

HONDURAS

LOW-INCOME HOUSING PROGRAM

(HO-L1007)

LOAN PROPOSAL

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Proposed Resolution

Electronic Links and References	
Basic socioeconomic data	http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata
Status of loans in execution and loans approved	http://ops/Approvals/PDFs/HOen.pdf
Information available in the RE2 files	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=787765
Annex II. Procurement Plan	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=786093
Itemized Budget	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=778116
Credit Regulations	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=787122
Terms of Reference	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=788378
Project Execution Plan	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=788759

ABBREVIATIONS

BANHPROVI	Banco Hondureño para la Producción y la Vivienda [Honduran Bank for Production and Housing]
BCH	Central Bank of Honduras
CABEI	Central American Bank for Economic Integration
CCV	Comité Consultivo de Vivienda [Housing Advisory Committee]
CHICO	Cámara Hondureña de la Industria de la Construcción [Honduran Chamber of the Construction Industry]
CNBS	Comisión Nacional de Bancos y Seguros [National Banking and Insurance Commission]
CNIP	Planes integrales de mejoramiento del barrio [comprehensive neighborhood improvement plans]
DGVU	Department of Housing and Urban Development
ENEE	Empresa Nacional de Energía [National Energy Company]
ESMP	Environmental and social management plan
ESMR	Environmental and social management report
FHIS	Fondo Hondureño para Inversión Social [Honduran Social Investment Fund]
FOSovi	Fondo Social para la Vivienda [Social Fund for Housing]
FUNDEVI	Fundación para el Desarrollo de la Vivienda Urbana y Rural [Foundation for the Development of Urban and Rural Housing]
ICAS	Institutional Capacity Assessment System
ICB	International competitive bidding
IFI	Intermediary financial institution
INVA	Instituto Nacional de la Vivienda [National Housing Institute]
KfW	Kreditanstalt für Wiederaufbau
MFI	Microfinance institutions
NCB	National competitive bidding
NGO	Nongovernmental organization
OR	Operating Regulations
PATH	Programa de Administración de Tierras de Honduras [Honduras Land Administration Program]
PCU	Program coordination unit
PET	Project execution team
PROVICEP	Programa de Vivienda Complementaria al Esfuerzo Propio [Self-Help Supplemental Housing Program]
PRS	Poverty Reduction Strategy
PVPG	Programa Vivienda Para la Gente [Housing for People Program]
RAP	Régimen de Aportaciones Privadas [Private Contributions System]
SEFIN	Ministry of Finance
SERNA	Ministry of National Resources and Environment
SIDA	Swedish International Development Cooperation Agency
SLC	Savings and loan cooperatives

SNSH	Sistema Nacional de Subsidios Habitacionales [National Housing Subsidy System]
SOPTRAVI	Ministry of Public Works, Transportation and Housing

PROJECT SUMMARY

HONDURAS LOW-INCOME HOUSING PROGRAM (HO-L1007)

Financial Terms and Conditions						
Borrower: Republic of Honduras					Amortization period:	40 years
Executing agency: The Ministry of Public Works, Transportation and Housing (SOPTRAVI), with support from the Fondo Hondureño de Inversión Social [Honduran Social Investment Fund] (FHIS) for the execution of Subcomponent 2.2.					Grace period:	10 years
					Disbursement period:	5 years
Source	Amount (US\$) Phase I	%	Amount (US\$) Phase II	%	Interest rate:	1% for the first 10 years, 2% thereafter
IDB (FSO)	US\$30 million	96.8%	US\$30 million	96.8%	Inspection and supervision fee:	1% of the loan
Local	US\$1 million	3.2%	US\$1 million	3.2%	Credit fee:	0.5% per year
Total	US\$31 million	100%	US\$31 million	100%	Currency:	U.S. dollars from the Bank's Fund for Special Operations
Project at a Glance						
<p>Project objective: The program's general objective is to improve the housing and habitat conditions of low- and middle-income Honduran families. Its purpose is to better enable the government to meet multiple demands in the housing sector, giving families greater access to formal housing and basic urban services.</p> <p>Special contractual conditions: As eligibility conditions for the first disbursement for Component 1 and Subcomponent 2.1, "Individual Subsidies:" (i) the core project execution team must have been formed within the Department of Housing and Urban Development (DGVU) (see paragraphs 3.1 and 3.4); (ii) at least one fund management agreement between the Ministry of Public Works, Transportation and Housing (SOPTRAVI) and an intermediary financial institution must be submitted (see paragraph 3.6); and (iii) the National Housing Subsidy System (SNSH), including the information system for beneficiary applications and the unified beneficiary registry, must be developed, up and running (see paragraph 3.6); and (iv) the program Operating Regulations must be approved and in force (see paragraph 3.8). As conditions precedent to the first disbursement for Subcomponent 2.2, "Collective Subsidies:" (i) a funds transfer agreement between the Ministry of Finance (SEFIN), SOPTRAVI, and the Honduran Social Investment Fund (FHIS) must be submitted (see paragraph 3.1), which states, among other matters; (a) how funds will be transferred to the FHIS, (b) the FHIS's commitment to act as coexecuting agency for the Subcomponent 2.2 activities, (c) the commitment to conduct activities in accordance with the program guidelines (see paragraph 3.1); and (ii) the program Operating Regulations must be approved as they pertain to the activities of the FHIS. Special disbursement to commence program activities. Subject to fulfillment of the General Conditions of the loan contract, the Bank may disburse up to US\$500,000 equivalent, to be used for initial formation of the project execution team, hiring of the concurrent audit firm, procurement of certain computer equipment, and commissioning of the consulting engagement for the monitoring and supervision systems. Special execution condition. The FHIS agrees to hire or appoint full-time support staff for execution of Subcomponent 2.2 activities within no more than 6 months, running from the date of the first disbursement under Subcomponent 2.2 (see paragraph 3.5). 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 [X]</p> <p>Procurement: Program goods and services will be procured in accordance with Bank policies, based on the procedures and amounts described in the Procurement Plan.</p> <p>Verified by CESI on: 11 August 2006</p>						

I. FRAME OF REFERENCE

A. Socioeconomic environment

- 1.1 Honduras faces significant challenges in the housing sector, the first of which stems from its demographic situation. The population of Honduras, nearly 7 million in 2004, has increased at one of the highest rates in Latin America over the last 20 years—2.4% per year. As one of the least urbanized countries in the region, with barely 49% of the population living in urban areas in 2004, the urban growth rate has also been very high, at 4.0% per year.¹ In addition, Honduras has a very young population, with more than 50% under the age of 19 (link). If growth rates continue at this accelerated pace, the populations in urban areas will double in approximately 20 years. Honduras does not currently have the tools to meet the growing demand for housing solutions, and the current situation, where 80% of families occupy land without proper services, property title or access to financing, is inadequate, inequitable and unsustainable.
- 1.2 There are serious shortcomings in the operation of the housing markets. In the formal market, housing and the mortgage loans required to finance the purchase of homes are only accessible to approximately 20% of the population. The remaining 80% of households resort to the informal market to find low-cost solutions, which generally lack services, property title and minimum quality standards. Furthermore, 50% of urban households are in poor neighborhoods of the two largest cities.
- 1.3 In view of the current situation and expected urban growth, the proposed program seeks to design and implement tools which will help the Government of Honduras contend with the quantitative as well as qualitative deficit in housing and basic services, by offering solutions targeted to the need for new housing, improvement of existing housing and access to basic services. It seeks to emulate the vitality of the informal sector and achieve substantial improvement in the solutions to these problems in the country. To this end, it aims to build on the progress of the post-hurricane housing program (loan 1037/SF-HO), by making improvements in the demand subsidy program, supporting improved infrastructure in the poorest neighborhoods, designing innovative means to develop urban land, and facilitating the availability of credit and subsidies to support the ongoing construction of housing. A multiphase structure has been proposed to enable Honduran institutions to gradually take on their new roles.

B. The housing sector in Honduras

1. Housing supply and demand in Honduras

- 1.4 Housing demand in Honduras is determined by the interaction of several variables: population growth and the formation of new households, the immigration of families to the cities, the emigration of people to other countries, and income distribution. The figures on household formation and immigration and emigration suggest that around 35,000 new households are formed in the urban areas of the

¹ 4.0% per year between 1996 and 2000, followed by Paraguay (4.0%) and Haiti (3.9%). The annual urban rate in Latin America and the Caribbean is 2.1.

country each year. Most of these households are poor; income distribution per decile of urban households shows that 80% of the urban population has less than US\$200 per month (30% of household incomes) to invest in a housing solution (see Table 1).² At the national level, this figure drops to US\$122.

1.5 Given this strong demand for housing, the formal sector has been building about 7,000 homes per year. The prices of these new housing solutions exceed US\$15,000, making them affordable only to families in the two highest deciles of income distribution. There are reportedly nearly 25,000 new urban households per

Table I-1. Urban income distribution						
<i>Deciles (household)</i>	<i>Housing</i>					
	<i>Minimum</i>	<i>Maximum</i>	<i>Average income</i>	<i>resources (30%)</i>	<i>Max (15% in 20 years)</i>	<i>Max (20% in 20 years)</i>
1	\$1	\$83	\$46	\$14	1,052	805
2	\$84	\$136	\$112	\$33	2,573	1,968
3	\$136	\$190	\$164	\$49	3,778	2,889
4	\$191	\$246	\$219	\$66	5,053	3,864
5	\$246	\$315	\$280	\$84	6,460	4,940
6	\$315	\$398	\$355	\$106	8,190	6,263
7	\$398	\$513	\$455	\$137	10,509	8,036
8	\$513	\$697	\$593	\$178	13,680	10,461
9	\$697	\$1,065	\$861	\$258	19,868	15,193
10	\$1,066	\$7,278	\$1,826	\$548	42,139	32,224

MECOVI Program/Honduras Household Survey (2004).

year whose income is less than US\$700 per month, and who therefore cannot afford to buy a housing solution on the formal market. For this group, the only formal supply that exists is the one produced by donor-supported programs, which produce a maximum of an additional 3,000 homes per year (see paragraph 1.18). In addition to limited accessibility to the mortgage market, there is little supply in this range: families between the fifth and eighth income deciles, who may be able to afford a home between US\$5,000 and US\$13,600, can find no offerors for this solution in the formal market. The supply of credit for improvements to existing homes, which is a pressing need, is also underdeveloped (see paragraph 1.21). Moreover, for the 40% of families below the fourth urban income decile, the cost of land with utility services is unaffordable.³ For this reason, a significant number of families with no land either squat or buy lots illegally.

