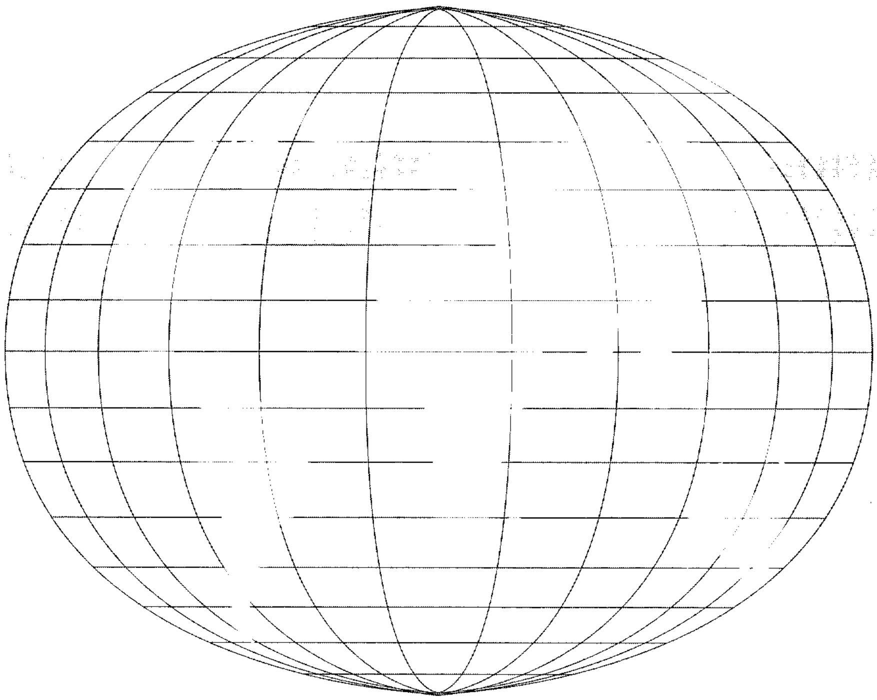
Report of Audit

Audit of USAID'S Housing Guaranty Program Financial Statements for the Year Ending September 30, 1995

Report No. 0-000-96-019
July 18, 1996



OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

July 18, 1996

MEMORANDUM

TO: CFO, Donald K. Charney and G/AA, Sally Shelton-Colby

FROM: IG/A/FA, Director, Bruce N. Crandlemire Bruce N. Crandlemire

SUBJECT: Audit of USAID's Housing Guaranty Program Financial Statements for the Year Ending September 30, 1995

This is our final report on the audit of the principal financial statements for the U.S. Agency for International Development's (USAID) Housing Guaranty Program for Fiscal Year 1995.

The Office of Management and Budget (OMB) Bulletin No. 93-18 established March 1, 1996, as the date by which these financial statements were to be submitted. As set forth in a March 14, 1996, letter to OMB from USAID's Chief Financial Officer and Inspector General, these financial statements would not be submitted until June 30, 1996.

We were unable to express an opinion on the financial statements. Not all of the supporting documentation necessary for us to complete our audit procedures within the established time frame was readily available from the accounting activity (Office of Financial Management/ Loan Management Division). Additionally, our inability to apply alternative auditing procedures due to a lack of adequate accounting records and automated systems has resulted in insufficient evidence to support various transactions and account balances which are material to the financial statements.

We provided a copy of our draft report to USAID's Chief Financial Officer and other USAID officials. Appendix I contains USAID management's responses to our draft audit report.

Please furnish a reply within 30 days describing the corrective action taken or planned including applicable time frames on our recommendations. Please note that the regulations require a management decision to be reached on all findings and recommendations within a maximum of 30 days from report issuance.

I appreciate the cooperation and courtesies extended to my staff during the audit.

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Audit Report on USAID's Housing Guaranty Program Financial Statements for the Year Ending September 30, 1995

Summary

Pursuant to the Chief Financial Officers Act of 1990, we attempted to audit the accompanying principal financial statements of the Housing Guaranty Program (the Program) administered by the U.S. Agency for International Development (USAID) as of and for the year ended September 30, 1995. These financial statements are the responsibility of USAID's management. The principal financial statements as of and for the year ended September 30, 1994, were audited by other auditors whose report dated June 30, 1995, expressed an unqualified opinion on those statements before any subsequent restatements by USAID's management.

In our attempted audit of the principal financial statements of the Housing Guaranty Program as of and for the year ended September 30, 1995, we found that:

- the scope of our work was not sufficient to enable us to express an opinion on the principal financial statements;
- the internal control structure contained deficiencies that we consider to be reportable conditions under established standards and which are also considered material weaknesses; and
- there were instances of noncompliance with certain provisions of laws and regulations which may have a material effect on the determination of the amounts in the principal financial statements.

These conclusions are discussed in more detail below.

Background

The United States Agency for International Development's (USAID) Housing Guaranty Program (the Program), established through Title III, Sections 221, 222 and 238c of the Foreign Assistance Act of 1961, as amended, stimulates United States (U.S.) private sector involvement in the financing of low-income shelter and related urban environmental services in the developing world.

The Program uses the guarantee of repayment by the U.S. Government to leverage funds from U.S. investors for eligible borrowers in developing countries. U.S. private sector lenders make financing available at commercial rates. The repayment of principal and interest is guaranteed through USAID by the full faith and credit of the U.S. Government. In return for receiving financing at affordable rates, foreign borrowers generally pay an initial charge of one percent of the loan amount and an annual fee of one-half of one percent of the unpaid principal balance. All fees and resulting earnings are held in a revolving fund account maintained by the U.S. Treasury. As of September 30, 1995, the Program had outstanding loan guaranties of $2.7 billion.

The Program is managed jointly by the Office of Environment and Urban Programs in the Center for Environment of the Bureau for Global Programs, USAID's geographic bureaus, and twelve Regional Housing and Urban Development Offices (overseas components of the Office of Housing and Urban Programs). The Office of Financial Management/Loan Management Division carries out the responsibilities of "Controller" for the Program. This Division is responsible for maintaining the accounting records for the Program and for establishing and maintaining internal controls over financial operations.

Pursuant to the provisions of the Chief Financial Officer's Act, the Program is required to prepare an Annual Financial Statement, which includes the presentation of program and financial performance information required by the Office of Management and Budget. This report represents the results of our audit of the Annual Financial Statement for Fiscal Year 1995.

USAID Inspector General's Report on Financial Statements

The scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the Housing Guaranty Program's statements of:

- financial position as of September 30, 1995;
- results of operations and changes in net position;
- cash flows; and
- budgetary resources and actual expenses for the year then ended.

These financial statements, as shown on pages 10 to 28 of this report are collectively known as the principal financial statements.

Not all of the supporting documentation necessary for us to complete our audit procedures within the established time frame was readily available from the accounting activity (Office of Financial Management/Loan Management Division). Additionally, our inability to apply alternative auditing procedures due to a lack of adequate accounting records and automated systems has resulted in insufficient evidence to support various transactions and account balances which are material to the financial statements.

USAID Inspector General's Report on Internal Control Structure

USAID management is responsible for establishing and maintaining the internal control structure of the Housing Guaranty Program. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of the policies and procedures may deteriorate.

We gained an understanding of internal controls designed to:

- safeguard assets against loss from unauthorized acquisition, use or disposition;

- assure the execution of transactions in accordance with laws governing the use of budget authority and with other laws and regulations that have a direct and material effect on the principal financial statements or that are listed in OMB audit guidance and could have a material effect on the principal financial statements; and

- properly record, process and summarize transactions to permit the preparation of reliable financial statements and to maintain accountability for assets.

With regard to this structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk. We do not express an opinion on internal controls because the purpose of our work was to determine our auditing procedures for the purpose of attempting to express an opinion on the principal financial statements and not to express an opinion on internal controls.

As discussed below, however, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants and Office of Management and Budget Bulletin Number 93-06. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Program's ability to record, process, summarize, and report financial data consistent with the assertions of management in the principal financial statements. The reportable conditions are as follows:

(1) Lack of Effective Controls Over Claims and Receivables (repeated from prior year)[1] - The Loan Management Division does not have effective controls over claims and receivables. Host countries must reimburse the United States Government for $57 million in claim payments made during Fiscal Year 1995 on their behalf. Additionally, as of the end of Fiscal Year 1995 Host Countries owed USAID $414,543,035 (before deducting allowances for uncollectibles) in rescheduled claims receivable. USAID may be incurring material losses on these claims receivables because it is not applying adequate procedures that define: the responsibilities of U.S. and overseas mission staff for issuing and collecting on claims; the manner, frequency, and documentation requirements of collection efforts; the accounting requirements that comply with Credit Reform guidance; the internal and external reporting requirements; the follow-up with missions on their collection actions; and the documentation of claim collection histories.

(2) Inadequately Formalized Financial Management Policies and Procedures (repeated from prior year) - Standard manual and programmed general ledger controls have not been established that require:

- financial activity to be recorded and accumulated as transactions occur;
- monthly and timely year-end reconciliations of guaranteed loans committed, lender disbursements and receipts, obligations and accruals, and cash transactions and reconciliation of this activity to Housing Guaranty Portfolio Management System;
- supervisory review and approval of reconciliations;

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1 This condition was previously identified as a reportable condition in the Fiscal Year 1994 audit report; however, we have reclassified it as a material weakness in this report.

- standardized procedures to account for accrued operating and administrative expenses; and

- systematic consolidation of worldwide transactions in the underlying financial records to provide to the centralized general ledger in a standard format, all data necessary to produce accurate reports submitted to the Office of Management and Budget and the U.S. Treasury.

The above conditions increase the susceptibility to error in the record keeping and reporting functions of the Loan Management Division, create the vulnerability from personnel turnover since institutional knowledge is not retained, make the assignment of responsibility and accountability difficult, and cause the orientation of newly hired personnel to be inefficient since documentation is not available to facilitate their learning process. For example, when computing contingent liability on pre-Credit reform loans, the outstanding guaranty balance was understated by $23.4 million. Reconciliation to Riggs National Bank numbers would have remedied this situation to a significant extent.

(3) <u>USAID Does Not Sufficiently Monitor the Paying and Transfer Agent</u> - The Paying and Transfer Agent, Riggs National Bank, is relied upon heavily to manage a material portion of the guaranties. In 1995, the Agent handled the accounting, billing, and related functions for about 145 of 166 loan guaranties outstanding--outstanding guaranties of $1,688,426,484. As a result of the absence of Financial Management's oversight of the Agent, USAID has no assurance that the claims receivable balance is correct, nor that it has optimized interest earnings from repayments submitted by borrowers. Since the Agent reports loan status to USAID and claims receivable are recorded directly from these reports without further verification, a misstatement in the claims receivable balance would go undetected by USAID. Additionally, USAID relies solely on the Agent to report payments submitted by the borrowers.

