



Simplified Procedure

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To: The Board of Executive Directors
From: The Secretary
Subject: Nicaragua. Proposal for a loan for a multiphase low-income housing program - Phase II

Basic Information:	Loan type	.....	Loan for Multi-phase Program (PFM)
	Borrower	.....	Republic of Nicaragua
	Amount	.....	up to US\$7,500,000
	Source	.....	Single Currency Facility of the Ordinary Capital
	Amount	.....	up to US\$7,500,000
	Source	.....	Fund for Special Operations

Inquiries to: Mr. Olver Bernal (extension 2547)

Remarks: This operation was included in the Report on the 2006 and 2007 lending programs and country strategy updates, approved by the Board of Executive Directors on 25 April 2007 (document GN-2448), and its amount does not exceed the ceiling established for Group D countries.

As reported to the Board of Executive Directors at its meeting on 10 August 2006, the Office of the Secretary is distributing simultaneously a document (PR-3223-1) containing the text of the electronic links of the above-referenced document.

References: GN-1838-1(7/94), DR-398-5(5/03), PR-2695(8/02)

Other distribution: Representative in Nicaragua

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

NICARAGUA

**MULTIPHASE LOW-INCOME HOUSING PROGRAM
PHASE II**

**(LOAN 1111/SF-NI PHASE II)
(NI-L1013)**

LOAN PROPOSAL

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ANNEXES

Printed annexes

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Electronic Links and References	
Basic socioeconomic data	http://www.iadb.org/countries/home.cfm?language=spanish&id_country=ni
Status of loans in execution and loans approved	http://portal.iadb.org/approvals/pdfs/nien.pdf
Tentative lending program	http://opsgs1/absprj/tentativelending.asp?s=ni&l=en
Information available in the ICF/CMF files	http://idbdocs.iadb.org/wsdocs/getdocument.aspx?docnum=1199733
Procurement plan	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1228338

ABBREVIATIONS

ACENVI	Asociación Centroamericana de la Vivienda [Central American Housing Association]
AE	Auxiliary Entity
BAVINIC	Banco de la Vivienda de Nicaragua [Housing Bank of Nicaragua]
ESR	Environmental and Social Impact Review Secretariat
FOSOFI	Fondo Social para la Vivienda [Social Housing Fund]
FSO	Fund for Special Operations
INVUR	Instituto de Vivienda Urbana y Rural [Institute for Urban and Rural Housing]
LIS	low-income subsidy
MIS	moderate-income subsidy
NGO	nongovernmental organization
OC	Ordinary Capital
SIDA	Swedish International Development Cooperation Agency
SIS	subsidy indicator system

PROJECT SUMMARY

NICARAGUA MULTIPHASE LOW-INCOME HOUSING PROGRAM PHASE II (LOAN 1111/SF-NI PHASE II) (NI-L1013)

Financial Terms and Conditions ¹					
Borrower: Republic of Nicaragua				OC	FSO
Executing agency: Instituto de Vivienda Urbana y Rural [Institute for Urban and Rural Housing] (INVUR)			Amortization period:	30 years	40 years
Source	Amount (US\$)	%	Grace period:	5.5 years	40 years
Ordinary Capital	7,500,000	23.0	Disbursement period:	4 years	4 years
Fund for Special Operations	7,500,000	23.0	Interest rate:	Adjustable	0.25%
Counterpart: Government of Nicaragua	1,500,000	4.6	Inspection and supervision:	0.0 %	N/A
Other resources	16,160,450	49.4	Credit fee:	0.25%	N/A
Total	32,660,450	100.0	Currency:	US\$	US\$
Project at a Glance					
<p>Objective and description of Phase II: The general objective of the program is to improve the housing conditions of low- and moderate-income households by providing subsidies, deepening markets, and strengthening institutions in the sector. The specific objectives of Phase II are to: (i) improve the quality of life of the target population through subsidies for new housing and housing improvements; (ii) empower the target population to play an active role by supporting its participation and by building and developing its capacities for social oversight, quality control, housing maintenance, and environmental protection; (iii) strengthen microlending by providing technical assistance to deepen the savings/subsidy/loan (or “A+B+C”) scheme through microfinance institutions; (iv) strengthen the sector by implementing the policies established in the National Housing Plan; and (v) strengthen sector institutions by building management capacity and the capacity to prepare and provide technical support for local housing plans.</p> <p>Special contractual conditions precedent to the first disbursement: (i) revision of the program Operating Regulations, which must be approved by INVUR (paragraph 4.11); and (ii) agreement to transfer Bank resources to INVUR (paragraph 3.1).</p> <p>Special execution conditions: (i) presentation of the annual work plan (paragraph 3.19); (ii) presentation of baseline information (paragraph 3.12); and (iii) inclusion in the subsidy eligibility criteria of the requirement that property where housing is located be free of title disputes or claims for compensation by previous owners (paragraph 2.7).</p> <p>Exceptions to Bank policies: None.</p> <p>Project consistent with country strategy: YES [X] No []</p> <p>Project qualifies as: SEQ [X] PTI [X] Sector [] Geographic [] Headcount []</p> <p>Procurement: Works, goods, related services, and consulting services will be procured in accordance with the Bank’s procurement policies and procedures (paragraph 3.13).</p> <p>Verified by ESR on: 29 October</p>					

¹ The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to document FN-568-3 Rev. and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount. *

* With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.

I. SOCIOECONOMIC FRAMEWORK

- 1.1 The housing problem in Nicaragua, the scale of which outstrips its financial and institutional capacity, reflects the country's relative development and income levels. The estimated cost of upgrading the existing housing stock to 'decent housing' would be US\$1.34 billion, while the need for new housing for the poorest families (levels D and E, with monthly income below US\$150) is estimated as somewhat over 22,000 units a year over the 2007-2010 period (see the 2005 diagnostic report used to prepare the National Housing Plan).
 - 1.2 The Multiphase Low-income Housing Program (IDB loan 111/SF-NI, for US\$25.3 million) was the culmination of a long process to support the reorganization of sector institutions and revitalize the housing market in Nicaragua (see Annex II—Phase I Executive Summary). The goal was to support the country's poverty reduction strategy by granting subsidies to low-income families. The program was designed as a multiphase operation for an estimated total cost of US\$60 million, of which the Bank would finance US\$55 million. Two phases were designed: the first for US\$22.5 million (FSO), which is under way, and Phase II for US\$15 million (originally estimated at US\$30 million). Phase I was intended to: (a) shift the central government's role from direct production and finance to facilitating private-sector supply; (b) stimulate markets by creating incentives and offering technical assistance for home credit, savings, and land tenure regularization; and (c) decentralize program implementation to qualified organizations and strengthen their capacity.
 - 1.3 It was agreed that financing for Phase II would be contingent on the fulfillment of targets and a favorable evaluation of Phase I. The execution of Phase I and the degree to which the general program objectives were achieved were evaluated for the present proposal. The evaluation covered the quality of housing, supervision in the procurement and construction stages, compliance with environmental requirements, and social auditing, and Phase II takes into account the findings and lessons learned.
 - 1.4 The purposes of this document are to: (i) examine the fulfillment of targets for the presentation of Phase II; (ii) summarize the findings of the Phase I evaluation; and (iii) present the proposal for Phase II of the Multiphase Low-income Housing Program (loan 1111/SF-NI Phase II) to the Board of Executive Directors for approval, for up to US\$15 million, with US\$7.5 million from the Fund for Special Operations and US\$7.5 million from the Ordinary Capital.
- A. The country's and the Bank's strategy**
- 1.5 The government has made it its central objective to reduce poverty by promoting growth, to which end it recognizes that macroeconomic stability is a necessary, but not sufficient, condition that must be combined with promotion of private investment and active government involvement in developing basic infrastructure and providing social services that build human capital. The general objective of the Bank's strategy with Nicaragua for the 2007-2011 period is to support the

government in pursuing its central aim of reducing the poverty that affects a vast percentage of the population. The present program is one of the tools for achieving that objective. The program promotes economic development by increasing household equity, generating construction and related spending and jobs, increasing financing for low- and moderate-income housing, and building up a network of local organizations capable of undertaking housing interventions. The Bank's strategy with the country also backs the government's efforts to make basic social investment a priority and to better target resources to the neediest population, and promotes the establishment and use of targeting tools involving broad community participation.

B. Phase I and its evaluation

- 1.6 Phase I of the Multiphase Low-income Housing Program has been the first large-scale experience with low-cost housing projects in Nicaragua and with granting subsidies in short execution times. It created high expectations and growing demand in the country's municipios, departments, and regions, particularly those with high poverty rates, enabling the Institute for Urban and Rural Housing (INVUR) to implement a unique program that has built housing in 100% of the departments and autonomous regions and in 60% of municipios. The program's presence in so many municipios has helped to: (i) deepen decentralization and equitably distribute subsidies across the country; (ii) build and develop capacity and learning in the participating municipalities; (iii) strengthen the Auxiliary Entities; (iv) promote specialized natural hazard studies applicable to the localities and investments in infrastructure; and (v) outsource operation. It has focused efforts on property whose ownership could be legalized, thereby contributing to the process of regularization.
- 1.7 **Phase I.** The overall strategy was to provide a reasonable subsidy to bridge the affordability gap for housing production and improvement. The program was to provide both technical assistance and new lines of investment to overcome basic land tenure and credit constraints. In this context, the Bank and the government designed a two-phase program with each three-year phase having three components: (i) investment (subsidies), (ii) institution-strengthening, and (iii) policy reform. Phase I had three focuses: establishing operation of the subsidy system; strengthening INVUR, its deconcentrated agency the Fondo Social para la Vivienda [Social Housing Fund] (FOSOFVI), and the Auxiliary Entities; and land tenure regularization and specific policy reforms.
- 1.8 **Investment component.** Most of the investment component (US\$19.88 million) went to financing subsidies. Two types were established: group subsidies for low-income communities (families with incomes below US\$155 per month) and individual subsidies for low- and moderate-income households earning up to US\$350 a month, which would complement the subsidy with a down payment and a market-rate loan.

