Central Bank also analyzed and prequalified one public and 51 private Ecuadorean financial institutions for access to the FFH. A round of orientation and Program promotion sessions was conducted in each of the Central Bank's regional offices in 16 cities with the active participation of private banks, finance companies, Savings and Loans, credit unions, the Ecuadorean Housing Bank (BEV), municipalities, private builders, housing cooperatives, and associations of architects and engineers. To date, the Central Bank has signed agreements with one public and 24 private sector

financial institutions to participate in the Program. Eight private developers have designed or initiated projects totalling about 12,000 new shelter solutions for financing under the Program. The Ecuadorean Housing Bank (BEV) also has about 1,200 new shelter solutions under development for this Program.

The GOE also has made progress on policy issues. It passed a law introducing adjustable interest rates, which was an important Condition Precedent to Program implementation.

Parallel to these initiatives with shelter finance institutions and developers, USAID/Ecuador has begun to make contacts with urban development institutions involved in financing and constructing basic infrastructure and upgrading activities in low income neighborhoods. "Eligible shelter solutions" are broadly defined in the HG-007 Program, allowing the Central Bank to provide funds to finance the installation and upgrading of infrastructure in low-income neighborhoods, as well as a wide range of "housing" options:

"New construction and improvements of the place of residence or the services and facilities related to the place of residence of Program beneficiaries.

"New construction options include sites and services, and roof-floor and basic core dwelling units. Improvement options include, among others, household connections to basic infrastructure, upgrading of on-site water, sewerage and electricity, room additions, replacement of damaged or worn materials and improvement of selected dwelling elements."
(Implementation Agreement 516-HG-007, Annex A.)

The Mission believes that pursuing a broader sector focus rather than a narrow "housing" one will make the Program more effective. A larger universe of potential "users" of the Central Bank Fund will afford more opportunities to respond creatively to the needs of low-income urban families.

Thus, for example, infrastructure investments by municipalities or the Ecuadorean Development Bank (BEDE) in poor neighborhoods, provision of improved electric supply to marginal areas, upgrading of neighborhood access roads and new or improved storm/flood drainage control will be evaluated for inclusion as activities eligible for financing.

C. Rationale for Expansion of the Program

When the Program was originally designed, it was assumed that the private sector Savings and Loan Associations would be the principal participants in the HG 007 Program. Now, commercial banks, credit unions, mortgage banks, and other financial institutions have declared their interest in participating in the Program. Several public institutions also want to develop eligible activities. The Mission believes the 007 Program offers an exciting opportunity to improve the delivery of low cost shelter and services over the next few years.

Also, the Mission is implementing a sectoral approach in Ecuador which will increase the effectiveness of A.I.D. assistance and expedite disbursement of assistance funds. Increased emphasis will be placed on the services and facilities portion of the definition of "shelter solution" described above, such as water/sewer connections, provision of electricity, improvements in neighborhood access roads, or improved storm-water management.

With the strong interest on the part of both public and private institutions in the Central Bank Fund and in the new urban development initiative, the National Shelter Delivery System Program has become much more complex. Therefore, the technical assistance contemplated in the original Project design needs to be provided at this time as well as additional technical assistance to support the greater number of institutional development and training activities which are underway in the shelter and urban development sector.

The revised technical assistance component contemplates a long-term senior technical project advisor and a project coordinator who, along with short-term advisors, will provide support for policy design and dialogue; institutional development support for public and private institutions that provide low-cost shelter and services; and assistance for studies of issues which have been identified as potential bottlenecks that impede program implementation and the generation of local resources for shelter and service activities.

The National Shelter Delivery System Program has enormous potential over the medium and long term for helping to improve the quality of life of low income families in Ecuador since it encourages the active participation of many different types of institutions in shelter related activities. It also encourages the GOE to develop medium and long-term financial strategies that will more effectively target government expenditures for shelter and services and increase private sector capital mobilization for these activities by:

1. Increasing support for private developers.
2. Addressing the problems of slum neighborhoods more directly by financing basic infrastructure.

III. DESCRIPTION OF PROJECT ACTIVITIES

The goal of the HG Program of increasing access for low income families in urban areas throughout Ecuador to upgraded and new shelter solutions remains unchanged. While the types of activities proposed in the original technical assistance plan remain the same, the scope of technical assistance to be provided has been expanded to address the increase in urban development activities currently contemplated under the program. It also focuses on the need for more specialized training and institutional development activities to support the larger number of private sector institutions which are expected to participate in the Program for the first time. Total A.I.D. financing requirements for the technical assistance component of the project are now \$1 million as opposed to the \$350,000 contemplated in the original design. The amended project is to include the following activities:

A. Program Implementation and Support

Under this activity, technical assistance will be provided in the following areas:

1. Defining policy changes, encouraging the GOE to develop medium and long-term financial strategies that better target government expenditures and increase private sector capital mobilization for shelter and services for low income families.