(4) <u>The Loan Management Division's Methodology for Computing Pre-Credit Reform Loss Reserves Needs to be Updated or Revised</u> - The Loan Management Division does not have any policies and procedures with respect to the computation of pre-Credit Reform loan guaranty losses and liability. The lack of policies and procedure results in a situation where the Division's personnel have had to depend on the independent auditor to instruct them on procedures for computing the reserve. Additionally, the current methodology should be updated/revised. Although efforts were made in Fiscal Year 1995 and into Fiscal Year 1996 by Program management to develop a suitable methodology which would be acceptable to OMB with the intention to apply it to the Fiscal Year 1995 Financial Statements, the methodology was not able to be finalized in time to apply to Fiscal Year 1995. Program management intends to finalize this methodology with the acceptance of OMB in time to apply it to the Fiscal Year 1996 Financial Statements.

(5) **Significant Deficiencies Continue with the Housing Guaranty Program Portfolio Management System and Related Internal Controls** - The Housing Guaranty Portfolio Management System--if functioning properly--should facilitate effective portfolio management as well as act as a subsidiary ledger. However, the system contained numerous errors and inconsistencies and is surrounded by weak internal controls. For example, contingent guaranty liability--a key figure in assessing USAID's exposure to guaranty loss--was misstated in the financial statements as a direct result of inaccuracies in the system. In developing the financial statements, the Loan Management Division used pre-Credit Reform loan guaranties outstanding of $1,990,571,552 based on a preliminary W-239 report received on January 18, 1996 (the W-239 is a quarterly report generated from the portfolio management system) that was prepared in late 1995. However the final W-239, received on April 8, 1996, indicated a balance of $2,013,999,885, a difference of $23,428,334 which is well above our materiality threshold for this audit. Additionally, at the close of our audit, the Loan Management Division had not yet issued quarterly W-239 reports for the first three quarters of Fiscal Year 1996. It noted that, in anticipation of migration to USAID's new accounting system, the Loan Management Division contracted with a computer consultant and is working towards correcting the numerical errors in the system.

(6) **Oversight, Transaction Authorization, and Cross-Checking Internal Controls Are Weak** - Throughout the course of our audit, we noted a lack of documented oversight, transaction authorization, and cross-checking internal controls. For example, we frequently encountered adjusting journal entries which were not reviewed or approved by management. Additionally, non-routine journal entries such as prior period adjustments, reconciling entries, etc., were not consistently approved by management. The Loan Management Division changed its method of fee revenue recognition from the cash to accrual basis, yet management seemed unaware of this situation, as evidenced by a lack of disclosure and/or appropriate re-statement in the financial statements. This situation resulted in an approximate $2 million overstatement in revenue for Fiscal Year 1995.

(7) **Payroll Costs are not being Charged Accurately to Programs** - USAID systems do not facilitate the assignment of costs to appropriate cost objectives. Rather, employees' time is usually charged based on their location or division. Currently, USAID employees who work more than one-half of their time on the Program are charged 100 percent to the program. For example, at two of the

Regional Housing and Urban Development Offices we visited, employees work on multiple programs yet all their time is charged to the Housing Guaranty Program. As such, labor costs are not charged to the correct cost objective.

Of these seven reportable conditions, we considered the first six material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements may occur and not be detected promptly by employees in the normal course of performing their duties. Our internal control work would not necessarily disclose all material weaknesses.

We make the following recommendation with respect to the above conditions (note that no recommendations is made concerning the first two material weaknesses, since these were addressed in our Fiscal Year 1994 report):

Recommendation No. 1: We recommend that:

1.1 the Office of Financial Management/Loan Management Division re-institute appropriate monitoring procedures over the Agent on at least a quarterly basis that include periodic site visits to the Agent's location by staff who possess appropriate training or experience;

1.2 the Center for Enviornment/Office of Environment and Urban Programs in conjunction with the Office of Financial Management/Loan Management Division continue to work towards updating and/or revising the pre Credit Reform loss methodology for incorporation into the Fiscal Year 1996 Agency-wide financial statements;

1.3 the Office of Financial Management/Loan Management Division: (a) continue its efforts towards correcting inaccurate balances in the Housing Guaranty Portfolio Management System, (b) after work on the subrogated claims and rescheduled loans has been completed, work with Office of the Inspector General personnel to perform agreed upon procedures with respect to these balances prior to migration to AWACS, and (c) make a serious attempt to perform reconciliations of affected balances at the subsidiary level (e.g.

by individual balance) at least quarterly, and identify and resolve balances within 30 days following the reconciliation;

1.4 the Office of Financial Management/Loan Management Division continue its efforts towards improving and more clearly defining the Division's responsibilities and operations, including (a) identifying key transactions and events and assuring that appropriate management oversight procedures are integrated into activities, and (b) strengthening controls over transaction authorization and incorporating cross-checking internal controls where appropriate;

1.5 USAID's Chief Financial Officer address the question of USAID's labor charging practices in preparation for USAID's Agency-wide financial statements; and

1.6 USAID's Chief Financial Officer ensure that continuous and adequate supervision be incorporated into the Office of Financial Management/ Loan Management Division's daily operations and be maintained by adding appropriate internal controls.

We will provide complete details of the above deficiencies to management by separate written communication.

Status of Prior Year Recommendations

The first two material weaknesses noted above resulted in recommendations in the Fiscal Year 1994 audit report. These recommendations have not yet been closed.

USAID Inspector General's Report on Compliance with Laws and Regulations

Compliance with laws and regulations applicable to the Program is the responsibility of USAID's management. During our attempt to audit the financial statements, we performed tests of the Housing Guaranty Program's compliance with certain provisions of laws and regulations. However, the objective of our attempted audit of the principal financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Laws and regulations applicable to the Housing Guaranty Program include:

- the eligibility provisions in Title III of the Foreign Assistance Act of 1961, as amended;
- the Chief Financial Officers Act of 1990;
- the Budget and Accounting Procedures Act of 1950;
- the Federal Managers Financial Integrity Act of 1982;
- the Federal Credit Reform Act of 1990; and
- the Provisions of Title II of Foreign Assistance Appropriations, 1995 (Public Law 103-306).

Except as discussed below, the results of our tests disclosed no instances of noncompliance that are required to be reported herein under generally accepted government auditing standards.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions contained in statutes or regulations that cause use to conclude that the aggregation of the misstatements resulting from those failures or violations may be material to the financial statements, or if the sensitivity of the matter would cause it to be significant by others.

The Budget and Accounting Procedures Act of 1950, as amended requires that the accounting systems of Federal agencies conform to the principles, standards, and related requirements prescribed by the Comptroller General. We noted that USAID has not completed the Credit Reform accounting requirements and formats of the consolidated general ledger system that are required to produce standard reports submitted to the Office of Management and Budget and the Department of Treasury. However, since the Federal Managers' Financial Integrity Act report for Fiscal Year 1995 indicated that USAID has completed the action of developing the general ledger system module in the primary accounting system (known as Agency-Wide Accounting Control System or AWACS), USAID Financial Management will institute the additional accounts of consolidated general ledger system for Credit Reform management to adequately support and produce accurate reports before AWACS will be implemented in 1996. While we are not making a formal recommendation in this area, Financial Management must ensure, through consultation with the credit programs, that all relevant Credit Reform accounts are imbedded in AWACS.

The material weaknesses in internal control discussed above indicates that management is not in compliance with certain provisions of the Budget and Accounting Procedures Act of 1950, as amended.

Consistency of Other Information

The management of USAID is responsible for providing reasonable assurance that data which support performance measures reported in the Program Overview of the Housing Guaranty Program are properly recorded and accounted for to permit preparation of reliable and complete performance information. The Overview consists of a wide range of data, some of which are not directly related to the financial statements. We do not express an overall opinion on this information. Our internal control work would not necessarily disclose all material weaknesses. However, we compared this information for consistency with the financial statements and discussed the methods of measurement and presentation with the Housing Guaranty officials in Washington D.C. and at Overseas locations. We found no material inconsistencies with the financial statements, nor did anything come to our attention that caused us to believe that reported performance measurement information was not presented in conformity with OMB Bulletin 94-01.

This report is intended for the information of the U.S. Congress and the management of USAID. This restriction is not intended to limit the distribution of this report and the report will become a matter of public record.

Office of the Inspector General

Office of the Inspector General
June 21, 1996

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
HOUSING GUARANTY PROGRAM

STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 1995 AND 1994
(In Thousands)

ASSETS	1995	1994
ENTITY ASSETS:		
Intragovernmental Assets:		
Fund Balance with Treasury (Note 4)	$80,772	$60,731
Restricted Fund Balance with Treasury (Note 4)	3,541	2,662
Fund Balance with USAID	152	2
Travel Advances and Other	105	102
Governmental Assets:		
Accounts Receivable, Net (Note 5)	1,142	889
Claims Receivable, Net (Note 6, Note15)	23,157	30,244
Cash (Note 4)	366	355
Furniture and Equipment, Net (Note 7)	580	398
TOTAL ENTITY ASSETS	**$109,815**	**$95,383**

LIABILITIES AND NET POSITION	1995	1994
LIABILITIES COVERED BY BUDGETARY RESOURCES:		
Intragovernmental Liabilities:		
Borrowings from Treasury (Note 9)	$125,208	$125,208
Interest Payable - Treasury (Note 9)	5,319	5,319
Other Funded Liabilities (Note 10)	4,697	3,913
Governmental Liabilities:		
Liabilities for Loan Guarantees - Pre-Credit Reform (Note 8)	685,801	704,156
Liabilities for Loan Guarantees - Credit Reform (Note 8)	23,087	4,993
Accounts Payable	1,564	2,929
Deferred Revenues	2,383	2,483
Total Liabilities Covered by Budgetary Resources	848,059	849,001
Liabilities Not Covered by Budgetary Resources	287	404
Total Liabilities	848,346	849,405
NET POSITION:		
Appropriated Capital, Pre-Credit Reform	158,828	150,160
Appropriated Capital, Credit Reform	50,543	46,527
Cumulative Results of Operations (Note 15)	(947,615)	(950,305)
Future Funding Requirements	(287)	(404)
Total Net Position	(738,531)	(754,022)
TOTAL LIABILITIES AND NET POSITION	**$109,815**	**$95,383**

Footnote: Cumulative Results of Operations and Receivables as of 09-30-1994 have been changed due to prior period adjustment in compliance with GAAP/APB-20 par 13 and 37.

