

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**NICARAGUA**

**MULTI-PHASE LOW-INCOME HOUSING PROGRAM**

**FIRST PHASE**

**NI-0064**

**LOAN PROPOSAL**

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## **ABBREVIATIONS**

ACENVI	Association for Housing of Central America
AE	Auxiliary Entity
ASDI	Swedish Assistance
BAVINIC	Housing Bank of Nicaragua
CABEI	Central American Bank for Economic Integration
FNI	Nicaragua Finance Company for Investment
GON	Government of Nicaragua
IDB	Inter-American Development Bank
INETER	Nicaraguan Institute for Territorial Studies
INVUR	Institute of Urban and Rural Housing of Nicaragua
JSF	Japanese Special Fund
MIF	Multi-Lateral Investment Fund
NGO	Non-Governmental Organization
PRODEL	Program for Local Development of ASDI
T.A.	Technical Assistance
T.C.	Technical Cooperation
USAID	United States Agency for International Development
USHUD	United States Department of Housing and Urban Development



# NICARAGUA

## IDB LOANS

APPROVED AS OF JULY 31, 2002

	<i>US\$Thousand</i>	<i>Percent</i>
<b>TOTAL APPROVED</b>	<b>1,864,868</b>	
DISBURSED	1,414,501	75.8%
UNDISBURSED BALANCE	450,367	24.2%
CANCELLATIONS	40,615	2.2%
PRINCIPAL COLLECTED	333,752	17.9%
<b>APPROVED BY FUND</b>		
ORDINARY CAPITAL	255,067	13.7%
FUND FOR SPECIAL OPERATIONS	1,542,948	82.7%
OTHER FUNDS	66,853	3.6%
<b>OUTSTANDING DEBT BALANCE</b>	<b>1,080,749</b>	
ORDINARY CAPITAL	131,017	12.1%
FUND FOR SPECIAL OPERATIONS	943,347	87.3%
OTHER FUNDS	6,385	0.6%
<b>APPROVED BY SECTOR</b>		
AGRICULTURE AND FISHERY	302,075	16.2%
INDUSTRY, TOURISM, SCIENCE TECHNOLOGY	78,183	4.2%
ENERGY	202,407	10.9%
TRANSPORTATION AND COMMUNICATIONS	265,603	14.2%
EDUCATION	22,240	1.2%
HEALTH AND SANITATION	175,140	9.4%
ENVIRONMENT	64,201	3.4%
URBAN DEVELOPMENT	34,514	1.9%
SOCIAL INVESTMENT AND MICROENTERPRISE	232,945	12.5%
REFORM PUBLIC SECTOR MODERNIZATION	456,536	24.5%
EXPORT FINANCING	1,826	0.1%
PREINVESTMENT AND OTHER	29,197	1.6%

\* Net of cancellations with monetary adjustments and export financing loan collections



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# NICARAGUA

## STATUS OF LOANS IN EXECUTION AS OF JULY 31, 2002

(Amounts in US\$ thousands)

APPROVAL PERIOD	NUMBER OF PROJECTS	AMOUNT APPROVED	AMOUNT DISBURSED	% DISBURSED
Before 1996	1	9,000	8,570	95.22%
1996 - 1997	4	120,300	102,543	85.24%
1998 - 1999	10	253,940	120,603	47.49%
2000 - 2001	17	307,617	16,712	5.43%
2002	1	5,400	0	0.00%
<b>TOTAL</b>	<b>33</b>	<b>\$696,257</b>	<b>\$248,427</b>	<b>35.68%</b>

\* Net of Cancellations . Excluding export financing loans.