2. Urban Development Policy Formulation, and Program Coordination, with particular emphasis on the increased availability of land and services for our target group.

3. Sectoral coordination among the institutions that are directly responsible for the provision of services. This should result in the packaging of water, sewer and land development activities on a sectoral basis with specific targeting of HG funds for low income groups.

4. Exploration of reprogramming options and promotion of flexibility in design with concentration on sectoral goals rather than specific project outputs.

B. Training

Training is an important element of the Project to support the goals of institutional development and creative policy re-examination. Seminars will provide a suitable environment for key policy makers in principal institutions to examine and debate such issues as interest rates, subsidies, locational planning, cost/environmental tradeoffs, and other fundamental concerns which affect the sector's resource base and the efficiency with which the GOE and its private sector can implement activities whose benefits extend to the urban poor.

The next section of this Amendment describes policy strategy studies which will be undertaken. The results of those studies will provide substantive topical material to support the seminars and workshops, which will serve to disseminate the results of those studies.

The Project will furnish training to managers and technical staff in participating institutions in portfolio management, collections, project evaluation, and other skill areas to enhance the effectiveness of those professionals.

Different kinds of training models will be used, including U.S.-based training, regional and national seminars, observation trips to visit relevant projects in the region, and short-term technical training at the national level.

C. Policy Dialogue/Strategy and Program Development

Policy dialogue and design of medium and long term strategy are integral parts of the Mission's shelter and urban development program. The essence of the strategy is to work with the GOE and the private sector to make the necessary programmatic, financial and administrative adjustments in the shelter and urban service delivery sector to improve the efficiency and potential for becoming self-sufficient.

A key component of the approach is to move the policy design process beyond the study stage to that of defining specific policy changes that will most directly help low income families to acquire shelter and services. This is done by defining a workable policy agenda and by re-examining our programmatic strategy. The objective here is to encourage the GOE to develop medium and long term financial initiatives that will reduce government expenditures and increase private sector capital mobilization for low income shelter and services. These must be based upon the application of market interest rates and the principle of cost recovery.

It is evident that the public sector's ability to meet the demand for low cost shelter and services is limited, so incentives are being sought to increase the private sector's participation and to make the public sector more efficient. Ultimately, there needs to be a better definition of the appropriate roles of the public sector as a facilitator and of the private finance institutions and developers as producers.

Finally, an essential strategy component is that of a programmatic rather than a project approach, which will package water, sewer and land development activities on a sectoral basis for the low income population that is eligible for HG financing. To the maximum degree practical the program should work directly with the agencies that provide the services.

The Project will pay for several studies to support this policy dialogue:

- * Financial Issues: An improved understanding of financial issues is essential for working toward the goal of self-sufficiency in the shelter delivery system. The Project proposes to assess the financial policies and interest rate structures of public and

private institutions, with a view to understanding how those policies affect the availability of long term resources and the effectiveness of the shelter sector in vying for a share of such resources in a competitive market.

This study will also explore the effects of alternative interest rate structures on the financial positions of sector institutions and their ability to generate housing and infrastructure options attractive to and affordable by low-income families. A re-examination of the national savings market from the perspective of urban/shelter needs will give a better sense of the degree of match or shortfall and provide a basis for further work to improve the economic efficiency of the sector.

- * Production bottlenecks are insufficiently understood and the Project will support an examination of those factors which work against efficient development of physical outputs by developers, suppliers, and small-scale entrepreneurs. Municipal norms and standards are a major hindrance to low-cost project development in many parts of the country because they make projects too expensive.

The study will look at these problems with a view to furnishing some constructive guidance to municipalities, associations of builders, and infrastructure authorities which have a voice in determining and applying standards.

As part of this assessment, the Project will examine current land-use practices in the major urban areas. Inefficiencies in existing procedures for conversion of raw to urbanized land will be identified and recommendations formulated for consideration by municipalities, developers, and others.

- * broader urban concerns and the involvement of a larger group of institutional participants provide a good opportunity to take stock of the current state of affairs affecting the growth and change of cities, evaluating the way some of Ecuador's major cities operate and making recommendations, e.g. on measures to increase efficiency, promote greater equity in the allocation of public resources, stimulate better understanding of urban growth/environmental interfaces. Accordingly, the Project will fund an Urban Development Assessment to:

- a. Identify major urban issues facing the GOE;
- b. Identify potential areas of project involvement in urban and municipal activities, which go beyond traditional shelter programs and strengthen the delivery of services to A.I.D.'s target population. This is essential since urban infrastructure policy is an integral component of shelter and service delivery programs;

- c. Contribute to a more in-depth and sophisticated understanding of the process by which shelter is produced and financed in urban areas. This exercise will seek to improve the understanding of the role of the informal sector in shelter production.

