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DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

ECUADOR

GLOBAL URBAN DEVELOPMENT PROGRAM

(EC-0147)

LOAN PROPOSAL

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1. Datos Generales

Población total (miles de habitantes) 1986	9.647,0
Población rural (%)	51,4
Extensión territorial (Km ²)	270.670,0
Habitantes por Km ²	35,6
Tasa de crecimiento demográfico 1970-85 (% Promedio)	3,1
Producto interno bruto por habitante US\$ 1985	1.222,0
Tasa de natalidad por mil habitantes (1980-85)	36,7
Tasa de mortalidad por mil habitantes (1980-85)	8,0
Tasa de mortalidad infantil por mil nacidos vivos (1980-85)	68,4
Médicos por 10,000 habitantes (1981)	11,6
Número de camas de hospital por cada mil habitantes (1981)	1,8
Alfabetismo (1982) (%)	85,6
Tasa de inscripción primaria (%)	
Tasa de inscripción secundaria (1976) (%)	56,6
Tasa de cambio (desde agosto de 1986): flotación	
Consumo de energía per cápita (año) Kwh 1978:	245,0

Población Económicamente Activa por Sectores (1982):

	<u>En miles</u>	<u>%</u>
Agricultura y pesca	1.358,4	46,9
Minería	9,9	0,3
Manufactura	308,1	10,6
Construcción	141,3	4,9
Comercio, restaurantes y hoteles	315,0	10,9
Otros	764,5	26,4
T o t a l	<u>2.897,2</u>	<u>100,0</u>

1/ Datos disponibles a octubre de 1986.

2. Producto Interno Bruto 1/

	Composición (%)					Tasa Real de Crecimiento Anual (%)				
	1981	1982 a/	1983 a/	1984 a/	1985 a/	1981	1982	1983 a/	1984 a/	1985 a/
PIB a precios de mercado	100,0	100,0	100,0	100,0	100,0	3,9	1,2	-2,8	4,0	3,8
Inversión interna bruta	22,1	24,6	17,4	17,5	17,5	-13,4	12,6	-31,2	4,6	3,6
Consumo	83,9	84,2	83,9	81,3	80,6	4,4	1,5	-3,1	0,8	2,8
Exportaciones	21,0	19,7	20,8	22,7	24,7	4,7	-5,0	2,4	13,2	12,9
Importaciones	-27,0	-28,5	-22,1	-21,5	-22,7	-9,3	6,9	-24,6	1,1	9,6
<u>PIB por Origen</u> (a costo de factores)										
Agropecuaria	15,3	15,4	13,4	13,8	13,7	6,8	2,0	-13,9	8,8	4,8
Minas y canteras	10,8	10,4	13,4	14,5	14,9	6,1	-2,9	28,1	11,4	9,7
Manufactura	19,7	19,7	20,1	18,9	18,8	8,8	1,5	-1,4	-1,8	-1,8
Electricidad	0,8	0,8	1,0	1,1	1,2	0,2	11,1	14,9	29,0	4,6
Construcción	4,9	4,9	4,5	4,2	4,2	4,8	0,6	-7,6	-3,9	0,9
Comercio	16,9	17,1	15,3	15,6	15,6	1,0	2,1	-11,8	5,0	3,4
Transporte	7,1	7,1	7,2	7,1	7,1	4,8	1,6	-1,6	2,3	1,4
Servicios financieros	8,9	8,9	8,6	8,7	9,0	4,2	0,5	-4,8	5,6	6,0
Otros servicios	6,1	6,2	6,7	6,5	6,0	7,7	5,4	3,2	1,9	-3,2
Gobierno	9,5	9,5	9,8	9,6	9,5	2,1	1,6	1,9	2,0	2,0
PIB a precios de productor	100,0	100,0	100,0	100,0	100,0	5,1	1,4	-1,7	3,8	3,2

1/ A precios de 1975.

a/ Provisional.

Fuente: Banco Central del Ecuador, CONADE.

3. Comercio Exterior a/

	(En millones de US\$)					Tasa de Crecimiento Anual (%)				
	1981	1982	1983 b/	1984 b/	1985 b/	1981	1982 b/	1983 b/	1984 b/	1985 b/
<u>Exportación de Bienes (FOB)</u>	2.523,8	2.326,1	2.347,7	2.620,4	2.904,7	1,7	-7,8	0,9	11,6	10,8
Productos primarios	2.036,5	1.959,8	2.148,9	2.276,5	2.566,1	7,7	-3,8	9,6	5,9	12,7
Productos industrializados	487,3	366,3	198,8	343,9	338,6	-17,6	-24,8	-45,7	73,0	-1,5
Productos principales:										
Banano	207,9	213,3	152,9	135,2	220,0	-46,3	2,6	-28,3	-11,6	62,7
Cacao	43,8	63,1	8,4	96,0	138,4	43,6	44,1	-86,7	1.042,9	44,2
Elaboración de cacao	105,7	55,9	26,4	50,4	78,8	-41,5	-47,1	-52,8	90,9	56,3
Café	105,9	138,8	148,6	174,7	190,8	-18,8	31,1	7,1	17,6	9,2
Piscícolas	77,5	122,3	175,1	159,8	156,5	36,2	57,8	43,2	-8,7	-2,1
Petróleo	1.560,1	1.388,3	1.639,2	1.678,2	1.824,7	11,9	-11,0	18,1	2,4	8,7
Derivados de petróleo	149,0	120,3	93,9	156,5	101,9	-11,7	-19,3	-21,9	66,7	-34,9
Elaboradoras de productos del mar	99,0	81,5	27,1	64,0	97,2	-0,9	-17,7	-66,7	136,2	51,9
<u>Importaciones de Bienes (CIF) b/</u>	2.248,9	2.163,7	1.474,6	1.615,7	1.764,3	7,5	-11,6	-31,8	9,6	9,2
Bienes de consumo no duradero	101,9	97,0	62,5	82,9	94,2	12,2	-4,8	-35,6	32,6	13,6
Bienes de consumo duradero	97,0	85,3	51,6	60,0	58,2	-5,1	-12,0	-39,5	16,3	-3,0
Combustibles	261,3	257,3	300,8	172,9	195,9	17,0	-1,5	16,8	-42,5	13,3
Productos intermedios	921,7	914,9	666,7	859,6	890,4	-1,3	-0,7	-27,1	28,9	3,6
Bienes de capital	1.067,0	809,1	393,0	440,3	525,6	15,2	-24,2	-51,4	12,0	19,4

a/ Con base en los permisos concedidos, por lo tanto difiere de los datos de la balanza de pagos del punto siguiente.

b/ Provisional

Fuente: Banco Central del Ecuador, CONADE.

4. Balanza de Pagos

	En millones de US\$					Tasa de Crecimiento Anual				
	1981	1982	1983 a/	1984 a/	1985 a/	1981	1982	1983 a/	1984 a/	1985 a/
<u>Saldo en Cuenta Corriente</u>	-1.002	1.195	-104	-248	-118	56,0	219,3	-108,7	138,5	52,4
Exportaciones	2.544	2.343	2.365	2.622	2.851	-	-7,9	0,9	10,9	8,7
Importaciones	-2.362	-2.181	-1.408	-1.567	-1.723	5,4	-7,7	-35,4	11,3	10,0
Servicios (netos)	-1.209	-1.377	-1.085	-1.323	-1.271	24,1	13,9	-21,2	21,9	-3,9
Pagos de interés	(-670)	(-767)	(-693)	(-836)	(-776)	31,1	14,5	-9,6	20,6	-7,2
Transferencias	25	20	24	20	25	31,1	-20,0	20,0	-16,7	25,0
<u>Movimiento de Capital (Neto)</u>	705	735	46	267	143					
Desembolsos	2.609	1.689	714	1.610	1.820					
Amortizaciones	-1.386	-1.330	-232	-1.309	-1.345					
Público	(-598)	(-700)	(-115)	n.d.	n.d.					
Privado	(-788)	(-630)	(-117)	n.d.	n.d.					
Otros b/	-568	376	-436	-34	-332					
<u>Cambio en el Nivel de Reservas</u> (-Aumento)	297	460	58	-19	-25					

a/ Provisional.

b/ Incluye errores y omisiones.

n.d. No disponible.

Fuente: Banco Central del Ecuador.

5. Finanzas Públicas

	Sector Público (En Porcentaje del PIB)				
	1981	1982	1983 a/ b/	1984 a/ b/	1985 a/ b/
Ingresos corrientes	22,3	21,1	24,1	25,9	27,2
Tradicional	(12,5)	(11,0)	(15,5)	(15,4)	(14,2)
Petróleo	(9,8)	(10,1)	(8,7)	(10,5)	(13,0)
Gastos corrientes	19,2	18,5	16,8	19,2	18,0
Ahorro en cuenta corriente	3,1	2,6	n.d.	n.d.	n.d.
Ingresos de capital	0,1	0,6	n.d.	n.d.	n.d.
Gastos de capital	10,5	9,7	7,2	7,0	7,0
Inversión real	(9,7)	(9,6)	n.d.	n.d.	n.d.
Inversión financiera	(0,8)	(0,1)	n.d.	n.d.	n.d.
Déficit (-) o Superávit (+)	-7,3	-6,5	-	0,3	2,2
Financiamiento del déficit o disponibilidad del superávit	7,3	6,5	-	0,3	-2,2
Crédito interno neto	(2,5)	(1,7)	(-0,6)	(-0,9)	(-3,1)
Crédito externo neto	(4,5)	(4,5)	(0,6)	(1,2)	(1,0)
Otros	(0,3)	(0,3)	(-)	(-)	(-0,1)

Gobierno Central (En Porcentaje del PIB)					
Ingresos corrientes	11,3	11,0	12,1	13,9	17,8
Gastos corrientes	12,8	12,4	12,5	12,2	12,7
Ahorro en cuenta corriente	-1,5	-1,4	n.d.	n.d.	n.d.
Gastos de capital	3,2	2,7	2,6	2,3	2,5
Déficit (-) o Superávit (+)	-4,8	-4,0	-3,0	-0,7	2,7

a/ Provisional.

b/ Ingresos corrientes. Incluye los ingresos de Capital.

n.d. No disponible.

