

UNITED STATES GOVERNMENT

Memorandum

TO : Mr. Langmaid Bradshaw, NE/DP

DATE: June 12, 1980

FROM : Peter M. Cody, AID Rep/L ^(tw)

SUBJECT: Low-cost Housing Credit (268-0315) PID

Lebanon

268-0315

Transmitted herewith is a revised PID for the low-cost housing credit project proposed for FY 1981 funding. The PID was essentially prepared during RHUDO/Tunis, Dennison, visit last May in draft form. In the absence of our FCH Housing Advisor, Barry Frazier, who has taken some AL we have taken the draft and other information available to us to put the document in final form.

I suggest that if there are any immediate questions raised on this document these should be addressed to RHUDO/Tunis staff who may have more information on some of the details. Frazier is expected back in Lebanon during the last week of June and we should be able to answer any questions more directly after his return.

Please distribute this document as appropriate.

cc: RHUDO/Tunis
DS/H
NE/JLS ✓



5010-110

Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

PROJECT IDENTIFICATION DOCUMENT
LEBANON LOW-COST HOUSING
CREDIT PILOT PROJECT
(268-0315)

1. Summary of the Problem to be Addressed and Proposed Response

1.1. The problem:

Shortage of low-income housing. The Council of Development and Reconstruction (CDR) analyzed the problem as follows:

"Lebanon's housing shortage has been estimated in excess of 150,000 units. This problem is primarily the result of past policies and practices rather than the consequences of 1975-76 events.

"The gap between supply and demand for housing has been accentuated by the scarcity of long-term credit institutions* and the present rent laws that encourage the diversion of funds to luxury housing. The problem is fueled by current and expected inflation, now at 20-27%.

"Expected growth in population reflecting itself in the growth of households, i.e. in terms of numbers and size, and the forecasted number of dwellings needed to be replaced, necessitate the addition of almost 400,000 dwellings between now and the year 2000. It should be noted that the housing shortage affects mainly the middle and low income groups. Meeting this need calls for concerted action by both the public and the private sectors.

C. "A projected increase of 15,000 units per year are needed to cover the shortage over the coming five years. The private sector is expected to take care of families with incomes above the median, now estimated in 1978 at LL12,000** per year. In order to meet the needs of families

5 x 15 000 = 75 000

*Except for the Housing Bank, now three years old.

** This estimate subject to verification and adjustment upwards.

with incomes below LL12,000**/year, the government must devise measures to stimulate private sector involvement in the low cost housing programs."

In addition to the basic shortage of housing, especially for the poor, the security conditions in Beirut and in South Lebanon have devastated the ability of low-income Lebanese families to obtain housing. During the events of 1975-76 an estimated 30,000 units were destroyed, adding to the shortage which existed prior to the war. Even in those parts of the country where stability prevails, the cash requirements for buying or building a home and intense speculation in land, effectively preclude the participation of the poor. While the banking system in Beirut is healthy, medium and long term credit is not available within the formal system, with two exceptions.

The Decree Law 20 Program was established in 1977 as an emergency measure to encourage families to return to their homes. Fifteen-year loans at 2% are available to those households who can show that the loans will be used to reconstruct damage to their primary residence caused by the conflict and that their income does not exceed the median income of the country. In 1977, AID provided a \$4 million grant plus \$500,000 in technic assistance and a \$15 million housing guaranty loan in support of this program. In 1978, a second housing guaranty loan of \$15 million was authorized. The first two programs have now been fully contracted except for some residual TA; the grant program was disbursed by 1979 and the first housing guaranty program now under contract is expected to disburse fully by August 1980. The second housing guaranty should disburse by the end of 1981.

In 1977, following the recommendations of an Office of Housing team sent to Lebanon, a Housing Bank was established; however, the first loan was not made until 1979 and the client group is explicitly middle and upper income. Loan terms initially provided financing for homes at 6% for 15-20 years. In May 1980, the interest rate was increased to 8%. The volume of loans has been limited by the original capitalization of the bank, the equivalent of \$50 million in Lebanese pounds. Although a savings program was originally contemplated, none has yet been implemented. The Housing Bank's request to the Government for additional funding approved in late May 1980 for another LL50 million, will continue to serve above median income clients.

These two exceptions demonstrate the availability of the trained staff required to operate a program to finance housing for the poor. The inspections carried out of the Decree Law 20 program demonstrate that the competence exists on the physical construction side, even under battle conditions. The success of the Housing Bank in setting up the basic systems required for a loan program is not surprising in view of Beirut's traditional role in banking.

These two programs have not yet begun to address the basic housing needs of the poor. Decree Law 20 only provides replacement housing or repairs to houses damaged during the war. It does not begin to meet the basic need to find housing low-income families and to provide basic resources for normal maintenance of existing stock. The Housing Bank now specifically excludes loan applicants who are not considered to have sufficient resources to guaranty repayment.