During the course of the project, various mechanisms will be investigated for tying disbursement of HG loan funds to policy changes.

D. Evaluation

Over the last eight years, USAID/Ecuador's housing program has focused on the delivery of traditional shelter solutions. Programs developed under earlier HG loans provide a wide range of experiences and information which merit review. A comprehensive evaluation of the role of A.I.D. in the shelter sector in Ecuador will be conducted. This activity will provide an assessment of the effectiveness of past programs and recommendations for adjustments in the Mission's strategy and Program. Also, after the Central Bank's Financial Fund for Housing has been operating for a sufficient amount of time, an evaluation of its effectiveness will be carried out so that modifications can be made in the current HG Program, as needed, and broader applications be developed for the Fund. Mid-cycle and end-of-Project evaluations will be carried out; the general sector evaluation will be part of the latter.

IV. PROJECT ANALYSES

A. Technical Analysis

Strengthening the shelter delivery system in Ecuador will require institutional change, which is generally a slow and complex process. The housing program in Ecuador uses both capital inputs and technical assistance and training to encourage such change. A.I.D. has been successful in employing capital resources from the Housing Guaranty Program and complementary grant resources to keep open a constructive dialogue with the GOE on housing issues. As in the past, HG resources will continue to finance part of the capital cost of activities to improve the living conditions of low income urban families, and grant funds will support assistance to the institutions that participate in the Program and help sustain the A.I.D.-GOE policy dialogue.

The long term goal of improving living conditions for low-income families, and of doing so by involving more organizations which can make important contributions to the sector, remains unchanged. Again, it is important to note that while the \$30 million in loan funds which A.I.D. brings to the sector through the HG Program will in and of itself permit the financing of a significant amount of low-cost shelter and services, it will be the policy changes developed, introduced and supported by the Program which will have major long term benefits for the country.

1. Technical Assistance

In the past, the private housing finance institutions in Ecuador, i.e., the Savings and Loan Associations and commercial banks, have not worked with low income families. The S&Ls have tended to serve upper-middle income clients, and the commercial banks have financed mainly high cost housing. Entering the low income market involves some uncertainties and perceived risks, as well as changes in operational procedures. For example, establishing the creditworthiness of low income families may require different techniques than those used for higher income groups. Marketing and collections are also a concern for these institutions.

In addition, most private finance institutions are trying to adjust their operations to new financial circumstances in the aftermath of deregulation of financial markets by the GOE. Recent technical assistance to the S&Ls indicated that seven of the eleven associations are interested and qualified to participate in the HG Program, but that several require help in developing their resource base. Technical assistance will be provided to these institutions in financial analysis and portfolio management so that they will be better able to generate new resources and finance shelter for low income families over the medium and long term.

Considerable short-term technical assistance will be required to support the institutions participating in the Program, including those institutions carrying out more traditionally-defined "shelter" programs and the ones performing the new "urban development" activities. Short-term consultants will also carry out studies and analyses to support the Program, as described earlier.

In addition to working with institutions which are qualified ab initio to discount their sector investments with the Central Bank, some technical assistance will be focused on institutions (such as credit unions and cooperatives) which currently cannot participate because of legal and other constraints, but which have considerable potential for channelling resources into activities of benefit to low-income urban families. Technical assistance will be used to develop workable linkages between individual credit unions and housing cooperatives and finance institutions which are qualified for the Program. Emphasis will be placed on developing practical solutions to obtaining access to Program resources, rather than on revamping the financial and legal structures of credit unions and cooperatives in Ecuador. To the extent possible, Project resources will be supported by centrally-funded A.I.D. projects which support cooperative and credit union development.

Municipalities and BEDE have great potential for undertaking activities (e.g. water distribution, small treatment plants, and others) which will be of direct benefit to low-income families. The Project will provide the technical assistance needed for these institutions to develop and package such eligible activities.

2. Training

Training is closely related to technical assistance in that many training needs will be identified in the course of technical assistance activities. However, training is here presented as a separate component since it will encompass participating institutions which do not receive technical assistance directly. For example, training activities are planned in marketing and collections, and these exercises will involve both the private and public sectors.