- 1.9 The investment component included the following subcomponents: (i) group subsidies (US\$11.28 million); (ii) individual subsidies (US\$5.55 million); (iii) fees for the Auxiliary Entities (US\$1.75 million); (iv) Austrian cofinancing for environmental risk mapping (US\$300,000); and (v) support for land tenure regularization (US\$1 million). Some 17,500 families were expected to benefit. Shortly after the program began, in view of construction costs and given the difficulties in obtaining supplemental funds, the maximum new housing subsidy was raised to US\$1,850, and the targets therefore had to be adjusted downward to a total of 10,850 subsidies to be granted under the program, with 9,100 (84%) going to low-income households and 1,750 (16%) to moderate-income ones. As Table I-1 shows, of the 10,880 subsidies actually granted, just 422 (4%) went to moderate-income households.
- 1.10 Under this same component, the Austrian Hurricane Mitch Disaster Assistance and Reconstruction Trust Fund financed the preparation of environmental risk maps of sites selected for the construction of low-cost housing, which made it possible to direct the use of housing subsidies to environmentally appropriate areas. Phase II of the program, if approved, will finance technical assistance for housing microfinance to help meet the demand brought about by the subsidy. In this connection, the IDB has worked with the Swedish Agency for International Development Cooperation (SIDA), which currently funds a successful small-scale housing improvement program that makes 1,200 loans per year in Nicaragua, and intends to increase the funding for its Local Development Programme (PRODEL) to help meet the effective demand generated by the IDB subsidy program.
- 1.11 **Institution-strengthening component (US\$2.47 million).** This component had a budget of US\$2.47 million in IDB financing and a local contribution of US\$1.251 million, and included four subcomponents. (i) *Technical and management support for INVUR* (US\$849,000 IDB and US\$1,251,000 local), the objective of which was to ensure financing for INVUR's technical and managerial functions. Support was also provided to strengthen and train the Auxiliary Entities participating in the subsidy system. As a result, they have received training in information systems, project development, contracting, and works supervision (see financial report at 31 December 2006). In addition, a workshop was held on proposals for regulating adobe construction in Nicaragua. (ii) *Training and information system* (US\$871,000), the basic objective of which was to consolidate the information system with support from the Japan Special Fund. (iii) *Housing Strategy, Research, and Evaluation Unit*, which was to formulate the National Housing Plan and strategy. (iv) *Public relations campaign*. The objective of this subcomponent was to widely publicize the new system for access to housing for low- and moderate-income families. The communications strategy and campaign was designed and implemented to meet three objectives: (1) to publicize the law that created INVUR; (2) to position INVUR as an institution created to lead and facilitate efforts to reduce the housing shortage; and (3) to publicize the 2005-2025 National Housing Plan.

- 1.12 **Policy reform and technical assistance component (US\$1 million).** The policy reform component focused on four areas. (i) **Technical assistance for housing microfinance** through workshops, the study of a second-tier mechanism to channel housing loans, and the design of a housing microfinance component for Phase II. This subcomponent was only partially implemented on account of the characteristics of the country's existing microfinance institutions. In 2006, however, INVUR did prepare and publish a diagnostic assessment and action plan for the main microfinance institutions that offer credit for housing in Nicaragua. (ii) **Land tenure regularization** through land tenure studies, to incorporate the cost of regularization into the subsidies in Phase II. This subcomponent was transferred to the investment component, while maintaining its nature as legal support for the regularization of lots for the construction of low-cost housing. (iii) **Assistance for the preparation of a national housing strategy.** This subcomponent was to finance the studies needed to prepare a national housing strategy document in conjunction with the Central American Housing Association (ACENVI). The document accurately identified the main obstacles to real estate market development—the sector's historical disorganization, the shortage of funds to back microlending, the absence of an urban land use policy, the lack of a segmented housing subsidy policy, and weak promotion and development in the construction industry, among others. INVUR has conducted studies to establish a system of housing sector indicators linked to the objectives set out in the national plan. Another task undertaken by INVUR was to prepare a basic document with a proposal and regulations for the creation of the National Housing Council. (iv) **Technical assistance for dissolution of the Housing Bank of Nicaragua (BAVINIC).** The funds for this subcomponent were transferred to the institution-strengthening component, given that they were not required for the process of winding up BAVINIC.

Table I-1
Execution of subsidies (US\$)

Low income

		No. of beneficiaries	Family contribution		Program subsidy	INVUR funds	Auxiliary Entities	Other grants	Total
			Down payment	Mortgage					
New housing	Year 1 (2003)	643	163,668	-	892,975	391,542	264,952	115,832	1,828,969
	Year 2 (2004)	4,277	1,056,079	-	7,311,156	3,458,084	786,780	1,128,401	13,740,500
	Year 3 (2005)	3,574	774,444	-	7,591,815	2,453,041	168,971	2,358,529	13,346,800
	Year 4 (2006)	1,072	231,184	-	2,281,129	20,219	593,951	935,219	4,061,702
	Year 5 (2007)*	31	11,589	-	66,051	11,224	54,773	3,959	147,596
	Subtotal	9,597	2,236,964	-	18,143,126	6,334,110	1,869,427	4,541,940	33,125,567
	Contribution/unit		233	-	1,890	660	195	473	3,452
	%		7%	0%	55%	19%	6%	14%	100%

Housing improvements	Year 1 (2003)								
	Year 2 (2004)								
	Year 3 (2005)								
	Year 4 (2006)	861	74,610	-	482,606	50,714	-	-	607,930
	Year 5 (2007)*								
	Subtotal	861	74,610	-	482,606	50,714	-	-	607,930
	Contribution/unit		87	-	561	59%	-	-	706
	%		12%	0%	79%	8%	0%	0%	100%

* 2007 portfolio. Low-income subsidies for new housing under the Miguel Larreynaga and San Ildefonso project. Cost of housing solutions US\$4,761

Moderate income

		No. of beneficiaries	Family contribution		Program subsidy	INVUR funds	Auxiliary Entities	Other grants	Total
			Down payment	Mortgage					
New housing	Year 1 (2003)								
	Year 2 (2004)	109	23,205	611,158	143,545	9,055	-	-	786,963
	Year 3 (2005)	64	55,950	654,856	84,284	5,316	-	28,778	829,184
	Year 4 (2006)	198	102,205	1,541,651	276,785	415	-	63,312	1,984,368
	Year 5 (2007)	25	24,195	286,126	35,000	-	-	-	345,321
	Subtotal	396	205,555	3,093,791	539,614	14,786	0	92,090	3,945,836
	Contribution/unit		519	7,813	1,363	37	-	233	9,964
	%		5%	78%	14%	0%	0%	2%	100%

Housing improvements	Year 1 (2003)								
	Year 2 (2004)								
	Year 3 (2005)								
	Year 4 (2006)	26	2,340	15,600	17,160				35,100
	Year 5 (2007)								
	Subtotal	26	2,340	15,600	17,160				35,100
	Contribution/unit		90	600	660	-	-	-	1,350
	%		7%	44%	49%	0%	0%	0%	100%

Summary of results			
Total beneficiaries	10,880 families		
Total investment	US\$37,714,433		
Low income			
No. of new units	9,597 (88.2%)	Cost/new unit	US\$3,452
No. of improved units	861 (7%)	Cost/improved unit	US\$706
Moderate income			
No. of new units	396 (3.6%)	Value/new unit	US\$9,964
No. of improved units	26 (0.3%)	Cost/improved unit	US\$1,350

- 1.13 The program has, in fact, led to **major changes in the approach to housing and urban and land-use planning**. The institutions involved in urban and land-use planning have made substantial progress in updating the regulatory framework, having prepared a land-use planning law, an urban development law, urban development plans (in 14 municipal seats), a cadastre law, and a new building code. INVUR has been strengthened by participating and influencing the contents of those laws. Also, the municipal governments have demanded that INVUR take a leadership role and provide support in preparing local housing plans that are consistent with the policies established in the National Housing Plan.
- 1.14 **Institutional framework for the sector.** At the time the program was designed, Nicaragua did not have appropriate housing legislation or a consolidated institution that could implement and subsequently administer a long-term program such as the one proposed. Given these conditions, the program included a series of legal and institutional measures to make the subsidy system transparent—which was essential to winning the trust of the housing beneficiaries, builders, and financiers—and to lend viability to the new system to be implemented. Table I-2 shows the main measures and when they were carried out.

Table I-2
Fulfillment of institutional conditions

Measure	Planned date	Actual date
INVUR Organization Act	1st half 2002	June 2002
Passage by the National Assembly of the operating regulations for FOSovi	1st half 2003	June 2003
National housing strategy	4th quarter 2005	November 2006
National housing plan	4th quarter 2005	November 2006
INVUR public information system on beneficiary selection	4th quarter 2003	1st half 2004
Agreement with the Nicaraguan Institute for Territorial Studies (INETER) to prepare environmental maps	2003	2003

C. Fulfillment of Phase I targets

- 1.15 The Phase I evaluation, performed by an international consultant, looked at outcome and process indicators as well as qualitative measures and found that almost all of the Phase II triggers have been met. Table I-3 gives a summary of the benchmarks given in the loan proposal for Phase I and compares them with actual outcomes.

Table 1-3 Benchmarks for consideration of Phase II			
Key objectives	Original benchmarks	Modifications	Benchmarks attained
I. Investment	1.1 90% of funding for the subsidy committed and 50% disbursed for housing improvement and new construction	1.1 None	1.1 98% of subsidy funds have been committed and 94% disbursed.
	1.2 1,000 loans being processed and 2,000 loans disbursed to complement the individual subsidy by participating auxiliary entities	1.2 The first administration mission (aide-mémoire of 2 April 2004) determined that if conditions permitted, two pilot projects would be conducted that year. The second administration mission (aide-mémoire of 26 July 2005) confirmed that the original benchmark concerning the processing of loans and disbursements would not be applied.	1.2 As of June 2007, there were eight projects with 422 subsidies for US\$497,400.60 and a total investment of US\$71,560.00.
	1.3 Tenure of 3,000 properties regularized	1.3 None	1.3 5,748 properties have been regularized, with deeds registered in the public property registry.
	1.4 Identities of 100% of subsidy recipients published in a major newspaper and on the Internet	1.4 None	1.4 100% of the names of subsidy recipients have been published in a major newspaper and on the Internet. The information on INVUR's website is not available at the moment since it is being standardized.
II. Housing market and policy reforms	2.1 National Housing Strategy completed with detailed proposals for policy reform and/or investment to address three to five bottlenecks in the sector	2.1 The second administration mission (aide-mémoire of 26 July 2005) considered the benchmark to be met, given that the key objective of housing market and policy reform appeared in the draft National Housing Plan presented by INVUR	2.1 The national housing strategy containing proposals for policy reforms and investments to address sector bottlenecks was prepared, and is described in the National Housing Plan. The current administration is revising the plan, but

Key objectives	Original benchmarks	Modifications	Benchmarks attained
		and validated during the consensus-building process.	the housing strategy should remain consistent with this indicator.
	<p>2.2 Two of the following four actions in collaboration with ACENVI:</p> <ul style="list-style-type: none"> (i) one project in employer-assisted housing implemented; (ii) a securitization law appropriate for development of a secondary market enacted; (iii) one mortgage bond issued; (iv) a new law to regulate microfinance institutions passed. 	2.2 None	<p>2.2</p> <ul style="list-style-type: none"> (i) Two employer-assisted housing projects were implemented—in Concepción de María Sur and Norte—built by Caritas in the city of León in partnership with the company Arneses y Componentes Sociedad Anónima (ARNECOM) for its employees. (ii) and (iii) were not achieved, as the market is in its infancy. (iv) A bill was drafted and submitted to the National Assembly but has not been passed.
	2.3 75% of BAVINIC's assets sold	2.3 None	2.3 90% of BAVINIC's assets have been sold. The law creating INVUR establishes that unliquidated assets will be transferred to the Ministry of Finance and Public Credit. The building and furnishings were transferred to INVUR.
III. Institutional strengthening	<p>3.1 Administrative budget (including all payroll) of INVUR and FOSOFI together averages no more than US\$1.5 million per year.</p>	3.1 None	<p>3.1 In the 2003-2007 period, the Ministry of Finance and Public Credit allocated the following budgets to INVUR and FOSOFI for current and capital expenditures:</p> <p>2003: US\$804,267.02 2004: US\$1,123,510.69 2005: US\$1,188,077.60 2006: US\$1,279,947.78 2007: US\$1,325,598.70</p>

Key objectives	Original benchmarks	Modifications	Benchmarks attained
	3.2 At least two operational audits of the program completed showing execution consistent with program design	3. None	3.2 The operational and financial audits for 2004, 2005, and 2006 have been completed and contain no comments of note.