In addition to the virtual total lack of credit for the target group, land speculation, basic lack of city services, the failure of the government to regulate construction, and the deteriorating infrastructure in Beirut pose significant long-term problems.

1.2 The Proposed AID Response:

The long term goal of the project would be to assist the Government to establish a permanent and credible housing policy in favor of low-income families. The objective of the grant would be to create the credit facilities required to finance pilot projects which meet the housing needs of low-income Lebanese. The grant would finance a pilot project for shelter loans and technical assistance appropriate to the development of a shelter finance system targeted to low-income. Technical assistance in land policy, city services, construction standards, and public works finance would also be provided as necessary to support the new credit program and to develop the basis for the further development of shelter programs for low-income households. To provide visibility, the pilot project would focus on four to eight villages and would be supplemented by Arab donor grants to support reconstruction and/or creation of community facilities.

See above para 2.

Part of the initial technical assistance efforts will address the feasibility of institutionalizing building standards. These would be designed for this project initially, but would be intended for national adoption. The national syndicate of engineers, the CDR and the Ministries should be involved. The major purpose of these standards would be to assure structural safety, particularly for multi-storey construction, and to protect the resident. The PP will describe in more detail the specific assistance required.

The grant of \$4 million would provide for \$3.5 million in mortgage loans for new construction of housing for over 200 low-income families in Lebanon. \$500,000 would be provided for technical assistance, 36 months of a resident advisor and 20 months of short-term assistance. The GOL would contribute the equivalent of \$700,000 (\$350,000 as a 10% share in mortgage financing and \$350,000 in administrative expenses), and beneficiary down-payments would be another \$700,000.

The top Government policy-makers identified credit as their chosen strategy for their initial intervention on behalf of low-income people in the chaotic and fiercel private shelter sector. They specifically rejected the option of direct construction by the Government as being infeasible to control. They state that the Government does not now have the resources to protect the construction underway or completed. They judge that the private sector does. Our observation that private militia provide much of what security does exist, particularly in Beirut, confirms this judgement. In addition, the Government does not want the responsibility of managing Government-owned housing. Given the large amount of construction activity in the private market, the provision of credit should provide low-income families with the resources to purchase decent housing in the private market. The accompanying technical assistance and the evaluations planned will help to identify any obstacles to entry by project beneficiaries for inclusion in the design of future projects.

2. Relationship of the subject to AID and Lebanese Priorities

2.1 Cost Recovery:

Cost recovery and replicability are often the most difficult concepts to incorporate in project design; in this project, they were that starting point for conceptualization by Lebanese planners. Starting with the income of beneficiaries, the Government designed cost recovery plans: a program affordable by below median-income families. Socially responsive solutions such as heavy subsidies for the largest, low-income families were rejected for this pilot project. The GOL wants to demonstrate that it is possible to provide credit to low-income households on a self-sustaining basis before entering into a subsidy program. One of the early analysis performed by the GOL in its effort to identify the largest affordable housing unit, given the estimated cost of construction and various assumptions on interest rate, payment period, down payment, and a graduated payment mortgage instrument, indicated that the new construction loans will be affordable by families down to an annual income of approximately \$8000. Exact terms are still under discussion.

2.2 Institutional Development:

The credit institutions in Beirut will support the project as retail outlets for loans which will then be turned over to a central facility. While Beirut's banking infrastructure is legendary, it is not currently offering credit on a long-term basis. This pilot project will test the capacity of these historically strong institutions to develop systems relevant to low-income needs. Given the success of the pilot project, the Council for Development and Reconstruction expects to expand the project. The following resources have already been contacted for follow-on funding: Saudi Arabia, Iraq, Kuwait, Libya, Algeria, the World Bank, AID's Housing Guaranty Program, and the Housing Bank of Lebanon.

The Housing Bank of Lebanon is actively involved in the development of a program to generate capital through the mobilization of savings. In the meantime, the Housing Bank is interested in the pilot program as a way of expanding its capacity to relate to low-income clients and to attract low- as well as middle-income savers.

2.3 Reinforcement of the Government:

Few Lebanese now have vested interest in supporting the official government or property. This visible program would offer an equity share in the success of a stable government to some of the most "left-out" households especially in Beirut. It would also offer the U.S. an opportunity for a positive, easy-to-understand contribution towards development of the institutions required for a stable society.

2.4 Other Donors:

While other donors have expressed interest in this project over the past several years, none have offered a more than a promise of funds. It is proposed that Arab grants be used to improve community facilities such as schools in the selected villages.

3. AID Policy Issues

3.1 GOL Commitment to 25% Share.

3.2 Identification of the precise roles of the Housing Bank, commercial banks, CDR, the Ministry of Housing and Cooperatives, including the designation of an institution responsible for the project.

3.3 Feasibility of the project if its design calls for coordination amongst several institutions.

3.4 More specific terms of reference for both PP consultants and the \$500,000 TA portion of the grant.

3.5 Mortgage terms to be offered.

3.6 Feasibility of RHUDO/Tunis managing the extensive and varied TA proposed to prepare the PP with the minimum amount of in-country support that can be provided by AID Rep/L.