Fuente: CONADE, FMI.

	En Millones de Sucres					Tasa de Crecimiento Anual				
	1981	1982	1983	1984	1985 a/	1981	1982	1983	1984	1985
6. Reservas Internacionales Netas	15.809	9.527	15.118	11.080	18.165	-31,2	-39,7	58,7	-26,7	63,9
Crédito Interno	76.818	106.650	169.791	217.307	269.017	30,4	38,8	59,2	28,0	23,8
Sector Público (Neto)	-7.795	-2.679	-11.077	-39.546	-59.240	109,0	-65,6	313,5	257,0	49,8
Sector Privado	72.167	94.332	150.961	201.820	255.302	33,1	30,7	60,0	33,7	26,5
Otros	12.277	14.980	29.891	55.019	72.955	46,7	22,0	99,5	84,1	32,6
Oferta Monetaria										
Dinero	61.807	73.130	95.145	129.058	163.000	14,9	18,3	30,1	35,6	26,3
(% del PIB)	17,7	17,5	15,8	17,0	15,5					
Cuasi-Dinero	13.896	20.499	22.868	40.223	79.400	10,4	47,5	11,6	75,9	97,4
(% del PIB)	4,0	5,0	4,0	5,3	7,6					

a/ Provisional.

Fuente: Banco Central del Ecuador, Fondo Monetario Internacional.

7. Precios	1981	1982	1983 a/	1984 a/	1985 a/	1981	1982	1983 a/	1984 a/	1985 a/
Deflactor del PIB (1975 = 100)	227,6	264,5	383,7	491,5	636,5	13,1	16,2	45,1	28,1	29,5
Al Consumidor (promedio) b/										
(mayo 1978 - abril 1979 = 100)	137,8	158,0	234,0	305,1	390,6	14,7	16,4	48,1	30,4	28,0

a/ Provisional.

b/ Índice Ponderado Nacional.

Fuente: Consejo Nacional de Desarrollo.

8. Deuda Pública Externa Pagadera en Divisas	Contratada a Final del Año (US\$ millones)				
	1981	1982	1983 a/	1984 a/	1985 a/
Total	4.192,2	3.885,1	6.268,9	6.630,4	7.084,0
Por tipo de acreedor					
Proveedores	244,8	237,8	217,1	194,8	n.d.
Bancos privados	2.242,2	2.102,6	4.320,8	4.538,8	n.d.
Organismos plurinacionales	428,6	527,7	591,3	695,0	n.d.
Gobiernos	1.276,6	1.017,1	1.139,7	1.201,8	n.d.

a/ Provisional.

n.d. No disponible.

Fuente: Banco Mundial, Consejo Nacional de Desarrollo.

<u>Servicio de la Deuda</u>	<u>1981</u>	<u>1982</u>	<u>1983 a/</u>	<u>1984 a/</u>	<u>1985 a/</u>
Servicio Total (US\$)	922,0	1.107,0	911,0	1.061,0	1.020,0
Servicio/exportaciones de bienes y servicios					
No atribuibles a factores	14,7	20,6	23,9	28,5	25,0

Préstamos del BID
(Aprobados hasta 6/30/86)

Total	<u>1.707,7</u>
Capital ordinario	608,6
Capital interregional	322,2
FOE	686,1
Otros Fondos	90,8
Por Sector (%)	<u>100,0</u>
Agrícola	31,4
Industrial	12,2
Transportes	9,9
Energía	29,8
Educación, ciencia y tecnología	4,8
Vivienda y obras urbanas	1,5
Salud	8,8
Preinversión	1,6
Otros	0,1

a/ Provisional.

Fuente: Banco Central del Ecuador, BID y FMI.

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Global Urban Development Program
(EC-0147)

LOAN PROPOSAL

I. BASIC INFORMATION

A. Borrower

- 1.01 The borrower would be the Republic of Ecuador.

B. Executing agency

- 1.02 The executing agency for the program would be the Banco Ecuatoriano de la Vivienda (Ecuadorian Housing Bank) (BEV), with support from the coexecuting agency, the Junta Nacional de la Vivienda (National Housing Board) (JNV).

C. Request and priority

- 1.03 The authorities of the Banco Ecuatoriano de la Vivienda (Ecuadorian Housing Bank) (BEV) submitted the loan request to the Bank on July 2, 1985. The request for financing was ratified by the Office of the President of the Republic on July 16, 1986, which also informed the Bank that the proposed program is a top government priority.

D. Objectives and description

- 1.04 The objectives of the Global Urban Development Program are: (i) to help meet the housing needs of the country's low-income sector; and (ii) to strengthen the principal institutions in Ecuador's urban development sector. The program would consist of an urban infrastructure component, consisting of urban development works to equip approximately 32,000 lots with essential services, and a credit component under which supervised subloans would be given for the purchase of building materials with which beneficiaries would construct their own basic units on lots financed with the resources of the program.
- 1.05 To achieve the second objective outlined above, the program will include an institutional-strengthening plan to supplement government initiatives aimed at in building up the institutional capacity of the BEV and the JNV to administer and direct the urban development process. This component would include a study to analyze the nation's housing loan system and make recommendations to improve its organization and operation, including different alternatives as to the role that the BEV should play in that system.

E. Cost and financing

- 1.06 The total cost of the program is estimated at the equivalent of US\$63.6 million. It is proposed that the Bank provide a foreign-exchange loan in the amount of US\$57.2 million from the Fund for Special Operations (FSO). The equivalent of US\$50.9 million of the total financing would be in foreign exchange, and the equivalent of US\$6.3 million in local currency.

F. Proposed terms and conditions

- 1.07 The proposed terms and conditions of the Bank's loan are as follows: (i) Source: the Fund for Special Operations; (ii) Amortization period: 40 years; (iii) Term for disbursement: four years; (iv) Term for commitment of resources: three years; (v) Term for physical initiation of the works: two years; (vi) Grace period: 10 years; (vii) Interest: 1% during the grace period and 2% during the amortization period; (viii) Credit fee: 1/2% per annum; and (ix) Inspection and supervision: 1% of the total loan amount.

II. FRAME OF REFERENCE

A. Description of the urban sector and recent trends

- 2.01 Ecuador has recorded one of the fastest urbanization rates in Latin America. From 1970 to 1985 the urban population of the country grew at an average of 4.9% annually, compared with a rate of only 1.6% for the rural population. Estimates put the total population of the country at 9.4 million in 1985, of whom 52% (4.8 million) live in urban areas. The enormous rise in the urban population is evident if one looks at the 1960 figure, which was only 34%.
- 2.02 Most of this increase has been concentrated in the country's two largest cities, Quito and Guayaquil, with populations of approximately one million and one-and-a-half million, respectively. Together these cities account for more than half of the country's urban population. Growth in intermediate cities has been less spectacular but still high in recent decades. By 1985 such medium-sized centers accounted for 31% of the total urban population. The speed with which this urbanization process has unfolded has led to a growing gap between demand and supply of housing and essential services, particularly in Quito, Guayaquil, and the intermediate cities. In the housing sector specifically, it is estimated that 43% of all housing units are substandard and/or lack water, sewer, or electricity connections.
- 2.03 Most of the housing solutions devised by the low-income population have been in the "informal" sector, in which two major types of living facilities have been available. Shantytowns known as "suburbios", which exist particularly in Guayaquil and other cities in the Coast area, are settlements of families in fringe areas of the city, which take over land and construct cane and mud buildings which

normally lack essential services but do give much of the population a form of property holding. The "tugurios", a type of tenement house which are common in the mountain region, are generally rented rooms or apartments with a common entrance, where water and plumbing facilities are shared by the whole building.

- 2.04 According to the 1982 census, half of all families occupying housing units in urban areas had some type of security as far as continuing occupancy was concerned, and considered themselves owners of their property. These "owners" accounted for 40% of the total in the mountain region and 60% in the Coast region. The housing needs of the country fall into two major areas: families requiring new homes, and those who have a lot and a very basic housing unit and need essential services and/or improvements. Estimates of low-income families requiring those two types of basic assistance in 1986 are 180,000 and 220,000, respectively.
- 2.05 With data from a survey conducted recently by the Banco Ecuatoriano de la Vivienda (BEV) and the Junta Nacional de la Vivienda (JNV), and information from the 1982 National Population and Housing Census, it is estimated that approximately 180,000 low-income urban families had no housing unit of their own in 1985. Potential and actual demand for new housing is estimated at 90,000 and 50,000 units, respectively.