IDB

Inter-American Development Bank  
Regional Operations Support Office  
Operational Information Unit

## Nicaragua

### Tentative Lending Program

#### 2002

Project Number	Project Name	IDB US\$ Millions	Status
NI0160	Modernization Strengthening General Comptrollers	5.4	APPROVED
NI0161	Social Safety Net Stage II	20.0	
NI0064	Low-Income Housing Program	22.0	
NI0159	Rural Production Reactivation Program (PRPR)	60.0	
NI0169	Social Sectoral Project	30.0	
NI0165	Commercial Negotiations Capacity Strengthening	5.0	
Total - A : 6 Projects		142.4	
TOTAL 2002 : 6 Projects		142.4	

#### 2003

Project Number	Project Name	IDB US\$ Millions	Status
NI0167	Multisectoral Global Program	30.0	
NI0155	Slum upgrading program	20.0	
NI0170	Road Integration Program PPP	30.0	
NI0110	Education II	25.0	
NI0172	Fiscal Modernization & Competitiveness Sector Program	30.0	
NI0173	Pre-Investment Program	5.0	
Total - A : 6 Projects		140.0	
NI0168	Citizenship Security Prog.	25.0	
NI0152	Masaya Basin and Municipality Env Prog	19.0	
Total - B : 2 Projects		44.0	
TOTAL - 2003 : 8 Projects		184.0	
Total Private Sector 2002 - 2003		0.0	
Total Regular Program 2002 - 2003		326.4	

\* Private Sector Project

**MULTI-PHASE LOW INCOME HOUSING PROGRAM  
FIRST PHASE**

**(NI-0064)**

**EXECUTIVE SUMMARY**

<b>Borrower:</b>	Republic of Nicaragua		
<b>Executing agency:</b>	INVUR		
<b>Amount and Source:</b>		<b>Phase I</b>	<b>Phase II</b>
	IDB: (FOE)	US\$22.5 million	US\$20.0 million
	Cofinancing: (Austrian Mitch Fund)	US\$ 0.3 million	
	Local:	US\$ 2.5 million	US\$ 5.0 million
	Total:	US\$25.3 million	US\$25.0 million
<b>Financial terms and conditions:</b>	Amortization Period:	40	Years
	Grace Period:	10	Years
	Disbursement Period:	Maximum 3	Years
		Minimum 3	Years
	Interest Rate:	1%	for first 10 years
		2%	Remainder
	Supervision & Inspection:	1%	
	Credit Fee:	0.5%	
	Currency:	FSO convertible	currencies
<b>Objectives:</b>	The overall objective is to improve housing conditions of low and moderate-income households by providing subsidies, deepening markets, and strengthening institutions in the sector. Specifically, the operation: (a) shifts central government's role from direct production and finance to facilitating private-sector provision; (b) stimulates markets through creating incentives and technical assistance for home credit, savings, and land tenure regularization; and (c) decentralizes Program implementation to qualified organizations and strengthens their capacity..		
<b>Description:</b>	Nicaragua is the second poorest country in the hemisphere and is urbanizing rapidly at 5.4% per annum. The country has had no housing policy or coherent programs to meet the resulting housing challenge. Instead, sporadic government building funded mainly by international disaster relief has proved wholly inadequate for improving shelter conditions. Roughly 85% of households cannot afford to buy the least expensive house, total formal production covers only one-half of new household formation, and the bulk of the population resorts largely to informal settlement. Half of families that have rights to property lack full legal title, while traditional mortgage finance is embryonic and reaches only a small sliver of the population – the upper class.		

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

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

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

**Investment.** The great bulk of the investment component provides a small subsidy so that households can afford low-cost housing solutions: improvement and expansion, replacement of an existing house on a lot owned by the family with a new core unit, and purchase of a new core unit. All households will complement the amount of the investment - US\$1,300 for new construction and up to US\$600 for home improvement and expansion – with a required downpayment of 15% (of the subsidy amount) and some will add a small credit. A new housing agency, INVUR, will work with intermediary organizations, called Auxiliary Entities, which – in turn – work with households to use the subsidy. In total, the subsidy will reach about 17,500 households in the first phase and an additional 17,500 is estimated for the second phase– totalling 5% of Nicaraguan families.