The most important use of training will be in the development of the A.I.D.-GOE policy dialogue. Workshops and seminars will be used to disseminate the findings of various policy studies and to provide a forum for discussion of conclusions and recommendations.

b. Financial/Economic Analysis

The financial and economic analyses for the HG Program (518-HG-007) remain unchanged. Financial and economic aspects of the grant portion of this project are discussed below:

Financial Analysis. The grant component of the National Shelter Delivery System Program is not (and is not intended to be) revenue-producing. The grant component supports the implementation of the larger AID/GOE shelter program, provides a forum for solving problems shared by the interested organizations, provides the Mission with a critical degree of assurance that the loan funds authorized for the Program are employed for the purposes intended, and ensures that the experience accumulated during the Program is recorded, synthesized, and retained for future use. Given the large amount of counterpart funding being provided in conjunction with the HG loan, no GOE counterpart is required as part of the grant although every effort will be

made to obtain local contributions for the training activities that are carried out. The extent of counterpart funding under the HG component of this Program is discussed below.

HG and Counterpart Funding. Funding for the Program will be derived from the HG loan of \$30.0 million, or 75 percent of total initial monies; the remaining 25 percent, or \$10.0 million, will be provided by the Central Bank through a Ministry of Finance appropriation.

Participating institutions will also provide counterpart resources. The share of internal resources used for lending, up to 15 percent depending on the level of discount, represents institutional counterpart funding. If all loans were to be made for higher cost units, the total institutional counterpart would be equivalent to about \$11 million; and if all lending were for home improvement loans and lower cost new units, this share would be reduced to \$3.7 million. The estimated level of participation is \$7.1 million.

A third source of counterpart funding is the downpayments of beneficiaries. The requirements for downpayments will vary depending on the policies of the primary lender, the type of loan, and the savings capacity of the beneficiaries. However, almost all representatives of lending institutions have indicated that adequate levels of downpayments will be available.

Economic Impact. More than 500,000 low-cost housing units are needed in Ecuador's urban areas. Public sector production meets only a small percentage of this need, does so inefficiently, and largely ignores the needs of the majority of low income families, who cannot afford the least costly unit marketed by the BEV. The aggressive entry of the private sector into the business of providing low-cost shelter and services can do much to address these needs and free the BEV to focus on the indigent, where public sector attention more properly should be placed.

HG resources alone are not sufficient to ensure that private sector institutions will enter the low-cost housing market, nor are they sufficient to make a dramatic impact on the deficits mentioned above unless considerable levels of local resources are also channeled into shelter and services for low income families. Private finance institutions also will need assurances about entering the low cost housing market, e.g., evidence that such lending has been successful in other countries as well as assistance in adapting their procedures and systems. The original design estimated that 6,000 new units and 10,000 home and community improvement loans would be financed. Currently, developers have identified projects with almost 12,000 units, twice as many new units as originally estimated for the HG Program. Grant resources will refine the project development and qualification process to assist meeting the Program's objectives of involving the private sector and serving the urban poor. The funds will also be used to analyze the national savings market and to explore/identify means to remove obstacles to channeling additional local resources into the production of shelter and services for low income urban families.

C. Social Soundness Analysis

The grant financed component supports the effective implementation of the Central Bank National Shelter Delivery System, which will be of direct and immediate benefit to low-income families receiving better housing or services. Indirectly, a much larger universe of families will receive benefits over the long term as more institutions find it profitable to provide shelter and services to poor urban families. The social soundness of the activity was established in the approval of the 518-HG-007 loan and that analysis remains valid at this time.

D. Environmental Considerations

Training and technical assistance activities such as those proposed under this project are included in a list, set forth in Section 216.2 of A.I.D.'s Environmental Procedures, that identifies activities that are categorically excluded from the General Procedures contained in section 216.3. Consequently no further environmental review of this project is necessary.

E. Administrative Analysis

In the past, the Mission has directly implemented the grant components of its HG Program through a series of obligating contracts and grants. This has created an unque administrative burden for the Mission and severely limited the Mission's ability to modify project assistance in response to changing circumstances. This approach is no longer acceptable to the Mission.

The alternative preferred by the Mission is to obligate the funds to a single entity. Given the multiplicity of public and private organizations involved in the HG-supported credit line, there is only one obvious choice: the Central Bank, which has established and will manage the Financial Fund through which the discounts will take place. The Mission did consider alternatives (Ministry of Finance, private Ecuadorean firms, the Superintendent of Banks, the National Monetary Board), but for various reasons it was concluded that the Central Bank is the right and proper choice as Grantee. Foremost among these reasons was the Central Bank's demonstrated ability to participate effectively in such programs.