B. The national housing loan system

1. Agencies in the system and their role

- 2.06 Until 1960, only banks and private construction companies provided financing assistance for housing, and their efforts were geared mainly to the middle and upper classes. In 1961, the government established the BEV, and two years later implemented the savings and loan system. To further strengthen this structure, it created the Junta Nacional de la Vivienda (JNV) in 1973, with the same president as the BEV and financed by the latter. The JNV formulates policy for the housing sector and constructs housing projects.
- 2.07 The housing loan system in Ecuador now encompasses both public- and private-sector institutions that provide financing to borrowers at all income levels. Although no statistics are available, estimates derived from a number of studies show that noninstitutional credit plays a major role, meeting perhaps 50% of the financing needs in the housing sector. Institutional credit is provided by the following entities: (i) public sector: Banco Ecuatoriano de la Vivienda (BEV); Instituto Ecuatoriano de Seguridad Social (Ecuadorian Social Security Administration) (IESS); and the Banco Central del Ecuador (Central Bank); (ii) private sector: savings and loan associations; savings and credit cooperatives; and private banks.
- 2.08 Most of the funds for housing have been provided by the IESE, followed by the BEV and, to a much smaller extent, the savings and loan associations, cooperatives, and private-sector banks. Most of

the loans have gone to finance finished dwellings, normally most accessible to higher-income families.

- 2.09 An examination of the number of new housing units financed and sources of financing in 1984 and 1985 reveals that the IESS, the BEV, and the savings and loan associations are actually providing the funds for the housing sector. This situation is summarized in the following table.

Number of housing "solutions" completed and
funds provided for housing ^{a/}, by institution
(In millions of sucres)

	1984		1985 *	
	<u>Number</u> ^{b/}	<u>Amount</u>	<u>Number</u> ^{b/}	<u>Amount</u>
IESS	13,547	9,286	12,311	10,068
BEV - JNV	5,410	3,049	11,000	8,451
Savings and loan system	<u>984</u>	<u>1,488</u>	<u>1,306</u>	<u>3,905</u>
Total	19,941	13,823	24,617	22,424
	=====	=====	=====	=====

a/ Includes credit and investments.

b/ Number of 'solutions', ranging from improvements and partial construction initiatives under programs to the construction of complete units.

*Estimates

Source: Planning Secretariat

- 2.10 These figures point to a substantial increase from 1984 to 1985 in both amounts spent (61%) and in the number of housing units or other options (23%). They also show that the IESS is the primary source of financing, with a 45% share of total investments in 1985, followed by the BEV with 38% and the savings and loan associations as a distant third with 17%. No statistics are available in Ecuador on the share of such financing that is provided directly by private banks, but based on their portfolio composition, it is believed to be small. The cooperatives are just now entering this sector, and their share is probably not more than 1% of the total.
- 2.11 The Central Bank participates indirectly in the housing loan system through discount lines designed to finance units for low-income

families, as envisaged in the Housing Options Plan. ^{1/} For information purposes it might be noted that, in 1985, private banks and finance corporations used S/.5,900 million of the S/.8,880 million made available through Central Bank discount facilities. This gives an idea of the private sector's share in the financing of low-income housing options with financial support from the Central Bank.

- 2.12 The IESS is an autonomous agency with legal capacity and its own assets. Its funding comes in equal portions from the government, employers, and employees, and these resources are used primarily for benefits to enrolled members (pensions, health benefits, etc.) and for loans, which are considered to be a social service. The loans it provides fall into two basic categories: unsecured loans for immediate needs, and secured loans to both contributing and retired enrollees to purchase land, buy or build urban or rural housing, acquire rights on real property, and pay back secured borrowings from other financial institutions. The IESS also lends to agencies that finance housing programs for their members, such as housing cooperatives, workers' associations, unions, and so on.
- 2.13 The BEV extends secured loans for the acquisition of land, the construction, purchase, improvement, expansion, completion, and rehabilitation of housing units; loans to construction companies; and loans for community projects, recreation and education facilities, etc. It is authorized to lend to individuals, savings and loan associations, housing cooperatives, self-help and community groups, contractors, building materials companies, and trade unions. Personal loans for land or housing units, construction, and improvements, are given to heads of household who have a savings account with the bank. The standard basic conditions for secured loans from the BEV are as follows: (i) repayment terms of from five to 25 years; (ii) credit limited to 90% of the value of the property; and (iii) repayment by increasing or fixed monthly installments, as the borrower prefers, provided that the installment does not exceed 28% of the family's monthly income in the first year.
- 2.14 Savings and loan associations are self-governing, private-law agencies established for a social purpose, in which individual and group members may use deposited monies or other resources to extend unsecured loans or loans secured by a mortgage or pledge to members, for the construction, purchase, improvement, expansion, completion, or equipping of housing units, the purchase of housing lots, and for other purposes duly authorized by law. The Banco Ecuatoriano de la Vivienda must authorize the establishment of each association and grant its charter.

^{1/} See paragraphs 2.21 to 2.24.

2. Sources of funds for housing, and interest rates

- 2.15 Most of the funds available for financing to the housing sector come from: (i) contributions to the Instituto Ecuatoriano de Seguridad Social; (ii) savings deposits in savings and loan associations, private banks, the BEV, and cooperatives; (iii) mortgage certificate issues by private banks and the savings and loan system; (iv) BEV bond issues; (v) Central Bank discount lines; and (vi) government contributions.
- 2.16 As a social security institution, the IESS is not part of the country's financial system. However, it uses employee and employer contributions to finance the housing needs of its enrollees. The effective interest rates charged on IESS loans range from 6% to 13% per annum. Because of inflation rates like the 22% recorded from August 1985 to August 1986, those interest rates have led to an erosion of IESS resources and the impairment of its finances. The government is aware of this situation and not long ago temporarily suspended IESS mortgage operations, and is studying alternatives to remedy the existing gap between effective IESS interest rates and the rate of inflation in Ecuador.
- 2.17 Savings deposits are a further source of housing credit used by the financial system. As one element in the government's economic deregulation program, the Monetary Board recently removed the ceiling on interest that could be paid on savings accounts, term deposits, and savings certificates known as "pólizas de acumulación" (minimum of 500,000 sucres at minimum terms of 30 days). Prior to that announcement in August of 1986, the maximum allowed rates had ranged from 20% to 22%, which were not high enough to encourage domestic savings given the prevailing rate of inflation. The rates for long-term financial paper such as mortgage certificates will remain at 23%, according to that same Monetary Board resolution. The BEV issues bonds that private banks are required to purchase at 7% interest. Central Bank discount lines have a spread of five points for financial intermediaries that use such funds to finance low-income housing.
- 2.18 The Monetary Board resolution stipulates a maximum lending rate of 23% per annum for low-income-housing loans. Interest rates on loans approved on terms of two years or more are subject to adjustment, within certain limits announced from time to time by the Board.
- 2.19 A number of considerations emerge from an analysis of the above description of sources of funding and interest rates:
- (a) The IESS' involvement in housing finance, with negative interest rates below those set by the Monetary Board, impairs the agency's own resources and distorts the financial market.
 - (b) Given the terms and conditions under which the BEV provides financing for low-income housing, the removal of ceilings on deposit interest rates could mean that it will no longer be able

to compete for those resources, and would require more government financial participation to achieve its housing targets.

- (c) New interest rates of 23% on mortgage certificate issues, and a similar lending rate for loans granted with those resources, will not be a sufficient incentive to attract the funds needed for housing financing in Ecuador.
- (d) The measures implemented recently by the government will improve conditions for the mobilization of resources on the country's financial market but, when inflation is taken into account, they will not be sufficient to ensure that domestic savings are directed towards meeting the identified need for housing solutions, particularly for low-income families.

2.20 In light of the above analysis and considerations, an institutional-strengthening component has been included in the program to supplement the ongoing efforts in this area on the part of the BEV and the JNV. This component envisages the preparation of studies to come up with alternatives to improve the organization and operation of the country's housing loan system.

C. Housing Options Plan

- 2.21 Broadly speaking, the country's financial system has done little to solve the housing needs of the poorer half of the population. The first major efforts in this direction were made in 1980, when the BEV and the JNV began a series of pilot sites-and-services projects and credit programs for housing improvements, with support from international lending agencies (the AID and the IBRD). The housing "solutions" envisaged in these programs are much more accessible for low-income families. The BEV's housing improvement credit program addresses, for the first time, the needs of residents of low-income urban fringe communities which account for a very large percentage of the total demand.
- 2.22 The development plan of the government now in office places special emphasis on the need to assist low-income families and provide them with housing units or related assistance. With that objective in mind, it proposed the "Housing Options Plan" to offer a number of housing "solutions". Forty-one percent (41%) of the solutions would be loans for housing improvements; 46% would be new units (including 31% for serviced sites); and the remaining 13% would consist of neighborhood improvements and reconstruction. Most of these options would be accessible to the poorest segments of the population.
- 2.23 Within the framework of the Housing Options Plan, the BEV and JNV propose to supply an average of 45,000 "solutions" annually from 1987 to 1990, at a cost estimated roughly at US\$750 million. Approximately 70% of the units or other solutions would be accessible to low-income families. For that purpose, the BEV has loans approved by the IBRD and AID but not yet disbursed for approximately US\$24.2 million and US\$36.5 million, respectively. In view of the

financing needed and the BEV's and JNV's performance in previous years, it is considered that these new goals may still be somewhat ambitious.

- 2.24 The proposed program would finance only those units in the Housing Options Plan that are meant for low-income groups, to supplement the country's housing sector that have received support from other international organizations.