2. Housing quality

1.6 In general, the existing housing stock in Honduras is characterized by a lack of services, inadequate sizes and poor quality of construction materials. It is estimated that more than 62% of existing homes have some degree of overcrowding, and in 10% of homes, six or more people live in a single room. Furthermore, 18% of homes do not have potable water service, and 32% lack adequate sanitation solutions (link). There are considerable differences in the level and quality of access to basic services among the various income quintiles. These deficiencies, which are captured in the indicator of unmet basic needs, affect the majority of the population

² Average income per decile of the urban population tends to be between 200-250% higher than rural incomes.

³ More than \$1,125 per 100 square meters in Tegucigalpa.

and explain why a policy is needed address the lack of urban infrastructure for existing makeshift housing, an improvement in the quality of such housing and the production of new homes for households being formed (link).

3. The mortgage market

- 1.7 The formal home finance market in Honduras is concentrated in the country's 16 commercial banks. These institutions grant loans in lempiras and dollars to those customers they consider qualified borrowers, corresponding to the 20% with the highest income. Mortgage loans are largely rediscounted with second-tier state institutions, to ensure term-matching (see paragraph 1.16). Most of the loans are originated in nominal lempiras, with 20-year terms and an interest rate to the end borrower of 15% to 25%, depending on the source of funding. Loans in dollars have 10- to 12-year terms, with interest rates around 8%, and are funded with deposits from the parent bank or the Central American Bank for Economic Integration (CABEI). Savings and loans cooperatives (SLCs) also have some 22,000 housing loans, which total nearly US\$72 million, and finance mainly improvement and expansion projects (averaging US\$3,100). Lastly, there have been two government-supported programs that, while aimed at the formal market, target groups under the ninth decile (see paragraph 1.18).
- 1.8 Besides the issue of low income levels, access to the housing financial market in Honduras is limited for a number of reasons. On the one hand, the financial sector has been recently emerging from a fragile economic situation that led to a consolidation process, and has been unwilling or unable to lend. In addition, lending is restricted by a combination of: (i) lack of flexibility and limited liquidity of the sources of long-term funding; (ii) crowding out of domestic savings due to distortions caused by sources of funding (see paragraph 1.16); (iii) high lending rates; (iv) the high price of housing in the formal sector; and (v) a legal framework that does not allow efficient enforcement of guarantees. Although the interest rates of mortgage loans in national currency vary widely due to market distortions, the average rate is around 21% (12% in real terms), which is extremely high. As a result, at the end of 2005 the Honduran financial sector had a portfolio of barely 14.2 billion lempiras (US\$766.2 million), representing some 28,000 homes. In other words, according to Central Bank of Honduras figures, only 1.9% of Honduran homes apparently had a current mortgage in 2005. It should also be mentioned that there is a systematic lack of information on the mortgage loan market, which hampers proper risk assessment and the development of products tailored to the various levels of risk. Lastly, there is little clarity as to the total costs associated with mortgage loans, so a policy is needed to standardize the methodology for calculating and disseminating such costs.

4. Informal sector

- 1.9 As stated earlier, the majority of households in Honduras find housing solutions through the informal land and housing market. One of the most common scenarios in the informal market is the subdivision and sale of land that does not meet legal

urban development requirements. Each year, it is estimated that around 28,000 new informal housing units are built (on an ongoing basis) in urban areas. This process results in a chaotic property title situation, where only about 30% of the 2.6 million plots of land in the country are properly registered.⁴ This lack of proper documentation represents a source of wealth not captured by the poorest families, who could use it for productive investments and greater access to credit.

- 1.10 The urban reality in Honduras is that large areas of the cities are being developed with no planning or proper infrastructure, creating makeshift human settlements which have no official recognition and are often vulnerable to natural threats.⁵ In addition to the urgent need to contend with these already occupied areas, the skyrocketing growth of Honduran cities in the next few years⁶ will require the methodical incorporation of significant areas of urban land in order to accommodate the additional population.
- 1.11 The institutions responsible for ensuring the orderly growth of cities and housing stock have serious weaknesses. The municipios are the entities in charge of managing the urban development process, and play a key role in urban planning and the delivery of public services. Up to now, however, they have not effectively assumed this role due in part to a lack of resources and tools to cope with the demand for urban land.⁷ In addition, the time frames for issuing urban development permits (which involve licenses from several entities such as the Empresa Nacional de Energía Eléctrica [National Electric Energy Company] (ENEE), the Ministry of Natural Resources and Environment (SERNA) and others are very long (up to a year), and are subject to discretionary authority in setting the amounts charged, among other problems. Also, SERNA's procedures for approving environmental permits for housing projects are burdensome, centralized and unclear, which has an adverse impact on the entire chain of required approvals.⁸
- 1.12 The little information available indicates that the markets for existing homes are illiquid, but that there is an active market for informal lots. Housing solutions and lots vary in price depending on their access to services and the degree of formality. Low-income households build their homes slowly, accumulating savings in construction materials. The program will finance the design of interventions that may make give lower-income families easier access to urban land in program phase II.

⁴ Instituto Libertad y Desarrollo (ILD) estimates that there are nearly US\$12 billion in "dead assets."

⁵ In Tegucigalpa, of the 340 neighborhoods that existed in 1998, 225 were illegal and housed 450,000 residents.

⁶ In Tegucigalpa only, some 900,000 residents and 9,500 hectares will be added in the next 25 years.

⁷ Two new laws (the Land Management Act and the Property Title Act) strengthen them for this purpose.

⁸ For Category 1 projects (the simplest), approval takes an average of 60 business days.

5. Public institutions and programs

- 1.13 The Government of Honduras has promoted several programs to encourage greater affordability and boost the housing sector. In the last five years, the idea has been reinforced that the public sector should function as the policy-making body that facilitates the system, without participating in the direct construction of housing. Moreover, the current government is preparing a housing policy with support from the IDB, the CABEL, and other entities actively involved in the sector, which is consistent with the strategy of this operation in terms of sector policy design and implementation. The adoption of this single policy for all entities involved in the sector will be a significant improvement over the current fragmentation.

a. Housing sector institutions

- 1.14 **Apex agency.** The Department of Housing and Urban Development (DGVU) was created as the technical arm of the policy-making Ministry of Public Works, Transportation and Housing (SOPTRAVI), specializing in the management of housing and urban development programs.⁹ The creation of the DGVU represents an improvement over the previous institutions: the Instituto Nacional de la Vivienda [National Housing Institute] (INVA)¹⁰ and the Fondo Social para la Vivienda [Social Fund for Housing] (FOSOFI).¹¹ FOSOFI still exists but does not have clear-cut duties, and its consolidation or restructuring should be explored. The DGVU has an annual budget allotment that, although insufficient, provides basic resources for its operation. The Government of Honduras has also created the position of Deputy Housing Minister¹² to promote the sector, manage financing and serve as an advisor to the president on related matters.
- 1.15 Despite the improvements, the institutional structure of the central government still has weaknesses, including scattered authority, duplication of functions and lack of recognition of hierarchy in the housing sector. In addition, SOPTRAVI's ability to provide coordination between the public services, government agencies, municipios, sources of funding and private-sector operators is still weak, due to a lack of technical staff, political authority and financial resources. Furthermore, there is no comprehensive information system for the sector that allows decisions to be made on an informed basis. There is a draft law on the subject that confirms the institutional structure supported by this program and recommends turning the DGVU into an Office of the Deputy Minister for Housing and Urban Development, among other reforms. This operation will support the review and consultation process necessary to enact the draft law.

⁹ Legislative Decree 218-96 of December 1996.

¹⁰ An ineffective public institution whose establishing law was repealed by the FOSOFI Act (Decree 167-91).

¹¹ FOSOFI is entangled in a complex legal dispute related to a trust with significant resources.

¹² Pursuant to Article 12 of the Public Administration Act, the president may appoint Secretaries of State without assigning them a specific office, for the purpose of advising him.