The accompanying notes are an integral part of these financial statements.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
HOUSING GUARANTY PROGRAM

STATEMENTS OF OPERATIONS
YEARS ENDED SEPTEMBER 30, 1995 AND 1994
(In Thousands)

	1995	1994
REVENUES AND FINANCING SOURCES:		
'Appropriated Capital Used	$23,421	$10,570
Interest and Penalties, Governmental	14,856	20,111
Other Revenues and Financing Sources	9,202	8,618
Total Revenues and Financing Sources	47,479	39,299
EXPENSES:		
Operating Expenses (Note 12)	7,622	8,205
Loss on Loan Modification	0	619
Depreciation	157	224
Provision for Subsidy Expense - Guarantees	15,812	3,216
Provision for Uncollectible Loans and Interest - Pre-Credit Reform (Note 8)	(18,355)	(2,733)
Provision for Uncollectible Accounts Receivable - Pre-Credit Reform (Note 5)	6,218	432
Provision for Uncollectible Claims - Pre-Credit Reform	22,341	23,060
Interest - Borrowings from Treasury (Note 9)	10,638	10,638
Total Expenses	44,433	43,661
DEFICIENCY OF REVENUES AND FINANCING SOURCES OVER TOTAL EXPENSES	$3,046	($4,362)

The accompanying notes are an integral part of these financial statements.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
HOUSING GUARANTY PROGRAM

STATEMENTS OF CHANGES IN NET POSITION
YEARS ENDED SEPTEMBER 30, 1995 AND 1994
(In Thousands)

	Appropriated Credit Reform	Capital 72X4340 Pre-Credit Reform	Fiscal 1992	Fiscal 1992/1993	Fiscal 1993	Fiscal 1994	Fiscal 1995	Total Appropriated Capital	Cumulative Results of Operations	Future Funding Requirements	Changes in Government Equity
BALANCE, OCTOBER 1, 1993	32,780	140,488	7,669	5,730	19,381	0		173,268	(945,513)	(341)	($772,586)
Appropriations Received	24,317	47,700	0	0	0	24,317		72,017	0	0	$72,017
Appropriations Capital Used	(10,570)	0	(3,257)	0	(1,638)	(5,675)		(10,570)	0	0	($10,570)
Appropriations Withdrawn			0	0	0			0	0	0	$0
Unobligated Funds Returned to Treasury	0	(38,028)	0	0	0			(38,028)	0	0	($38,028)
Deficiency of Revenue and Financing Sources Over Total and Unfunded Expenses	0	0	0	0	0			0	(4,792)	(63)	($4,855)
BALANCE, SEPTEMBER 30, 1994	$46,527	$150,160	$4,412	$5,730	$17,743	$18,642		$196,687	($950,305)	($404)	(754,022)
Appropriations Received	$27,300	$25,893					$27,300	53,193			$53,193
Appropriations Capital Used	($23,421)		($391)		($13,339)	($3,529)	($6,162)	(23,421)			($23,421)
Appropriations Withdrawn	($102)						($102)	(102)			($102)
Unobligated Funds Returned to Treasury	$0	($17,225)						(17,225)			($17,225)
Deficiency of Revenue and Financing Sources Over Total and Unfunded Expenses	$239		356			($404)	$287	0 239	$2,690	$117	$0 $3,046
BALANCE, SEPTEMBER 30, 1995 (Note 11)	$50,543	$158,828	$4,377	$5,730	$4,404	$14,709	$21,323	$209,371	($947,615)	($287)	(738,531)

Footnote: To remove future funding requirement -Unfunded Leave from Liquidating Account and Program account 1992, 1993 and put them in Program account #432.

The accompanying notes are an integral part of these financial statements.

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
HOUSING GUARANTY PROGRAM

STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 1995 AND 1994
(In Thousands)

	1995	1994
CASH FLOWS FROM OPERATING ACTIVITIES:		
Deficiency of Revenues and Financing Sources Over Total Expenses	$3,046	($4,855)
Adjustments Affecting Cash Flows:		
Depreciation	157	224
Loss on Sale of Assets	2	9
Provision for Uncollectible Claims Receivable - Pre-Credit Reform	22,341	23,060
Provision for Losses on Guarantees - Pre-Credit Reform	(18,355)	(2,733)
Provision for Subsidy Expense - Credit Reform	15,812	3,216
Provision for Uncollectible Accounts Receivable - Pre-Credit Refor	6,218	432
Changes in Assets and Liabilities:		
Increase in Accounts Receivable	(6,471)	(127)
Increase in Claims Receivable	(15,256)	(25,306)
Decrease (Increase) in Other Assets	(3)	(59)
(Decrease) in Liabilities for Loan Guarantees - Credit Reform	2,282	(1,180)
Increase (Decrease) in Accounts Payable, Governmental	(1,364)	602
Decrease in Deferred Revenues	(100)	(100)
Increase in Other Funded Liabilities, Intragovernmental	784	1,811
Increase (decrease) in Liabilities not Covered by Budgetary Resourc	(117)	63
Net Cash Used By Operating Activities	8,976	(4,943)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Furniture and Equipment	(343)	(105)
Proceeds fron Sale of Assets	3	6
Net Cash Used By Investigating Activities	(340)	(99)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Appropriations Received	53,193	72,017
Decrease (Increase) in Restricted Fund Balance with Treasury	(879)	(2,370)
Appropriated Capital Used	(23,421)	(10,570)
Appropriations Withdrawn	(102)	0
Other USAID Appropriations Used	(150)	7
Unobligated Funds Returned to Treasury	(17,225)	(38,028)
Net Cash Provided By Financing Activities	11,416	21,056
NET CASH PROVIDED BY OPERATING, INVESTING AND FINANCIAL ACTIVITIES	20,052	16,014
FUND BALANCE WITH TREASURY AND CASH BEGINNING OF YEAR	61,086	45,072
FUND BALANCE WITH TREASURY AND CASH ENDING OF YEAR	$81,138	$61,086

The accompanying notes are an integral part of these financial statements

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
HOUSING GUARANTY PROGRAM

STATEMENTS OF BUDGETARY RESOURCES AND ACTUAL EXPENSES
YEARS ENDED SEPTEMBER 30, 1995 AND 1994
(In Thousands)

	1995	1994
Budget Resources	$67,838	$98,825
Budget Obligations	(67,811)	(90,297)
Total Unobligated Balance	$27	$8,528
Budget Reconciliation:		
Total Expenses	$44,433	$43,042
Budget Resources Expended That Are Not Included In Actual Expenses:		
Capital Acquisitions	343	105
Claim Payments - Net of Recoveries	23,430	39,237
Increase in Payables	1,364	(602)
Increase in Other Funded Liabilities	(784)	(1,811)
Increase in Account Receivables	6,471	127
Decrease in Cash	11	(34)
Items Not Requiring Outlays:		
Provision for Subsidy Expense - Guarantees	(15,812)	(3,216)
Provision for Uncollectible Claims Receivable	(22,341)	(23,060)
Provision for Uncollectible Accounts Receivable	(6,218)	(432)
Provision for Losses on Guarantees	18,355	2,733
Claim Losses Realized	654	936
Depreciation	(156)	(224)
Decrease in Deferred Revenues	100	100
Less Reimbursements:		
Revenues and Financing Sources	(47,479)	(38,680)
Accrued Expenditures, Direct	$2,371	$18,221

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 1995 AND 1994

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. *Reporting Entity*

The Housing Guaranty Program (the Program)is administered by the Office of Environment and Urban Programs in the Environment Center of the Bureau for Global Programs, Field Support and Research, U.S. Agency for International Development (USAID), and USAID's geographic bureaus. There are also twelve Regional Housing and Urban Development Offices (RHUDOs), which are the overseas components of the Office of Environment and Urban Programs. USAID's Loan Management Division of the Office of Financial Management performs the accounting functions for the Housing Guaranty Program.

The Housing Guaranty Program was established by Title III, Sections 221, 222, 223 and 238c of the Foreign Assistance Act (FAA) of 1961, as amended. The purpose of the Housing Guaranty Program is to assist in providing long-term financing for low income shelter and shelter-related infrastructure. These programs are also designed to stimulate the participation of the private sector in the economic development of lesser developed countries. U.S. private sector lenders provide unsecured financing at commercial rates for projects undertaken by eligible resident borrowers. The repayment of the principal and interest is guarantied through USAID by the full faith and credit of the U.S. Government. USAID charges the borrowers guaranty fees comprised of an initial charge of one percent of the amount of loan and an annual fee of one-half of one percent of the unpaid principal balance of the guaranteed loan. With a few exceptions for non-sovereign guaranties USAID also requires that the host country government of the borrowers sign a full faith and credit guaranty for repayment of any loan and outstanding interest paid by USAID on behalf of the borrower.

In the Liquidating Account, under FAA Sections 211 and 222, the total principal amount of guaranties issued and outstanding under this title cannot exceed $2.558 billion at any one time. The FAA limits the issuance of housing guarantees to any one country in any fiscal year to $25 million, except for those issued to Chile, Poland, South

Africa and Israel, for which special limits have been established. In addition, except the countries mentioned above, the FAA limits the average face value of guaranties issued in any fiscal year to $15 million.

The Program is funded by six appropriations:

I. 72X4340 (Liquidating Account), which was established under the Credit Reform Act of 1990 to service loans arising from Housing Guaranty Program. It includes all cash flows to and from the U.S. Government resulting from loan guaranty commitments made prior to October 1, 1991;

II. 7220401 and 722/30401 (Program Account - Fiscal Year 1992 and Program Account - Fiscal Year 1992/1993), which was established under the Credit Reform Act of 1990 as a two-year appropriation to cover the subsidy and administrative costs of guaranteed loans;

III. 7230401 (Program Account - Fiscal Year 1993), which was established under the Credit Reform Act of 1990 as a single year appropriation of $297,800 to cover the subsidy and administrative costs of the Housing Guaranty Program;

IV. 7240401 (Program Account - Fiscal Year 1994), which was established under the Credit Reform Act of 1990 as a single year appropriation of $407,800 to cover the subsidy and administrative costs of the Housing Guaranty Program and

V. 7250401 (Program Account - Fiscal Year 1995), which was established under the Credit Reform Act of 1990 as a single year appropriation of $545,274 to cover the subsidy and administrative costs of the Housing Guaranty Program.

In 1995, under Public Laws 103-306 and Presidential Determination #94-95 of August 31 1994, there were eighteen loans authorized and not under contract in the Program Account totaling $290 million. The amount of guaranties authorized, issued and outstanding totals $469 million.

USAID supports the Program objective by providing technical assistance contractors who evaluate individual country program initiatives and results. The costs of this assistance is borne by USAID.

B. *Basis of Presentation*

These financial statements have been prepared to report the financial position and results of operations of the Housing and Other Credit Guaranty Program, as required by the Chief Financial Officers Act (CFO Act) of 1990. They have been prepared from the books and records of the Housing Guaranty Program in accordance with the Office of Management and Budget's (OMB) Bulletin Number 94-01, *Form and Content of Agency Financial Statements*, and the Program's accounting policies, which are summarized in this Note.

OMB Bulletin 94-01 is considered to be a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). The difference between GAAP and Bulletin Number 94-01 as it applies to the Housing Guaranty Program is in the accounting for the effects of the Credit Reform Act of 1990.

C. *Basis of Accounting*

Transactions are recorded on an accrual accounting basis and on a budgetary basis. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of federal funds.