Thus, pursuant to the Project Agreement signed with the Central Bank, the Mission, on behalf of the Central Bank, will enter into the contractual arrangements needed to ensure provision of the technical assistance elements for the efficient implementation of the Program. Two Personal Services Contractors (One U.S., and one local) will be hired to provide full-time program coordination during the life of the Grant. The Mission will contract with a U.S. firm to provide the bulk of the short term services required to address specific problems and coordinate training. The U.S. firm will subcontract with a suitable Ecuadorean organization for those elements of the Program which can effectively be administered and coordinated locally. This sub-contractual arrangement will ensure that to the degree possible skills transfer and human resource development will take place to benefit the Ecuadorean sub-contractor directly.

With regard to selection of the various technical assistance and training activities to be funded under this grant, a committee will be formed of both USAID and Central Bank personnel to review proposals for assistance and develop a yearly plan for the use of project funds. No technical assistance or training subprojects will be initiated with A.I.D. funds without prior A.I.D. approval. The committee will also become involved in such issues as:

- selection of training topics
- identification of institutions and technical or administrative candidates for training
- appraisal of alternate approaches to providing technical assistance in resolving implementation problems
- designing and carrying out evaluation of the program.

This approach meets a number of important tests:

* As the institution implementing the HG-financed program, the Central Bank is an appropriate channel for the package of assistance which is part of the Mission's participation in the sector.

* Contracting the assistance package as described above will give the Mission one central point of control/ accountability for the management of the Project, although several types of assistance will be called for.

* Mission involvement in the detailed administration of the Project -- contracting for short-term technical assistance, training, etc. -- will be maintained.

V. SUMMARY COST ESTIMATE AND FINANCIAL PLAN

The total cost of the Grant portion of this project is estimated at \$1,000,000, of which approximately \$145,000 will be for local costs. The detailed project budget displayed in Table 1, shows that \$510,000 in project funds will be used to fund a U.S. Senior Technical Advisor and a local project coordinator for the entire three years of the grant. The remainder of project funds will be used for approximately 34 person weeks of technical assistance (\$130,900), training costs (\$139,650), 36 person-weeks of assistance for policy studies (\$138,600), and project evaluations (\$80,850).

VI. PROJECT IMPLEMENTATION PLAN

A detailed project implementation schedule is displayed in Table 2. The target dates for key project implementation actions are as follows:

| | |
|--|-----------------------------|
| Project Amendment authorized and Grant Agreement signed | August 31, 1987 |
| U.S. PSC Senior Technical Advisor and local PSC Project Coordinator contracted | September - October 1987 |
| Short-term TA contracted | January 1, 1988 |
| Provision of TA and Training | December 1987 - August 1990 |
| Performance of Policy Studies | April 1988 - July 1989 |
| <u>Evaluation.</u> | |
| Process | May - June 1989 |
| Final | May - June 1990 |
| PACL | August 31, 1990 |

VII. PROCUREMENT PLAN

Long-term advisors will be funded under this Project through Personal Services Contracts. Training, short-term technical assistance and evaluations will be funded as a package through an A.I.D. technical assistance contract with a U.S. firm which will provide short-term consultants and coordinate the U.S.-based and local training. Consultants may be sub-contracted by this firm from code 941 countries. The Latin American Training Center (LATC) of RHUDO/PSA will provide support for regional and national seminars related to policy dialogue and strategy issues. Project resources will be complemented where possible with other available resources, e.g. LAC Training Initiative II, for U.S.-based training.