- 1.16 **Second-tier banks.** Two second-tier banks represent nearly all of the long-term resources available in lempiras: Banco Hondureño para la Producción y la Vivienda [Honduran Bank for Production and Housing] (BANHPROVI) and the Régimen de Aportaciones Privadas [Private Contributions System] (RAP). Both institutions have preferred sources of funding. BANHPROVI was capitalized by the Central Bank of Honduras and is largely self-funded. The RAP represents a special channel of housing finance, receiving 5% of the earnings of each private-sector employee. In practice, the RAP is a channel that imposes a quasi-tax on those formal sector workers whom the banks consider creditworthy; only 15% of eligible individuals qualify for a loan. In addition, the RAP does not perform its reserve fund function effectively. Both institutions offer interest rates that appear lower than what the market would demand, if one existed; in a context in which the government securities with the longest maturity available (360 days) have a yield of 12.2% and inflation exceeds 9%, these windows offer 20-year rediscounts in nominal lempiras for 100% of the loan granted, which vary, depending on the domestic window, from 12.5% to 19%. These rates have undergone certain changes lately, without being directly tied to an observable market rate that would serve as a benchmark. In addition, the loan amounts funded by BANHPROVI and the RAP have been around US\$20,800 and US\$15,200 in the last few years, substantially more than what the households in the first eight deciles can afford. Although the subsidized sources of funding marginally improve affordability, they have an adverse effect by introducing distortions in the financial sector, crowding out domestic sources of savings. Furthermore, the benefit of these public resources, due to the cost of the solutions, is received by households with incomes among the highest 20% in the country—a nontargeted expenditure. Among other reforms, the funding instruments of the RAP and BANHPROVI should be used to supplement housing subsidies, so that they benefit the majority of the population excluded from the formal markets. They should also be made more flexible, standardized and tied to a benchmark rate.
- 1.17 The **Fundación para el Desarrollo de la Vivienda Urbana y Rural** [Foundation for the Development of Urban and Rural Social Housing] (FUNDEVI) is a nonprofit foundation in the public interest, created in 2001 under a three-party agreement between the Government of Honduras, Germany's Kreditanstalt für Wiederaufbau (KfW) and the Swedish International Development Cooperation Agency (SIDA). FUNDEVI came into being as a result of the merger of two programs administered by SOPTRAVI, and is led by a Board of Directors chaired by the Minister of SOPTRAVI. The administration and technical and financial management of FUNDEVI resources are under the responsibility of a management structure. FUNDEVI serves approximately 1,800 families per year, making loans for the construction of new homes, as well as improvements and expansions. It currently has a portfolio of around 17,000 borrowers, and made loans to supplement the subsidies financed by loan 1037/SO-SF. Under that program, more than 6,400 families were identified to receive loans and subsidies, and the relevant housing solutions designed and implemented. FUNDEVI is currently serving a segment of the population with the highest purchasing power, since the subsidies it channeled

were exhausted. Through this program, FUNDEVI can continue servicing its traditional customers as an intermediary financial institution (IFI).

b. Housing sector programs and instruments

- 1.18 Individual housing subsidies, which may help to meet poverty reduction objectives, have received substantial tax money in recent years (US\$4 million/year).¹³ These resources did not continue in the last budget, but when in force they were allocated to two programs: (i) Programa de Vivienda Complementaria al Esfuerzo Propio [Self-Help Supplemental Housing Program] (PROVICEP), administered by the DGVU which channeled subsidies to FUNDEVI; and (ii) Programa Vivienda Para la Gente [Housing for People Program] (PVPG). The PROVICEP subsidies generated more than 6,400 completed homes, financed at an average cost to the tax authorities of US\$1,831 per unit (supplemented by loans and household contributions for an average cost per housing solution of US\$7,000). The PVPG subsidies generated around 3,300 homes at an average *direct* cost to the tax authorities of US\$2,000 per unit. However, the PVPG subsidies also had a subsidized funding interest rate (currently 12.5%), which was nearly double that in terms of net present value. Therefore, the total subsidy for PVPG housing had a total subsidy of nearly US\$6,000. The PVPG built US\$10,000 homes with monthly payments of US\$110, which were affordable to the four highest deciles of urban households.

Table I-2

Variable	PROVICEP Program	PVPG Program
Target population:	Less than 4 times the minimum wage	Less than 4 times the minimum wage
Managed by:	SOPTRAVI	BANHPROVI/RAP
Average subsidy amount:	US\$1,831	US\$2000 + subsidy rate (approx. US\$6,000)
Adjustable subsidy based on:	Family income	Cost of housing solution (20%)
Average cost per solution:	US\$7,000	US\$10,000
Source of funds:	Budget	Budget

- 1.19 In the event that they are reintroduced, the country's subsidy programs present the following problems: (i) the large number of programs with different criteria, which create distortions and inefficiency; (ii) the PVPG subsidy amount per family is too high; (iii) the unsustainability of the PVPG due to its dependence on subsidized interest rates and crowding out of other potential lenders; (iv) the fact that the PVPG was taken over by developers and the banks by subsidizing the supply of finished housing; (v) imperfect methods of selecting, registering and monitoring beneficiaries in both programs, in terms of focus and transparency; and (vi) the fact that both programs channeled subsidies to predetermined urban developments

¹³ Under loan 1037/SF-HO, the IDB financed PROVICEP resources, and the government financed the PVPG (grant from Taipei China; note: use of the phrase 'Taipei China' does not in any way reflect a position by the Bank or any of its member countries regarding issues of national sovereignty or diplomatic recognition).

(supply), instead of offering them to the end beneficiaries, which decreased competition among urban developers.

- 1.20 **Improvement of informal neighborhoods.** As a result of the proliferation of the informal occupation of periurban land, programs have arisen recently which are intended to provide infrastructure and services to the human settlements in these areas. This is the case of the Programa Barrio Ciudad [City-Neighborhood program], funded by the World Bank and executed by the Fondo Hondureño para Inversión Social [Honduran Social Investment Fund] (FHIS), which finances residential infrastructure in poor neighborhoods in various Honduran municipios. The City-Neighborhood program directly supports the municipios, which are the coexecuting agencies for the projects in their neighborhoods and provide additional funds. Given the similar objectives and the need to provide access for municipios, it was decided to coordinate the execution of the collective subsidy component of this program with the World Bank component, adopting similar eligibility criteria and methods of operation.
- 1.21 **Housing microfinance.** Although microfinance institutions (MFIs) and savings and loan cooperatives (SLCs) are being developed in the country, they have not significantly penetrated the financing market for home improvements and expansions. The total existing portfolio of these institutions in 2005 was estimated at about US\$120 million for the MFIs, and US\$220 million for the SLCs. However, the amounts earmarked to finance housing compared to demand are still quite limited. The SLCs, which have placed around 32% of their portfolio (22,000 loans) in housing loans, primarily for expansion and improvement, have only serviced 4% of their clientele. This low level of service is explained in part by a lack of properly structured funding and a lack of homogeneous and standardized methodologies to deal with the issue. The MFIs have started to penetrate the home finance market, but to a lesser extent than the SLCs. However, the Microfinance Institutions Network of Honduras (REDMICROH) has about 120,000 customers, who represent major potential demand.
- 1.22 The MFIs and SLCs have expressed interest in offering housing products and channeling the program subsidy amounts in their capacity as potential IFIs, but they need more information on actual demand, the required lending technologies and products they could offer. An analysis of the current policies suggests that, although the SLCs may access the funds provided by sources of rediscounting, the methods of managing the risk represented by the SLCs are in the early stages of development. Moreover, the MFIs are just moving into the mainstream financial sector and coming under supervision by the CNBS [National Banking and Insurance Commission],¹⁴ a necessary condition for funding from the available windows in Honduras. Some finance companies and banks have expressed interest

¹⁴ To date, four private financial development organizations (PFDOs) have come under CNBS supervision, and may therefore rediscount loans.

in granting microcredit to finance home improvement and expansion, but lack the necessary expertise.

C. The country's sector strategy

- 1.23 **Poverty reduction strategy.** In April 2001, the Government of Honduras implemented the Poverty Reduction Strategy (PRS), a long-term government commitment which has the support of civil society and the international community. The housing sector is included as a priority area of the PRS, with a formal donor coordination forum, since housing is a complex asset with social, as well as economic and cultural implications.
- 1.24 **Housing sector strategy.** The Government of Honduras has requested the Bank's support to prepare a program to guide public and private actions in the area of housing. To this end, it has expressed its intention to restructure and consolidate the sector institutional structure under a proposed Framework Law for the Housing Sector. The country's strategy recognizes that its actions should capitalize on the efforts of all stakeholders, joining private initiative, society and the government. The role of the Government of Honduras will not include the direct construction, contracting or financing of housing programs, but will instead focus on the following: (i) serve as sector policy-maker, creating the conditions for vigorous economic activity and fostering dialog among the sector stakeholders; (ii) promote and encourage mechanisms and systems to access housing; (iii) facilitate the participation of private stakeholders and of civil society organizations in general; (iv) regulate the operation of mechanisms and systems; (v) channel public investment resources to the neediest sectors; and (vi) coordinate private investments and funding from international donors. The Bank is supporting this process through technical assistance in the preparation of the government's Housing Policy and Housing Plan.
- 1.25 **Housing policy.** The national objective of the policy will be for the government and civil society organizations to direct their efforts toward "ongoing and sustained improvement of the living conditions of the urban and rural population, with special emphasis on lower-income populations."¹⁵ The objective proposed by the government is "to improve the population's access to housing and habitat, which ensures: (i) possession and ownership of the family home; (ii) stability and safety of its structures; (iii) suitability to the space needs of the family; and (iv) minimum sanitation conditions." Meeting the general objectives of the policy is based on three types of access, which are cumulative and complementary: (i) access to land and property; (ii) access to basic services; and (iii) access to housing finance mechanisms.

D. The Bank's sector strategy and recent experience

- 1.26 The Board of Executive Directors approved the Bank's country strategy with Honduras in February 2003. The country strategy's objective is to help the

¹⁵ Draft Policy for the Housing Sector in Honduras, in preparation.