D. *Fund Balance with Treasury/Cash Equivalents*

This item represents the aggregate amount of the entity's accounts with Treasury for which the entity is authorized to make expenditures, cash collections and to pay liabilities.

The Program defines cash and cash equivalents as short-term highly liquid investments with original maturities of three months or less, and unrestricted funds with Treasury.

E. Restricted Fund Balance with Treasury

This item represents the unobligated amount restricted to future use and not apportioned for current use.

F. *Cash*

The Housing Guaranty Program maintains an account at a commercial bank. In prior years, the Program required borrowers to deposit reserves in trust into the USAID commercial bank account. These reserves were designed to offset claims resulting from borrower defaults and local currency devaluation. Interest accrued to the benefit of the borrowers and reserve account balances were to be refunded to the borrowers upon maturity. Due to borrower defaults over the years, the account no longer contains borrower monies and is now comprised entirely of USAID funds.

G. *Funds with USAID*

USAID holds funds as balances in the U.S. Treasury from which it pays operating expenses that are not paid by the Housing Guaranty Program's operating expenses fund. At September 30, 1995 and 1994, amounts which are obligated by USAID to pay for Housing Guaranty Program accounts payable are disclosed in the statement of financial position as Funds with USAID.

H. *Accounts Receivable and Claims Receivable*

Accounts receivable represent origination and annual fees on outstanding guarantees, interest on rescheduled loans and late charges. Claims receivable (subrogated and rescheduled) are due from foreign governments as a result of defaults under the Housing Guaranty Program. Receivables are stated net of an allowance for uncollectible accounts determined using a specific identification methodology by country.

I. Furniture and Equipment and Depreciation

Furniture and equipment consist of office furniture and equipment and living quarters furniture and furnishings. Furniture and equipment are capitalized at cost, if the initial acquisition cost is $500 or more. Assets with a high risk are capitalized even if their costs are less than $500. Depreciation is computed on a straight-line basis over ten years for residential furniture and furnishings, seven years for office furniture and equipment, and three years for computer software.

J. *Reserve for Guarantee Losses*

The Reserve for Guarantee Losses-Pre-Credit Reform provides for losses inherent in the guarantee operation. This reserve is a general reserve available to absorb losses related to guarantees outstanding, and commitments to guarantee, both of which are off-balance sheet commitments. The provision for losses on guarantees is based on management's evaluation of the guaranteed loans. This evaluation is based upon analyses of prior loss experience related to the developing country and credit risk assessments which incorporate evaluations of the economic and political conditions which could affect the country's repayment ability. The evaluations take into consideration such factors as the existence of other foreign government guarantees, transfer risk, assessments of foreign government credit risks by other federal financial assistance program sponsors, and the projected political stability within the country.

And a new accounting policy was adopted for guarantees committed after October 1, 1991. The guarantees are subject to a different methodology for calculating loss reserves under the Credit Reform Act.

The Liabilities for Loan Guarantees-Credit Reform is the estimated long-term costs to the Government of loan guarantees, calculated on a net present value basis, for post-Credit Reform activity. The subsidy is accrued once guarantee documents are signed and committed and is reestimated annually. The liability is estimated based on a financial model developed by OMB.

K. Deferred Revenues

Loan origination fees in excess of $250,000 are deferred and recognized over the life of the guarantee as an adjustment to fee income.

L. *Revenues and Other Financing Sources*

Effective in 1992, the Housing Guaranty Program received the majority of the funding needed to support its programs through appropriations. It receives both annual and bi-annual appropriations that may be used, within statutory limits, for operating and capital expenditures (primarily equipment, furniture, and furnishings). For purposes of the financial statements, budgetary appropriations are realized as a financing source of revenue as accrued expenses are recognized.

Additional amounts are obtained through collection of guaranty fees. The Housing Guaranty Program also receives interest income on rescheduled loans, and penalty interest on delinquent balances. Receivables which are delinquent for 90 days or more are placed in a non-accrual status. Any accrued but unpaid interest previously recorded on loans placed in non-accrual status is recorded as a reduction to current period interest income.

M. *Reclassifications*

Certain reclassifications have been made to the 1994 financial statements to conform to the 1995 presentation.

2. CREDIT REFORM

The Credit Reform Act of 1990, which became effective on October 1, 1991 has significantly changed the manner in which the Housing Guaranty Program finances its credit activities. The primary purpose of this Act is to more accurately measure the cost of Federal credit programs and to place the cost of such credit programs on a basis equivalent with other Federal spending. Consequently, commencing in 1992 the Program's activities were funded through direct appropriation provided for that year only, rather than through cumulative appropriations granted in prior years and accumulated under the Revolving Fund.

In fiscal year 1995, the Program received appropriations totaling

$27,198 million. Of the amount appropriated, $19,023 million was obligated for the subsidy costs of new credit activity and $7,898 was available to the Program for its operating and administrative expenses.

When guarantee commitments are made, the program records a guarantee reserve in the program account (the budget account into which appropriations to cover the cost of the Program's credit programs are made). This guarantee reserve is based on the present value of the estimated net cash outflows (if any) to be paid by the Program as a result of the loan guarantees, except for administrative costs, less the net present value of all revenues to be generated from those guarantees. As discussed above, when the guarantee reserve is established, an obligation is recorded against budget authority (appropriation).

When the loans guaranteed by the Program are disbursed, the Program transfers from the program account to the financing account (a non-budget account that holds balances, receives the cost payment from the program account, and includes all other cash flows to and from the Government resulting from crdit program commitments) the amount of the subsidy cost related to those loans. The amount of subsidy cost transferred, for a given loan, is proportionate to the amount of the total loan disbursed.

3. COMMITMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In addition to the risks associated with its claim receivables, the Housing Guaranty Program is subject to risk for financial instruments not included in its statement of financial position. These financial instruments are guarantees on unsecured loans which provide principal and interest repayment protection to U.S. lenders against political and economic risks of lending to the developing countries. USAID does not hold collateral or other security to support its off-balance sheet risk. However, for most guarantees, a third-party guarantee from the host government of the debtor is required for principal, interest and certain fees disbursed by USAID on behalf of the borrower.

The Congressionally authorized guaranty limit is as follows (in thousands):

Pre-Credit Reform	$2,558,000
Credit Reform	545,274
	$3,103,274

Of the total authorized guarantees, $2.6 billion have been contracted and $9 million of the contracted guarantees remain to be disbursed. Loans authorized but not yet under contract amount to $473 million. Outstanding guarantees and guarantee commitments that management estimates may ultimately result in uncollectible claims have been reflected as a liability in the financial statements.

Partial payments are paydowns on guaranteed loans. When the loan is entirely repaid, it is not included in authorized or outstanding guarantees. To monitor its compliance with the Congressional Authority, the Housing Guaranty Program reduces the outstanding guaranteed loan balances for any paydowns on loans with guarantees.

4. FUND BALANCE WITH TREASURY AND CASH

Appropriated capital is disclosed separately for Pre-Credit Reform and for Credit Reform to reflect the effects of Credit Reform on the Program's net position. Capital accumulated through September 30, 1991 can only be used to finance credit activities which were originated prior to September 30, 1991. Capital appropriated in fiscal years 1992 and beyond, under Credit Reform, is designated for specific years' credit activities.

Fund Balance with Treasury and Cash at Riggs National Bank at September 30, 1995 and 1994, are as follows (in thousands):

	1995		1994	
	Available	Restricted	Available	Restricted
Revolving Funds	$33,569		$16,869	
Appropriated Funds	$47,203	$3,541	$43,862	$2,662
Cash at Riggs Bk	$366	-	$355	-
Total	$81,138	$3,541	$61,086	$2,662

5. ACCOUNTS RECEIVABLE, NET - NON-FEDERAL

Accounts Receivable, Net-Non-Federal, consist of USAID loan fees receivable, interest receivable on rescheduled loans, and penalty interest (late charges) receivable. Accounts receivable from major borrowing regions, net of an allowance for doubtful accounts, consist of the following (in thousands):

	1995	1994
Africa	$13,597	$10,581
Asia	447	-

Latin America	5,177	2,670
Near East	521	20
Total Accounts Receivable	19,742	13,271
Less: Allowance for doubtful amounts	(18,600)	(12,382)
Accounts Receivable, Net-Non-Federal	$ 1,142	$ 889
Allowance for doubtful accounts at October 1, 1994	$12,382	$11,950
Provision charged to operations	6,218	432
Other	0	0
Allowance for doubtful accounts at September 30, 1995	$18,600	$12,382

6. CLAIMS RECEIVABLE, NET - NON-FEDERAL

Claims receivable consist of subrogated claims and rescheduled claims receivable.

When the Housing Guaranty Program guarantees a loan to foreign country borrowers, it requires that the foreign government also guarantees repayment of the loans. When the borrower of a guaranteed loan defaults, the Housing Guaranty Program makes claim payments to the lender, and obtains the right to receive claim payments from the foreign government.

The Program periodically reschedules claims according to the terms of bilateral agreements which are negotiated and agreed upon by the Paris Club, an informal group of sovereign creditor governments. The Paris Club arranges the rescheduling of these debts, the terms of which frequently require that previously accrued interest be capitalized. When claims in non-performing status are rescheduled under these terms, interest for the non-performing period is included in the rescheduled principal amount and capitalized as part of the new agreement.

For financial statement purposes, the Housing Guaranty Program discontinues accruing interest on loans in non-performing status, and records interest income only to the extent, in management's judgment, borrowers have demonstrated the ability and intent to repay the loan.

Claims receivable, net of an allowance for doubtful accounts consist of the following (in thousands):

	1995	1994
Subrogated Claims	$ 27,418	$ 24,168
Less: Unapplied Collections	(11,594)	(1,398)
	15,824	22,770
Rescheduled Claims	414,543	384,167
Total Claims	430,367	406,937
Less: Capitalized Interest	(108,153)	(99,979)
Claims Receivable	322,214	306,958
Less: Allowance for Doubtful Accounts	(299,057)	(276,714)
Claims Receivable, Net	$ 23,157	$ 30,244

Claims receivable, by geographic area are as follows (in thousands):

	1995	1994
Africa	$ 60,773	$ 51,836
Latin America	259,960	253,793
Near East	1,481	1,329
Total Claims Receivable	$322,214	$306,958

Changes in the allowance for doubtful accounts are as follows (in thousands):

	1995	1994
Balance, at October 1, 1994	$276,714	$253,654
Provision charged to operations	22,343	23,060
Other	0	0
Balance, at September 30, 1995	$299,057	$276,714

7. FURNITURE AND EQUIPMENT, NET

Furniture and equipment consist of the following (in thousands):

	1995	1994

Office Furniture & Equipment	$1,368	$1,135
Living Quarters Furniture	438	336
Less: Accumulated Depreciation	(1,226)	(1,073)
Net Furniture & Equipment	$ 580	$ 398

8. LIABILITIES FOR LOAN GUARANTEES

For loan commitments made prior to fiscal year 1992, the Housing Guaranty Program has established a reserve to cover any future guarantee losses. Loan guarantee commitments made after 1991 and the resulting loan guarantee are governed by the Credit Reform Act of 1990 (PL 101-508){Note 2). Eight guarantees were contracted in 1995. The Program is also subject to off-balance sheet risk associated with guarantees on unsecured loans.