D. IDB action in the Ecuadorian housing sector

- 2.25 The Bank's only direct contribution to the promotion of housing solutions in Ecuador was loan 19/TF-EC in 1962 in the amount of US\$10.6 million, to finance a BEV program to construct 9,100 homes. Only 6,500 units were financed with the proceeds of the loan, because delays in the execution of the program, the failure to receive local contributions as scheduled, and late delivery of the works by contractors directly affected costs for construction, materials, and skilled labor.

- 2.26 Since that time, in the area of sanitation assistance to improve the living conditions of the population, the Bank has provided financing on two occasions for the rehabilitation of the Western Suburb of Guayaquil. The first operation, financed with loan 532/SF-EC for US\$17 million, was signed on April 7, 1977, and was successfully completed in December 1985. The agreement for the second operation, loan 775/SF-EC for US\$24 million, was approved in December 1985, signed in January 1986, and declared eligible for disbursement on October 30, 1986.

E. Participation of other international organizations

1. World Bank

- 2.27 The World Bank has approved two loans to Ecuador for urban development. IBRD loan 1776-EC for US\$31 million to finance the Guayaquil Urban Development Project was signed on May 9, 1980. A total of US\$18.9 million of that loan went to the BEV to fund housing programs; by September of 1986, US\$11.1 million had been disbursed. Loan 2135-EC, for the National Low-cost Housing Project, was signed on December 9, 1982. US\$19.2 million of the US\$35.7 million total had been disbursed as of September 1986. The World Bank is currently considering a new operation that would provide approximately US\$60 million to the BEV for a US\$120 million program. This loan would finance approximately 25% of the housing and/or housing improvement investment planned over the next three years by the BEV and JNV, estimated at US\$180 million annually. This program is to be analyzed in the first half of 1987, for approval at the end of that year. In contacts with the World Bank it has been learned that the program it would finance would complement the program under consideration here.

2. Agency for International Development (AID)

- 2.28 The AID has provided substantial assistance to the BEV through three loan operations in which it acted as guarantor for foreign investors. Loan AID-518-HG-005 was signed with Paine Webber Real Estate Securities Inc. on July 19, 1982, with an AID guarantee for US\$20 million. The AID also supplied a US\$10 million guarantee for loan AID-518-HG-006, signed in May of 1985 with the First Boston Corporation to finance a low-income-housing project. An additional guarantee of US\$15 million is now being negotiated. The third operation was loan AID-518-HG-007 in the amount of US\$30 million to fund the National Housing Program, through an agreement signed on January 15, 1986. By September 1986, US\$23.5 million of the US\$30 million in total guarantees for which resources are available had been used.

3. German Government

- 2.29 The JNV and BEV are currently negotiating two loans for the financing of the Babahoyo Urban Development Project, one with the German Government (KFW) for DM20 million, and the other through the German Technical Assistance Mission (GTZ) for DM2 million. The GTZ is actively involved in BEV/JNV operations, through its permanent advisory team of some 10 professionals.

D. Initiatives to strengthen the housing sector

- 2.30 At the same time that it was organizing and promoting the Housing Options Plan to provide housing for low-income groups, the government took a number of steps to strengthen the BEV and the JNV, its agencies at the head of urban development. In 1985, with assistance from the German Government and later from the World Bank, it established the Innovation and Technical Support Unit (UIAT) to advise senior management of the two institutions. This unit has produced a number of basic studies and has developed and implemented certain support criteria and methodologies that have helped to provide a clearer picture of conditions in the Ecuadorian housing sector.
- 2.31 With support from international advisors, technical specialists, and local consultants, the UIAT has devised a working plan to address the institutional and financial problems described earlier. This plan covers the areas of planning and programming, administration and organization, urban development, finances, support to the regions, and data systems. The work done to date by the UIAT, the quality of its staff, its organization and operating methods, and the working plan it has prepared, are a solid foundation which augurs well for the achievement of the goals set out for it, and an indication of the will of the Ecuadorian Government to strengthen institutions in its urban development sector and their financial position.

III. DESCRIPTION OF THE PROGRAM, COST, AND FINANCING

A. Objectives

- 3.01 The objectives of the Global Urban Development Plan are: (i) to help satisfy the housing needs of the country's low-income population; and (ii) to strengthen the principal institutions in Ecuador's urban development sector.

B. Description

- 3.02 The program consists of two components:

- (a) Urban infrastructure component. This component would finance urban infrastructure works to prepare approximately 32,000 subdivision lots. It would cover the cost of land purchases, earthwork, and infrastructure works for drinking water systems, sanitary and storm sewers, electricity lines and street lighting, and roads. The three types of unit in the subdivisions would be serviced lots, serviced lots with building materials credit, and lots containing homes approximately 18 meters square and 37 meters square. These homes would not be constructed with program funds.
- (b) Building materials credit component. This component would entail supervised building materials credits for owner-built basic units on serviced lots financed under the urban infrastructure component.

- 3.03 The program also includes an institutional-strengthening plan consisting of a study to be conducted by international consultants and research by local consultants. The two objectives of the plan, which reinforce and complement each other, are: (i) to produce a study that will analyze the status and performance of the nation's housing loan system, from an institutional and financial standpoint, and make recommendations for improvements in the organization and operation of the system, including suggested alternatives as to the role of the BEV, as the government's chief financing agency in the housing sector; and (ii) to provide support to the BEV in the specific areas of administration and organization, data systems, planning, and finance.

C. Demand for the program and determination of program scale

1. Demand

- 3.04 Effective demand calculations for the program referred to its final product, i.e., land with essential urban services plus a housing unit or other facilities to be provided. The sources used for the calculation were the demand study carried out by the BEV and JNV in March 1986 and the 1982 census. Surveys were conducted for the study in July 1985 in six cities (Quito, Guayaquil, Cuenca, Machala, Santo Domingo, and Riobamba) which together account for 62% of the country's urban population and so can be considered representative.

These cities also are located in different regions, and can therefore represent the entire country.

- 3.05 With the findings of those surveys, actual demand was calculated for the six cities listed above. Coefficients derived from the surveys in comparable cities, in terms of housing needs and the distribution of different forms of housing and tenure in the low-income urban sector, were then applied to the 1982 census figures to obtain demand estimates for the other cities that would benefit from the program.
- 3.06 Factors taken into account in the study to define the demand were: existing housing needs; the interviewee's interest in obtaining a housing "solution" under the program, and the option he preferred (potential demand); and his willingness and ability to pay. The study concludes that of about 400,000 families that are in need of housing, 180,000 want new units and 220,000 require improvements. Potential demand is 90,000 (new units) and 155,000 (upgraded units), and actual demand for those two options is 50,000 and 55,000, respectively.

2. Scale of the program

- 3.07 The following criteria were taken into account to determine the scale of the program: (i) The supply by city and type of housing solution was not to exceed actual demand. With that in mind, the housing units or other options to be provided through other BEV/JNV programs were subtracted from gross effective demand. (ii) The BEV's and JNV's capacity had to be taken into account when determining the work to be done under the program. (iii) Resources other than the funds of the proposed program had to be available for housing construction. (iv) The representative sample must correspond to approximately 30% of the resources of the program.
- 3.08 These criteria were used to determine the scale of the proposed program to finance infrastructure for approximately 32,000 housing solutions. The units or other options to be provided thereby represent 68% of the net effective demand and 18% of the Housing Options Plan. The infrastructure to be financed by the program would be for the following types of lots: serviced lots (17%); serviced lots with building materials credit (37%); lots for 18 m² single-family units or 37 m² two-family units that would be built with funds from a source other than the program (25%); and lots for 37 m² houses, also to be built without program funds (21%). The amount of building materials credit that would be needed was based on the calculation that 37% of the serviced lots to be financed by the program, or some 11,500 families, would require such assistance.

3. Representative sample

- 3.09 To ensure that the program design is sound and that execution can begin with a critical mass of projects, the BEV and JNV have prepared a feasibility study, reviewed by the Bank, of 18 investment projects that constitute the representative sample. With a direct cost of

US\$12.1 million, they account for approximately 30% of the total urban infrastructure component of the program. Final engineering designs are ready for the bidding stage and are considered technically suitable. It was also determined, when analyzing this sample, that the criteria and methods to be used in the ex ante analysis of the other projects to be financed with program resources had been applied.

D. Cost and financing

- 3.10 The total cost of the program is estimated at the equivalent of US\$63.6 million. The breakdown by category of expenditure and source of funds is shown in the following table.