D. Execution and targets met

- 1.16 The goal of Phase I of the program was to find a way to introduce the new housing services system, in which the government would give up its financing and implementation role in favor of becoming a housing facilitator. To achieve this objective, Phase I financed various strengthening activities for INVUR and for the Auxiliary Entities. Table I-4 shows what was expected and what was achieved.

Table I-4 Main benefits expected and achieved	
According to the loan proposal ¹	Outcomes achieved
The establishment of a new apex institution in the sector—INVUR/FOSOFI—and a housing strategy and action plan.	INVUR was able to establish itself as the apex agency for the housing sector, with FOSOFI acting as its executing arm for housing subsidies, and the National Housing Plan was prepared.
5,000 loans to low/moderate-income households, thus expanding housing microfinance.	Microfinancing was not expanded and has continued to be scarce.
The start of a low-cost housing development industry.	Participation by large, formal private-sector entities in low-cost housing has continued to be minor, but the program was able to engage small and medium-sized private-sector actors in low-cost housing construction.
Strengthening of the capacity of 40 NGOs, 75 municipalities, and six microfinance institutions in low-income housing.	NGOs participated less than anticipated, while the municipal governments came to play a major role as Auxiliary Entities, providing an additional subsidy toward the cost of housing.
Direct construction expenditures of US\$35 million, total economic stimulus of US\$105 million, and 20,000 new jobs.	Direct spending on housing construction exceeded US\$35 million. There are no reliable statistics on overall economic stimulus or on new jobs created by the program.
Increase in the assets of 17,500 low/moderate-income families by US\$2,000 on average.	There were 10,880 beneficiary families, and their equity increased by US\$3,500 on average.
Mobilization of US\$1 million in household savings as deposits in financial institutions.	No major savings have been deposited in financial institutions by the program's beneficiaries.

¹ IDB. Loan proposal NI-0064. Executive Summary. Note that the figures differ slightly from the indicators given in the logical framework (Annex I).

E. Operational description of the project cycle

- 1.17 Given that the project cycle is a good reflection of the workings of the program, the main actions included in that cycle for the low-income or group subsidies are summarized below.
- a. **Qualification and approval of the Auxiliary Entities.** Potential beneficiaries apply through an Auxiliary Entity, which could be a municipal government or an NGO. Institutions interested in becoming Auxiliary Entities must demonstrate thorough knowledge of program operations and provide INVUR with documentation on their background. INVUR's operations manager reviews this documentation and recommends approval or rejection of the applicant to the Executive President. If the application is accepted, it is sent to the Board of Directors for consideration; if it is approved, INVUR issues an Auxiliary Entity Certification. Subsequently, INVUR and FOSovi train staff designated by the Auxiliary Entity on the housing project cycle and the tools required to manage it. This step is vital to the system's transparency, considering that it will be the Auxiliary Entities that will review the background information provided by the applicants and, based on the results of that review, select and present the list of potential beneficiaries to INVUR.
 - b. **Application for the housing subsidy.** The first step was for INVUR and the Auxiliary Entities to carry out a broad campaign to publicize the system so that families would be informed about the basic components of the subsidy program. The families interested in applying for the benefit need to contact an Auxiliary Entity, which tracks potential demand for subsidies in its service area in its database. The Auxiliary Entity prepares a technical and financial prefeasibility study of the housing project and, if favorable, forwards the application to INVUR, giving the project name, the number of housing solutions, and location, to be included in the subsidy indicator system (SIS).
 - c. **Approval of applications.** INVUR enters the application in the SIS and notifies the Auxiliary Entity as to the subsidies available, giving it access to the SIS to input all the information on its applicants. The Auxiliary Entity uses the media available in its service area (radio, flyers, etc.) to invite interested parties to apply for the competitive low-income subsidies, explaining the eligibility requirements. The Auxiliary Entity verifies that applicants have met these requirements and inputs the data from each application into the SIS so that applicants can be classified and ranked based on the point system established in the Operating Regulations. Lastly, the Auxiliary Entity, once it is informed by INVUR that subsidies have been formally allocated, proceeds to publish the list of selected applicants.
 - d. **Project development.** The Auxiliary Entity develops and submits the housing project to INVUR, which reviews the technical requirements for feasibility and, if warranted, issues a declaration of technical eligibility, informs the interested parties, and sends the complete file to FOSovi. FOSovi reviews

and verifies applicants' social information, the technical and financial feasibility of the project and, if there are no objections, approves it. Otherwise, it recommends to the chair of its Board of Administrators that the project be rejected and forwards it to INVUR so that it, in turn, can notify the Auxiliary Entity that corrections or substantive changes are necessary.

- e. **Approval and formalization of the applicants for the subsidy and the project.** FOSOFI's Board of Administrators reviews the project and, if it approves it, asks the IDB for its nonobjection so that it can allocate financial resources for the corresponding subsidies. Once it receives the Bank's nonobjection, it notifies and provides guidance to the Auxiliary Entity so it can begin to fulfill the requirements for formalization and disbursement of the subsidy. The Auxiliary Entity receives technical assistance from FOSOFI so that, as established in the procurement manual, it can start the process of contracting out works or procuring housing. Once the formalization requirements are met, the Auxiliary Entity signs a financial administration agreement with FOSOFI if it is an NGO, or an administration and joint-and-several guarantee agreement if it is a municipal government.
- f. **Disbursements, execution, and inspection of works.** FOSOFI makes a first disbursement to the Auxiliary Entity as an advance payment, for which accounts must be rendered, for up to the equivalent of 30% of the sum it has agreed to finance for the project, after formal guarantees are in place. Once the Auxiliary Entity receives the first disbursement, an investment inspector is assigned who makes field visits to determine actual project status, the quality of the materials, the qualifications of the labor used, the construction processes employed by the executing agencies or contractors, and physical progress at the time of each visit. Subsequent disbursements from FOSOFI to the Auxiliary Entity and from the latter to the builder are directly linked to progress in the works, which is to be reported by the Auxiliary Entity to FOSOFI and duly reviewed and certified by INVUR's investment inspector. When the work is completed, the Auxiliary Entity signs a works acceptance certificate with the builder, which is to be countersigned by the beneficiary families, to indicate that they are satisfied with the housing received.
- g. **Compliance certification.** When the work is completed, the physical, social, financial and legal compliance certificates are prepared. The **physical compliance certificate**, which establishes that the work was executed in accordance with the specified contractual terms, is forwarded along with the project file by INVUR's operations manager to FOSOFI. The **social compliance certificate** is issued by FOSOFI after it verifies the data submitted ex ante by the beneficiaries by comparing the application with the approval document issued by the committee of beneficiaries and/or the municipal council and with the SIS list. FOSOFI issues the **financial compliance certificate** for the project once it has received the physical compliance certificate and orders the closure of accounts and assists with the

financial closeout process. The last step is for INVUR's office of general counsel to issue the **legal compliance certificate**. When the process of closing out the project has begun, the office of general counsel asks the Auxiliary Entity to present the instrument confirming that property improvements have been recorded in the property register. Once these instruments are received, general counsel issues a certificate of legal compliance, or completion of the project's legal requirements. Once it receives all the compliance certificates, FOSovi proceeds to issue the final certification of all the project components. This final certification is sent to the Auxiliary Entity and the office of general counsel, to release the guarantees posted by the Auxiliary Entity when it signed the respective agreement. As of June 2007, most of the projects had been issued a final certification, and only in 15 cases were compliance certificates still being prepared.

F. Lessons learned

- 1.18 The main lessons learned in this phase have to do primarily with realities that interfered in some way with program execution rather than with outcomes.² Three of the main issues were: (a) FOSovi's disbursement procedure (financial review of the Auxiliary Entity) needs to be improved, so the program's Operating Regulations are being revised and the final version must be approved, to the Bank's satisfaction, as a condition precedent to the first disbursement; (b) the beneficiary selection process needs to be strengthened, i.e. transparency mechanisms need to take into account that the target population cannot be adequately reached via the Internet or notices in major newspapers; and (c) the financial capacity of the target population is insufficient. The savings/subsidy/loan system cannot be developed successfully with very low-income families, so the income levels required to qualify for the two types of subsidies offered by the program will be modified slightly for Phase II. On the other hand, all the Auxiliary Entities and local leaders agreed that one of the program's most positive achievements was the incorporation of women. In fact, women tended to participate more in community meetings than did men. The promotion of gender equity was an achievement that may have raised awareness among participants as to the importance of including women more visibly in community decision-making.
- 1.19 Perhaps the most important lesson of Phase I is that although the program was well conceived (shifting the central government's role from producing and financing low-income housing to encouraging the private sector to do so, stimulating markets through new incentives and technical assistance for housing loans, savings, and land regularization, and decentralizing the execution of housing programs to qualified organizations by building their capacity), the income cut-off for obtaining a subsidy did not reflect the country's macroeconomic characteristics or the socioeconomic condition of the target population. The targeting of the subsidies to

² A detailed list is given in the final evaluation of Phase I by Walter Soto, November 2007.

low-income families is indicative of their limited ability to save. Accordingly, income cut-offs for determining the type of subsidy should be reviewed.