A summary of guarantees committed and used and the related liabilities at September 30, 1995 is as follows:

	USAID Guarantee Committed (in million)	USAID Guarantee Utilized (in million)	Liability (in million)
Pre-Credit Reform	2,406.8	2,009.5	685.8
Credit Reform	179.0	179.0	23.0
	2,585.8	2,188.5	709.8

The activity in the Liabilities for Loan Guarantees-Credit Reform account for each year is as follows (in thousands):

	1995	1994
Beginning Balance:	$ 4,993	$ 2,957
Provision for Subsidy Expense	15,812	3,216
Miscellaneous Fees	2,958	719
Subsidy Reestimate	(677)	(1,899)
Ending Balance	$23,086	$4,993

Guaranties committed prior to October 1, 1991 are not subject to Credit Reform. The activity in the Liabilities for Loan Guarantees-Pre-Credit Reform during fiscal year 1995 and 1994 is as follows (in thousands):

	1995	1994
Pre-Credit Reform Liabilities for Loan Guarantees Beginning of Year	$704,156	$706,889
Provision for losses on loan guarantees	(18,355)	(2,733)
End of Year	$685,801	$704,156

9. **BORROWINGS FROM TREASURY**

Until the end of 1991, the Housing Guaranty Program had indefinite borrowing authority from the U.S. Treasury. Subsequent to September 30, 1991, pursuant to the Credit Reform Act of 1990, the Program has been financed by appropriations. Borrowings from Treasury were required to fund claim payments on guaranteed loans described in Note 5 and to cover losses resulting from direct write-offs of non-Host Country Guaranteed loans. The Housing Guaranty Program is required to make periodic principal payments to Treasury based on the collection of loans receivable. There were no principal payments during fiscal year 1995. Interest expense for the years ended September 30, 1995 and 1994 amounted to $10.6 million and $10.6 million, respectively. For both the 1995 and 1994 years, interest payable at September 30, 1995 amounted to $5.3 million.

As of September 30, 1995, the Housing Guaranty Program's outstanding debt to Treasury matures as follows (in thousands):

Maturity	Average Rate on Outstanding Balance	
9/30/96	8.51%	$ 15,208
9/30/97	8.78%	25,000
9/30/98	8.82%	13,000
9/30/99	8.38%	24,000
9/30/00	8.32%	48,000
Total Debt		$125,208

10. **OTHER FUNDED LIABILITIES - FEDERAL**

Other Funded Liabilities are as follows at September 30, 1995 and 1994 (in thousnds):

	1995	1994
Due to G.S.A	$ 20	$ 61
Due to Treasury	4,527	3,850
Other	150	2
Total Other Funded Liabilities	$4,697	$3,913

11. **APPROPRIATED CAPITAL**

Appropriated capital is disclosed separately in the Statements of Changes in Net Position for pre-fiscal 1992 and for fiscal years 1992, 1993, 1994 and 1995 to reflect the effects of Credit Reform on net position. Capital accumulated through September 30, 1991 can only be used to finance credit activities that were originated prior to September 30, 1991. Capital appropriated in fiscal years 1992 and beyond, under Credit Reform, is designated for specific credit activities.

12. **OPERATING EXPENSES**

Annual operating expenses for the Housing Guaranty Program by object classification are as follows (in thousands):

	1995	1994
Salaries and Benefits	$1,971	$2,289
Contract and Audit	763	1,481
Overhead	1,408	1,073
Regional Offices and Other	3,480	3,362
Total Operating Expenses	$7,622	$8,205

13. **RETIREMENT PLAN**

Housing Guaranty Program employees are covered by one of four retirement plans, the Civil Service Retirement System (CSRS), the Federal Employee Retirement System (FERS), the Foreign Services Pension System (FSPS), or the Foreign Services Retirement and Disability System (FSDS). The Agency contributes approximately 7.5 percent of an employees gross salary for CSRS and FSRDS, and approximately 24 percent of an employees gross salary for FERS and FSPS.

Employees may elect to participate in the Thrift Savings Plan (TSP). Under this plan, FERS and FSPS employees may elect to have up to 10 percent of gross earnings withheld from their salaries and receive matching contributions from a minimum of 1 percent to a maximum of 5 percent. CSRS and FSRDS employees may elect to have up to 5 percent of gross earnings withheld from their salaries, but do not receive matching contributions.

Although the Housing Guaranty Program funds a portion of employee pension benefits and makes necessary payroll withholdings, it has no liability for future payments to employees under the programs, nor is it responsible for reporting the assets, actuarial data, accumulated plan benefits, or any unfunded pension liability of the retirement plan. Reporting of such amounts is the responsibility of the U.S. Office of Personnel Management and the Federal Retirement Thrift Investment Board. Data regarding actuarial present value of accumulated benefits, assets available for benefits, and unfunded pension liability are not allocated to individual departments and agencies.30

14. INTRA-GOVERNMENT TRANSACTIONS

The Housing Guaranty Program is subject to the financial decisions and management controls of USAID, which in turn is subject to the financial decisions and management controls of the OMB. As a result of these relationships, Housing Guaranty Program operations may not be conducted, nor its financial position reported, as they would if the Housing Guaranty Program were an autonomous entity.

The Housing Guaranty Program reimburses USAID quarterly for miscellaneous agency support costs, after which all such costs except for actual personnel costs is charged directly to the Housing Guaranty Program were reimbursed.

As discussed in Note 13, the Housing Guaranty Program does not account for those aspects of retirement plans which are the responsibility of the U.S. Office of Personnel Management and the Federal Retirement Thrift Investment Board.

15. Reporting Corrections of Errors

Cumulative Results of Operations and Receivables as of 09-30-1994 have been re-stated due to a reconciliation on loans receivable that was not previously available. The change also affected the income.

Executive Summary

Well over half of gross domestic product in most if not all developing countries comes from their rapidly expanding urban centers. Well managed and environmentally sound urbanization is key to sustainable economic development. The Housing Guaranty (HG) Program is USAID's primary tool for addressing urban development issues, including the financing and management of low-income shelter and environmental services, i.e. potable water, sewerage, water treatment and solid waste management. The program extends loan guaranties to U.S. private investors who make loans to public and private institutions in developing countries which USAID seeks to assist. USAID works with local institutions and communities to design programs that use the loan proceeds to formulate and execute sound and sustainable urban environmental, municipal development, and housing policy. USAID credits are provided to encourage developing country recipients to make needed fundamental policy and institutional reforms.

Since its inception in 1961, US$2.8 billion guaranties by the HG program have provided critical assistance to more than 28.7 million poor individuals in 48 countries worldwide. Of this $2.8 billion in guarantied loans, just $39.8 million has been written-off representing less than 1½ cents per dollar guarantied or 1.4 percent write-offs over the life of the program. Of the fourteen countries where write-offs occurred all but one were the result of pre-Credit Reform HG loans to housing developers which were not covered by foreign exchange guaranties. In 1991 Congress addressed many of the prior financial shortcomings of this program with the passage of the 1990 Federal Credit Reform Act. The Post-Credit Reform HG program receives annual appropriations projected by the Inter-Agency Country Credit Risk Assessment System (ICRAS) to be sufficient to cover future costs. No write-offs have been incurred by post-Credit Reform HG guaranties.

Over the last thirty years, the HG program has benefitted more than 2.6 million individuals in Latin America and the Caribbean with projects in 85% of the countries in the Western Hemisphere. By reaching such a vast population, the HG program has contributed to the substantial growth of democracy in this part of the globe. This extraordinary leveraging ability of the HG investment mobilizes funds from both public and private local investors in those countries. HG programs in Asia have directly benefitted 3.5 million low-income households. More recent HG loan guaranties continue to reflect the program's effectiveness. Over the last three years, the HG program has benefitted over 13,000 households in the former communist countries of Poland and the Czech Republic. In FY 1995 alone, the South Africa HG program has produced over 26,000 mortgages in the newly democratic republic, providing shelter for more than 200,000 low-income individuals. In the countries currently engaged in the Middle East Peace Process, more than 230,000 people have benefited from shelter and urban infrastructure built with HG-backed capital.

Currently active in more than 20 countries, the program is targeted to an income profile parallel to that of Development Assistance and Economic Support Fund recipients. Multi-year Housing

Guaranty activities are approved and in implementation in Asia (India, Indonesia, Pakistan, Philippines, Sri Lanka and Thailand) the Near East (Morocco and Tunisia), Eastern Europe (Poland, Hungary and Czech Republic), Central America (Chile, Ecuador) and South America and Southern Africa (South Africa and Zimbabwe). In South Africa, U.S. Government guaranty subsidy costs of just over U.S.$4 million have leveraged U.S.$75 million from the U.S. private sector as well as commitments for the Rand equivalent of an additional U.S.$150 million from the South African private sector financial institutions toward low-cost housing in South Africa.

In FY 1994, the Office of Urban Programs began to reassess its approach to program performance measurement and to embark upon a process to improve the HG performance measurement system. The exercise was consultative, including a series of interviews and surveys involving Washington and field staff, to ensure that the indicators used will both describe the rationale for being engaged in programs, and demonstrate direct, measurable results of USAID's interventions through the HG program.

Having assessed the current cadre of indicators presented at the onset of each project, we have narrowed the field to reflect only those indicators which field staff can credit solely to active HG projects. The 16 performance measurements used by field staff to gauge the effectiveness of HG projects, fall into three program categories: **shelter and housing finance, urban environment and infrastructure,** and **local government and municipal management.**

The HG program implementation agreements made by and between USAID and the foreign borrower, define specific implementation tasks and indicators which have to be met by the borrower/implementor. HG funds are often combined with leveraged resources to affect positive change in prescribed areas as defined in USAID's programs. The impact achieved with these leveraged resources can be directly linked to the U.S. HG resources as a result of these agreements.

As the Agency proceeds with its reengineering exercise, the Results Review and Resource Request (R4) process will include indicators at the Mission, Center and Agency levels. The R4 document will include programmatic indicators (including the HG programs), that measure progress toward meeting Office and Agency strategic objectives (SOs). By the end of this process, it is anticipated that indicators should be standardized on an Agency wide basis. Field staff have provided information on HG program indicators as they relate to the office's strategic objectives and will, henceforth, report on progress on meeting indicators through the R4 mechanism.

The delay in the full implementation of USAID's new Agency wide AWACS accounting system has prompted the Office of Environment and Urban Programs to take other steps in FY 1995 and FY 1996 to improve its financial oversight of the HG loan portfolio. To supplement financial information generated by USAID's Financial Management/Loan Management Division (FM/LM), the Office has developed a relationship with Riggs Bank Financial Management Reporting on most of the active HG portfolio. This process is ongoing, and is expected to be completed during FY 1997.