Table 1. DETAILED PROJECT BUDGET

| PROJECT ACTIVITIES | Total Project Costs >>>> 335,900 378,050 295,050 1,000,000 145,015 | | | | | | | | | | |
|--|--|-----------|------|----|----|-------|---------|---------|---------|---------------|-------------------|
| | UNITS | UNIT COST | TIME | | | Total | YR.1 | YR.2 | YR.3 | Project Total | Local Curr. Costs |
| LONG-TERM PROGRAM SUPPORT STAFF: | | | | | | | | | | | |
| Senior Technical Advisor (U.S.) | months | | 12 | 12 | 12 | 36 | 133,000 | 141,000 | 176,000 | 450,000 | |
| Tech. Assistance Coordinator (local) | months | 1,667 | 12 | 12 | 12 | 36 | 20,000 | 20,000 | 20,000 | 60,000 | 60,000 |
| Sub-Totals >>>> | | | 24 | 24 | 24 | 72 | 153,000 | 161,000 | 196,000 | 510,000 | 60,000 |
| TECHNICAL ASSISTANCE TO INSTITUTIONS: | | | | | | | | | | | |
| Savings and Loans and Association | person-mths | 7,850 | 3 | 2 | | 5 | 11,550 | 7,700 | 0 | 19,250 | 1,925 |
| Private Banks and Association | person-mths | 7,850 | 2 | 1 | | 3 | 7,700 | 3,850 | 0 | 11,550 | 1,155 |
| Credit Unions and Federation | person-mths | 7,850 | 3 | 3 | 1 | 7 | 11,550 | 11,550 | 3,850 | 26,950 | 2,695 |
| Ecuadorian Development Bank (BCE) | person-mths | 7,850 | 2 | 2 | | 4 | 7,700 | 7,700 | 0 | 15,400 | 1,540 |
| Builders and Associations | person-mths | 7,850 | 2 | 1 | | 3 | 7,700 | 3,850 | | 11,550 | 1,155 |
| Housing Cooperatives and Federation | person-mths | 7,850 | 1 | 1 | | 2 | 3,850 | 3,850 | 0 | 7,700 | 770 |
| Central Bank of Ecuador | person-mths | 7,850 | 3 | 2 | 2 | 7 | 11,550 | 7,700 | 7,700 | 26,950 | 2,695 |
| Municipalities and Association | person-mths | 7,850 | 2 | 1 | | 3 | 7,700 | 3,850 | 0 | 11,550 | 1,155 |
| Sub-Totals | | | 18 | 12 | 3 | 34 | 69,300 | 60,150 | 11,550 | 140,900 | 12,090 |
| TRAINING: | | | | | | | | | | | |
| U.S.-Based Training, Regional Seminars and Observation Trips | | | | | | | 38,500 | 28,450 | 18,700 | 85,650 | |
| Local Seminars & Training | | | | | | | 28,900 | 19,200 | 9,300 | 57,400 | 40,050 |
| Sub-Totals | | | | | | | 67,400 | 47,650 | 28,000 | 143,050 | 40,050 |
| POLICY DIALOGUE STRATEGY & PROGRAM DESIGN: | | | | | | | | | | | |
| Shelter & Urban Services Finance Study | person-mths | 7,850 | 12 | | | 12 | 46,200 | 0 | 0 | 46,200 | 6,930 |
| Outcomes to Low-Income Shelter Delivery | person-mths | 7,850 | | 12 | | 12 | 0 | 46,200 | 0 | 46,200 | 6,930 |
| Urban Development Assessment | person-mths | 7,850 | | 12 | | 12 | 0 | 46,200 | 0 | 46,200 | 6,930 |
| Sub-Totals | | | 12 | 24 | 0 | 36 | 46,200 | 92,400 | 0 | 138,600 | 20,790 |
| EVALUATION: | | | | | | | | | | | |
| Mid-Cycle Evaluation | person-mths | 7,850 | 7 | | | 7 | 0 | 28,950 | 0 | 28,950 | 3,135 |
| End-of-Project and Sector Evaluation | person-mths | 7,850 | | 14 | | 14 | 0 | 0 | 51,800 | 51,800 | 5,180 |
| Sub-Totals | | | 7 | 14 | 0 | 21 | 0 | 28,950 | 51,800 | 80,750 | 8,315 |

The estimated contracting schedule is as follows:

| | |
|---|----------------|
| Contract U.S. PSC | September 1987 |
| Request for proposals for U.S. Contractor | September 1987 |
| Contract Local PSC | October 1987 |
| Selection of Contractor | December 1987 |
| Start of Contract | January 1988 |

Among the criteria to select a firm will be:

- Roster of Short-term Consultants
- Experience in Latin America
- Experience in upgrading projects and urban development policies
- Experience in low cost shelter policy and production
- Experience in innovative housing finance program
- Experience in organizing and executing training programs

(02b7m)



BANCO CENTRAL DEL ECUADOR

GERENCIA GENERAL

15827

Quito julio 16 de 1987

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Señor
 Frank Almaguer
 Director
 Agencia Internacional para el Desarrollo
 Ciudad

Señor Director:

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| ACTION | |
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| WASH. | |

Acuso recibo de la propuesta de asistencia técnica de la AID para el Programa de Vivienda que se financiará con los recursos de su Programa 516-HG-007 a través del Fondo Financiero para la Vivienda (FFV) del Banco Central del Ecuador contenida en su carta de julio 2 del año en curso. Permítame expresarle mi satisfacción y agradecimiento por la labor que vienen desarrollando en este campo.

Debo comunicarle de mi aceptación para que se desarrolle el programa de asistencia técnica, a fin de que la AID proceda a la contratación del personal necesario, en vista de la experiencia en el área de Vivienda de esa Institución. Así mismo, espero que la relación de trabajo que han mantenido los funcionarios de Vivienda y su contraparte en el Banco Central continúe.