G. Rationale for Phase II and conclusions

- 1.20 **The role of local participation and decentralization of the poverty reduction strategy.** The economic and management capacity of the municipal governments needs to be strengthened in order to further decentralization. Local governments need to make progress as autonomous bodies whose main functions are to deliver local public services and promote and facilitate local development.
- 1.21 **Transformation of INVUR in Phase II.** The evaluation of Phase I demonstrates that INVUR was able to meet most of the targets and is one of the government's most important tools in combating poverty. Nonetheless, Phase II should continue to modify and strengthen INVUR so that it can be a strategic agent in the process of promoting the most efficient low-cost housing solutions in partnership with other key players. The fledgling process of delegating project cycle responsibilities has had promising results and should be expanded to Auxiliary Entities that are duly prequalified, fine-tuning intervention options as needed to streamline the process. Project cycle responsibilities should be delegated further, according to the capacity of the Auxiliary Entities and the municipalities and of INVUR itself to support the process.
- 1.22 Based on the lessons learned, Phase II will include efforts to identify ways to work more closely with the communities and the municipios to better address their needs. The project cycle will be simplified and the manuals revised to make them more easily understandable for the Auxiliary Entities as program facilitators.
- 1.23 **The role of the Ministry of Finance and other government agencies in determining housing policy.** By law, INVUR is the agency with the power to set policy and develop rules and instruments to promote decentralization and local development in the area of low-cost housing. However, the scope of its activities has been limited by a shortage of fiscal and human resources, so it must act in coordination with the Ministry of Finance to ensure that an adequate budget will be allocated to developing and implementing housing policy.
- 1.24 With its broad understanding of local realities, its commitment to coordinating more closely with the Ministry of Finance and to transferring project cycle tasks to a larger number of Auxiliary Entities and municipalities, INVUR now views itself not simply as the main tool for channeling resources toward solving the problems of acquiring low-cost housing, but as a strong partner with a key role to play in the decentralization process.
- 1.25 **Conclusion.** The Phase I evaluation showed that the investments in low-cost housing benefit the very poor and are of good quality, that the process of delegating project cycle tasks should be maintained to spur on the decentralization process, and that the current context presents the Bank with a unique opportunity to support the government in defining a targeted policy to enable very low-income families to

afford decent housing, and also to identify how and where a decentralized approach could contribute to the success of the poverty reduction strategy and the country's development.

- 1.26 In conclusion, the project team recommends that the Board of Executive Directors approve Phase II of the Multiphase Low-income Housing Program (loan 1111/SF-NI Phase II) for up to US\$15 million.

II. PHASE II

A. General objective

- 2.1 The general objective of the program, which is to improve the housing conditions of low- and moderate-income households by providing subsidies, deepening markets, and strengthening institutions in the sector, will be maintained in Phase II.

B. Description

- 2.2 The specific objectives of Phase II are to: (i) improve the quality of life of the target population through subsidies for new housing and housing improvements; (ii) empower the target population to play an active role by supporting its participation and by building and developing its capacities for social oversight, quality control, housing maintenance, and environmental protection; (iii) strengthen microlending through technical assistance to deepen the savings/subsidy/loan ("A+B+C") scheme through microfinance institutions; (iv) strengthen the sector by implementing the policies established in the National Housing Plan; and (v) build up sector institutions by building management capacity and the capacity to prepare and provide technical support for local housing plans.
- 2.3 The main components of Phase I are maintained in Phase II to support a medium-term vision and reflect the synergy between INVUR and local development. Activities will be financed in the same areas as Phase I, supporting investments in basic low-cost housing while also enabling the country to broaden the scope of its decentralization efforts and consolidate interagency coordination. The program's components are described below.

1. Investment (US\$14,065,000)

- 2.4 This component will finance subsidies for low-income families for housing improvements, the construction of new units on their own lots, the purchase of new units that have already been built, and the regularization of land tenure. The funds for this component account for approximately 94% of the loan.

a. Subsidies subcomponent (US\$13,000,000)

- 2.5 As in Phase I, two types of subsidies will be used to reach different individuals and groups willing to invest in housing: (i) low-income subsidies (LIS); and (ii) moderate-income subsidies (MIS). The first is a group subsidy supplemented by family savings and/or possibly a contribution from an Auxiliary Entity. The second

is an individual subsidy supplemented with family savings (in cash) and credit from a financial institution using its own funds, under market conditions.

- 2.6 Importantly, Auxiliary Entities only facilitate the beneficiary selection process. The mechanism used is a nondiscretionary point system that favors households with the lowest income, the highest savings or contribution, the most people per nuclear family, and/or members with severe or permanent disabilities, as well as households headed by a single parent, a disabled person, or a senior citizen.
- 2.7 The eligibility criteria for individual subsidies include the requirement that one or more of the family members have a deed showing ownership of the land where the house will be built, expanded, upgraded, or renovated as well as ownership of the house itself. The property title must be free of any disputes and no claims for compensation by previous owners may be pending. In the case of a new home being purchased on its own lot, the lot being purchased must have a title in the name of the seller, be free of any disputes, and have no claims for compensation by previous owners pending. For the group subsidies, the municipality or NGO acting as Auxiliary Entity must have a registered deed and the property itself must be free of any title disputes or claims by previous owners. The Auxiliary Entities will be selected following the same procedures that were used in Phase I.
- 2.8 The total program targets are to provide 9,377 housing solutions—6,015 new houses, and 3,322 housing improvements.

(i) Low-income subsidies (US\$9,100,000)

- 2.9 Eighty percent of the funds allocated to this type of subsidy will be used to finance new houses and the remaining 20% will be used for housing improvements. The subsidy for new housing will be fixed at the equivalent of US\$1,850 in córdobas. The subsidies for housing improvements will be set at the equivalent of US\$900 in córdobas.

Table II-1					
Type	Use	Amount per subsidy	Target number of subsidies	Percentage of subsidy budget	Amount in US\$
LIS				70%	9,100,000
	New housing (80%)	US\$1,850	3,935		7,280,000
	Improvements (20%)	US\$900	2,022		1,820,000

- 2.10 This type subsidy will be used to finance minimum housing solutions called “basic modules” consisting of 36 m², with 18 m² being enclosed and 18 m² having just a floor and a roof. The maximum eligible solution will be a 36 m² home, fully enclosed but without internal divisions. Both solutions include access to basic services (drinking water and basic sanitation) and are in safe areas, i.e. areas for which the necessary risk and soil studies, etc., have been done. It is estimated that a

minimum solution will cost US\$2,800 and a maximum solution US\$4,000. Families whose monthly income does not exceed 2.5 times the average minimum wage for all sectors evaluated by the country's National Minimum Wage Commission (about US\$200) are eligible for a LIS for new housing and for housing improvements. In addition to meeting other requirements, the families will need to contribute US\$200 for a new house and US\$100 for a housing improvement.

(ii) Moderate income subsidies (US\$3,900,000)

- 2.11 Eighty percent of the resources allocated to this kind of subsidy will be used for new housing and the remaining 20% for housing improvements. The subsidy for new housing will be fixed at the equivalent of US\$1,500 in córdobas. The subsidies for housing improvements will be set at the equivalent of US\$600 in córdobas.

Table II-2					
Type	Use	Amount per subsidy	Target number of subsidies	Percentage of subsidy budget	Amount in US\$
MIS				30%	3,900,000
	New housing (80%)	US\$1,500	2,080		3,120,000
	Improvements (20%)	US\$600	1,300		780,000

- 2.12 This type of subsidy will be used to finance minimum housing solutions consisting of 36 m², enclosed, whose cost (including developed land) is an estimated US\$7,000. The maximum eligible solution will not exceed US\$10,000. Both solutions include access to basic services (drinking water, basic sanitation, and electricity) and will be located in safe areas. Families are eligible whose monthly income does not exceed 6.5 times the average minimum wage for all sectors evaluated by the National Minimum Wage Commission (about US\$500). In addition, the family must make a contribution equivalent to 5% of the cost of the solution (as a down payment for the home purchase or improvement) and must obtain a housing loan under market conditions from any financial institution, which will be part of the financing structure for the investment to be made (new home or improvement). With the MIS, the family will be free to choose among different types of units, different projects, and different contractors. This system seeks to encourage participation by private for-profit organizations in the low-cost housing market, including builders, contractors, microfinance institutions, and banks.

b. Property regularization subcomponent (US\$385,510)

- 2.13 Support will continue for the process of legalizing properties in order to create favorable conditions for granting subsidies and mortgage loans in accordance with the criteria established by the National Reconciliation and Unity Government. The program will recognize up to US\$130 spent by beneficiary families to legalize and survey the lot where the house will be built. Under the LIS, new housing and

improvements are eligible, while under the MIS, only housing improvements are eligible, the idea being to make a real impact on the quality of housing in sectors that use microcredit but lack property titles.

c. Operating costs subcomponent (US\$679,490)

- 2.14 The Auxiliary Entities will receive a fee from FOSovi to cover the costs associated with administration and execution of the subsidy. The amounts are:

Table II-3		
Use	Type	
	LIS	MIS
New housing	US\$100	US\$75
Improvements	5 % of the subsidy amount	

2. Sector and institutional strengthening (US\$705,000)

- 2.15 This component has three main goals. The first is to consolidate the technical and operational capacity of INVUR. The second is to strengthen the subsidy intermediation capacity of the Auxiliary Entities and to provide technical support for the municipal governments in preparing their local housing plans. The third is to develop the capacity of the target population eligible for housing interventions, increasing their participation in beneficiary selection processes and their social oversight role.

Table II-4	
Component	Amount (US\$)
Sector and institutional strengthening	705,000
Training for Auxiliary Entities and beneficiaries	78,750
Information system maintenance	42,000
Housing research and evaluation	78,750
Information campaign	55,000
Technical support for the sector	320,500
Evaluation and audits	130,000

a. Training for Auxiliary Entities and beneficiaries subcomponent (US\$78,750)

- 2.16 This subcomponent allocates funds for activities to strengthen the Auxiliary Entities administratively and operationally so they can efficiently meet the beneficiaries' housing demands, in terms of both time and quality. It will also finance a strategy to train beneficiaries, which includes the design and preparation of easy-to-understand

printed materials, workshops, seminars, and other dynamic activities to enable them to effectively perform their oversight tasks.

b. Information system maintenance subcomponent (US\$42,000)

- 2.17 This subcomponent specifically supports the work of maintaining, updating, and/or redesigning INVUR's information systems.

c. Housing research and evaluation subcomponent (US\$78,750)

- 2.18 This subcomponent will support research on housing sector issues. It is hoped that the findings of these studies will be valuable planning and decision-making inputs for the different stakeholders in their spheres of activity.

d. Information campaign subcomponent (US\$55,000)

- 2.19 The information campaign targets stakeholders in the housing sector, properly informing them about the roles they are called on to play under this program.

e. Sector technical support subcomponent (US\$320,500)

- 2.20 This subcomponent includes resources to promote and finance activities for comprehensive strengthening of the main players—especially INVUR, as apex agency and facilitator.

f. Evaluation and audits subcomponent (US\$130,000)

- 2.21 This subcomponent will finance the program evaluations as well as the financial and operational audits.