Program Overview
June 30, 1996

Introduction

The Housing Guaranty Program, established through Title III, Sections 221, 222 and 238c of the Foreign Assistance Act of 1961, stimulates United States (U.S.) private sector involvement in the financing of low-income shelter and related urban environmental services in the developing world.

The Housing Guaranty Program utilizes the guarantee of repayment by the U.S. Government to leverage funds from U.S. investors for eligible borrowers in developing countries. U.S. private sector lenders make financing available at commercial rates. The repayment of principal and interest is guaranteed through USAID by the full faith and credit of the U.S. Government. In return for receiving financing at affordable rates, foreign borrowers pay an initial charge of one percent of the loan amount and an annual fee of one-half of one percent of the unpaid principal balance. All fees and resulting earnings are held in a revolving fund account maintained by the U.S. Treasury.

Table 1 below provides a breakdown of loan guaranties issued and outstanding as of September 30, 1995.

TABLE 1.
Total Principal Amount of Guarantees Issued and Outstanding
Pre- and Post-Credit Reform Activity

	Pre-Credit Reform		Post-Credit Reform	
Loans Authorized	**# of Loans**	**Authorization Level**	**# of Loans**	**Authorization level**
Total Under Contract	166	$2,408,843,136	13	$179,000,000
Total Not Under Contract	22	183,522,750	21	348,000,000
Less: Repayments		385,294,295		-0-
Total Principal Amount of Guarantees Authorized and Outstanding		$2,207,071,591		$527,000,000

Program Description

Since its inception in 1961, the Housing Guaranty Program (HG) has evolved to respond to a wide range of urban problems in the developing world. Early projects were similar to other U.S. Government housing loan programs in that the borrower was the homeowner, and the guaranty was offered to the lending institution on his/her behalf. In addition, financing was provided specifically and exclusively for the construction of housing units. During the 1970s the scope of the program was expanded to include the funding of land development and neighborhood upgrading programs. These projects mobilized the components of decent shelter which low-income families have the most difficulty providing for themselves: land and basic infrastructure (water, sanitation, drainage, etc.). While these projects offered clear benefits to neighborhood residents, they did not directly improve shelter conditions city-wide. As a result, HG program financing is increasingly directed toward urban policy reform and increased private sector participation in the process by which low-income city residents gain access to land, housing and basic urban services. This historical evolution is reflected in the three main areas of focus of the current HG program: Shelter and Housing Finance, Urban Environment and Infrastructure, and Local Government and Municipal Management.

The Shelter and Housing Finance component focuses on maximizing the private sector contribution to the process of urbanization. The streamlining of the urban development regulatory framework helps bring down costs and, therefore, allows low-income households and small-scale developers to enter the housing market. Housing finance assistance, through the intermediary of national housing banks, private savings and loan institutions and commercial banks, stimulates demand and generates employment in the construction sector. The recent USAID re-organization, integrating the existing housing and urban development activities with energy and natural resources activities under the new Center for the Environment, has accelerated a shift in emphasis away from conventional shelter projects to projects more accurately viewed as urban environmental infrastructure.

Large-scale urbanization is generally recognized to increase both the potential for economic development and the threat of environmental degradation. The HG program therefore assists local governments in improving services which protect or enhance the urban environment. In addition, HG resources are increasingly targeted to financing urban environmental infrastructure. Investment in water, wastewater and solid waste disposal systems contributes directly to the urban economy and improves the environmental quality of cities in the developing world. The program also supports the development of methodologies for analyzing the impact of urban environmental problems on health, economic development, and natural resources conservation. The results of this analysis contribute to formulation of the strategies to protect ecologically fragile areas and manage key coastal resources.

The Housing Guaranty Program furthers the cross-cutting A.I.D. objective of democratic participation through its Local Government and Municipal Management area of focus. HG financing supports decentralization efforts by strengthening the ability of local governments to generate additional revenue. Municipal development programs bolster local property tax revenues through improved land registration and titling procedures. Cost recovery is promoted in the delivery of urban services by public agencies and/or private firms. The resulting improved fiscal performance allows cities to finance capital improvements and other services from their own sources. Engaging the private sector in these activities through partnership or financial incentives also increases the ability of local governments to meet their own development needs.

Fiscal Year 1995 HG Activity

Loan guaranty authorization and disbursement activity for the Housing Guaranty Program during Fiscal Year 1995 is summarized in Tables 2 and 3, respectively. Although no refinancings of HG loans took place in FY 1995, the maturity of one $5 million Line of Credit in Chile (513-HG-009 A01) was extended from July, 1995 to June, 2001.

Table 2.
Loan Guaranty Authorizations in Fiscal Year 1995 (in thousands)

Authorization No.	Country	Authorization Date	Amount
386-HG-017	India	6/9/95	$20,000
497-HG-008	Indonesia	6/30/95	20,000
608-HG-007	Morocco	8/24/95	15,000
493-HG-007	Thailand	6/15/95	10,000
664-HG-013	Tunisia	6/8/95	10,000
613-HG-005	Zimbabwe	6/29/95	15,000
674-HG-003	South Africa	8/30/95	47,000
674-HG-004	South Africa	9/29/95	11,000
TOTAL			**$148,000**

Table 3.
Loan Guaranty Disbursements in Fiscal Year 1995 (in thousands)

Loan Contract No.	Borrower	Contract Date	Amount
391-HG-002 A01*	Pakistan	11/1/94	$15,000
383-HG-004 A01	Sri Lanka	11/8/94	10,000
497-HG-006 A01	Indonesia	12/15/94	25,000
664-HG-011 A01	Tunisia	1/17/95	10,000
608-HG-005 A01	Morocco	2/2/95	20,000
674-HG-001 A01	NEDCOR (South Africa)	2/27/95	30,000
192-HG-001 A01	Czech Republic	3/15/95	10,000
192-HG-002 A01		3/15/95	10,000
664-HG-009 B01*	Tunisia	8/1/95	2,000
664-HG-010 A01		8/1/95	5,000
664-HG-012 A01		8/1/95	10,000
525-HG-014 A02	Banco General (Panama)	8/15/95	7,000
TOTAL			$154,000

Note: * Signifies Authorizations made prior to implementation of the Federal Credit Reform Act of 1990.

Financial Performance Measures

The following analysis is primarily based on the accompanying FY 1995 financial statements:

- Summary of the Housing Guaranty Program's financial position;
- Cost of operations and the changes in net position during 1994 and 1995;
- Significant cash flows during two fiscal years, and;
- Comparisons of budgets and actual expenses.

Operations

Total revenues and financial resources ($47.5 million) of the Housing Guaranty Program registered an increase of 18.5% ($8.8 million) in FY 1995, as compared with the total in FY 1994 ($38.7 million). Total FY 1995 expenses ($44.4 million) as a percentage of total revenues and financial resources declined from 111% in 1994 to 93.5% in 1995, a positive development. Operating expenses of $7.6 million, down from $8.2 million in FY 1994, were 17.1 % of total expenses in 1995, as compared to 18.8% in 1994, also a significant improvement.

As a result of the increase in revenues and financial resources in FY 1995, the shortage (deficit) in recent years of revenues and financial resources compared to total expenses ($4.4 million in FY 1994) was reversed and a surplus of $3 million was realized in FY 1995, continuing a trend of improvement in operating performance.

Assets/Liabilities/Net Position

As of the end of FY 1995, the HG Program had total assets of $110 million (1994: $95 million). Of this amount, 77% (1994:66%) represented fund balances with U.S. Treasury and cash maintained at a commercial Bank. After allowance has been made for doubtful accounts, net claims receivable of $23 million in FY 1995 amounted to 21% (FY 1994: 32%) of total assets, while net accounts receivable represented 1% of total assets in FY 1995 (FY 1994: 0.9%).

The Program had total liabilities of $848 million in 1995, a slight decrease from $849 million in FY 1994. Of this total, $709 million, or 84% (FY 1994: 83%) consisted of liabilities for loan guaranties (Pre- and Post-Credit Reform). About 97% (FY 1994: 99%) of the liabilities for loan guaranties for 1995, or $686 million (FY 1994: $704 million) is based upon credit risk ratings and applied as a reserve against outstanding contingent liabilities for guaranties contracted prior to fiscal year FY 1992. These ratings are viewed by USAID management as being conservative. Borrowings from Treasury of $125.2 million in FY 1995 constituted 14.8% (FY1994: 14.7%) of total liabilities. In net position, appropriated capital increased by a net amount of $12.7 million, or 6.1% (FY 1994:11.9%) to $209 million.

LOAN ACTIVITY ANALYSIS (Table 4)

Subrogated Claims Paid

An analysis of the Subrogated Claims paid in each of the past five fiscal years is shown in Table 4. In fiscal year 1991, the subrogated claims paid peaked when payments reached $67 million. In 1995 and 1994, payments of subrogated claims were $57 million and $55 million, respectively. As of September 30, 1995 the total amount of Subrogated Claims outstanding amounted to $27.4 million, a decrease of 73% over the five year period.

Subrogated Claims Recovered

Claims recoveries for the past five fiscal years have not kept pace with claim payments due to the rescheduling of $263 million of payments under the auspices of the Paris Club. While claim payments reached an all time high of $67 million in fiscal year 1991, claim recoveries dropped to their lowest level of $18 million the same year. However, due to improvements in billing and collection procedures, and the economic situation of many of the countries themselves, claim recoveries in 1995 and 1994 showed significant improvement and were $27 million and $25 million respectively. See Table 4.

Subrogated Claims Rescheduled

Subrogated claims rescheduled are as shown in Table 4. The data shows that amounts continued to be rescheduled each year under bilateral Paris Club rescheduling agreements. Subrogated Claims rescheduled reached their highest level of $115 million in 1992. Of this amount, the rescheduling of guaranteed loans for Peru alone accounted for $104 million. Subrogated Claims rescheduled in 1995 and 1994 were $31 million in each year.

Subrogated Claims Outstanding

A five year analysis of subrogated claims outstanding (see Table 4) shows that from 1991 to 1992, claims outstanding decreased substantially due in large part to rescheduling of those claims. The amount of subrogated claims outstanding increased from $24 million in 1994 to $27 million in 1995.

Table 4.
Five Year Subrogated Claim Analysis ($ in Millions)

Year	Incurred/Paid by USAID	Recovered by USAID	Rescheduled	Outstanding
1991	67.0	18.0	61.4	96.9
1992	61.8	24.2	115.4	19.1
1993	55.5	27.3	24.6	22.7
1994	55.4	25.1	31.0	24.2
1995	57.0	26.8	31.0	27.4

Surbrogated Claims:

Paid by USAID - represents total amounts of Principal and Interest paid during the year by USAID to Noteholders of record to cover late payments by Borrowers. In almost all cases, USAID covers these late payments in a timely manner prior to any formal claims being introduced by the Noteholders under the formal subrogated claim procedure as outlined in the HG Program's Standard Terms and Conditions.