Government of Honduras to reduce poverty by promoting greater sustainable growth. The country strategy has three target areas: (i) increasing the competitiveness of production; (ii) enhancing the development of human capital; and (iii) strengthening governance. The proposed operation is also consistent with the goals and priorities of the PRS, seeking to target funds to the populations with the fewest resources, who are currently excluded from formal housing markets. The program will take into account the experiences of various Bank interventions in the housing sector (e.g. the post-hurricane housing program, HO-0146; low- and moderate-income housing program, NI-0064; and low-income housing program, PN-L1002). It will also complement other Bank programs currently in execution, particularly the water and sanitation investment program (HO-0072) and municipal development program (reformulation of operations HO-0115, HO-0175, and HO-L1001), which are directed toward municipal financing of infrastructure in general and sanitation in particular. Complementarity is provided to the extent that in conjunction with these two programs, there is a strong incentive to provide good municipal fiscal management, which is an eligibility condition common to all three operations. This program also complements these two lines of financing by restricting its use to extremely poor neighborhoods where the population has limited ability to pay, thereby allowing interventions where it is feasible for the municipios to recover costs and repay loans to be financed by the specific sanitation programs and multiple municipal projects.

E. Program strategy

- 1.27 The program starts by acknowledging that the formal supply of urban housing and land in Honduras is unaffordable for most people, and that public spending on housing is not well targeted and does not have the desired economic and social impact.¹⁶ It therefore seeks to encourage a policy that will retarget public spending to low- and moderate-income populations, while strengthening institutions in the sector. By committing to the execution of this program, the government is earmarking most of its spending to the groups with the fewest resources, structuring a policy formulation process and bringing the conduct of the various public entities involved in the sector under control. By doing this, it is hoped that the effectiveness of public spending on housing will be increased, poor families' access to housing solutions will be improved, and in general, the sector's economic activity will be enhanced. The new instruments and arrangements used in housing (such as the single, demand subsidy system) and in urban development (such as the collective subsidies), embody best practices with regard to action strategies in the sector. This new vision promotes the incorporation of new public- and private-sector stakeholders into the low-income segments, and diversifies the range of solutions to housing problems. In addition, the program strengthens the central role of sector's apex agency, which is indispensable in order to formulate consistent and sustainable policies in the area of low-income housing.

¹⁶ The paper "¿Quiénes se benefician del Gasto Público en Honduras?" [Who Benefits from Public Spending in Honduras?], published by the Technical Support Unit, also found that financed housing subsidies are progressive.

- 1.28 To summarize, the program seeks to clearly define the activities specific to the public sector, the rules and regulations and provision of additional financing, as well as the activities to be carried out by the private sector and civil society organizations, including the intermediation of resources, the construction of housing, financing and microfinancing. Interventions will be coordinated with the leading participation of the municipios, in harmony with the decentralization process, the strategy to promote secondary cities and the PRS.

F. Coordination with other donors

- 1.29 The Government of Honduras has emphasized better coordination among cooperation providers. To this end, it is encouraging approach aimed at organizing the activities of the various donors by sector, based on common objectives. Given their experience in the coexecution of program 1037/SF-HO, KfW and SIDA have participated in discussions about the program and the government's policy in the sector, and have agreed to continue working with FUNDEVI.
- 1.30 In order to enhance cooperation, a joining of efforts has been proposed between neighborhood improvement and the World Bank's City-Neighborhood program. The scale of this program is smaller than demand, and it will be possible to use similar design and execution criteria. The project teams of the World Bank and the IDB believe it is possible to meet the strong demand for neighborhood improvement in a coordinated manner.
- 1.31 The proposed program will also complement the housing program promoted by CABEL, which provides financing to private financial intermediaries to make loans for moderate and low-income housing, and will finance developers. CABEL resources would be used to fund IFIs that make loans to supplement the housing subsidies of the proposed program, and would also help stimulate the private supply of housing.

II. THE PROGRAM

A. Objectives and description

- 2.1 The program's general objective is to improve the housing and habitat conditions of low- and middle-income Honduran families. Its purpose is to better enable the government to meet multiple demands in the housing sector, giving families greater access to formal housing and basic urban services. The proposed components and specific activities are described below.

B. Program structure

- 2.2 The program has been designed as a multiphase operation, with two phases of five years each. This strategy will enable the public institutions to assume their new roles gradually, consolidating and performing their key responsibilities before taking on new activities. Dividing the program into two phases is consistent with the fact that housing needs in Honduras are so great that, once government policies have been developed and implemented, an ongoing effort will be required over several years in order to make a substantial impact. It will also allow innovations to be introduced in sequence over time, so as to facilitate their implementation.
- 2.3 The specific goals of phase I will be to: (i) consolidate the operation of the new individual and collective subsidy programs; (ii) improve the tools for the private financing of housing; (iii) provide access to financing and microfinance for new housing and home improvements; (iv) set up an information, monitoring and evaluation system for housing programs; and (v) strengthen the key executing agencies: the Ministry of Public Works, Transportation and Housing (SOPTRAVI) / Department of Housing and Urban Development (DGVU) and the Honduran Social Investment Fund (FHIS). Phase II will begin implementation of programs to produce urban land based on the design developed in phase I, and establish a funding mechanism for microfinance institutions that make housing loans. It will also enable the reforms necessary to secure previous ones and ensure the sustainability of the National Housing Subsidy System.

C. Components

- 2.4 **Component 1: Innovative instruments and monitoring of the housing sector** (US\$650,000). This component will support SOPTRAVI in designing new instruments for the housing sector and strengthening the sector's institutional structure, including SOPTRAVI's ability to serve as apex agency. This will be accomplished through two sets of activities: (i) housing instrument reforms; and (ii) establishment of a Housing Policy Research and Monitoring Unit. This unit will run the sector information and monitoring system, which will monitor the government and nongovernmental programs and private initiatives, and generate basic statistics for monitoring the program itself. It will also be in charge of commissioning technical studies and supervising introduction of the innovative

instruments listed in Table II-1, many of which will be instituted during program phase II.

Table II-1. Instruments and Technical Studies

Instrument	Description	Cost
Sector information, evaluation and monitoring system	Includes the operation of the monitoring system for the housing sector in general, and the program in particular. Finances the costs of specific surveys and research, system maintenance and other activities.	200,000
One-stop window	Based on the preliminary design, strengthen the instruments for approving SERNA urban developments, both in central offices as well as through the municipal environmental management units (UGAM).	25,000
Mechanisms to produce urban land	Design methodology and identify costs for a pilot program to produce low-cost urban land, and formulate policies for ongoing urban development to be implemented in phase II.	60,000
Housing microfinance	Technical assistance for the financial institutions involved in housing microfinance, to develop: (i) microfinance products appropriate for the country (integrating remittance flows) and training for microfinance institutions, cooperatives or others in order to implement such products; (ii) support for BANPROVI to regulate the microcredit window for housing.	200,000
Mortgage Information System and Mortgage Guarantee Fund	(i) Develop a credit reporting module, working with the Credit Reporting Center to systematically generate data on the behavior of the mortgage sector; (ii) set a standard format for mortgages rediscounted by second-tier financial institutions (BANHPROVI and RAP), in order to promote standardization; (iii) based on actuarial studies, design a mechanism for guaranteeing mortgage loans issued by the banking system.	50,000
Channeling remittances to housing	Review market practices and develop proposals on how to capture remittances to leverage credit for low-income housing.	10,000
Framework Law for the Housing Sector	Conduct technical review and hold events to publicize the draft Framework Law for the Housing Sector and formulate a strategic plan for the sector.	30,000
Training of housing sector employees	Eight practical courses for SOPTRAVI employees, the Deputy Minister of Housing and other stakeholders.	40,000
Plan to strengthen the DGVU and sector agencies	Implement the plan to strengthen key functions and a program for training DGVU employees and the team of the Deputy Minister of Housing.	35,000
Total		650,000

- 2.5 **Component 2: Housing subsidies** (US\$25.8 million). This component will contribute resources for low-income families, so that they can better afford to buy their own homes, improve an existing home, or access basic infrastructure for the neighborhoods where they are located. Two types of subsidies will be funded: (i) individual subsidies, to supplement family savings to facilitate their access to credit for new housing or to improve existing homes; and (ii) collective subsidies, consisting of contributions to groups of families living in neighborhoods with high

- rates of poverty, overcrowding and a significant delay in accessing urban services, in order to finance the required infrastructure and services.
- 2.6 ***Subcomponent 2.1 Individual housing subsidies*** (US\$20.2 million). This subcomponent will finance a system of housing subsidies to supplement low- and middle-income families' ability to buy a home, or substantially improve their existing homes. Subsidies will be granted in two basic ranges, based on the needs of the families who apply for them: (i) subsidies of US\$2,000 equivalent per family to purchase new homes or build homes on their own lots, intended for families with incomes of up to three times the minimum wage; and (ii) subsidies of US\$1,000 equivalent to improve existing homes for families with incomes of up to three times the minimum wage. Under both arrangements, the subsidy funds will be used to supplement existing savings and leverage loan resources from financial institutions to finance the housing, although a loan application will not be mandatory for improvements to existing homes. This component seeks to improve the mechanism tested under the post-hurricane housing program, bringing in more financial intermediaries.
- 2.7 ***Subcomponent 2.2 Collective subsidies*** (US\$5.6 million). This subcomponent offers an alternative way of meeting the needs of the lowest-income households (families earning less than three times the minimum wage) by providing subsidies to build basic infrastructure in urban and periurban neighborhoods where these families are concentrated. These activities will help reduce the significant lag in meeting some indicators of the Millennium Development Goals, especially in regard to reducing the populations living in poor neighborhoods. The collective subsidies differ from individual subsidies in how they are granted (groups of families selected by the degree of deficits in the neighborhood where they live) and in the intended use of the funds (essentially for infrastructure and urban and social services).
- 2.8 The process of allocating funds will start with the pre-selection of eligible urban municipios, which will be supported in the preparation of specific projects in their neediest neighborhoods. To be eligible, municipios and communities must commit to a counterpart contribution equal to 15% of the project value. Neighborhoods meeting the minimum eligibility requirements (see Table II-2) would be selected according to prioritization criteria
- | |
|---|
| <p>Table II-2: Neighborhood selection criteria</p> <p>Each municipio will submit up to three neighborhoods for consideration, which must meet the following requirements.</p> <p>Minimum eligibility criteria:</p> <ul style="list-style-type: none">▪ The neighborhood must be recognized by the municipio's Real Estate Division.▪ The neighborhood must not be located in risk areas, defined as urban areas vulnerable to floods, landslides or other threats.▪ It must be feasible to integrate the neighborhood into the main potable water, sewerage, drainage and road systems of the city.▪ Population density may not be less than 80 inhabitants per hectare.▪ The number of homes should vary between 100 and 600 households.▪ At least 70% of the homes do not have sanitary sewerage service.▪ At least 70% of the population must be poor <p>Prioritization Criteria: Once eligibility has been determined, the selection process will proceed with the following priority criteria:</p> <ul style="list-style-type: none">▪ Poverty (40%)▪ Population density (60%) |
|---|