3. Policy reform and technical assistance (US\$230,000)

- 2.22 This component assigns funds to implement the decentralization policy, including immediate actions to further strengthen the sector in the area of incentives for private, municipal, and community investments. It also includes the planning and management of funds for a portfolio of programs to execute the different strategies identified in the policy and studies linked to the housing sector, which will be important inputs to promote pending reforms to the regulatory framework.
- 2.23 Lastly, funds will be allocated to strengthen microfinance institutions in the areas of microfinance services, credit policies, savings mobilization, subsidy administration, guarantees, regulation and supervision, expanding and improving the housing portfolio, technological requirements for housing credit operations, and technical assistance with housing credits.

Table II-5	
Component	Amount (US\$)
Policy reform and technical assistance	230,000
Housing policy actions	170,000
Support for microfinance institutions	60,000

a. Housing policy actions subcomponent (US\$170,000)

- 2.24 This subcomponent will finance actions identified in INVUR's vision and mission statement, specifically including: consolidating the subsidies and mortgage loan scheme, exploring the feasibility of creating a housing savings and loan plan for workers, funding arrangements, a guarantee fund, etc.

b. Support for microfinance institutions subcomponent (US\$60,000)

- 2.25 The purpose of this subcomponent is to help microfinance institutions overcome the barriers and constraints to providing loans under favorable repayment terms through a technical assistance plan for that industry to include international knowledge-sharing, credit risk management, technology, obtaining funding, etc.

C. Total Phase II investment and cost

- 2.26 The estimated total cost of Phase II is US\$32.66 million. The Bank loan is for US\$15 million, with 50% charged to the Fund for Special Operations and 50% from the Ordinary Capital. The Government of Nicaragua will provide the entire local counterpart contributions of US\$1.5 million. Complementary investment will amount to US\$16.16 million, with US\$1.79 million provided by the beneficiaries from prior savings. The financial system will provide credits for US\$11.41 million, and supplemental funds of US\$2.95 million will need to be obtained. Table II-6 breaks down program costs and financing by source and investment category.

Table II-6		
Item	Amount (US\$)	Source
<i>Phase II costs</i>	<i>16,500,000</i>	
i. Loan	15,000,000	IDB
ii. Local counterpart funds	1,500,000	Government of Nicaragua
<i>Complementary investment</i>	<i>16,160,450</i>	
iii. Savings	1,795,200	Beneficiaries
iv. Supplemental funds	2,951,250	Other cofinancing
v. Loans	11,414,000	Financial system
Total	32,660,450	

D. Breakdown of the cost of Phase II by financing source and investment category

Table II-7			
Component	IDB	Government	Total
1. Investment	14,065,000		14,065,000
1.1 Subsidies	13,000,000		
1.2 Property regularization	385,510		
1.3 Operating costs (subsidies)	679,490		

Component	IDB	Government	Total
2. Sector and institutional strengthening	705,000	1,270,000	1,975,000
2.1 Training for Auxiliary Entities and beneficiaries	78,750		
2.2 Information system maintenance	42,000		
2.3 Housing research and evaluation	78,750		
2.4 Information campaign	55,000	1,270,000	
2.5 Technical support for sector	320,500		
2.6 Evaluation and audits	130,000		
3. Policy reforms and technical assistance	230,000		230,000
3.1 Housing policy actions	170,000		
3.2 Support for microfinance institutions	60,000		
Subtotal			
4. Financial costs		230,000	230,000
4.1 Credit fee		230,000	
Total	15,000,000	1,500,000	16,500,000

2.27 Financial terms and conditions of the loan:

Source of financing:	50% FSO and 50% OC
Currency:	U.S. dollars
Grace period:	FSO 40 years, OC 5.5 years
Amortization period:	FSO 40 years, OC 30 years
Disbursement period:	4 years
Interest rate:	FSO .25%, OC adjustable
Inspection and supervision:	FSO N/A, OC 0% of the loan
Credit fee:	FSO N/A, OC 0.25% per annum on the undisbursed balance, starting 60 days after the contract is signed.

III. PHASE II EXECUTION

A. Borrower and executing agency

- 3.1 The borrower is the Republic of Nicaragua. The executing agency will be the Institute for Urban and Rural Housing (INVUR), a decentralized government agency established under Nicaraguan law. INVUR is governed by a board of directors representing the main stakeholders in the program and the housing sector. A semiautonomous unit inside INVUR called the Social Housing Fund (FOSOV), with a board of administrators appointed by the head of INVUR, will disburse the program's subsidy component. This structure was established for Phase I to help

ensure transparency and objective use of the subsidy. The Nicaraguan government will transfer the loan proceeds and local counterpart funding directly to INVUR. **Conclusion of an agreement between the borrower and INVUR for the transfer of Bank and counterpart resources is a condition precedent to the first disbursement.**

B. Organizations participating in the subsidy component

3.2 The subsidy is the centerpiece of the program. Execution of the subsidy component rests on a partnership between qualified organizations—called “Auxiliary Entities”—and INVUR. **Auxiliary Entities.** Nongovernmental organizations and qualified municipalities act as Auxiliary Entities for the low-income (group) subsidy, which represents the bulk of program investment. **Depositary financial institutions** open accounts at the request of the families and the Auxiliary Entities for the families to save their down payment. **INVUR** qualifies organizations as Auxiliary Entities, evaluates applications received from them, authorizes FOSOFI to disburse subsidies, monitors the participants in the process, and sets and enforces the rules of the system. FOSOFI, INVUR’s subsidy unit, disburses and accounts for the use of subsidy funds. Microfinance institutions participate as Auxiliary Entities for the individual subsidies for moderate-income families, as in Phase I.

3.3 **Construction contractors, prefabricated home builders, and developers** perform the construction work. The program offers many different opportunities to private-sector builders. Developers of low-cost core units and prefabricated home builders can market their products to families holding the individual subsidy, which bridges the affordability gap so that they can acquire these products. Families then choose the product that best suits their needs. Construction contractors will perform the bulk of the work under both types of subsidy.

C. Program principles and project cycle for the investment component

1. Principles

3.4 The program and its subsidy component maintain the three core principles of Phase I. First, they deliver a subsidy to low-income households that the families can opt to use for a range of low-cost housing solutions (renovation, replacement of a run-down dwelling, purchase of a new core unit). Second, the program addresses the two fundamental bottlenecks to housing in Nicaragua—land tenure and credit financing. Third, the program and the subsidy component decentralize execution to local organizations—the Auxiliary Entities—while the government acts as facilitator and funder of the sector. The creation of a lead agency in the housing sector—INVUR—has led to the adoption of the basic principles necessary for modern housing programs and policies contained in the law establishing INVUR.

2. Project cycle for the subsidy component

3.5 **Project cycle for the low-income (group) subsidy.** A municipality or an NGO acting as an Auxiliary Entity assembles a group of families who live in makeshift housing or have no home and whose income is low enough to qualify for the

program (below US\$200 per month). All the projects will be put to tender. With the approval of INVUR, FOSovi disburses the amount approved for the subsidy in the same way as in Phase I.

- 3.6 **Project cycle for the moderate-income (individual) subsidy.** Most of the applications will likely come from moderate-income families with jobs in the formal sector (earning US\$201 to US\$500/month) seeking to build or replace a house on a lot they own, who will apply for loans from microfinance institutions. The applicants present construction plans and estimates and open a bank account to save up the required cash down payment. The financial institution prequalifies families meeting the requirements for the program subsidy and a loan. The family submits its application to FOSovi, which evaluates eligibility with regard to family income, environmental risk, the financial feasibility of the project, and the construction work required based on program rules.

D. Program management

1. INVUR

- 3.7 INVUR's board of directors consists of the agency's president, the Minister of Transport and Infrastructure, the Minister of Finance and Public Credit, a representative of the Association of Private Banks, a representative of the National Association of Developers and Construction Companies, two representatives of community group associations, and two trade union representatives. The entity that administers the subsidy—known as FOSovi—is a deconcentrated INVUR agency. FOSovi has a board of administrators appointed by INVUR's board of directors.

2. Auxiliary Entities

- 3.8 Municipalities and NGOs with experience and a track record in low-income housing projects and supervision of self-help construction and that meet other requirements are eligible to act as Auxiliary Entities for group subsidies. A number of NGOs have experience in infrastructure projects and other investments in low-income neighborhoods and could qualify as Auxiliary Entities for the group subsidy once they have completed INVUR's training program. About half of Nicaragua's 152 municipalities have the capacity to prepare project designs and cost estimates, contract works, and assist groups of families with construction. INVUR will train organizations interested in these activities.

3. Program evaluation

- 3.9 **Midterm evaluation.** Once 50% of Phase II resources have been disbursed, an independent firm will be hired to perform a midterm evaluation based on terms of reference to be agreed on with the executing agency. The purpose of the midterm review is to evaluate the project during implementation so that INVUR's managers can receive immediate feedback on its achievements and on areas that need improvement, to justify and guide potential changes.
- 3.10 The main objectives of the midterm evaluation with regard to INVUR's activities are to assess: (i) targeting of the funds (to channel more funds to the poorest

communities); (ii) change in access to basic social services for the poor; (iii) flexibility, efficiency, and effectiveness of procurement procedures; (iv) participation by women in participatory planning processes; (v) local players' cofinancing and shared responsibilities in the design of participatory plans, preinvestment, and execution; and (vi) degree of interagency coordination and INVUR's interaction with the line ministries, etc.

- 3.11 **Final evaluation.** Once 90% of program resources have been disbursed, the loan proceeds will be used to commission an evaluation to examine the performance of the three components, achievements, and lessons learned. The results of the evaluation will serve as inputs for designing future Bank operations in this sector.
- 3.12 **Baseline.** INVUR will present the initial baseline and the procedure to be used to compile and process annual data to the Bank within three months after the effective date of the loan contract. The indicators will cover the areas mentioned in paragraph 3.10 and will be used in the midterm and final evaluations. Starting one year after the program begins, and ending two years after the last disbursement, INVUR will submit comparative annual data to the Bank on a yearly basis.

E. Procurement

- 3.13 Goods and related services will be procured, and consulting services contracted, in accordance with the Bank's procurement policies and procedures. Municipalities, NGOs, microfinance institutions, and financial entities will be selected to act as Auxiliary Entities using the precertification system established in Phase I.

F. Disbursements

- 3.14 The commitment period for program funds will be 42 months and the disbursement period will be 48 months, both counting from the effective date of the loan contract. Table III-1 presents the disbursement schedule for Phase II by source of financing. Given the capacity of INVUR, which was able to execute an average of US\$5 million a year from 2003 to 2006, this schedule is considered reasonable.