Recovered by USAID - total amounts received during the year from Borrowers representing recoveries of amounts paid to Noteholders on behalf of Borrowers by USAID.

Rescheduled - represents the total portion of claims paid by USAID which are rescheduled during the year in accordance with bilateral rescheduling agreements between the U.S. and certain countries under Paris Club rules.

Subrogated Claims Outstanding - constitutes the year-end balance of the General Ledger account, Subrogated Claims Receivable, representing amounts which have not been recovered or rescheduled, or are pending rescheduling.

CLAIM LOSSES ON NON-HOST COUNTRY GUARANTIES

Claim Payment and Recoveries

Claims paid under the non-host country guaranties are written off in the year paid. Recoveries on these previously written-off loans are recorded as revenues in the year received. Claim losses and recoveries from fiscal years 1991 through 1995 are as shown in Table 5.

Table 5
Five Year Claim Loss Analysis ($ in Thousands)

Year	Incurred/Paid by USAID	Recovered by USAID
1991	1,488	58
1992	1,397	141
1993	1,090	2,212
1994	937	257
1995	654	136

Program Performance Overview

In Fiscal Year (FY) 1992, the Office of Environment and Urban Programs began to measure systematically the technical and financial performance of the loan programs in the HG portfolio. Since then, the office has been analyzing program performances by collecting information on a set of twenty-four performance indicators. These indicators measured performance of key variables in housing markets, infrastructure finance, municipal finance, and urban environmental services. In FY 1994, the office began to reassess its approach to program performance measurement and to embark upon a process to improve the performance measurement system. During FY 1995, the office commissioned the development of a set of core performance indicators for monitoring progress on, and measuring the impact of the HG program. The exercise involved a series of interviews and surveys involving Washington and field staff with a view to develop indicators which will both describe the rationale for being engaged in programs, as well as demonstrate direct, measurable results that are achieved by the HG program. By the end of FY 1995, the results of the field surveys and interviews were compiled in a draft report which is currently being assessed for merit. The final report, due in January 1996, will provide recommendations on performance indicators which will allow G/ENV/UP staff to better assess the results of the Housing Guaranty programs for all countries in which urban environmental staff are working.

As was done for FY 1994, the performance overview for FY 1995, constructs one indicator from a variety of project indicators used by individual USAID field missions to analyze the program's FY 1995 performance.

Methodology

The objective of this exercise is to measure the performance of the HG loans. Essentially, there are two key questions which every loan, and therefore every HG project, must answer:

- Is it achieving what it is intended to achieve?;
- Is it achieving its objective efficiently?

The targets which are set at project inception will be used to measure project achievements. These targets, which respond directly to the purpose of the program, take different forms. All projects have target outputs, i.e., quantifiable measurements of progress such as the number of housing loans financed or the number of loans issued to households for residential water connections. Some projects, in particular those which attempt to improve government policies, define both outputs and benchmarks. Benchmarks are qualitative measurements of the attainment of a certain condition, such as the adoption of an urban growth strategy or the implementation of a new way of providing services.

In most cases, however, the achievement of a benchmark is easy to assess: the desired change either has or has not occurred. Nevertheless, to interpret this fact within the context of program performance measurement, it will be necessary to judge whether the benchmark should have been reached by a particular point in time, such as FY 1995, or could still be reached later in the project. Increasingly, USAID projects include explicit targets for completion of outputs and policy benchmarks.

Because of the variety of performance indicators previously used by individual USAID field missions in monitoring the performance of their HG programs, we use a progress indicator to increase the ability to compare performance from one program to another. The progress indicator, for quantitative outputs, compares the percentage of life-of-project target achieved to the percentage of money spent. It takes the form of the following ratio:

$$\frac{\textbf{\% of life-of-project target achieved}}{\textbf{\% of total life-of-project funding expended}} = \textbf{Progress Indicator}$$

This indicator has the advantage of simplicity but has the disadvantage that it does not measure the difficulty of the targets and can be misleading in comparing one project to another. Where the value of the progress indicator is greater than or equal to one, the technical performance of the loan could be considered on target. Where the value is less than one, project performance could need to be monitored more carefully.

It is important to note the indicator's disadvantages in more detail. Where the relationship between the rate of target achieved and the rate of funding expended is not linear, i.e. where a one-to-one correlation may not exist between an increase in project funding and an increase in an output, the progress indicator may not represent project performance accurately. In some programs, for example, attaining output targets will depend on structural changes that take place during the early years of the program. Until those changes are effected, the rate of environmental services or housing production may be slow. Later in the program, after policy changes have been implemented, the rate would be expected to increase. Care should therefore be taken in interpreting the progress indicator values included in this overview, particularly for relatively new programs, and especially when they rely on policy changes to achieve their objectives.

The indicator uses the same value in the denominator - the percentage of the life-of-project (LOP) funds expended, for each of the targeted outcomes in a program. The measurement's precision would be improved if we were able to distribute the planned amount of funds expended to each of the individual expected outcomes in a program. Instead, if for example, 50 percent of LOP funds have been expended in a program we measure each end-of-project target achievement against 50 percent.

The programs included in the FY 1995 survey are those which are still in the process of implementation, have disbursed funds in or before FY 1995, and for which USAID Project Officers continue to manage with their host country counterparts to achieve agreed upon program outcomes. HG programs which have been authorized but have not yet disbursed funds, such as some of those in Table 2 of the Financial Overview, are therefore not discussed.

The nineteen programs included in this performance overview represent a total Life-of-Project amount of $940 million. $713 of this total was authorized by the end of FY 1995. Of these authorizations, $436 million have been contracted and disbursed, which represents 17% of the total amount of HG loans under contract, as of September 30, 1995. Loans guarantied by the HG program generally have terms of 30 years. The remaining HG loans contracted and still outstanding in the portfolio have been excluded from the performance evaluation because (with the exception of less than 2%) program implementation was completed before FY 1995 and eligible expenditures have been made and reimbursed according to Program Agreements executed by USAID and the host country borrower.

Technical Performance by Program Area

Urban Environment and Infrastructure

The programs in the Urban Environment and Infrastructure area which had loan disbursements during or before FY 1995 focus on the provision of environmental infrastructure; water and wastewater networks and solid waste collection and disposal for below-median income residents. In some cases, this investment takes the form of neighborhood renovation projects, in which the residents of slums or squatter settlements are provided with infrastructure. In other cases, environmental infrastructure is provided through sites and services projects, in which developers create residential plots and hook them up to the city water, wastewater and electrical systems.

The Near East and North Africa remains the region which has the highest concentration of urban environmental programs which had loan disbursements in FY 1995. In **Morocco**, two projects are currently being implemented. The **Tetouan Urban Development Project** (608-HG-001) provides basic infrastructure to residents of an unregistered, underserved neighborhood that is home to many of the city's poorer residents; the project also seeks to provide affordable serviced plots to check the growth of such settlements, and to involve the private sector in the production of serviced land (plots equipped with basic infrastructure). No official PACD was set, however the project will be completed in FY 1996.

While a target of 14,000 beneficiary households was set for the upgrading component, 12,000 have benefitted to date. With 70% of the funding expended, the value of the progress indicator for this component is 1.22. On the land development aspect, 1,980 out of a targeted 2,000 new services plots have been produced, yielding a progress indicator of 1.41.

The **Urban Infrastructure, Land Development and Financing program** (608-HG-004), also in **Morocco**, seeks to improve shelter conditions and increase municipal government capacity in the provision of shelter-related services. The primary vehicle for attaining the first objective is the creation of 25,000 serviced plots over the life of the project. To date, 4,000 have been produced, while only 15% of the project funding has been expended. The progress indicator remains at 1.06. The municipal development component, which will be measured primarily through benchmarks, is scheduled to begin later in the project.

In this region also, the **Private Participation in Environmental Services** program in **Tunisia** (664-HG-005) is working toward greater coverage of environmental services and more private sector intervention in this sector. This policy-based program can be measured through its outputs and through changes in the way the Tunisian Government provides liquid waste and solid waste services. Out of a targeted 67,000[1] households benefitting from new environmental infrastructure, 35,260[2] has been served to date. As 40% of the funding has been expended , the progress indicator is 1.32. Progress has also been made on the policy components of the program. In fact, all FY 1995 targeted policy goals were met or exceeded, including the number of private sector contracts signed and national strategies established for the liquid and solid waste sectors.

Another **Tunisia** HG, the **Low Cost Shelter Program** (664-HG-004D) seeks to improve the quality of shelter and urban infrastructure for below-income households. The end-of-project target is to upgrade 15,000 households and informal subdivisions services, and at the end of the project 21,000 households have been serviced. Therefore, with 100% of the funds expended, the performance indicator is 1.41. The second outcome was to have 5 municipal staff trained in tax management procedures. Zero municipal staff were trained in tax management, although they did receive training on other topics such as solid waste management, financial analysis and cost accounting.

In addition to the North African programs, the **Central American Shelter and Urban Development Project** (596-HG-006) aims to increase the availability of shelter and basic infrastructure for low-and medium-income families. The end-of-project target is the production of 10,000 shelter units, including upgraded plots and serviced sites. To date, 6,071 units have been produced under the project, while 57% of the project funding has been expended. The progress indicator for this HG is therefore 1.06.

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[1] A total of 167,000 households were reported in the FY 1994 Annual Report. This was a typographical error. The actual target is 67,000 household beneficiaries.

[2] A total of 51,600 actual beneficiaries was reported in the FY 1994 Annual Report. The actual number to date is 35,260.

Local Government and Municipal Management

USAID's global experience has proven that decentralized governments are more responsive to the needs of their citizens, particularly the urban poor. It is this premise which underlies the activities in this program component. Three programs, one in the Czech Republic, one in Indonesia and one in the Philippines address municipal issues. They work to achieve: greater financial autonomy for local governments; better municipal resource mobilization; and, increased participation of the private sector in the financing and delivery of urban services.

The **Municipal Infrastructure Finance Program** (192-HG-001) in the **Czech Republic** is working to establish a market-oriented system of lending to local governments for financing infrastructure investment related to the housing sector. The end-of-project target is the provision of 15 municipal infrastructure projects. The program has exceeded its target with 21 projects only 27% of the life-of-project funding expended. The progress indicator is therefore 5.19.

The **Decentralized Shelter and Urban Development Project (DSUD)** in the **Philippines** (492-HG-001) calls for improved resource mobilization by local governments. **DSUD** has been effective in increasing the ability of local governments to levy and collect taxes; targeting a 58% increase in collection rates by FY 1994. During FY 1995, the program maintained an average increase of 57%. With 70% of the LOP funding expended the progress indicator therefore remains stable at 1.40. The project also had success with regard to the development of bond propositions (1 targeted, 3 prepared), the project has to date been unable to meet its target of one municipally issued bond.