(poverty and population density), which are described in greater detail in the program Operating Regulations. The subsidy amount would be capped at US\$2,900 per beneficiary family (enabling 1,860 families to be served) in up to six neighborhoods located in municipios around the country. This amount will finance: (i) the direct costs of preparing comprehensive neighborhood improvement plans (CNIP); (ii) investments in infrastructure and social services; and (iii) the cost of two technical staff liaisons for each participating municipio, who will locally support them in the implementation of their projects for a period of two years. This subcomponent is governed by the specific criteria and rules established in the program Operating Regulations (OR), which are substantially similar to those adopted by the City-Neighborhood program financed by the World Bank. The programs, however, will finance different neighborhoods.

- 2.9 **Program management** (US\$2.2 million): The following expenditures fall under the heading of program management: (i) *Strengthening of the DGVU's project execution team (PET)*: financing of the consultants to make up the DGVU team, supplementing its core complement to execute the program, including a program coordinator, two support staff, a financial specialist and a communication expert. In addition, consumable supplies will be financed throughout the execution of the program, as will the purchase of a minimum supply of equipment (US\$936,000); (ii) *Consulting services for program support*: contracting of individual consultants to provide program management support to the DGVU, especially in the areas of financial management and implementation of the subsidy system (US\$150,000); (iii) *Management of the collective subsidy subcomponent (FHIS)*: includes the financing of consultants and operating expenses for the subcomponent executing unit, such as the cost of the coordinator and three specialists, as well as equipment, per diems and fuel for field inspections (US\$672,000); (iv) *Concurrent audit*: contracting of an audit firm approved by the Bank to conduct an ongoing audit of the program, covering compliance with the Operating Regulations and a review of program processes and financial documentation (US\$450,000).

D. Phase II

- 2.10 Phase II will have an estimated cost of US\$30 million and include two additional investment components, plus further financing for the phase I components. The additional components will be: (i) *Mechanisms to produce urban land*, introducing a new program to produce urban lots to meet the demand for housing land at affordable prices in urban areas. The design of this program is included in the technical assistance financed under the first component of phase I. On this basis, pilot projects would be developed which would reproduce successful international experiences in order to evaluate their local feasibility; (ii) *Microfinance for housing*, supplementing the phase I technical assistance to microfinance institutions with a medium-term program to fund housing microfinance; and (iii) *Housing subsidies*, giving continuity to the new individual and collective subsidy program by extending its coverage. In addition, the performance of the new program

implemented during phase I will be evaluated, and any necessary improvements made.

E. Cost and financing

- 2.11 The following table shows the estimated total cost of the program and the proposed financing.

**Table III-3: Program cost table
(US\$ thousands)**

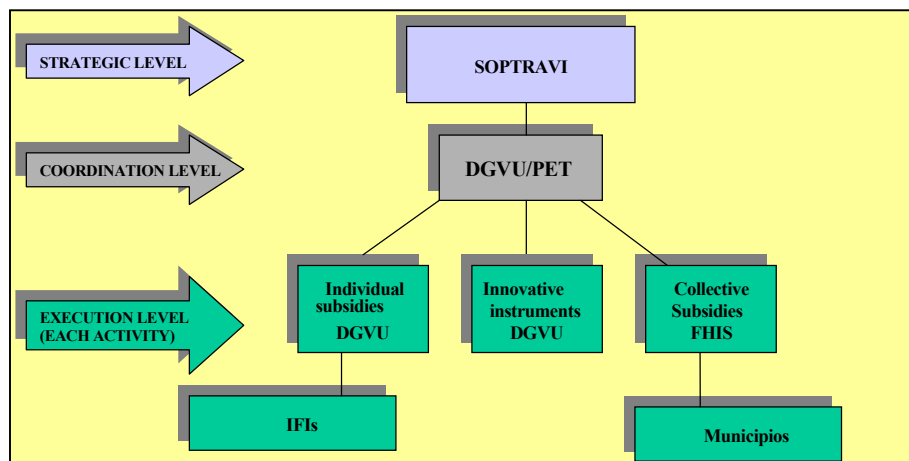
Component	IDB	Counterpart	Total	%
1. Instruments and sector reforms	650	-	650	2.1%
2. Housing subsidies	25,200	600	25,800	83.2%
2.1 Individual subsidies	19,600	600	20,200	65.2%
2.2 Collective subsidies	5,600	-	5,600	18.1%
2.2.1 Subsidies	5,400	-	5,400	
2.2.2 Support of municipios	200	-	200	
3. Program management	2,208	-	2,208	7.1%
3.1 Central unit (DGVU)	936	-	936	
3.2 Consulting services for program support	150	-	150	
3.3 Management - Collective subsidies (FHIS)	672	-	672	
3.4 Concurrent audit	450	-	450	
4. Financial expenses	1,050	400	1,450	4.7%
4.1 Interest	750	-	750	
4.2 Commitment fee	-	400	400	
4.3 Inspection and supervision	300	-	300	
5. Contingencies	892	-	892	2.9%
Total	30,000	1,000	31,000	100%
%	96.8%	3.2%	100%	

III. PROGRAM EXECUTION

A. Borrower, guarantor and executing agency

- 3.1 The borrower will be the Republic of Honduras; and the executing agency will be the Ministry of Public Works, Transportation and Housing (SOPTRAVI), acting through its Department of Housing and Urban Development (DGVU). A project execution team (PET) will be formed within the DGVU and be responsible for technical, financial and administrative coordination of the program, as well as for execution of various program activities. In addition, the Honduran Social Investment Fund (FHIS) will act as a coexecuting agency for program Subcomponent 2.2, “Collective Subsidies.” *As a condition precedent to the first disbursement of resources for Subcomponent 2.2, an agreement must be entered into between the Ministry of Finance (SEFIN), SOPTRAVI, and FHIS, establishing the terms and conditions on which the Borrower will transfer the loan proceeds to the budget of the FHIS, and containing provisions to guarantee performance of the FHIS’s contractual obligations in the execution of the program.*
- 3.2 SOPTRAVI, as executing agency, will have central responsibility to the Bank for program execution. The FHIS will have support from the unit set up to execute the World Bank’s City-Neighborhood program, assisted by the consulting services for program support.¹⁷ This executing unit’s coordination costs will be shared by the two Banks. The program execution plan appears in Table III-1.

Table III-1: Program execution model



- 3.3 **Project execution team of the DGVU.** The project execution team (PET) will be formed within the DGVU, reporting directly to the DGVU director. It will include a

¹⁷ Any changes within the FHIS which may affect the operation of the Unit must be submitted in advance to the Bank for its consideration.

number of specialists, hired in addition to the DGVU's regular staff to support the program throughout execution, as follows: (i) a coordinator, (ii) a financial specialist, (iii) a communication expert, (iv) an information technology specialist, (v) a project monitoring and evaluation specialist, (vi) a housing technical assistant, (vii) an environmental technical assistant, and (viii) a procurement specialist. The first five will be the core team, and their hiring will be a condition precedent to the first disbursement for the activities executed by SOPTRAVI. In addition, the DGVU's regular staff will be strengthened, and a small allotment provided for supplies, equipment and additional consulting services for program support. Among other duties, the PET will: (i) formulate the work plan and detailed activities of the program; (ii) be responsible for the coordination of program operations with the Bank and coexecuting agencies; (iii) prepare disbursement requests to be submitted to the Bank for the activities executed by SOPTRAVI; (iv) conduct competitive bidding processes and award contracts; (v) monitor and supervise execution; (vi) conduct ongoing evaluations and informational meetings with the Bank's Country Office; (vii) ensure timely fulfillment of the terms of the loan contract; (viii) implement and maintain proper systems for contract administration, accounting and financial management and internal control to manage the program resources; (ix) retain the original supporting documentation of eligible program expenditures that are SOPTRAVI's responsibility; and (x) prepare financial reports and six-month progress reports to be submitted to the Bank, including the project performance monitoring report and procurement plan.