Table III-1
Phase II disbursement schedule (thousands of US\$)

Source of funds	Year 1	Year 2	Year 3	Total
IDB/FSO/OC	8,000	5,500	1,500	15,000
Local	800	550	150	1,500
Total	8,800	6,050	1,650	16,500
%	53	37	10	100

G. Revolving fund

- 3.15 The loan proceeds will be deposited via the Central Bank of Nicaragua into two separate accounts—one for Bank resources and one for the local counterpart

contribution. For smooth program execution, and in accordance with Bank policies, it is recommended that a revolving fund of up to 5% of the financing be established.

H. Audits

- 3.16 The executing agency will establish and maintain adequate accounts and records in accordance with accepted accounting practices. The program financial statements, duly certified by an independent public accounting firm acceptable to the Bank, will be submitted within 120 days after the end of each fiscal year. INVUR will also present annual operational audit reports for the program. It will upgrade its current accounting system to make it integrated and able to handle multiple currencies and charts of accounts. Basic financial statements will be generated each month containing information for the period and cumulative information on the amounts invested, income, expenditures, and cash on hand, which should coincide with the total balances in the bank accounts established under the agreement with the Bank.
- 3.17 **Internal controls.** To ensure that its operations are well documented, INVUR will take the steps necessary for files and supporting documentation for all transactions to be tracked. All project cycle documentation should be kept in the respective file. Also, INVUR's internal audit department will periodically check the reports generated by the information system to ensure their completeness and reliability.
- 3.18 **Bank monitoring and supervision.** All of INVUR's procurement processes will be subject to ex ante review. The Bank's Country Office in Nicaragua will conduct field inspection visits at least once every six months to verify the following, based on a sample of projects: the quality of the works, progress in delegating project cycle tasks, and community satisfaction, among other aspects. It will also examine the level of project ownership felt by local governments participating in the municipal management component.

I. Reports

- 3.19 INVUR will present semiannual progress reports to the Bank within 30 days after the end of each six-month period during the program. These reports will include information on progress and problems encountered during the period. Also, every November during program execution, INVUR will present an annual work plan to the Bank for approval, in accordance with guidelines agreed on in advance.

IV. FEASIBILITY, BENEFITS, AND RISKS

- 4.1 INVUR will evaluate all subsidy applications to ensure their feasibility, taking into account financial, technical, economic, institutional, and environmental considerations.

A. Financial feasibility

- 4.2 **Investments in housing and fiscal sustainability.** The Nicaraguan government is working with the International Monetary Fund to achieve fiscal stability, which, apart from being necessary, is required for its participation in the Heavily Indebted

Poor Countries Initiative. Reforms include a reduction in central government spending, which will probably take place over the next three years, which coincides with Phase II of the program. The central government may therefore contribute only very modest sums (a maximum of about US\$1 million, which was its annual funding for BAVINIC) to the program during that period. Phase II of the program specifies a local contribution of just 10% of the amount of the Bank loan (US\$1.5 million). Nonetheless, the **Government of Nicaragua will pledge to gradually finance the subsidy over the medium term to ensure the long-term sustainability of the program.**

B. Technical feasibility

- 4.3 **Development impact and outcomes.** The program will produce outcomes with a substantial development impact related to the general goal of **deepening markets and strengthening institutions to improve housing conditions for low- and moderate-income households**, as it will: (a) improve housing conditions for 9,337 low- and moderate-income families; (b) cover almost 15% of new households that would otherwise seek informal housing; (c) improve and expand housing financing for low- and moderate-income households; (d) greatly stimulate economic growth and job creation; (e) build equity for low- and moderate-income households; (f) mobilize household savings (given that the individual subsidy requires families to open an account with a financial institution for depositing the required down payment); (g) firmly establish INVUR as the new housing policy and program agency; (h) strengthen INVUR's leadership of a council of public- and private-sector leaders (ACENVI); (i) establish a low-cost housing development industry; and (j) strengthen a network of for-profit and not-for-profit organizations with capacity in the area of low-cost housing.

C. Institutional feasibility

- 4.4 **Capacity of INVUR.**³ INVUR's institutional capacity was evaluated using the methodology designed by the IDB—the Institutional Capacity Assessment System—to identify its current strengths and weaknesses in order to determine whether institution-strengthening was needed for it to potentially execute Phase II more effectively and efficiently in terms of the use of its human, material, and technical resources. The analysis found that INVUR is an institution with a satisfactory level of development and rated its organizational and control levels for project administration as low risk. On that basis, the agency is considered able to execute Phase II of the program satisfactorily.
- 4.5 **Capacity of the Auxiliary Entities.** About half of the country's 152 municipalities are competent executing agencies of a preexisting housing initiative. Almost 20 NGOs have experience in low-cost housing construction. Six microfinance institutions have processed US\$5 million in microloans for housing. Moreover, Nicaragua's largest commercial bank has expressed willingness to make loans to

³ Final report on the institutional capacity of the Institute for Urban and Rural Housing.

moderate-income families to buy core units built by developers under the individual subsidy component. The program will back INVUR in training the municipalities, NGOs, and microfinance institutions that lack capacity at present.

D. Social and environmental impact

4.6 This operation qualifies as a social equity-enhancing program, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, this operation qualifies as a poverty-targeted investment (paragraph 1.1).

4.7 **Benefits.** The environmental and social impact of Phase I of the program was highly positive, given that it provided adequate shelter for 10,800 low- and moderate-income families. The program introduced a tested instrument—environmental risk mapping—to steer construction toward environmentally safe areas and strengthen municipalities' capacity to manage natural hazard risks. The program also tied the subsidies to the provision of minimum infrastructure and allowed the subsidy to be used to fund infrastructure improvements. INVUR (through field research on a 5% random sample) periodically verified that the subsidies were delivered to environmentally appropriate areas, checked risk mitigation measures, and confirmed that the properties receiving subsidies met infrastructure requirements, and gender and indigenous considerations. The program benefited women disproportionately because women substantially exceed men in these communities. Female heads of households were also identified as key targets in the program's advertising campaign, while the subsidies were provided jointly in the name of the couple or in the name of the woman, if head of household. The "group subsidy" modality enables indigenous groups to apply for subsidies collectively if they choose to do so, while communal land titling—currently in practice in some areas or regions in the country—will be eligible among the options offered by the program. All of these conditions are maintained in Phase II, so if it is approved, it will have the same impacts as described above.

E. Risks

4.8 **Supplemental funds.** This is one of the main risks of the program. Although Phase I received funding from FOSOVI, that fund's resources are limited for Phase II. Nonetheless, participation and contributions by local governments are expected to increase. The municipalities currently have a large appetite for low-cost housing programs, which would indicate that they will contribute to program execution. Also, INVUR is committed to seeking additional resources from international and domestic donors.

4.9 **Funding for microloans.** Mortgage financing and microfinancing for housing in Nicaragua are still emergent industries. The sensitivity analysis, however, shows that microfinance institutions will lend about US\$7 million in housing loans annually over the next three years, in addition to recycling US\$5 million of their current housing portfolio. As a point of comparison, the individual subsidy

component is likely to stimulate an effective demand for US\$11.4 million in microloans.

- 4.10 **Capacity of the Auxiliary Entities.** A solid base of these organizations exists at present. All together, roughly 75 municipalities and 20 NGOs have experience in low-income housing projects, and are almost certain to qualify to execute the group subsidy. Six microfinance institutions that currently extend housing credits and one commercial bank are the initial pool for operation of the individual subsidy. Technical assistance will be provided to train Auxiliary Entities unable to qualify immediately for the program.
- 4.11 **Capacity of INVUR.** INVUR is in the process of maturing, and program resources will help to strengthen and consolidate that process. The program's Operating Regulations will be reviewed to simplify procedures, with the revision agreed to and approved by INVUR and the Bank as a condition precedent to the first disbursement.

LOGICAL FRAMEWORK
MULTIPHASE LOW-INCOME HOUSING PROGRAM
PHASE II
(NI-0064) (NI-L1013)

Objective	Indicators – End of program	Means of verification	Assumptions
Goal			
To deepen markets in order to improve the housing conditions of low- and moderate-income families	<p>An efficient, transparent housing subsidy scheme is developed and implemented, processing an uninterrupted stream of applications and efficiently allocating program subsidies.</p> <p>There is broad community participation in beneficiary selection and program quality control.</p> <p>Housing conditions improve for 9,337 families.</p> <p>At least 10 NGOs, 25 municipalities, and 5 microfinance institutions participate actively in the program as Auxiliary Entities.</p> <p>At least 5 developers or builders of low-cost housing participate in the production of 6,015 new core units.</p> <p>The program leads to direct construction expenditure of \$25.6 million, overall economic stimulus of \$76.8 million, and 6,500 new jobs.</p> <p>The household equity of families benefiting from the subsidy for new housing increases by US\$4,250 on average.</p>	<p>Project monitoring and studies</p> <p>Program evaluations</p>	National economic and political stability

Objective	Indicators – End of program	Means of verification	Assumptions
Purpose			
To establish a system of direct subsidies that: (a) provides housing renovation and new units for low- and moderate-income households; and (b) stimulates the housing market, increases household savings, and leads to property regularization.	<ol style="list-style-type: none"> 1. An effective, transparent housing subsidy system that processes a continuous flow of applicants and efficiently allocates program subsidies is developed and implemented. 2. The project-related loan portfolio amounts to US\$11.4 million, and housing microloans develop into an established industry. 3. Subsidy recipients deposit US\$1.8 million in housing savings accounts as part of the project. 4. There is support for the regularization of title to 3,000 lots. 	<ol style="list-style-type: none"> 1. Status reports by INVUR 2. Reports by Auxiliary Entities to INVUR 3. Records of housing lenders 4. Files of departmental land registers 	<ol style="list-style-type: none"> 1. Effective operation of the Auxiliary Entities. 2. Expansion of the project for housing microfinance supported by technical assistance that, as part of this project, builds the capacity of microlenders. Project technical assistance encourages existing mortgage lenders to go down-market. 3. The size of the subsidies spurs households to apply for mortgages and housing lenders to offer mortgage loans. 4. Effective support for regularization of property titles.
Outputs			
<p>The subsidy system has been consolidated, operates effectively, and has spurred demand for renovations and the construction of new units.</p> <p>Microfinance for housing.</p> <p>A loan system that has efficiently processed applications from households, and Auxiliary Entities that have channeled the subsidies effectively.</p> <p>Land regularization component executed.</p> <p>Establishment of a strong housing policy agency—INVUR—to lead reform.</p> <p>National housing strategy and action plan prepared.</p>	<ol style="list-style-type: none"> 1. 100% of subsidy funds disbursed. 2. 3,380 loans made for new housing and improvements. 3. Training, technical assistance, and performance-based fees for Auxiliary Entities provided. 4. Effective land regularization strategies identified. 5. INVUR has developed the capacity to operate the subsidy project as well as to conduct research and guide policy change. 6. Development of the national housing strategy. 	<ol style="list-style-type: none"> 1. INVUR report on the social promotion campaign, INVUR report on supervision visits to the Auxiliary Entities (including an analysis of housing samples), and final program evaluation 2. Reports by Auxiliary Entities 3. Evaluation of land regularization 4. Final program evaluation 	<ol style="list-style-type: none"> 1. Knowledge of the program and how to use it is widespread among low- and moderate-income households. 2. A sufficient number of qualified organizations are interested and apply to become Auxiliary Entities. 3. Other national and local government agencies participate and follow recommendations and changes resulting from laws, workshops, and INVUR technical assistance.