<u>Total Cost of the Program</u> <u>by Source of Funds</u> (US\$000)						
	IDB		Total	Local Contrib.	Total	%
	Exchange	Local Currency				
1. <u>Eng. & administration</u>	588	-	588	65	653	1.0
2. <u>Direct costs</u>	48,509	6,122	54,631	1,825	56,456	88.7
2.1 Urban infrastructure	37,934	4,596	42,530	1,000	43,530	68.4
2.2 Credit for Materials	10,575	1,526	12,101	825	12,926	20.3
3. <u>Associated costs</u>	644	-	644	4,130	4,774	7.5
3.1 Land	-	-	-	4,100	4,100	6.5
3.2 Institutional strengthening	644	-	644	30	674	1.0
4. <u>Financial Expenses</u>	1,159	178	1,337	380	1,717	2.8
4.1 Interest	650	127	765	345	1,110	1.8
4.2 Credit fee	-	-	-	35	35	-
4.3 Inspection and supervision	509	63	572	-	572	1.0
TOTAL	50,900	6,300	57,200	6,400	63,600	100.0
%	80.0	10.0	90.0	10.0	100.0	

- 3.11 The proposed contribution from the Bank, as shown in the above table, would be a loan in the amount of US\$57.2 million from the Fund for Special Operations (FSO). The equivalent of US\$50.9 million would be

in foreign exchange and the equivalent of US\$6.3 million in local currency. In accordance with the provisions contained in document AB-1109 of September 25, 1985, as regards the proportion of the total cost of a project that can be financed with foreign exchange, the amount to be financed in this case is 80% of the total cost of the program; this is based on a 90% foreign-exchange participation in the cost of the water supply and sewerage component and a 75% foreign-exchange participation in the cost of the other infrastructure investments (serviced lots), and also takes into account the parameters established for Group D countries, of which Ecuador is one. The US\$6.3 million from the FSO in local currency would be 10% of the total. Accordingly, the proposed Bank share of the financing is 90% of the total cost of the program.

- 3.12 According to the above table, the proceeds of the Bank's loan would be used to defray: (i) part of the engineering costs or designs; (ii) part of the direct costs of the urban infrastructure component, namely earthwork and the infrastructure for drinking water systems, sanitary and storm sewerage, electricity lines and street lighting, and roads; (iii) the costs of materials for owner-built housing units, that would be acquired through BEV credits; (iv) the cost of hiring consultants for the institutional-strengthening plan; and (v) interest on the loan and the inspection and supervision charge.
- 3.13 The local counterpart contribution would be US\$6.4 million in all. US\$4.5 million (70%) would be provided from the BEV's own resources, and US\$1.9 million (30%) would come from a loan to be made by the Banco Ecuatoriano de Desarrollo (BEDE). The BEDE has advised the executing agency of its intention to approve the loan required to finance part of the local contribution. Interest would be 14% per annum, and the repayment term would be 10 years, including a four-year grace period. These counterpart funds would finance the total cost of land and the credit fee, and would supplement the Bank's resources in financing the urban infrastructure, building materials credit, and institutional-strengthening components of the program.

IV. EXECUTION OF THE PROGRAM

A. The borrower and the executing agency

- 4.01 The borrower would be the Republic of Ecuador. The proceeds of the loan would be transferred by the borrower to the executing agency, the Banco Ecuatoriano de la Vivienda (BEV). The agreement covering this transfer of funds would set out the BEV's responsibility to perform its obligations as executing agency under the loan contract to be signed for the program. It is recommended that the aforesaid funds-transfer agreement between the Republic of Ecuador and the BEV be submitted to the Bank, through the executing agency, prior to the first disbursement. ^{1/}

^{1/} See proposed resolution.

B. Operation of the program

- 4.02 The BEV would be assisted by the Junta Nacional de la Vivienda (JNV), that would serve as coexecuting agency for the program. The program would be operated using the organizational structure of both agencies. The BEV, as the Ecuadorian housing sector's financial and lending institution, would administer the program through its Finance Department, in coordination with the JNV, which is charged with planning, directing, and implementing the nation's housing policy.
- 4.03 The urban infrastructure component of the program would be executed through the BEV and JNV as described in the previous paragraph. Both institutions are designed to administer the type of housing program proposed herein, and have built up experience in this area since their inception.
- 4.04 The BEV, through the Housing Improvement Directorate of its Technical Department, will be responsible for the execution of the building materials credit component. To this end, it will mobilize its network of 38 branches and agencies in cities throughout Ecuador. Using procedures already in place for financing programs of this type, the BEV will identify, promote, process, control, and monitor operations financed with the resources of this component.
- 4.05 The BEV and JNV will publicize and promote each project using the standard media (radio, press, etc.) and direct promotional efforts in the project area. The beneficiaries will be chosen from among those families that meet the selection criteria set forth in the Operating Regulations for the program. Beneficiaries for urban infrastructure works and for the housing units to be built with outside funds will be chosen concurrently.
- 4.06 It is important to note that even though the selection processes will coincide, the components referred to above will be tendered separately, because only the urban infrastructure component is to be financed by the program. The BEV and JNV would use other sources of funding (IBRD, AID, etc.) for the housing construction portion.
- 4.07 In light of the foregoing, and to assure that the planned superstructure will be available for the infrastructure to be set in place with the Bank's loan, the contract should contain a clause requiring the borrower, through the executing agency and in parallel with the proposed program, to undertake to provide approximately 32,000 housing "solutions" within five years after the effective date of the loan contract. ^{1/} The distribution of these housing options, to be included in Annex A to the prospective loan contract, would be approximately as follows: serviced lots, 17%; serviced lots with building materials credit, 37%; single-family homes of approximately

^{1/} See proposed resolution.

18 m² or two-family units of approximately 37 m², 25%; and single-family homes of up to 37 m², 21%. These percentages may not vary by more than 5 points.

B. Operating regulations

- 4.08 The draft of the operating regulations that would govern the program has been discussed with the BEV and JNV. These regulations would have to be put into effect as a condition precedent to the first disbursement of the Bank's loan. ^{1/} Among the matters dealt with therein are the program objectives; selection criteria for cities, development sites, and beneficiaries; design criteria for projects; security and repayment terms for subloans; and operation of the building materials credit system.

1. Selection criteria

(a) Selection criteria for cities

- 4.09 Cities will be selected for the program on the basis of the following criteria: (i) their housing deficit; (ii) geographic distribution of the program; and (iii) population of over 6,000.

(b) Selection criteria for development sites

- 4.10 The land for developments must be located in or very close to the selected cities. As well, it must: (i) be readily accessible and be on or near a public transit line; (ii) have environmental and topographical characteristics suitable for the development of housing facilities for low-income sectors; (iii) be located in an area offering good prospects for economic and social development; and (iv) offer the possibility of the same essential urban services that are provided in the city in which it is located.

(c) Selection criteria for beneficiaries

- 4.11 The following requirements must be met by prospective beneficiary families: (i) The average monthly payment to be made for the new housing unit must not exceed 28% of the family's monthly income. (ii) The family may own no other housing unit. (iii) The applicant must be of legal age and be part of an existing family unit. (iv) The applicant must have deposited a first payment in a savings account at the BEV.

^{1/} See proposed resolution.

1. Project design criteria

(a) Economic criteria

- 4.12 The eligibility requirements for projects in the urban infrastructure component are as follows: (i) The scale of the project, in terms of total number of units and type, must be in line with the findings of the demand study conducted by the BEV and the JNV in March 1986, and the supply of each type of unit may in no case exceed actual demand. (ii) At least 75% of the housing units for which infrastructure would be financed under the program must be accessible to the country's low-income population. (iii) The economic internal rate of return (EIRR) for each project taken as a whole must be at least 12%.

(b) Technical criteria

- 4.13 The physical designs for the projects must meet the standards and criteria prescribed by the local authorities in each case, and will in every case: (i) adapt the development and the road system to the terrain, in order to minimize the cost of earthwork; (ii) ensure that provision is made for landscaped areas and community equipment, in the project area or nearby; (iii) prohibit the construction of units or homes and other uses of the land that might be detrimental to residents or to the single-family residential nature of the development; (iv) include drinking water systems, sanitary and storm sewerage, roads, and electricity and street lighting system; and (v) comply with the following minimum development norms: net density of up to 600 inhabitants per hectare; and 75% of the lots must be 72 meters square or less in Quito and Guayaquil and 90 meters square or less in other cities.

3. Terms and conditions of subloans for urban infrastructure

(a) Amount

- 4.14 The amount of the subloans will be determined by dividing the total cost of the land for which infrastructure is to be provided by the number of serviced lots.

(b) Interest

- 4.15 Interest of 19% per annum will be charged on the subloans. As well, a one-time bank fee of 2% will be charged, and a 2% compensating balance must be maintained, giving an effective rate of approximately 21% per annum. The inflation rate from August 1985 to August 1986 was 22%, so if that trend continued, the interest rate for the program could be slightly negative at the beginning. Projected inflation for the 1986 calendar year is approximately 23%. Interest rates will be adjusted in accordance with Monetary Board regulations.

(c) Repayment term

- 4.16 The maximum repayment term will be 25 years.

(d) Security

- 4.17 The subloans will be secured by a mortgage on the serviced lot.

4. Terms and conditions of building materials credits

- 4.18 Building materials credit will be given for the equivalent of 12 basic salaries. ^{1/} in amounts of up to S/.135,000. It may be provided separately or in conjunction with a serviced lot, in which case a single operation will be arranged. The lending and repayment terms for this type of credit will be identical to those outlined above for urban infrastructure subloans.
- 4.19 These credits may also be given to beneficiaries of serviced lots financed by the Bank, after those lots have been deeded. In that case, the operation will be subject to the terms and conditions in effect for the BEV's regular housing improvement loans, namely: interest at 19% per annum (with a fee of 2% and a 2% compensating balance), a repayment term of up to 10 years, and mortgage security.

5. Terms for commitment, physical initiation of the works, and disbursement

- 4.20 In accordance with the schedule for completion of the different activities included in the program, the term for initiation of the works for the urban infrastructure component will be two years, the term for commitment of the resources of the financing for the building materials credit component, during which time subloans would have to be approved and formalized, will be three years, and the term for disbursement of the Bank's financing for the program will be four years. All of these terms are computed from the effective date of the loan contract that would be signed by the Bank and the borrower.