- 3.4 **Coexecuting agency.** The FHIS will be the technical coexecuting agency for the program. The executing unit set up within the FHIS for the City-Neighborhood program will provide execution support for the subcomponent activities, and will be strengthened through the hiring or full-time assignment of a sanitation specialist, a road system specialist, a social-sector specialist, a financial specialist and others for program execution. These should be hired within no more than six months from the date of the first disbursement for Subcomponent 2.2. In addition, the costs of the City-Neighborhood program coordinator will be shared with the World Bank. The FHIS will have the following main duties: (i) general coordination of the subcomponent, including technical and financial management; (ii) selection of beneficiary municipios and neighborhoods; (iii) hiring the municipal liaison team; (iv) commissioning of preinvestment studies for the preparation of comprehensive investment plans for each neighborhood; (v) contracting of works or supervision of the process by the municipios, pursuant to the provisions of the contract and ORs; (vi) supervision of execution of the subcomponent; (vii) preparation and submittal to the Bank of requests for revolving fund replenishment and disbursement requests for Subcomponent 2.2; and (viii) any other task involving the management and execution of the subcomponent, and serving as liaison to SOPTRAVI and the Bank.

B. Program execution and management

- 3.5 **Execution of individual subsidies.** Potential beneficiaries of individual subsidies will apply through an intermediary financial institution (IFI), which will have been

prequalified by the SOPTRAVI through the DGVU to channel the subsidy, extend additional credit and take in beneficiary savings.¹⁸ The IFI will assess whether the applicants meet the eligibility requirements specified in the OR, as well as their ability to save and access credit—based on their needs for new housing or for home improvements—and will channel the respective applications through the IT system of the National Housing Subsidy System (SNSH). *The IT system is being developed under a consulting engagement now underway. As a condition precedent to the first disbursement of Component 1 and Subcomponent 2.1, the National Housing Subsidy System (SNSH), including the IT system for beneficiary applications and the unified beneficiary registry, must be developed, up and running.* A terminal branch of the system will be set up at each participating IFI.¹⁹ At each operational cutoff, the system will evaluate the applications received and, based on objective eligibility and weighting criteria, publish the list of end beneficiaries. After a period for filing protests, the final end beneficiaries will be determined, and the subsidies channeled through the IFIs. In turn, the IFI will sign a contract with the beneficiary and the developer or the auxiliary entity. This auxiliary entity, typically an NGO or SME, may be in charge of one or more activities related to the improvement, including design, budgeting, execution and/or supervision of the work. The developer will also be in charge of the entire production cycle for the planned new home. Resources will be channeled directly from the IFI to the auxiliary entity (against physical or financial progress) or developer (against delivery of finished housing), as applicable, and the beneficiary will receive the end product but not handle funds directly, monitoring the expansion and/or construction work performed by the auxiliary entity or developer. The program is expected to produce nearly 12,200 housing solutions, benefiting some 61,000 people. *As a condition precedent to the first disbursement, at least one fund management agreement between SOPTRAVI and an IFI must be submitted.*

- 3.6 **Execution of collective subsidies.** To access the collective subsidy component, each eligible municipio²⁰ will select two or three neighborhoods that meet the specified eligibility and prioritization criteria, prepare a summary profile of each, and submit them to the FHIS for consideration. The FHIS will select one neighborhood in each municipio, based on the mandatory and prioritization criteria (poverty and density). Next, a municipal framework agreement will be signed by the FHIS and the municipio, as well as a participation agreement between the municipio and the community, in which each of the parties agrees to participate in

¹⁸ The IFI will be accountable to SOPTRAVI for the government funds channeled through it.

¹⁹ The IFIs are financial institutions that have formalized their desire to participate in the program by giving SOPTRAVI the pertinent documentation. To be an IFI, the institution must meet the following eligibility requirements (specified in detail in the ORs): (i) Be subject to supervision by the CNBS; (ii) Be exempt from any intervention, dissolution or liquidation proceeding; (iii) Comply with the rules of the Law regulating financial institutions; (iv) Have had positive results during the fiscal year immediately preceding the request; (v) Maintain a default rate in the over ninety-day past due portfolio of less than 8%. The IFI's role will be to receive the savings and subsidy funds, qualify applicants and formalize the granting of the loan.

²⁰ The FHIS will be responsible for promoting the program among the eligible municipios.

the process to improve the neighborhood and provide the respective resources. Once the selection of neighborhoods has been formalized, the FHIS will commission the preinvestment studies (which make up the Comprehensive Neighborhood Improvement Plan (CNIP) for each settlement), prepared in consultation with the communities. The municipio, through its municipal technical unit or equivalent, with support from technical liaison staff hired by the program, will verify the technical, environmental, economic and financial viability of the proposed solutions, in compliance with the municipal laws and regulations for public service delivery, as well as the acceptance of the beneficiaries. The CNIPs that contain the final designs will be submitted to the FHIS and the municipio for approval. Next, the FHIS or municipio, as applicable,²¹ will conduct the competitive bidding process and contract for execution of the works. In all cases, the consulting services will be contracted by the FHIS. The local counterpart will be at least 15% of the project amount in each neighborhood. The communities will contribute a minimum of 5%, and the municipios will contribute the remaining 10%. Once the works have been completed, the installed systems and equipment will be transferred to the relevant operators. The property registration process will occur throughout the intervention (through an agreement with the Honduras Land Administration Program (PATH)) and will end with the assistance given to the beneficiaries in obtaining their respective property titles.

- 3.7 **Program Operating Regulations.** The program Operating Regulations (OR) contain the rules on operation of the Housing Subsidy System for both individual and collective subsidies, the eligibility criteria for the participation of the families and municipios, the execution cycle for each subcomponents, the subsidy amounts and the sectors eligible to finance the execution procedures, accounting and reporting, disbursements and other relevant matters. *As a condition precedent to the first disbursement for program activities to be executed by SOPTRAVI, the program Operating Regulations must be approved and in force, under the terms previously agreed upon with the Bank.*

- 3.8 **Special disbursement to begin activities.** Subject to compliance with Article 4.01 of the General Conditions of the loan contract, the Bank may disburse up to US\$500,000 equivalent to support program startup activities, particularly the contracting of consulting services and other activities required to meet the general and special conditions for effectiveness.

C. **Monitoring and evaluation**

- 3.9 **Program monitoring and evaluation system.** The monitoring and evaluation system proposed for this program is consistent with the Bank's efforts to develop a strengthened framework that allows more rigorous monitoring and evaluation of its operations, including those in the housing sector, as well as the strengthening

²¹ Construction projects totaling less than US\$500,000 will be contracted by the municipios, with the technical assistance of the FHIS. Supervisory services for consultants and construction activities will be contracted for each project.

activities identified by the Institutional Capacity Assessment System (ICAS). The system uses eight monitoring instruments implemented in four phases (initial diagnostic assessment, baseline survey and system startup, midterm review, and final evaluation). These instruments include: (a) the creation of the Housing Policy Unit equipped with a specialized information system, to gather and analyze data on the sector in general and the program in particular; (b) progress reports of intermediaries; (c) concurrent audit; (d) an inventory of settlements; (e) household surveys; (f) structured interviews; (g) hedonic model of housing prices; and (h) short-term visits by experts. The program will be strengthened by technical-cooperation operation ATN/FG-9889-HO on monitoring and evaluation of housing programs, which will finance the design and implementation of the information system, baseline survey and further development of hedonic models of housing prices in Honduras. This consulting engagement, in the contract award process, will give SOPTRAVI the tools to compile and expand the information available on the sector and enable the performance monitoring and evaluation of the program. The indicators included in the logical framework will be reviewed during this process. The program also includes resources to perform subsequent surveys and procure the equipment and personnel to do so.

- 3.10 **Program monitoring.** The program will be executed in accordance with annual work plans (AWPs) based on the budget allocation approved by the Legislative Assembly. The FHIS will prepare and delivery the AWP on its activities to SOPTRAVI. The AWP for the program will be consolidated by the DGVU and agreed upon with the Bank at yearly monitoring meetings. The first program AWP must be submitted as an integral part of the initial report on the program, and must cover the remainder of a calendar year. Subsequent AWPs will cover twelve-month periods corresponding to the calendar year.
- 3.11 **Concurrent audit of the program.** In order to streamline execution and strengthen management of the program, a firm will be hired to conduct a concurrent operational and financial audit, with the authority to certify disbursements. The general purpose will be to obtain the professional opinion of independent auditors on the financial and operational reporting of the program executing and coexecuting agencies. In addition, it will evaluate the internal control system and use of program resources, pursuant to the terms and conditions stipulated in the loan contract and Operating Regulations. The audit will be conducted as the program is executed, throughout the execution period, and will allow disbursements to be made in a timely manner, avoiding any recurrent problem in the housing subsidy operations.
- 3.12 **Financial execution.** The following entities will be involved in the management of program resources: SEFIN, which will provide the national counterpart resources; the Bank, which will provide the loan proceeds; and SOPTRAVI, acting through the DGVU (and its PET), which will execute the program activities. The FHIS may also request replenishment of the revolving fund directly to the Bank, as needed. Both the municipios selected to receive the collective subsidies and the IFIs qualified to channel the individual subsidies will have funds transferred at the