Considerando la importancia que el sector vivienda tiene para el Gobierno del Ecuador dentro del contexto macroeconómico y una vez que el FFV es ya operativo, es necesario seguir contando con el apoyo del equipo técnico de vivienda de Quito.

Atentamente,

Dr. Carlos Julio Emanuel
 Gerente General

B

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

NATIONAL SHELTER DELIVERY SYSTEM PROGRAM

INSTRUCTIONS: THIS IS AN OPTIONAL
FORM WHICH CAN BE USED AS AN AID
TO PREPARE THE DATA FOR THE PAR
PROGRAM. IT SHOULD NOT BE RETAINED
ON THE PROJECT.

Life of Project
From FY 84 to FY 90
Total U.S. Funds \$31,000,000
Date Prepared July 31, 1987

| NARRATIVE GOAL | OBJECTIVE AND MEASURABLE INDICATORS | MEANS OF VERIFICATION | IMPORTANT ASSUMPTIONS |
|---|---|---|--|
| <p>The broader objective is to achieve the project contribution: (A-1)</p> | <p>Measure of Goal Achievement: (A-2)</p> | <p>(A-3)</p> | <p>Assumptions for achieving goal to goal: (A-4)</p> |
| <p>To improve the quality of life for low-income families throughout urban areas in shelter through increased access to upgraded and new shelter options financed and developed by both public and private sector shelter institutions, and increased employment opportunities.</p> | <p>At least 50% of all projects will be financed and developed by other developers including the savings and loans, municipalities, commercial banks and housing cooperatives. A 10% increase annually in the output of low-cost shelter options, affordable to families below the urban median income.</p> | <p>Periodic evaluations of the project output and beneficiaries of BEV and private sector developers.</p> | <p>GOE continues to support housing as a priority development area, and its commitment to "social interest" housing. GOE applies its macro-economic market orientation to the shelter sector.</p> |

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Project Title & Number: NATIONAL SHELTER DELIVERY SYSTEM PROGRAM

Life of Project:
From FY 84 to FY 90
Total U.S. Funding \$31,000,000
Date Prepared: July 31, 1987

PAGE 3

| NARRATIVE SUMMARY | OBJECTIVELY VERIFIABLE INDICATORS | MEANS OF VERIFICATION | IMPORTANT ASSUMPTIONS |
|---|--|--|--|
| Project Outputs: (C-1) | Magnitude of Outputs: (C-2) | (C-3) | Assumptions for achieving outputs: (C-4) |
| 1. Shelter solutions affordable to urban families earning below the median income that includes basic infrastructure and upgrading options. | The construction of approximately 6,000 new dwelling options which include piso-techo and core units as well as up to 10,000 community and home improvement loans. | Periodic project site visits and evaluation of the BEV and Central Bank mechanisms and project documents as well as the disbursement certificates and the balance sheets of credit institutions. | The effective demand exists for the dwelling solutions and home improvements to be carried out. |
| 2. A "turnkey mechanism" within the BEV for projects with private developers in urban areas throughout Ecuador. | The location of approximately half of the solutions in Quito and Guayaquil and half in the other urban areas. | | Participating institutions and other developers will be interested in developing low-cost shelter programs, will accept the program's finance terms and conditions, and will be able to follow the criteria and procedures for subproject approval and implementation. |
| 3. A process within the Central Bank to discount qualified projects developed in urban areas throughout Ecuador. | A manual on the Central Bank discount operation. | | The Central Bank discount mechanism will be agile and its conditions attractive to potential areas. |
| 4. An increased local resource base. | A manual on the BEV turnkey operation. | | |
| 5. Revised policies with focus on mobilizing capital for shelter and services for low-income families. | An annual increase in local savings, level yet to be determined. | | |
| 6. Training seminars and workshops for shelter and urban development institutions. | Three (3) or more policy studies completed. | Reports of grant-funded long-term PSCs, short-term advisors, policy study reports, and evaluations of training activities. | |
| 7. Program evaluations and Mission strategy revisions. | Definition of a policy agenda in shelter and urban development. Five (5) local or regional training activities per year; with an estimated 400-500 training participants over LOP. Mid-cycle and End-of-Project Evaluations completed. | | |

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 84 to FY 90
Total U.S. Funds: \$31,000,000-
Date Prepared: July 31, 1987