Objective	Indicators – End of program	Means of verification	Assumptions
Activities			
<p>Home renovation, new construction, and land regularization</p> <p>Allocation of subsidies. Microloans made and repaid. Housing renovation and new construction. Regularization of land in one municipality.</p>	<p>a. 100% of subsidies allocated. b. Loans granted to supplement the 3,380 individual subsidies. c. Subsidy application and allocation system automated, with delivery of programs to Auxiliary Entities and an authorized underwriting system in effect. d. Construction review system in place. e. 3,000 parcels or lots regularized.</p>	<p>a. Progress reports, analysis of sample households, and final evaluation by INVUR b. Reports by Auxiliary Entities c. Final evaluation</p>	<p>a. Households are interested in the program and qualified Auxiliary Entities participate actively. Households are interested in taking loans. b. The Government of Nicaragua supports the policy reforms. c. Cooperation from other local and national government agencies in relevant areas such as land registration (departmental property registrars) and financing (Superintendent of Banks). d. Plans are drawn up for the expansion of housing microcredit in Nicaragua by the IDB and other donors (USAID), and Nicaraguan microcredit institutions participate in the program. e. Appropriate rules or law governing microcredit institutions are applied.</p>
Institution-strengthening			
<p>Full establishment of INVUR. Qualification and strengthening of Auxiliary Entities.</p>	<p>a. Key INVUR staff hired permanently with treasury resources. b. The necessary number of Auxiliary Entities increase their capacity to cover the program area.</p>	<p>a. Annual INVUR staff report issued by the Ministry of Finance and Public Credit b. Full application of the model for analyzing Auxiliary Entities</p>	<p>a. The government supports the proper establishment of INVUR. b. A sufficient number of Auxiliary Entities are interested in the program and wish to participate actively throughout the country.</p>

Objective	Indicators – End of program	Means of verification	Assumptions
<p>Policy reform</p> <p>Completion of technical assistance for lenders in housing microlending and mortgage finance.</p> <p>Completion of technical assistance for subsidy funding of land regularization and modifications to the project for such funding.</p> <p>Completion of the technical assistance for foreclosure and enforcement of other housing loan guarantees.</p> <p>Completion of technical assistance to lower real estate transactions costs and finance charges for low-income households.</p> <p>Housing research and establishment of policy and program design capacity in INVUR.</p>	<ul style="list-style-type: none"> a. Microfinance institutions grow to grant 1,100 loans a year. b. Some regulated financial institutions participate in the program as Auxiliary Entities or lenders. c. Barriers to foreclosure and enforcement of other real estate guarantee interests are identified and recommendations are made. d. Charges and rules that impede the purchase, construction, and financing of low- and moderate-income housing are identified and recommendations are made. e. INVUR's strategy and planning office is fully staffed and the research program is under way. 	<ul style="list-style-type: none"> a. Reports and studies by SIDA and the IDB's Microfinance Unit on projects for small loans for low-cost housing in Nicaragua b. Mortgage data from the Office of the Superintendent of Banks c. Status reports and final program evaluation by INVUR d. Reports by Auxiliary Entities 	<ul style="list-style-type: none"> a. INVUR invests program funds and assigns higher priority to the development and activities of its housing strategy unit. b. The president of INVUR plays an active role in promoting policy changes.

EXECUTIVE SUMMARY PHASE I
MULTIPHASE LOW INCOME HOUSING PROGRAM
PHASE I
(NI-0064)

EXECUTIVE SUMMARY

Borrower:	Republic of Nicaragua		
Executing agency:	INVUR		
Amount and Source:		Phase I	Phase II
	IDB: (FOE)	US\$22.5 million	US\$20.0 million
	Cofinancing: (Austrian Mitch Fund)	US\$ 0.3 million	
	Local:	US\$ 2.5 million	US\$ 5.0 million
	Total:	US\$25.3 million	US\$25.0 million
Financial terms and conditions:	Amortization Period:	40 years	
	Grace Period:	10 years	
	Disbursement Period:	Maximum 3 years	
		Minimum 3 years	
		1% for first 10 years	
	Interest Rate:	2% remainder	
	Supervision & Inspection:	1%	
	Credit Fee:	0.5%	
	Currency:	FSO convertible currencies	
Objectives:	The overall objective is to improve housing conditions of low and moderate-income households by providing subsidies, deepening markets, and strengthening institutions in the sector. Specifically, the operation: (a) shifts central government’s role from direct production and finance to facilitating private-sector provision; (b) stimulates markets through creating incentives and technical assistance for home credit, savings, and land tenure regularization; and (c) decentralizes Program implementation to qualified organizations and strengthens their capacity.		
Description:	Nicaragua is the second poorest country in the hemisphere and is urbanizing rapidly at 5.4% per annum. The country has had no housing policy or coherent programs to meet the resulting housing challenge. Instead, sporadic government building funded mainly by international disaster relief has proved wholly inadequate for improving shelter conditions. Roughly 85% of households cannot		

afford to buy the least expensive house, total formal production covers only one-half of new household formation, and the bulk of the population resorts largely to informal settlement. Half of families that have rights to property lack full legal title, while traditional mortgage finance is embryonic and reaches only a small sliver of the population – the upper class.

However, the country has some strengths on which effective interventions can be built: (a) a very high share of households (above 80%) have rights to the property they live on (although a minority have registered title); (b) building and land costs are extremely low even relative to household incomes, and – thus - a small subsidy could bridge the affordability gap to galvanize demand; (c) a rich network of NGOs has developed from international assistance, while many municipalities have the capacity to operate simple housing interventions; and (d) housing microfinance – the credit technique best suited to reaching low/moderate-income households – has started and offers a base for expansion

The Program strategy builds on this context and takes advantage of these strengths. The overall strategy is to provide a modest subsidy to bridge the affordability gap to produce and improve housing. In tandem, the Program provides technical assistance and new lines of investment – in housing microfinance and in land title regularization – to help overcome the key bottlenecks in land tenure and credit. In this regard, the Bank and GON have designed a program of two possible phases of three years each with three components: (a) investment; (b) institutional strengthening; and (c) policy reform.

Two phases. The two-phase structure allows adapting the project size to the levels of debt and counterpart funding suited to the country, the staging of key innovations necessary for progress in the housing sector and a gradual increase in governmental commitment to fund the subsidy. Phase one will focus on establishing the operation of the subsidy system, strengthening the key entities that operate it – INVUR and the AEs, land tenure regularization, and selected policy reforms. Phase two, if approved, would build on this first phase by adding a housing microfinance component.

Investment. The great bulk of the investment component provides a small subsidy so that households can afford low-cost housing solutions: improvement and expansion, replacement of an existing house on a lot owned by the family with a new core unit, and purchase of a new core unit. All households will complement the amount of the investment - US\$1,300 for new construction and up to

US\$600 for home improvement and expansion – with a required downpayment of 15% (of the subsidy amount) and some will add a small credit. A new housing agency, INVUR, will work with intermediary organizations, called AEs, which – in turn – work with households to use the subsidy. In total, the subsidy will reach about 17,500 households in the first phase and an additional 17,500 is estimated for the second phase– totaling 5% of Nicaraguan families.

In order to reach different housing sub-markets and income groups, the investment component has two modalities: the “group subsidy” and the “individual subsidy.” The group subsidy – which accounts for the bulk of the investment (2/3 of the subsidy total) goes to poor communities (families earning less than \$155 per month) that apply collectively to INVUR with the assistance of NGOs and municipalities (qualified as AEs) that meet INVUR’s criteria. Typically, poor households will join the group subsidy with a downpayment to complete the financial package necessary to improve or replace their existing house on a lot they already own or construct a new core unit on a lot owned by the municipality. The individual subsidy, which accounts for 1/3 of the funds allocated to the subsidy, serves low and moderate-income households earning up to \$350 per month through microfinance and finance institutions (qualified as AEs). Households will complete the individual subsidy both with a downpayment and a market-rate loan in order to improve or replace a unit on a lot they already own, or purchase a new commercially built core unit. Thus, the individual subsidy will stimulate involvement of formal-sector microfinance and financial institutions, manufactured homebuilders, and developers in social housing. In addition to establishing the subsidy system, the first phase of the Program will provide support for land tenure regularization.. Also as part of the investment component, a cofinancing from the Austrian Mitch Fund will finance the preparation of environmental risk maps that will direct the use of housing subsidies to environmentally appropriate areas.

The second phase of the Program, if approved, will provide resources for housing microfinance to help meet the demand induced by the subsidy. In this regard, IDB has collaborated with Swedish Assistance (ASDI) – which currently funds a successful housing microfinance program that makes 1,200 loans per year in Nicaragua – and ASDI also intends to increase the funding of PRODEL to help meet the effective demand generated by the IDB subsidy program. In addition, while the first phase of the IDB Program requires that households (or participating AEs in the case of the group subsidy) have registered title to their property to

apply for the subsidy, the second stage would include this cost as an eligible expense in the subsidy. Hence, full legal tenure will be required prior to the use of subsidy resources for improving, replacing or constructing housing during the first phase.

Institutional Strengthening. The Bank has waited on the passage of the Organic Law of INVUR in order to consider approval of this operation. After a year in process, Congress approved this law in May, 2002, and the law entered into effect on June 12, 2002. In addition to setting the basic principles for operation of a subsidy program, this law norms the creation of a new housing entity, INVUR, and the dissolution of a failed housing bank, BAVINIC. The establishment of INVUR has fundamental importance for Nicaragua. The institutional strengthening component of the Program will follow on a Technical Cooperation to be financed by the Japanese Special Fund that will provide the initial assistance to establish INVUR. The Program will continue this assistance by supporting: (a) the crucial technical and managerial expertise necessary for the organization to function; (b) the management information system necessary to connect INVUR to the AEs and, thus, operate the subsidy; (c) training and performance-based fees for the AEs; (d) a housing strategy, research and evaluation unit within INVUR; and (e) a public relations campaign. The Organic Law of INVUR requires that the operating regulations of the unit that manages the subsidy within INVUR, called Fondo Social de Vivienda (FOSOFI), be submitted to Congress within 90 days after approval of the Organic Law.