- appropriate time by the FHIS and SOPTRAVI, to conduct the program activities. This financial relationship will be regulated by the funds administration agreements.
- 3.13 **Revolving fund.** Two subaccounts will be opened under the single revolving fund, in order to make the individual and collective subsidy programs operationally independent. The revolving fund will therefore be replenished, and expense vouchers submitted, separately. One account will be opened for SOPTRAVI, and the other for FHIS, and the revolving fund will be monitored to ensure that the conditions of the loan contract are met. The amount of the revolving fund may be up to 10% of the loan amount, depending on the financial projections and work execution timetables in the annual work plans. The authorized amount of the revolving fund will reflect projected disbursement dynamics.
- 3.14 **Procurement.** Works, goods and related services will be procured in accordance with the Bank policies contained in document GN-2349-7, "Policies for the procurement of works and goods financed by the IDB" of July 2007.
- 3.15 Consultants will be selected and contracted pursuant to the Bank policies contained in document GN-2350-7, "Policies for selection and contracting of consultants financed by the IDB" of July 2007. To select and contract consultants, the borrower may use any of the selection and contracting methods provided in Bank policies. For the purposes of paragraph 2.7 of document GN-2350-7, the short list may comprise entirely national consultants when the estimated cost is less than US\$200,000 equivalent per contract.
- 3.16 Works, goods and consultants will be procured in accordance with the program Procurement Plan, which contains: (i) the specific contracts for works, goods and consulting services required to execute the program; (ii) the methods for selection of consultants; (iii) the proposed methods for procurement of goods and works; and (iv) the arrangements for procurement review by the Bank. The Procurement Plan is available for consultation in the program technical files. The borrower will update the Procurement Plan annually, as required or when there are substantial changes. Any proposal to revise the Plan must be submitted to the Bank for its approval. **Procurement reviews.** Supporting documentation for procurement processes for goods, works and services and for the corresponding disbursements will be subject to prior review in accordance with Annex I to document GN-2349-7 and Annex I to document GN-2350-7. The procurement thresholds are given in the following table:

Table III-2			
Procurement	International competitive bidding	National competitive bidding	Shopping
Works	More than US\$1.5 million	From US\$150,000 to US\$1,500,000	Less than US\$150,000
Goods and related services	More than US\$150,000	From US\$25,000 to US\$150,000	Less than US\$25,000
Consulting services	US\$200,000		

3.17 **Disbursement period.** The program disbursement period will be 60 months.

D. Phase II triggers

3.18 The conditions to start preparation of phase II include: (i) 50% of the loan proceeds have been disbursed, and 75% of phase I resources have been committed; (ii) at least 6,000 individual subsidies have been allotted and disbursed; (iii) four neighborhoods receiving collective subsidies have fully installed the basic infrastructure and services called for in their plans; (iv) the mechanism for producing urban land has been designed; and (v) the program evaluation and monitoring system is active, and the midterm review is complete. The government will provide evidence that at least three of the these five conditions have been met, including at least the first one.

IV. VIABILITY, BENEFITS AND RISKS

A. Technical and socioeconomic viability

- 4.1 **Individual subsidies subcomponent.** The subsidy levels for this subcomponent were calculated as the meeting point of the least possible cost to access a complete housing solution, construction costs, and the ability and willingness to save and pay a mortgage loan on the part of low- and moderate-income households that the program seeks to benefit. The component is geared to partially finance: (i) the purchase of finished housing that includes land and basic services; (ii) the construction of new housing on a privately owned lot; and (iii) improvement of existing makeshift housing, provided that ownership can be documented. The financing plan is given in Table IV-1.

Table IV-1: Individual subsidy program

Item	Purchase of new housing	Construction on privately owned lot	Housing improvements
Previously planned savings	10% of the cost of the solution	10% of the cost of the solution	10% of the cost of the solution
Direct subsidy	US\$2,000 (flat amount)	US\$2,000 (flat amount)	US\$1,000 (flat amount)
Housing loan	Variable, based on family's ability to pay	Variable, based on family's ability to pay	Variable, based on family's ability to pay
Maximum value of solution	US\$9,000	US\$6,500	US\$4,000
Maximum percentage subsidy	75%	75%	75%

- 4.2 The above amounts were determined on the assumption that eligible families can devote 20% of their income to payment of their home, for the lowest two deciles (2 and 3), and 30% in the case of eligible higher deciles (5 and 6). It is estimated that the families can complete their previously planned savings in a period of 6 months, provided that they have no resources out of the ordinary. With the maximum amount earmarked to buy a home, it is estimated that a house of up to 48 square meters can be purchased in most cities in Honduras, with the exception of Tegucigalpa, where, given the higher cost of land, a 36-square-meter house could be purchased. With the maximum amount earmarked to build a home on the family's own land, a 45-square-meter unit could be built. With the maximum amount allotted for home improvements, a 9-square-meter room, a bathroom, and a 36-square-meter foundation could be enlarged.
- 4.3 **Collective subsidies subcomponent.** The technical viability of the program-funded investments in the collective subsidies subcomponent was determined based on analysis of a comprehensive plan and the study of standard costs adopted by the FHIS for its projects. This pilot project was developed by the FHIS team, and from

the outset included the participation of the municipios and consultation with the communities to identify and prioritize investments.

**Table IV-2. Neighborhood improvement cost per family
Sample project (400 families)**

Components	US\$/family	US\$ total
Water and sanitation	1,200	480,000
Roads and drainage	380	152,000
Electricity and lighting	300	120,000
Social and community services	130	52,000
Resettlement	350	140,000
Additional works	40	16,000
Subtotal - Infrastructure	2,400	960,000
Preinvestment	120	48,000
Social participation and development	160	64,000
Works supervision	120	48,000
Assistance with property registration	100	40,000
Subtotal - Preparation and implementation	500	200,000
TOTAL	2,900	1,160,000

- 4.4 The program includes the typical elements of a comprehensive initiative, with infrastructure and social components, as well as consideration of the preinvestment and community development costs. For a neighborhood with 400 families, the total amount of the investment was US\$1.16 million. This cost, broken down into its various components, defined the maximum cost parameter that will be used for other neighborhoods in the program, which will be US\$2,900 per family.
- 4.5 The investment amounts and technical solutions used in the component designs were least-cost alternatives adopting appropriate technologies. The systems to be installed (water, electricity, drainage) will be technically approved by the relevant sector agencies, supervised during execution and subsequently transferred for operation and maintenance. The works correspond to municipal infrastructure which the municipios are familiar with and able to build. The social development activities will be contracted to NGOs or specialized firms, or conducted by the municipios themselves, depending on their capacity.

B. Institutional viability

- 4.6 The institutional viability of the program stems from the combination of authority, capacity and interest on the part of the institutions and stakeholders involved. In the individual subsidies subcomponent, SOPTRAVI, acting through the DGVU, does in fact have the legal authority to act as the apex agency for the housing sector, under Legislative Decree 218-96 of December 1996. In addition, the DGVU has the technical and budgetary resources to play this role within SOPTRAVI. Moreover, the private-sector entities, both the intermediary financial institutions (IFIs) and developers, have expressed their interest and ability to participate actively in the

program. In the collective subsidies subcomponent, the FHIS has the legal mandate to work with the communities and municipios in making social investments, and has the systems and resources to do so. In addition, through the City-Neighborhood program, there is already a unit with experience in the execution of collective subsidies. According to the Institutional Capacity Assessment System (ICAS), both institutions have the capacity to perform their responsibilities under the program, notwithstanding the need for certain changes included in the program design.

C. Financial viability

- 4.7 The program's financial viability is contingent on the existence of actual demand for the solutions offered. The individual subsidies program depends on sufficient ability and willingness on the part of the potential target households to save and access credit. The collective subsidies program under Component 2 depends on the mutual desire of the municipio and residents in the neighborhood. To ensure this demand, the rules of operation of the individual subsidies system were designed on the basis of the income levels and ability to pay and save on the part of those it seeks to benefit. For the collective subsidies subcomponent, moreover, potential demand was evaluated and the rules for participating in the program were clarified beforehand.
- 4.8 In addition, the proposed programs assume the interest and participation of the private sector, both in home financing for deciles 1 through 8, as well as their involvement in mechanisms to produce urban land and low-income housing. Without the participation of the private sector to leverage resources, this operation would not achieve the expected benefits, which is why its design includes the necessary incentives so that builders, financial institutions and the private sector in general will get involved in the program's activities.

D. Environmental and social impact

- 4.9 The program will achieve positive environmental and social outcomes by improving the living conditions of the target families who access new or improved housing and basic and social services sufficient in terms of quality and quantity. The program includes individual subsidies and collective subsidies geared to lower-income families, to improve their habitat conditions. For both subsidies (individual and collective), the rules and regulations of the country were analyzed, in order to comply with the parameters established by the environmental and basic services authorities (i.e. water, drainage, sanitation, etc.). Bank policies (OP-708 and OP-745) and the country's policies were incorporated into all program activities, as established in the environmental and social management report (ESMR) attached to this operation as an annex.
- 4.10 The ESMR includes an environmental and social management plan (ESMP) for both components, which specifies issues such as: (i) environmental and social eligibility criteria; (ii) proposed environmental and social mitigation measures and associated benchmark costs that are included in the general program budget; (iii) community participation processes throughout project design and execution;

and (iv) guidelines for potential voluntary resettlement within the same community, to be conducted in accordance with operational policy OP-710. The ESMR also covers supervision and includes the criteria for conducting an environmental audit.