NATIONAL SHELTER DELIVERY SYSTEM PROGRAM

PAGE 2

| NARRATIVE SUMMARY | SPECIFICALLY VERIFIABLE INDICATORS | MEANS OF VERIFICATION | ASSUMPTIONS |
|--|--|---|--|
| Project Purpose (B-1) | Conditions that will indicate purpose has been achieved. End of Project status. (B-2) | (B-3) | Assumptions for achieving purpose. (B-4) |
| <p>To assist the GOE to implement the shelter component of its national development program. This includes the development, with the GOE of adequate financial mechanisms, technical assistance, and training to increase the flow of resources to the shelter sector and encourage the participation of the private sector in shelter and service delivery for low income families.</p> | <ol style="list-style-type: none"> 1. The development of a discount mechanism located in the Central Bank for low-cost shelter program mortgages and loans developed by other developers such as the savings and loans, housing cooperatives, municipalities commercial banks and credit unions and others. 2. The development of a "turnkey" mechanism within BEV to contract private sector developers for innovative projects. 3. A typology of shelter solutions which are affordable to low-income families with incomes below the median which includes upgrading of existing infrastructure and dwellings, and building new dwellings using regional materials. 4. Increased local savings in real terms, which flow to the housing sector. | <ol style="list-style-type: none"> 1. Periodic site inspections and reviews of project developer and BEV files as well as periodic program evaluation (PES). 2. Periodic financial analyses of the participating credit institutions. | <ol style="list-style-type: none"> 1. The BEV continues to contract private sector builder to implement BEV initiated programs. 2. The GOE continues to support the concept of incorporating other developers into the shelter sector to expand the supply of low-cost dwelling units through urban areas of Ecuador. 3. The solution types to be developed are marketable. 4. The GOE will adjust interest rates sufficiently to open participation to private sector entities, and to provide incentives to savers. 5. Private sector entities are willing to expand their clientel base and accept the risk implied in developing low-cost shelter projects. |

Life of Project: 84 - FY 90
 From FY \$31,000,000
 Total U.S. Funding
 Date Prepared: July 31, 1987

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PROJECT DESIGN SUMMARY
 LOGICAL FRAMEWORK

NATIONAL SHELTER DELIVERY SYSTEM PROGRAM

| NARRATIVE SUMMARY | OBJECTIVELY MEASURABLE INDICATORS | MEANS OF VERIFICATION | IMPORTANT ASSUMPTIONS |
|-------------------------------|---|--------------------------------------|---|
| Project Inputs: (D-1) | Implementation Target (Type and Country) (D-2) | (D-3) | Assumptions for providing inputs: (D-4) |
| HG Loan (75%) | \$ 25.0 million | AID, BEV and Central Bank Records | An investor can be found that will provide terms and conditions acceptable to the GOE. |
| GOE counterpart | 8.3 million | | Counterpart funds will be provided according to financial plan. |
| Institutional counterpart | 7.10 million | | Technical assistance grant funds will be provided in a timely manner. |
| Beneficiary downpayment | 2.13 million | | Private developers have sufficient liquidity to provide long-term mortgages financing on counterpart resources to participate in the program. |
| Technical Assistance/Training | 1.0 million | | |

Methods of Implementation and Financinga. Summary Chart

| <u>Method of Implementation</u> | <u>Method of Financing</u> | <u>Approximate Amount</u> |
|---|----------------------------|---------------------------|
| U.S. PSC for Senior Technical Advisor | Direct Payment | \$450,000.00 |
| Local PSC Project Coordinator | Direct Payment | \$60,000.00 |
| A.I.D. Direct Contract with U.S. firm to provide short-term technical assistance and training | Direct Payment | \$409,150.00 |
| A.I.D. Director Contract for evaluation | Direct Payment | \$80,850.00 |

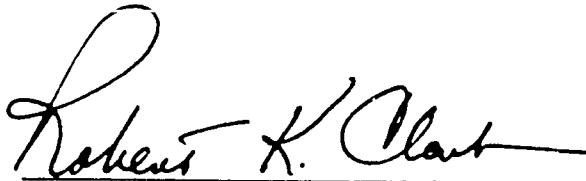
b. Justification for Departures from Preferred Financing Methods

None of the proposed methods of financing departs from the preferred methods listed in Section I.A.3. of the Payment Verification Policy Implementation Guidance, dated December 30, 1983.

c. Assessment of Host Country Capabilities

While the Grantee in this project is the Central Bank of Ecuador (BCE), A.I.D. will undertake all contracting actions; monitor the contract in co-ordination with the LCL; and approve all payment vouchers. Thus an evaluation of the Central Bank procedures for contracting, commodity procurement and payment verification is not applicable.

I concur in the proposed methods of implementation and financing for this Project.



Robert K. Clark
Controller
USAID Ecuador