D. Execution of the institutional-strengthening plan

- 4.21 Three consultants would be hired to carry out the study of the housing loan system: (i) one international consultant with a background in financial analysis and public administration, for a period of 12 months; and (ii) two local consultants to be hired for 12 months each, one with experience in the legal aspects of lending institutions, taxation, and capital markets, and the other with experience in the area of accounting standards. As well, the following international consultants would be hired to advise the BEV, for a total of 84 person/months: one urban planning specialist with a background in public administration; one economic consultant with experience in designing, conducting, and analyzing surveys; consultants with experience in financial and institutional analysis;

^{1/} The "basic salary" in September 1986 was 12,000 sucres monthly.

and business administration experts. Local consultants would also be engaged for a total of 60 person/months.

- 4.22 This plan will be implemented through the Innovation and Technical Support Unit (UIAT), with support from departments of the BEV and JNV. Consultants will be hired in accordance with the Bank's procedures. The timetable for the consulting plan is as follows: (i) the consultants that are to work on the study of the housing loan system will be hired within six months after the effective date of the contract; and (ii) those that will be providing advisory assistance to the BEV will be hired within 12 months. ^{1/}

E. Procurement

- 4.23 Contracts for construction work and goods and services to be financed with the proceeds of the loan will be awarded directly by the JNV. In the acquisition of machinery, equipment, and other materials for the program, and in the awarding of construction contracts, the system of public bids will be followed in each case in which the value of such acquisitions or contracts exceeds the equivalent of US\$200,000. The bidding will be subject to the procedures to be appended as an annex to the loan contract. For acquisitions or contracts for the equivalent of US\$200,000 or less, the procedures set out in Ecuadorian law will be followed.
- 4.24 Unless the Bank should stipulate otherwise, prior to each call for public bids or, if bids are not to be called, prior to the initiation of the works, the borrower shall submit to the Bank, through the executing agency: (i) the general plans, specifications, budgets, and other documentation required for construction and, where applicable, the specific bidding conditions and other documents needed for the call for bids; (ii) in the case of construction works, evidence of the legal possession of the land on which works for the program are to be constructed or the holding of other pertinent rights thereupon; (iii) in the case of infrastructure works on land on which housing "solutions" other than serviced lots are to be provided, the general plans and specifications of the houses to be built thereon; (iv) evidence that essential public services will be available for the proposed development, and a demonstration of the commitment of the municipality in question to provide those services. If additional investments would be required to bring such services to the subdivision, the plans, cost estimates, and financing plan for same, approved by the competent authorities, must also be presented; and (v) evidence that the project satisfies the technical and economic criteria.
- 4.25 When preparing calls for bids, the executing agency must group most of the work in two packages, in accordance with procedures of the

^{1/} See Recommendations.

Bank. The first package will include all the infrastructure works, and the second will comprise works for electricity and street lighting systems. For projects in the coastal region where filling or backfilling is necessary, separate bids will be called for these items, which would be covered with the local counterpart. The contractors responsible for the works would also install service connections for water and electricity, unless municipal by-laws require public utilities companies to provide connections; in the latter case, the works may be executed on force account, for the equivalent of up to US\$700,000. ^{1/}

F. Rates and public utilities

4.26 The Bank does not have a great deal of experience in the area of rate systems applied by water and sewer utility companies. However, the experience acquired with drinking water supply systems in Quito (Loan 745/SF-EC) and sewer systems in Guayaquil (Loans 532/SF-EC and 775/SF-EC) has shown that, generally speaking, these systems generate sufficient revenues to cover operating and maintenance costs in the urban sector. It should be noted that these utility companies are authorized by law only to charge such expenses. As for electricity services, although rates have been increasing by about 3% per month since November 1985, they are still not high enough for the companies' revenues to cover their debt repayments and provide a satisfactory return. However, operating and maintenance costs are being covered.

4.27 As the resources for the execution of the program works would be contributed by the government, no financial effort would be required on the part of the companies. The beneficiaries will make their payments in accordance with the rate schedules in effect for the service in question, and those payments will at least cover operating and maintenance costs of the different systems constructed for program projects. One of the selection criteria for prospective projects for the program is the demonstration by the executing agency that essential public services are available for the planned developments, and that the public utilities in question have agreed to provide those services. Accordingly, the expansion of urban infrastructure works in the project areas will probably increase the revenues of the public utilities companies. It can be concluded that, as far as the financial situation of the water, sewer, and electricity companies that are to operate and maintain the new works are concerned, the program would have a positive impact and not impair their financial position.

G. Commitment and disbursement schedules

^{1/} See proposed resolution.

- 4.2 The program has been designed with a four-year disbursement period, as outlined below:

Program Disbursement Schedule
(US\$ millions)

<u>Source of Funds</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Total</u>
IDB	13,4	11,6	17,2	15,0	57,2
Local contribution	<u>4,3</u>	<u>0,8</u>	<u>0,7</u>	<u>0,6</u>	<u>6,4</u>
Total	<u>17,7</u>	<u>12,4</u>	<u>17,9</u>	<u>15,6</u>	<u>63,6</u>

H. Retroactive financing and recognition of expenditure

- 4.29 The Junta Nacional de la Vivienda (JNV) has invested an estimated US\$200,000 in the preparation of the loan application, specifically to have local consultants prepare the final designs for the infrastructure works. It is proposed that the Bank loan be used to finance that outlay retroactively. For this purpose, the JNV will be required to demonstrate that the expenditure^{1/} was incurred 12 months before the date of approval of the loan and that procedures acceptable to the Bank were used to engage the consultants' services. Furthermore, as of August 1986, the JNV had spent an estimated US\$2 million on land and some civil works (primarily earthwork) for eight projects that would fall under the urban infrastructure component of the program. The land was acquired in conformity with requirements set out by the JNV's Board of Directors. It is recommended that this expenditure be recognized and charged to the local counterpart resources, provided it was effected^{2/} 18 months before the date of the resolution approving the loan.

I. Advance of program funds

- 4.30 Because of the nature of the program, and in order to expedite its execution, an advance not to exceed the equivalent of 10% of the resources of the loan is recommended. This represents an estimate of commitments in the first 120 days. The advance can be replenished to maintain that level as the executing agency justifies the use to which it was put.

^{1/} See proposed resolution.

^{2/} See Recommendation.

J. Ex post evaluation ^{1/}

- 4.31 For the purpose of evaluating the program's impact on its direct beneficiaries and assessing its execution by the institution, the borrower, through the executing agency, will submit to the Bank: (a) within 12 months after the effective date of the loan contract: (i) the annual baseline data agreed upon with the Bank; and (ii) a description of the system that will be used to compile and process information for the annual comparisons with the baseline data, in order to evaluate the results achieved through the execution of the program; and (b) three years after the date of the last disbursement of the financing, an ex post evaluation report on the results of the program, using the methodology and guidelines agreed upon with the Bank.
- 4.32 The program' effect on its beneficiaries will be assessed through a cost/benefit analysis. Benefits will be measured in terms of the market value of the finished units, based on a market survey or, alternatively, using the imputed price method, by administering surveys similar to those used for the ex ante evaluation to the tenants of housing units made possible by the program. Costs will be the actual program costs at shadow prices. The impact of the program will also be analyzed by identifying the income bracket that benefited from each type of housing solution offered thereunder.

V. JUSTIFICATION

- 5.01 It can be concluded from the feasibility analysis carried out that the proposed program is viable. The following paragraphs summarize the principal findings of that analysis from a technical, institutional, financial, and socioeconomic standpoint. The results of the socioeconomic evaluation of the projects sample are also shown.

A. Technical feasibility

- 5.02 The program is considered to be technically viable because the terms, designs, and final plans are available for the sample, and the works involved are relatively simple, with a cost that is judged to be reasonable. A land use analysis of the proposed subdivisions in the sample shows that they have been properly designed in this respect and that acceptable amounts of space have been allocated for landscaped and common areas. The projects were designed in accordance with municipal by-laws and standards and also the minimum urban development standards needed to assure proper housing for low-income groups. Finally, the BEV and JNV will bring to the

^{1/} See Recommendations.

proposed program their experience in the execution of similar projects, and the work will be carried out by private construction companies that have proved to have the capacity for such undertakings.

B. Institutional and financial feasibility

1. Institutional feasibility

- 5.03 The proposed program would be administered by the Banco Ecuatoriano de la Vivienda (BEV) and the Junta Nacional de la Vivienda (JNV), whose experience in the execution of similar projects shows that they have the institutional and operational capacity needed to complete the program successfully. As a concrete example, the BEV and JNV produced an average of 7,100 housing "solutions" each year from 1982 to 1984 (80% of them new housing units), and approximately 11,000 in 1985.

2. Financial viability

- 5.04 No difficulties are foreseen for the program from a financial standpoint. According to the projected statement of source and application of funds, it would be self-financing, generating sufficient resources to meet all of its obligations under the program.
- 5.05 The local counterpart contribution in the amount of US\$6.4 million is expected to present no problems. The BEV will receive the proceeds of a BEDE loan for US\$1.9 million. Of the US\$4.5 million remaining, it has already spent US\$1.9 million for land. It thus would have to contribute US\$2.6 million over a period of four years, which would not be an excessive strain on its finances.
- 5.06 The financial projections prepared for the program cover a 10-year period. They show that at the end of the tenth year, with the reinvestment of recoveries, the BEV would have available approximately US\$120 million for additional credits. In other words, the original program amount of US\$63.6 million would almost triple by that time, for a total of US\$176.5 million. Compared with the original investment of US\$63.6 million, the program would have assets totaling US\$161.7 million at the end of the projection period. During the same period, the amounts owed for the local counterpart contribution would be reduced by US\$1.9 million as the required payments were made, reaching a figure of US\$57.2 million. After deducting the BEV's own contribution of US\$4.5 million, the program would show a gain of US\$100 million at the end of the 10-year projection period.