- 4.11 It was determined that the capacity of the institutions responsible for monitoring compliance with environmental regulations by private-sector operators (construction companies, housing developers, urban developers) is currently insufficient. For this reason, it was decided to strengthen the executing institutions of the program, SOPTRAVI and FHIS/City-Neighborhood, to examine and supervise the environmental and social measures described in the program. In addition, the environmental requirements included in the OR are specified and will be incorporated into the bidding documents, which will regulate the actions of private-sector companies. The monitoring and supervision of works will be contracted to independent outside firms, who will report on all aspects of the works, including environmental and social issues. Also, the indicators for monitoring compliance with environmental regulations have been included in the monitoring and evaluation system, and their outcomes will be included in the midterm and final reports on the program.
- 4.12 **Gender approach.** In housing programs, it is important to guarantee equal access to ownership and property title, both for women, especially female heads of household, and for men. A specialized consulting firm studied conditions in Honduras with respect to equal access to home and home improvement loans, with the following conclusions: (i) although the legal framework allows women to access housing through property title in their own name or jointly with their spouse, most women do not know the laws that define property, equal opportunities and the laws that protect housing as a capital asset. It is therefore common for them to remain legally unprotected since neither their names nor their children's appear on the property title; (ii) some institutions offering home loans do not know the proper practices for property titling and access by women, and do not encourage joint title; (iii) in a context of no access to credit due to low levels of income, women are hurt by being paid lower wages, even for the same job; and (iv) the participation of women should be encouraged in participatory processes in as part of neighborhood improvement.
- 4.13 The program will act on these fronts by introducing improvements in the processes and systems of existing institutions, specifically by: (i) requiring that all titles issued through the program's activities be issued in the woman's name, and/or be shared with her spouse if both of them contribute land or jointly pay the mortgage, and that they include a family property clause to protect the children; (ii) training IFIs, DGVU employees and FHIS staff on pro-gender practices in terms of property title and access to loans for women; (iii) including rules in the OR that facilitate real participation of women in the neighborhood improvement processes; (iv) conducting informational and training campaigns geared to women, on subjects such as women's rights, access to credit and the importance of participating in community decisions; (v) incorporating gender indicators in the baseline,

segregated by sex, in order to evaluate changes in women's participation in the program, especially female heads of household.

- 4.14 **Social-sector classification:** The program may be considered a poverty-targeted investment, since more than 50% of the target families live below the poverty line for Honduras under the "headcount" criteria. It may also be considered a social equity enhancing project, since most of the investment component finances the supply/improvement of dwellings or neighborhoods, which is a priority social sector under the Eighth Replenishment (document AB-1704).

E. Benefits and development impact

- 4.15 The immediate impact of the program will be improvement in the following aspects of the living conditions of approximately 14,062 moderate- and low-income households: (a) 12,200 families with new or improved houses; and (b) improved infrastructure and community services for 1,862 families in five informal neighborhoods. These investments will also have an impact on economic activity through the multiplier effect in the construction sector in Honduras. In addition, the program will have a social welfare impact by channeling resources to the improvement of the habitat of low-income households, generating improvements in the living conditions for families in poor neighborhoods (overcrowding, makeshift housing, sanitation, etc.).
- 4.16 The technical support in drafting a national housing policy along with strengthening the capacities of SOPTRAVI as the policy-making body and coordinator of the policy will structure and provide consistency to the public sector's role, stimulating private sector participation in the housing market, increasing the number of target households without having to increase the percentage of public spending in the sector. In addition, in the medium term the program is expected to have other impacts, including: (i) development of the market to finance home improvements; (ii) greater expansion of the mortgage market; (iii) development of new and sustainable tools to meet multiple demands in the housing sector; and (iv) strengthening of the government's ability to target social spending and coordinate the various institutions and public and private stakeholders by means of a consistent and effective housing policy.

F. Risks

- 4.17 **Institutional weakness of SOPTRAVI/DGVU,** due to the fact that this ministry has only recently taken on a lead role in the sector. To mitigate this risk, the program includes strengthening activities to position the DGVU so that it can perform its duties, including the establishment of a housing research and policy unit to guide its actions. In addition, decentralization in the execution of the individual subsidy subcomponent through the IFIs will relieve the administrative burden on the DGVU and allow it to properly perform its supervisory role.
- 4.18 **Institutional vagueness in the housing sector.** The role of SOPTRAVI as a policy-making body for the housing sector has not been consolidated due to its

more traditional activities in the area of road infrastructure. For this reason there is a risk that its leadership will be disputed by the entities operating in the banking sector and other relevant stakeholders in the sector. To mitigate this risk, during program preparation the team provided specialized technical assistance to coordinate a national strategy and policy for the housing sector that clearly defines the functions of the relevant stakeholders.

- 4.19 **Private-sector participation.** The private sector—comprising banks, microfinance institutions and construction companies—is a fundamental pillar for the effective functioning of the housing sector. The noninvolvement and/or nonparticipation of this sector in the program entails a risk for program execution. To mitigate this risk, the private sector was consulted extensively during program design, and adequate incentives were included to ensure the participation of the microfinance institutions (by providing new customers for microcredit and mortgage loans) and developers (by increasing the volume of demand for low-income housing).
- 4.20 **Lack of transparency in the allotment of subsidies.** To ensure transparency and control in the use of subsidy funds, the following measures have been adopted: (i) the design of a “blind” National Subsidy System, which allots solutions by means of a point system; (ii) publication in the media of the persons preselected to receive the subsidy, with the possibility of challenging the selections; and (iii) the supervision of the system by means of a concurrent, financial and operational audit of the procedures adopted by the institutions operating the system (DGVU and IFIs).

LOW-INCOME HOUSING PROGRAM (HO-L1007)

LOGICAL FRAMEWORK

Narrative summary	Results indicators	Means of verification	Assumptions
Goal			
To mitigate poverty conditions through improvements in the housing and habitat of low and moderate-income Honduran families.	<p>(1) Improvement in housing quality indicators and reduction in overcrowding in the program target areas, measured by an increase in the:</p> <ul style="list-style-type: none"> Percentage of existing housing built of durable materials in relation to total; Percentage of housing with access to basic services in relation to total urban housing. <p>(2) 30% increase in the value of the target population's assets, measured as:</p> <ul style="list-style-type: none"> Appraisal of housing in the improved neighborhoods; Value of the real estate assets of beneficiary families receiving an individual subsidy with respect to their previous assets. 	<p>Census and Permanent Household Survey</p> <p>Program reports (Monitoring and Evaluation System, MES); financial system data</p> <p>Market research</p>	<p>Maintenance of a stable macroeconomic environment.</p> <p>Stability in the financial system.</p>
Purpose – Phase I			
To better enable the government to meet multiple demands in the housing sector, giving families greater access to formal housing and basic urban services	<p>(1) 5% increase in housing built of durable materials, over and above the increase in housing in general;</p> <p>(2) 5% increase in the area built per capita in improved neighborhoods, over and above the increase in areas outside the program;</p> <p>(3) The supply of credit for low-income housing (new and improved) for low- and moderate-income families increases by 30% with respect to the baseline;</p> <p>(4) The DGVU leads development and implementation of housing sector policies;</p> <p>(5) At least 80% of the beneficiaries of the two types of subsidies express a high level of satisfaction with the improvements in their quality of life provided by the program;</p> <p>(6) Increase in the percentage of property titles issued to women in relation to the total.</p>	<p>Program MES + control group</p> <p>Ex post survey</p> <p>PATH baseline</p>	<p>Financial institutions participate in the subsidy program, and technical agencies promote and support implementation of the subsidy program.</p> <p>The municipios maintain their interest in participating in the program.</p>

Narrative summary	Results indicators	Means of verification	Assumptions
Components			
<p>Component 1: Innovative instruments and monitoring of the housing sector</p> <p>SOPTRAVI strengthened to play its role as lead agency in the housing sector; new instruments designed and applied; housing policy unit created.</p>	<ul style="list-style-type: none"> (1) New subsidy system fully implemented by the end of year 2; (2) Housing Policy Research and Monitoring Unit up and running by the end of year 1; (3) Innovative mechanisms for producing urban land developed, year 3; (4) Housing microfinance products developed, and microfinance institutions trained, end of year 3; (5) BANPROVI operating the rediscount window for housing microcredit, year 3; (6) Mortgage Information System developed and in operation, year 2; (7) Framework Law on the Housing Sector drafted by the end of year 2; (8) The Department of Housing and Urban Development (DGVU) has the installed capacity in terms of equipment, systems and staff trained to perform their duties nine months after project start to year 4; (9) One-stop window for approving projects in operation by the end of year 2. 	<p>Program MES</p>	<p>Continued political support of the program.</p>

Narrative summary	Results indicators	Means of verification	Assumptions
<p>Component 2: Housing subsidies</p> <p>2.1 Individual housing subsidies</p> <p>New homes financed with subsidies, and makeshift housing improved on privately owned lots with the support of subsidies.</p> <p>2.2 Collective housing subsidies</p> <p>Neighborhood improvement projects implemented.</p>	<p>(1) 12,250 families benefit from individual subsidies by the end of the program.</p> <ul style="list-style-type: none"> • New homes = 4,900 families • Construction on privately owned lots = 2,450 families • Home improvement = 4,900 families. <p>(2) At least 3 intermediary financial institutions (IFIs) and 10 auxiliary entities participate in the subsidy program;</p> <p>(3) At least 5 private developers participate in the construction of affordable housing (none currently participate);</p> <p>(4) 100% of the IFIs trained in the areas of titling and making loans to female heads of household, three months after program start;</p> <p>(5) 100% of the titles granted under the subcomponent are in the name of the female head of household and/or her spouse, and contain the family property clause.</p> <p>(1) Five neighborhoods and at least 1,860 families receive collective subsidies for neighborhood improvement, end of year 4;</p> <p>(2) 100% of the households in these neighborhoods have access to water, sanitation, drainage, roads and electricity;</p> <p>(3) 100% of the titles granted under the subcomponent are in the name of the female head of household and/or her spouse, and contain the family property clause;</p> <p>(4) In all neighborhood improvement projects, there will be an equal proportion of male and female representatives.</p>	<p>Program MES</p>	<p>Bank lending terms for supplementing subsidies maintained at least at base year levels (year 1).</p>

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-__/_

Honduras. Loan __/SF-HO to the Republic of Honduras
Low-income Housing Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Honduras, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a low-income housing program in Honduras. Such financing shall be for the amount of up to US\$30,000,000 or its equivalent in other currencies, except that of Honduras, which is part of the resources of the Bank's Fund for Special Operations, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on __ _____ 200_)

LEG/OPR/RGII/IDBDOCS#788524
HO-L1007