Policy Reform and Technical Assistance. The subsidy satisfies immediate need and buys time for key policy reforms supported under this component and elsewhere to take hold. Housing microfinance and land tenure tenancy regularization - which are the most critical housing bottlenecks in Nicaragua - receive the most attention. An array of technical assistance for housing microfinance during the Program's first phase lays the base for providing resources for housing microfinance in the second phase, if approved. The policy reform component of the first phase also supports preparation of a National Housing Strategy and Action Plan; and funding for the dissolution of BAVINIC, while that of the second stage would support creation of appropriate subdivision and regulatory norms.

**Bank's country
and sector
strategy:**

The Bank's overall objective in Nicaragua is to promote sustainable economic development, competitiveness, and reduce poverty. This Program fits this framework extremely well. It fosters economic development (see "Benefits" below) by increasing household wealth

of low/moderate-income families, generating construction and related expenditures and jobs, increasing the finance of low/moderate-income housing, and strengthening a network of local organizations capable of operating housing interventions. The Program is sustainable because it offers a small subsidy that permits high population coverage and still results in expenditures on housing as a share of the Government budget well below that of most countries in the Region, while INVUR has the resources required for counterpart funding.

**Environmental/
social review:**

The Program targets two-thirds of subsidies to families earning below the Government's poverty line (US\$155 per month), which is well below that of the IDB (US\$360 per month), through the group subsidy. Hence, the Program is poverty targeted. The Program has highly positive environmental results because in its first phase it: (a) assists 17,500 of Nicaragua's families to achieve adequate shelter; (b) contains a strong environmental mapping system that channels subsidies to environmentally robust areas, and prohibits the use of the subsidy in high-risk environmental areas; and (c) requires that the resulting homes have adequate sanitation and water.

Benefits:

The Program's first phase should result in important developmental outcomes related to its objective of deepening markets and strengthening institutions in housing: (a) the establishment of a new apex institution in the sector, INVUR, and a housing strategy and action plan; (b) 5,000 loans to low/moderate-income households, thus substantially expanding housing microfinance; (c) the start of a social housing development industry, where no developers currently build homes of less than US\$25,000; (d) strengthening of the capacity of 40 NGOs, 75 municipalities, and six microfinance institutions in low-income housing; (e) direct construction expenditures of US\$35 million, total economic stimulus of US\$105 million, and 20,000 new jobs; (f) increase in the assets of 17,500 low/moderate-income families by US\$2,000 on average; (g) mobilization of US\$1 million in household savings as deposits in financial institutions.

Risks:

Institutional weakness of INVUR – a new entity – and its AEs may hamper the execution of the Program. However, the JSF Technical Cooperation – which has been pre-approved by the Japanese Special Fund and in process by IDB for final approval before the Program begins - and the Program itself devote substantial resources to strengthening both INVUR and its AEs, which will receive a fee adequate to reimburse their work. INVUR has a core group of technical and management staff being supported temporarily by BAVINIC and other organizations, while the hiring of the core

technical, management, and accounting personnel and the appointment of the Board of Directors of INVUR are a condition prior to first disbursement.

In accordance with the Organic Law of INVUR, the operation of the subsidy unit within INVUR, FOSOFI, requires the approval of a Law regarding operation of the Fund, eligibility of beneficiaries, subsidy calculations, etc. Although the Organic Law of INVUR requires presentation of this second law within 90 days, there is a risk that the legislative process may take longer or that the final outcome will be different from the content agreed upon with the Bank. The Bank is providing technical assistance for the preparation of this second law and its entry into effect is a condition precedent to disbursement of the subsidy component.

Limited funding is available to microfinance institutions to complement the subsidy with a loan. In that regard, Swedish Assistance and IDB have formed a collaboration to expand housing microfinance, and other sources of funding are coming on line for this purpose.

The selection of beneficiaries of housing programs has lacked transparency in Nicaragua. The Program establishes four important safeguards as reflected in the legislation to be sent to the National Assembly for approval and in the Operational Regulations of the Program to guarantee this transparency. First, AEs (and not INVUR, the Central Government housing agency) select households. Second, FOSOFI will be legally autonomous and have a separate Board of Administrators in order to help ensure its technical and objective operation. Third, INVUR will establish a website, a monthly bulletin, and publish the names of recipients of the subsidy to broadly inform the public on the Program and its beneficiaries. Fourth, INVUR will put in place a hotline to receive and investigate complaints.

Special contractual conditions:

Special conditions for first disbursement:

- a. Entry into effect of agreed-on Operating Regulations of the Program
- b. The hiring of the core technical, management and accounting personnel of INVUR (para. 3.17)
- c. Appointment and entering into operation of the Board of Directors of INVUR

- d. Celebration of an agreement between INVUR and INETER for preparation of the environmental maps (para. 2.14)
- e. Celebration of an agreement between the Borrower and INVUR to transfer the resources from the Bank and the counterpart as well as the execution obligations (para. 3.1)

Special conditions for the disbursement of the individual and group subsidy:

- a. Entry into effect of the Law governing the operation of FOSOFI (para. 3.16) and of the regulatory norms to the Law of FOSOFI passed by the Executive Branch
- b. Establishment and proper functioning of the information system of INVUR in order for it to be ready to process subsidy applications (para. 2.17).
- c. Special condition for first disbursement of Austrian Mitch Cofinancing:
- d. The first disbursement of the Austrian Mitch Cofinancing is only conditioned on compliance with the General Conditions in the Loan contract and: (i) the celebration of the agreement between INVUR and INETER for preparation of environmental maps and (ii) the celebration of an agreement between the Borrower and INVUR to transfer resources of the financing and counterpart.
- e. Other special conditions:
- f. Eligibility criteria for the subsidy shall include the requirement that property on which housing is located must be free from pending title disputes or claims for compensation of previous owners.

**Poverty-targeting
and social equity
classification:**

This operation qualifies as a project that promotes social equity, as described in the key objectives for the Bank's activity included in the report on the Eighth General Increase of Resources (document AB-1704). Also, the operation qualifies as a project that targets poverty alleviation (PTI) (See 3.35).

**Exceptions to
Bank policy:**

See "Procurement" section below

Procurement:

International competitive bidding will apply for construction contracts over US\$500,000. Nevertheless, construction work is expected to be financed in very small amounts and only by the beneficiaries of the subsidies. International competitive bidding will apply for procurement of goods over \$250,000. Purchase of goods less than US\$250,000 will be carried out in accordance with national procurement legislation.

As an exception to standard Bank selection procedures, it is proposed that municipalities, NGOs, and microfinance and financial institutions that will participate as “AEs” (AEs) in the execution of the subsidy component of the Program be selected from a roster of prequalified AEs, rather than by competitive comparison and ranking of technical proposals or offers, as further described in paragraph 3.28.

<p align="center"> Project: Multiphase Low-income Housing Program Phase II Project number NI-L1013 and loan contract 1111/SF-NI Phase II Period covered by this procurement plan: March 2008 to December 2008 </p>

[illegible]

Ref. No.	Category and description of the contract	Estimated cost (US\$ thousands)	Procurement method	Review (ex ante or ex post)	Source of financing and percentage		Prequalification (Yes/No)	Estimated dates		Status (pending, in process, awarded, cancelled)	Comments
					IDB %	Local %		Publication of Specific Procurement Notice	Completion of contract		
	High capacity scanner for large-scale digitization of documents, 3 GPS units for georeferencing of projects, e-mail server, 5 PCs with accessories, 3 laptop computers, 3 3,600 watt inverters, 12 750 watt UPS, 2 bar code scanners to track fixed assets		S	ex ante	100		No	Mar-08	Jun-08	Pending	
2.3	Housing research and evaluation										
	Services	41,000									
	Study on the availability and potential of developable land	8,000	NICQ	ex ante	100		No	May-08	Aug-08	Pending	
	Study on land tenure to describe the problems encountered with properties without legal title	10,000	NICQ	ex ante	100		No	Jun-08	Sep-08	Pending	
	External financial and operational audits	15,000	NICQ	ex ante	100		No	Sep-08	Dec-08	Pending	
	Operationalization of the housing sector indicators system	8,000	NICQ	ex ante	100		No	Mar-08	Dec-08	Pending	
2.4	Information campaign										
	Services	42,850									
	Publication of the names of 100% of subsidy beneficiaries	21,000	S	ex ante	100		No	Mar-08	Dec-08	Pending	
	Design and broadcast of audio messages in the local and national media	5,000	S	ex ante	100		No	Mar-08	Dec-08	Pending	
	42 posters of projects financed with program subsidies	16,850	NCB	ex ante	100		No	Mar-08	Dec-08	Pending	
2.5	Technical support for the sector										
	Services	876,000									
	Fees for 3 consultants in contracting, planning, and program coordination	40,000	NICQ	ex ante	100		No	Mar-08	Dec-08	Pending	

Ref. No.	Category and description of the contract	Estimated cost (US\$ thousands)	Procurement method	Review (ex ante or ex post)	Source of financing and percentage		Prequalification (Yes/No)	Estimated dates		Status (pending, in process, awarded, cancelled)	Comments
					IDB %	Local %		Publication of Specific Procurement Notice	Completion of contract		
	Maps pinpointing natural hazard areas	56,000	SSS	ex ante	100		No	Mar-08	Sep-08	Pending	
	Salaries of INVUR core staff involved with the investment	780,000	SSS	ex ante	0	100	No	Mar-08	Dec-08	Pending	
	Goods	100,000								Pending	
	5 four-wheel drive vehicles for project inspections	100,000	NCB	ex ante	85.7	14.3	No	Mar-08	May-08	Pending	
3	Policy reform and technical assistance										
3.1	Housing policy actions										
	Services	30,000									
	Study to evaluate the feasibility of a mortgage insurance fund	15,000	NICQ	ex ante	100		No	Jun-08	Oct-08	Pending	
	Study to evaluate the feasibility of setting up a building materials bank	15,000	NICQ	ex ante	100		No	Jun-08	Oct-08	Pending	
3.2	Support for microfinance institutions										
	Services	30,000									
	Forum on management, technology, and credit risk in housing microfinance	15,000	IICQ	ex ante	100		No	May-08	May-08	Pending	
	Sharing of international experience in housing microfinance	15,000	S	ex ante	100		No	Jun-08	Jul-08	Pending	

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/07

Nicaragua. Loan ____/BL-NI to the Republic of Nicaragua.
Multi Phase Low-Income Housing Program, Phase II

The Board of Executive Directors

RESOLVES:

1. 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 Republic of Nicaragua, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a multi phase low-income housing program, phase II.
2. Such financing will be for the amount of up to US\$15,000,000, as follows:
 - (i) up to the amount of US\$7,500,000 from the resources of the Single Currency Facility of the Bank's Ordinary Capital, and
 - (i) up to the amount of US\$7,500,000 from the resources of the Bank's Fund for Special Operations.
3. Such financing will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Executive Summary of the Loan Proposal.

(Approved on _____ 2007)

LEG/SGO/CID/IDBDOCS#1199243
NI-L1013