C. Socioeconomic evaluation

1. Analysis of the results of the sample

- 5.07 A total of 18 projects located in different cities in Ecuador were analyzed. All had economic rates of return higher than 12%. In order to achieve that rate for projects in Quito, Guayaquil, Ibarra, and Riobamba, it was necessary to modify the initial designs by reducing 90 m² lots to 72 m², redistributing land into smaller units, as was the case in Quito, Guayaquil, and Ibarra and other adjustments. The multifamily units originally proposed by the BEV were dropped from the program because the actual demand for this option was below the proposal level and the economic rate of return thereon was less than 12%. As a general rule, the projects having the lowest initial return were in Guayaquil, where land with essential services costs more per square meter, because of the need for backfilling in subdivisions, and higher construction costs mean housing costs higher than in the rest of the country.
- 5.08 By type of housing "solution", the highest returns were recorded for serviced lots with building materials credit, followed by serviced lots with 18 m² units and then two-family units. The options offering the lowest return were serviced lots with no housing unit and 37 m² homes. The high return for the first two options referred to (serviced lots and building materials, serviced lots and 18 m² homes) reflects the beneficiaries' preference for a basic unit that can be built up gradually, in addition to the essential services that would be available to them under the program. Such is the case of serviced sites with building materials credit and the 18 m² units. The lower return of the 37 m² solutions is due to the cost of the home.

2. Distribution of the program impact

- 5.09 It was assumed when calculating actual demand that beneficiaries would devote no more than 28% of their monthly family income to monthly housing payments. Based on the low-income limit of S/.30,977 per month specified by the Bank, monthly payments could not exceed S/.8,674. An analysis of the monthly payments required for each type of housing in each region, on the basis of the 25-year repayment term and 18% interest rate specified, shows that all of the options except the 37 m² unit would be accessible to low-income families. Accordingly, 80% of the housing units or comparable solutions provided under the program would benefit the population classified as the low-income sector. The net benefits of the program to low-income groups would be 87%.

VI. RECOMMENDATION

- 6.01 The detailed study in the project report shows that the Global Urban Development Program is a sound, timely approach to alleviating the

growing housing deficit in Ecuador. It can be concluded from the analysis carried out that the proposed program is feasible from a technical, financial, and economic standpoint and is consistent with current Ecuadorian legislation. The approval of the loan is therefore recommended, to which end the following normative documents are being submitted to the Board of Executive Directors for consideration:

Proposed Resolution-FSO

Recommendations

Description of the Project (Annex A to the Loan Contract)

PROPOSED RESOLUTION 1/

ECUADOR. LOAN /SF-EC TO THE REPUBLICA DEL ECUADOR
(Global Urban Development Program)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the República del Ecuador, as borrower, for the purpose of granting it a loan to cooperate in the execution of a global urban development program (hereinafter referred to as "the Program"). This financing shall be subject substantially to the following conditions:

1. Amount and currencies: Up to US\$57,200,000, or its equivalent in other currencies which are part of the Fund for Special Operations of the Bank, of which amount: (a) up to US\$50,900,000, or its equivalent in other currencies (except that of Ecuador) shall be to pay for goods and services acquired through international competition in the member countries of the Bank and for such other purposes as may be specified in the loan contract; (b) up to its equivalent of US\$6,300,000 in sucres shall be to cover local expenses. Payments of amortization and interest shall be made in the respective currencies disbursed.
2. Source of funds: The Fund for Special Operations.
3. Guarantee: The general responsibility of the borrower.
4. Credit fee: 1/2 of 1% per annum on the undisbursed portion of the amount indicated in subparagraph (a) of Clause 1 of this resolution, commencing to accrue 12 months after the date of this resolution. The fee shall be paid in dollars of the United States of America on the same dates as the interest.

1/ The provisions contained in this Appendix, and in Appendices II and III will not become final until the Board of Executive Directors has approved the loan proposal.

5. Amortization: The borrower shall amortize the loan in a period of 40 years from the date of the loan contract, by means of 60 semiannual, consecutive and, insofar as possible, equal installments. The first installment shall be paid 10-1/2 years after the date of the loan contract.
6. Interest: 1% per annum during the first 10 years from the date of the loan contract and 2% per annum thereafter. Interest shall be payable semiannually on principal amounts outstanding and the first payment shall be made six months after the date of the loan contract. At the request of the borrower, the loan resources may be used to pay interest on the loan during the disbursement period thereof.
7. Physical initiation, commitment, and disbursement: The term for the physical initiation of all the works in the urban infrastructure component of the Program shall expire two years after the effective date of the loan contract; the term for commitment of the building materials credit component shall expire three years after the effective date of the loan contract, and the term for disbursement of the financing shall expire four years after the same date.
8. Special conditions:
 - (a) The resources of the loan shall be used in their entirety by the Banco Ecuatoriano de la Vivienda (hereinafter referred to as "the BEV" or "the Executing Agency"), in coordination with the Junta Nacional de la Vivienda (hereinafter referred to as "the JNV" or "the Coexecuting Agency"). If modifications in the legal provisions or the basic regulations concerning the BEV or the JNV are approved which, in the opinion of the Bank, may substantially affect the Program, the Bank shall have the right to require the BEV and/or the JNV to provide explanatory and detailed information in order to determine whether such modification or modifications may have an adverse impact on the execution of the Program. Only after hearing the borrower, the BEV and/or the JNV and assessing their information and clarifications may the Bank take such measures as it deems appropriate, in accordance with provisions to be set forth in the loan contract.
 - (b) The resources of the loan shall be used to participate in the execution of a program estimated at the equivalent of US\$63,600,000, and in no case shall the participation of the resources of the loan exceed 90% of the total amount of the Program. Consequently, the loan contract shall contain such provisions as the Bank deems appropriate to ensure that such additional resources as may be necessary, in addition to the loan, for the complete execution of the Program shall be duly provided, in an amount estimated at the equivalent of US\$6,400,000, in accordance with a schedule of investments satisfactory to the Bank.

- (c) Prior to the first disbursement of the financing, the borrower, through the Executing Agency, shall present evidence, to the satisfaction of the Bank:
- (i) that the Operating Regulations for the Program agreed upon with the Bank have been put into effect;
 - (ii) that the borrower and the Executing Agency have entered into an agreement providing for the transfer to the latter of the resources of the financing, on similar financial conditions, and establishing the obligation of the Executing Agency to fulfill those conditions of the loan contract for which it is responsible as executing agency for the Program;
 - (iii) that the Executing Agency and the Coexecuting Agency have put into effect an accounting mechanism to assure control of the use of funds transferred by the BEV to the JNV; and
 - (iv) that the borrower has agreed to defray the operating and administrative expenses of the JNV throughout the term of the contract.
- (d) Up to the equivalent of US\$200,000 of the resources of the financing may be used to cover expenses incurred in the Program for the preparation of final designs for the infrastructure works during the twelve months preceding the date of this resolution, provided that requirements substantially similar to those set forth in this resolution and in the loan contract have been fulfilled.
- (e) In the acquisition of machinery, equipment, and other materials for the Program and in the awarding of construction contracts, the system of public bids shall be followed in each case in which the value of such acquisitions or contracts exceeds the equivalent of US\$200,000. The bidding shall be subject to the procedures to be appended as an annex to the loan contract.
- (f) Notwithstanding the provisions of subparagraph (e) above, the installation of domiciliary connections for potable water and electricity may be undertaken by force account chargeable to the resources of the financing up to an amount equivalent to US\$700,000 in those cases in which, by virtue of municipal ordinance, said works must be undertaken by the respective public service company.
- (g) The borrower shall undertake to construct, through the Executing Agency, within five years after the effective date of the contract, approximately 32,000 housing solutions, the

distribution of which, by characteristics, is described in Section VI of Appendix III.

- (h) The funds arising from recoveries under credits granted for the purchase of sites with services and credits for materials granted with the resources of the Program may be used only for the construction of new sites and services and the granting of new building materials credits conforming substantially to the rules established in the loan contract and the Operating Regulations for the Program, unless five years after the date of the last disbursement of the financing the Bank and the borrower agree upon another use for recoveries that does not depart from the basic objectives of the financing, or agree to reduce the period of validity of this obligation.
- (i) The beneficiaries of the credits for the purchase of sites with services financed through the Program or of the credits for materials granted with the resources of the Program shall be charged on account of interest, commissions, or any other charge, an amount that shall assure sufficient annual income to prevent the decapitalization of the Program. If such income is not sufficient for that purpose, the borrower shall provide the additional resources necessary.
- (j) The Bank shall establish such inspection procedures as it deems necessary to assure the satisfactory execution of the Program, and the borrower shall extend all cooperation which is required for the most effective accomplishment of this purpose. From the amount of the financing the sum of US\$509,000 and the equivalent of US\$63,000 in sucres shall be allocated for credit to the income accounts of the Bank to meet expenses of general inspection and supervision.