3.7 Construction industry limitation (labor, building materials, etc.) need to be addressed to see if these will be a bottleneck for achieving project objectives.

4. Estimated Project Costs.

4.1 New Construction:

It is proposed that approximately 230 loans be made in support of new construction at approximately LL45,000 per unit. This is based on an estimated LL500M² and an average unit of approximately 90 square meters. While it is tempting to reduce the costs by reducing the size of the unit, the typical cultural patterns provide for very large households. The pattern of the extended family is particularly prevalent in low-income families.

For the purpose of the PID, the average cost of new construction for the three bedroom unit was accepted as estimated by CDR in 1978. For the PP, a study will be completed to determine minimal standards proposed for construction. While this study will be undertaken in good faith and in cooperation with the CDR, it is likely that the 1978 estimate of LL500M² will have to be revised. The history of program development on the side of the GOL is full of references to "culturally acceptable" housing. In the Lebanese context this means construction of which the CDR need not be ashamed. The estimate provides for basic housing with normal amenities. Given the apartment type of construction in Beirut and other Middle Eastern urban areas and given land costs which are higher than anywhere in the United States, the 1978 estimate does not appear excessive. With adjustments for enormous increases in land costs, however, a realistic 1980 cost estimate, while still affordable to below median income families, may be double the 1978 price. Reduction of standards as well as introduction of standards will be developed in the PP studies.

4.2 Technical Assistance:

To provide for required technical assistance over an estimated program life of two years plus a year to provide for continuity under the follow-on financing such as of HG, a full-time U.S. resident advisor would be financed for three years under this grant. Twenty months of expert assistance in the areas mentioned above would be

provided through Office of Housing contractors at an estimated rate of \$10,000 per month including travel.

4.3 GOL Share:

The Government of Lebanon will provide a 10% share of the mortgage financing, (\$350,000), all costs related to the loan administration of the program estimated at 10% (\$350,000), and beneficiaries will provide down-payments of 20% (\$700,000) for a total of \$1,400,000, over 25% of the project.

4.4 U.S. Share:

The U.S. grant disbursements will be made on the basis of construction and signed host country contracts for technical assistance. The final U.S. disbursement will be made on the basis of long-term mortgages. The total U.S. grant will be \$4,000,000.

5. Project Preparation Strategy

Significant technical and financial services will be required for the development of the Project Paper. RHUDO/Tunis is prepared to provide direct-hire supervision for project development. To support the full development of the project, it is proposed to use a combination of Lebanese and U.S. resources funded from the remainder of the 1977 technical assistance grant not yet obligated to provide for the following analysis (total cost of \$40,000)

5.1 Basic data on income and family size distribution has not been available to date. While median income size has been estimated based on minimum wage, we need better information on the lowest income families and we need data on the relationship between family size and income to design a project which can be expanded (three weeks at \$8,000). This information will be used in the GOL update of their feasibility study.

5.2 Evaluation Program:

While the responsible GOL planners understand the Log Frame concept, a minimal level of assistance is required to develop an evaluation design and the baseline data which will be required to evaluate project results. (one week at \$3,000).

The evaluation program will include post-construction and post-occupancy monitoring.

5.3 Technical services assistance is required from outside of the GOL to assist in the development of structural standards to protect residents and to be considered for nation-wide applicability. The GOL is committed to a performance approach and a very simple level of regulation; nonetheless, they have expressed a desire for this assistance for a long time. Full development of the standards will be part of the technical assistance to be provided in the project, but a strategy for the design of the TA should precede the PP. (two weeks at \$5,000).

5.4 Technical services will also be required to review the feasibility of reducing the standards on which the cost estimates were based and to review those estimates. These new estimates will be incorporated into the revised GOL feasibility study. (two weeks at \$5,000).

5.5 Financial assistance will be required to design the financial technical assistance program which will form part of the project TA and to work with the Housing Bank and other financial institutions which must agree to the project to design the systems required to assure its success. (four weeks at \$10,000).

5.6 Environmental Services: To provide an environmental assessment and an approach to energy-conscious design for construction. (three weeks at \$8,000).

A total of fifteen consultant weeks is proposed, well within the balance of \$49,500 remaining under the 1977 grant. This effort would be planned over a two-month period to permit maximum GOL direct-hire participation and would be scheduled upon PID approval. It is proposed to assemble team members for project development from U.S. and Lebanese resources to start work under RHUDO direction. Three to five consultants would be used for the initial effort. (It would be anticipated that the financial and technical services consultants would return under the technical assistance provided by the project funding if their initial performance was positive). RHUDO would provide specific scopes of work, prepare contracts, and would write the Project Paper.

6. Initial Environmental Examination

For the new construction phase of this project, an environmental assessment will be required as provided above. For the technical assistance components, no significant impact is anticipated.