As part of its overall effort to make local governments more financially autonomous, the **Municipal Finance for Environmental Infrastructure (MFEI)** in **Indonesia** (497-HG-002) is working to increase the share of central-to-local government transfers controlled by municipalities from 50% to a target value of 60% over the life of the project. The chosen indicators demonstrate the change in capacity of municipalities to control their finances and consequently develop local of environmental infrastructure. Although 20% of the project funds have been expended, local government control over these transfers has already increased, as an average over the last two years, to 55.5%. The progress indicator for this component is 2.75

Local government ability to generate its own resources is another focus of **MFEI**. One target in this area is an increase in user charges as a share of own source revenue[3] from 19% to a target value of 25%. To date, user charges have increased, by an average over two years, to approximately 20.4 of own source revenues. This increase yields a progress indicator of 1.16. **MFEI** also aims to increase the percentage of own source revenues generated by property tax from 26% to a target value of 30%. Property tax currently represents 26.8 of own source revenues. The progress indicator is therefore 1.

[3] "Own source revenue" is revenue generated and collected by the municipality

Shelter & Housing Finance

The focus of the HG programs in this area is to improve the delivery of low-cost shelter through increased private sector particip·ition in the financing of shelter and related services. Within this componeır, there are elev. : (11) a..ive HGs which had loan disbursements in FY 1995 or earlier that address these issues.

The **Ecuador National Shelter Delivery System** (518-HG-007) promotes increased access to new and upgraded shelter and urban environmental services financed by public and private sector institutions. The end-of-project target is 16,000 shelter solutions. To date, with only 20% of the LOP funds expended, 4,487 shelter solution or 28% of the LOP target has been achieved. The progress indicator is therefore 1.40.

In **Honduras**, the **Shelter Sector Program II** (522-HG-008) seeks to improve the institutional capacity of the private sector and municipal governments and to increase the availability of housing and infrastructure services for low-income families. With 93% of the funds expended, the LOP target of 2,917 new mcrtgage loans is almost fully achieved at 89% (2,605) yielding a progress indicator of 0.96. The target of 21,887 has been met and surpassed with 25,650 beneficiaries gaining improved infrastructure.

The **India Housing Finance System Program** (386-HG-003/003A) aims to promote the development of a financially sound, self-sustaining private sector housing finance system. There has been much progress on the creation of Housing Finance Company branch offices - 252 of a targeted 400 are already in place with 25% of project funding expended. The progress indicator for this component of the program remains at 2.52 in FY 1995.

The purpose of the **Jamaica Shelter Sector Support (Basic Shelter)** (532-HG-012C) is to assist the Government of Jamaica in facilitating, rather than providing housing and related services. Under the project, 920 plots out of a targeted 2,000 have been upgraded. With 68% of the project funds expended, the progress indicator for this component is 0.68. The project has to date provided 1,181 plots out of a targeted 1,900, yielding an indicator value of 0.91.

The second active HG in **Jamaica, Shelter Sector Support (Private Sector)** (532-HG-012B), focuses on stimulating private sector participation in low-income shelter. To date, the program has financed 826 out of a target of 2,920 home improvement loans and 128 out of a target of 600 mortgage loans. With 59% of funding spent, these components have achieved progress indicator values of 0.47 and 0.36 respectively. Of the 480 serviced land loans targeted, 113 have been made to low-income families. The progress indicator for this component is therefore 0.40 indicating that the implementation of the program is behind its expected target.

In **Panama**, the **Private Sector Low Cost Shelter Project** (525-HG-014) seeks to increase the financial participation of private sector institutions in the production of low-cost shelter. To date, 1,288 out of a project target of 3,500 new housing units have been developed. With 48%

of funding spent, the progress indicator fell from last year's 0.86 to 0.77 in FY 1995, indicating that progress on the new housing units remains slow.

In **Poland**, the objective of the **Housing Finance and Shelter Production Program** (180-HG-001) is to support the transformation of the Polish housing sector into a responsive and competitive market-based system. To date, the program has financed eight out of a targeted ten construction loans, with only 5% of project funding expended. The progress indicator is therefore 16. Twenty-four (24) out of a targeted 500 mortgages to individual home buyers have been made, yielding a progress indicator of .96. New mortgage origination and servicing procedures are now in place and should facilitate increased mortgage lending. These progress indicator values indicate that the project is a good example of the often nonlinear relationship between project outcomes and expenditures.

The **Low Income Shelter Program in Sri Lanka** (383-HG-004) seeks to increase private sector participation in low-income housing finance. In FY 1995, the program met its target of financing 130,000 housing loans with only 82% of the LOP project funds spent. The progress indicator for this component of the program is 1.22. The program in Sri Lanka has also met its target in increasing the participation of private financial institutions in mortgage lending. By FY 1995 there were five (5) private financial institutions participating in mortgage lending. This component also has a progress indicator of 1.22.

The **Shelter Resource Mobilization Program (SRMP)** in **Pakistan** (391-HG-001) was completed in FY95 with a final disbursement of $25 million. When first authorized the SRMP was given a LOP funding level of $100 million but was subsequently decreased to $40 million as a consequence of the *Pressler Amendment* enacted by the U.S. Congress in 1990. SRMP ended in FY95 after disbursing all $40 million. This disbursement reimbursed the GOP for all eligible expenditures that were spent according to the original SRMP Project Paper. SRMP is considered a success. The program was designed to "promote the establishment of market shelter finance institutions". When the program began, Pakistani policy environment precluded the existence of private Housing Finance Institutions (HFIs). SRMP worked with the GOP to change this environment. By the completion of SRMP there were seven HFCs functioning in Pakistan. These HFCs will expand the breadth and depth of the housing finance market and consequently increase access to housing finance to low-income households.

In **South Africa** the **Private Sector Housing Guaranty** project (674-HG-001) seeks to demonstrate the viability of providing mortgage finance to employed urban South Africans disadvantaged by apartheid. Authorized in FY 1994, the program met and surpassed its target of facilitating 16,450 shelter solutions by reaching an unprescedented 26,000 by mid-FY 1995. With only 40% of the LOP funding expended, the progress indicator for this program component is 3.95. Because community participation was so intrinsic to the success of the program, one indicator chosen was the targeted participation of over fifty (50) Community-based Organizations (CBOs) in the development process. To date, a compact has been signed between one of the financial institutions implementing the program and an umbrella CBO organization, however there has been no reporting on the actual number of CBOs participating. The progress indicator for this component is therefore zero (0). Of the targetted participation of three (3) Housing finance institutions (HFI) in the program, in FY 1995 there were two (2) HFI's providing mortgages to disadvantaged urban South Africans. The progress indicator for this component is therefore 1.66. The final component of the program targets the development of housing projects by two (2) majority developers. By the end of FY 1995, this component of the project, supplemented by technical assistance funds by the mission, was in progress and the target not yet achieved. The progress indicator for this component is therefore also zero (0).

The **Private Sector Housing Program** in **Zimbabwe** (613-HG-004) is designed to improve access to affordable shelter for low-income households on a sustainable basis. This is to be accomplished by (i) increasing private sector participation in housing construction and mortgage finance, the goal being to develop 43,200 low-income housing units, and (ii) increasing the availability of housing plots serviced by basic infrastructure, the goal being to develop 45,400 serviced plots. Thus far, with 30% of the LOP funds spent, 12,000 low-income housing, yeilding a progress indicator of 0.93. To date, there has been no progress made on the serviced plots, yeilding a progress indicator of zero (0).

Conclusion

Even though much of the progress achieved under many of the Housing Guaranty programs globally, cannot be adequately represented by progress indicators, during FY 1995, the majority of the HG programs are shown to be performing at, or exceeding their expected target levels. Of the thirty-seven progress indicators used to gauge the performance of the global HG programs during FY 1995, 21 or 57% have progress indicators over 1.00 showing that the programs are at or beyond their expected targets. Whereas some programs may show no improvement over their status in last year's report, this does not necessarily indicate that there has been no progress made on the policy front during the reporting period. This year we will remove the anomalous progress indicators for Pakistan as there were no discernible program targets, and for the Poland program, which appear to be unusually high. The average progress indicator for all other HG project outputs included in the FY 1995 report is 1.29, indicating on target expected results to date with active HG programs in or prior to FY 1995.

As discussed with the Inspector General, improved HG performance indicators will be in use by the submission of the HG FY96 audit. Efforts are focused on developing indicators which can adequately monitor a program's contribution to meeting a country's strategic objectives as well as the goals of the specific HG program. Efforts are also being made to choose indicators which are both useful to project implementation and which can be gathered in a manageable way by either the Urban Programs field or Washington offices.

USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MEMORANDUM

July 16, 1996

TO: Bruce N. Crandlemire, IG/A/FA

FROM: Donald K. Charney, Chief Financial Officer D.K. Charney

SUBJECT: Final Report - FY 1995 Year End Financial Audit of the Housing Guaranty Program

I have reviewed the final audit report for the fiscal year 1995 Housing Guaranty Program financial statements.

I am looking forward to developing a plan with the OIG to insure that the deficiencies are corrected in an expeditious manner so that the Housing Guaranty operations and financial records are improved, and an unqualified opinion can be rendered for fiscal year 1996.

320 TWENTY-FIRST STREET, N.W., WASHINGTON, D.C. 20523

USAID

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

July 12, 1996

MEMORANDUM

TO: Bruce Crandlemire, IG/A/FA

FROM: David Hales, DAA/G/ENV

SUBJECT: Final Report - FY 1995 Year End Financial Audit of the Housing Guaranty Program

We thank you for sending to us the final report of the FY 1995 audit of the principal statements of the Housing Guaranty Program. We are pleased to note the audit's positive comment in the audit summary concerning the Program's performance measures and our Housing Guaranty Program Overview's consistency with the financial statements, as evidenced by the comment on page 9 of the audit summary: "We found no material inconsistencies with the financial statements, nor did anything come to our attention that caused us to believe that reported performance measurement information was not presented in conformity with OMB Bulletin 94-01".

The Environment Center is very proud of the Housing Guaranty Program. USAID's primary tool for addressing shelter and urban development issues worldwide, it has benefitted over 28 million people in 48 countries, poor families often living in squatter settlements and other lower-income urban areas. Each dollar of budget authority produces about seven dollars of development assistance lending. Housing Guaranty credits have been, and should continue to be, a very successful tool in meeting our foreign aid development objectives, in lieu of grants costing the taxpayers 100 cents on the dollar.

We welcome the financial audit recently performed by the Inspector General's Office because it gives clear guidance on how the financial management of the Housing Guaranty program can be improved. We believe that the recommended improvements are readily within USAID's power to make, particularly with the new AWACS system about to come on line. As the Center responsible for the programmatic management of the Housing Guaranty Program, we look forward to working closely with the Chief Financial Officer, the Inspector General's staff, and the staff of M/FM/LMD to improve financial operations of the program. We will do all we can to expeditiously support the improvements needed to arrive at an unqualified opinion on the Housing Guaranty financial statements for fiscal year 1996.

~~320 Twenty~~-First Street, N.W., Washington, D.C. 20523