RECOMMENDATIONS

A. It is recommended that the following conditions, to be fulfilled to the Bank's satisfaction, be included in the loan contract in addition to the conditions set forth in the proposed resolution:

1. Unless the Bank may otherwise agree, prior to issuing each public call for bids or, if a call for bids should not be applicable, prior to the initiation of construction, the borrower, through the Executing Agency, shall submit to the Bank: (i) the general plans, specifications, budgets and other documents for construction and, if applicable, the specific bidding requirements and other documents necessary for the call for bids; (ii) in the case of works, evidence of legal possession or other pertinent rights to the land on which the works of the project will be built; (iii) in the case of land development works to prepare for the construction of housing solutions other than sites with services, the general plans and specifications for the housing to be constructed on such land; (iv) evidence that essential public services will be available for the proposed development and that the municipality in question is committed to providing such services. If additional investments are required to ensure that such services will be provided, the pertinent plans, cost estimates and financing plan, duly approved by the competent authorities, shall be submitted; and (v) evidence that the project meets the technical and economic criteria set forth in the Operating Regulations for the Program.
2. Up to the equivalent of US\$2,000,000 may be recognized by the Bank as part of the local contribution to the Program for expenses incurred prior to the date of the resolution DE- /86 but after July 2, 1985, for land purchases, earthworks, and civil works for drinking water and sewerage systems and for streets and curbs, provided that requirements substantially similar to those set forth in the resolution and the loan contract have been fulfilled.
3. The borrower, through the Executing Agency, shall submit to the Bank: (a) within six months after the effective date of the contract, the plan to be followed to expedite the transfer of the new housing units to the final beneficiaries; and (b) every six months throughout the execution of the Program, a report on compliance with that plan and the results of the measures proposed therein.
4. The borrower, through the Executing Agency, shall demonstrate to the Bank that the Executing Agency has hired the following

- consultants, in accordance with the procedures and terms of reference agreed upon with the Bank: (a) within six months after the effective date of the contract, the consultants who are to assist in the study of the housing finance system; and (b) within twelve months after the effective date of the contract, the consultants who are to assist the BEV and the JNV in the areas of administration and organization, finance, data systems, and planning.
5. Within twelve months after the effective date of the contract, the borrower, through the Executing Agency, shall demonstrate to the Bank that it has put into effect its organizational manual.
 6. The borrower, through the Executing Agency, shall submit to the Bank:
 - (a) within six months after the effective date of the contract, a proposal prepared by the Executing Agency for the modernization of its accounting system and a timetable for its implementation; and
 - (b) within eighteen months after the effective date of the contract, evidence that the modernization plan outlined in the proposal referred to in subparagraph (a) above has been implemented.
 7. Not later than April 30, 1988, the borrower, through the Executing Agency, shall submit to the Bank, together with the financial statements of the Executing Agency for the 1987 fiscal year, evidence that the internal control recommendations contained in the auditors' reports for the 1985 fiscal year have been implemented.
 8. For the purpose of providing the Bank with an ex post evaluation report on the Program, the borrower, through the Executing Agency, shall submit to the Bank:
 - (a) within twelve months after the effective date of the loan contract: (i) initial annual data in the categories listed in paragraph 7.01(a) of Appendix III; and (ii) a description of the system to be used to gather and process data for the annual comparisons with the initial annual data, in order to evaluate the results achieved by the execution of the Program; and
 - (b) within three years after the last disbursement of the financing, an ex post evaluation report on the results of the Program, based upon the methodology and guidelines agreed upon with the Bank.
 9. The annual financial statements of the Program, during its execution, and of the Executing Agency, throughout the term of the

loan contract, shall be submitted to the Bank each year, audited by an independent firm of public accountants acceptable to the Bank. The financial statements of the JNV, audited by the Contraloría General de la República, shall be submitted to the Bank each year throughout the execution of the Program. The first financial statements shall cover the year in which the execution of the Program began.

- B. The loan contract shall include an annex substantially similar in content to Appendix III.

THE PROGRAM
(Annex A to the Loan Contract)

I. Objectives

- 1.01 The objectives of the Program are: (a) to help fill the housing needs of the country's low-income population; and (b) to strengthen the principal institutions in Ecuador's urban sector.

II. Description

- 2.01 The Program consists of two components and an institutional-strengthening plan which are described below.
- (a) Urban Infrastructure Component. Through this component urban development works will be undertaken for the preparation of approximately 32,000 lots. This component will finance purchases of land, earthworks and infrastructure works for drinking water systems, sanitary and storm sewerage systems, electricity lines, street lighting and roads.
 - (b) Building Materials Credit Component. Under this component supervised credits will be granted for construction materials for owner-built basic housing units on sites with services financed under the urban infrastructure component.
 - (c) Institutional Strengthening Plan. Pursuant to this plan: (i) the BEV and JNV's institutional capacity will be strengthened in the areas of administration and organization, finance, data systems and planning, through the hiring of consultants for a total of approximately 144 person/months; and (ii) a study of the housing financing system will be undertaken and recommendations proposed for its better organization and functioning, including such as may propose alternatives with respect to the role the financing role the BEV should have, through the hiring of consultants for a total of approximately 36 person/months.

III. Cost and financing

- 3.01 The total cost of the Program is estimated at the equivalent of US\$63,600,000, distributed by investment category and source of funds as shown in the following table:

Total Cost of the Program by Source of Financing
(In thousands of U.S. dollars)

	IDB			Local		%
	Foreign Exchange	Local Currency	Total	Contrib.	Total	
1. <u>Engineering and administ.</u>	588	-	588	65	653	1.0
2. <u>Direct Costs</u>	48,509	6,122	54,631	1,825	56,456	88.7
2.1 Urban infrastructure	37,934	4,596	42,530	1,000	43,530	68.4
2.2 Credits for materials	10,575	1,526	12,101	825	12,926	20.3
3. <u>Associated Costs</u>	644	-	644	4,130	4,774	7.5
3.1 Land	-	-	-	4,100	4,100	6.5
3.2 Instit.strengthening	644	-	644	30	674	1.0
4. <u>Financial expenses</u>	1,159	178	1,337	380	1,717	2.8
4.1 Interest	650	115	765	345	1,110	1.8
4.2 Credit fee	-	-	-	35	35	-
4.3 Inspection and superv.	509	63	572	-	572	1.0
TOTAL	50,900	6,300	57,200	6,400	63,600	100.0
Percentage	80.0	10.0	90.0	10.0	100.0	

IV. Procurement

- 4.01 When the goods to be procured or services to be contracted are to be financed in whole or in part with foreign exchange from the financing, the procedures and specific requirements for the bidding or other form of purchase or contracting shall permit the unrestricted participation of goods and services, including those related to any mode of transport, from member countries of the Bank. Consequently, no conditions that would limit or restrict the offer of goods or the participation of constructors from such countries may be imposed through such procedures or specific requirements.

V. Consulting services

- 5.01 In the selecting and contracting for consulting services to be financed in whole or in part with resources from this financing, the procedures specified in the loan contract will be followed, with the understanding that the borrower may not established provisions or conditions that would restrict or preclude the participation of consultants from member countries of the Bank. In the case of consulting services financed totally in the borrower's currency, it may restrict the participation of consulting services to those originating in Ecuador.

VI. Distribution of housing solutions by characteristics

- 6.01 The 32,000 housing solutions referred to in subparagraph 8(g) of Appendix I will be distributed approximately as follows: 17% for serviced lots; 37% for serviced lots with credits for building materials; 25% for single-family units of approximately 18 square meters or two-family units of approximately 37 square meters; and 21% for single family units of up to 37 square meters. This distribution may not vary by more than 5 points per category.

VII. Ex post evaluation

- 7.01 The ex post evaluation report referred to in paragraph 8 of Appendix II shall be based on the annual data and methodology described below.

(a) The annual data to be gathered and submitted by the BEV shall be as follows:

- (1) number of requests received during the year from eligible families by type of housing solution and city;
- (2) number and types of loans approved for each category of housing solution;
- (3) number of housing units completed and number of housing solutions sold each year, by city, since the beginning of the Program;
- (4) number of total beneficiaries and their income level, by type of housing solution;
- (5) percentage of the beneficiaries' income spent on housing;
- (6) annual cost of the different types of housing, by city;
- (7) construction cost of housing units built with credits for materials;
- (8) construction time, in months, by project and type of housing solution;
- (9) time elapsed from the date of sale of solution to the date on which beneficiaries took possession;
- (10) number and price of housing units rented and sold each year by the beneficiaries of the Program;
- (11) status of housing units still under construction and reasons for delays;
- (12) loans outstanding under the Program and report on delinquencies.

(b) Methodology

The ex post evaluation report shall present the results of a cost/benefit analysis. The benefits to be considered are the commercial values of the finished units, based on a market study, or the values ascertained in a survey, similar to the one conducted for the ex ante evaluation, of tenants living in housing units built under the Program, to obtain accounting prices. The costs to be used are the actual Program costs at shadow prices. The impact of the Program will be analyzed as well, identifying the income level of the families that benefited from each type of housing solution made possible by the Program. Institutional performance will be measured by comparing completed work against physical targets, in terms of the number of each type of housing solution built, with reference to the planned and actual timetable for completion, budgeted and actual costs, and information on loans granted using the resources of the Program and on the sources and applications of Program funds.