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

The second phase of the Program, if approved, will provide resources for housing microfinance to help meet the demand induced by the subsidy. In this regard, IDB has collaborated with Swedish Assistance (ASDI) – which currently funds a successful housing microfinance program that makes 1,200 loans per year in Nicaragua – and ASDI also intends to increase the funding of PRODEL to help meet the effective demand generated by the IDB subsidy program. In addition, while the first phase of the IDB Program requires that households (or participating Auxiliary Entities in the case of the group subsidy) have registered title to their property to apply for the subsidy, the second stage would include this cost as an eligible expense in the subsidy. Hence, full legal tenure will be required prior to the use of subsidy resources for improving, replacing or constructing housing during the first phase.

**Institutional Strengthening.** The Bank has waited on the passage of the Organic Law of INVUR in order to consider approval of this operation. After a year in process, Congress approved this law in May, 2002, and the law entered into effect on June 12, 2002. In addition to setting the basic principles for operation of a subsidy

program, this law norms the creation of a new housing entity, INVUR, and the dissolution of a failed housing bank, BAVINIC. The establishment of INVUR has fundamental importance for Nicaragua. The institutional strengthening component of the Program will follow on a Technical Cooperation to be financed by the Japanese Special Fund that will provide the initial assistance to establish INVUR. The Program will continue this assistance by supporting: (a) the crucial technical and managerial expertise necessary for the organization to function; (b) the management information system necessary to connect INVUR to the Auxiliary Entities and, thus, operate the subsidy; (c) training and performance-based fees for the AEs; (d) a housing strategy, research and evaluation unit within INVUR; and (e) a public relations campaign. The Organic Law of INVUR requires that the operating regulations of the unit that manages the subsidy within INVUR, called Fondo Social de Vivienda (FOSOFI), be submitted to Congress within 90 days after approval of the Organic Law.

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

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

The Bank's overall objective in Nicaragua is to promote sustainable economic development, competitiveness, and reduce poverty. This Program fits this framework extremely well. It fosters economic development (see "Benefits" below) by increasing household wealth of low/moderate-income families, generating construction and related expenditures and jobs, increasing the finance of low/moderate-income housing, and strengthening a network of local organizations capable of operating housing interventions. The Program is sustainable because it offers a small subsidy that permits high population coverage and still results in expenditures on housing as a share of the Government budget well below that of most countries in the Region, while INVUR has the resources required for counterpart funding.

**Environmental/**

The Program targets two-thirds of subsidies to families earning below the Government's poverty line (US\$155 per month), which is

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

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

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

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

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

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

**Special  
contractual  
conditions:**

Special conditions for first disbursement:

- a. Entry into effect of agreed-on Operating Regulations of the Program
- b. The hiring of the core technical, management and accounting personnel of INVUR (para. 3.17)
- c. Appointment and entering into operation of the Board of Directors of INVUR
- d. Celebration of an agreement between INVUR and INETER for preparation of the environmental maps (para. 2.14 )
- e. Celebration of an agreement between the Borrower and INVUR to transfer the resources from the Bank and the counterpart as well as the execution obligations (para. 3.1)

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

- a. Entry into effect of the Law governing the operation of FOSOFI (para. 3.16) and of the regulatory norms to the Law of FOSOFI passed by the Executive Branch
- b. Establishment and proper functioning of the information system of INVUR in order for it to be ready to process subsidy applications (para. 2.17).

Special condition for first disbursement of Austrian Mitch Cofinancing:

- a. The first disbursement of the Austrian Mitch Cofinancing is only conditioned on compliance with the General Conditions

in the Loan contract and: (i) the celebration of the agreement between INVUR and INETER for preparation of environmental maps and (ii) the celebration of an agreement between the Borrower and INVUR to transfer resources of the financing and counterpart.

Other special conditions:

- a. Eligibility criteria for the subsidy shall include the requirement that property on which housing is located must be free from pending title disputes or claims for compensation of previous owners.

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

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

**Exceptions to Bank policy:**

See "Procurement" section below

**Procurement:**

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

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



## I. FRAME OF REFERENCE

### A. Socioeconomic framework

- 1.1 Nicaragua is the second poorest country in the hemisphere, with an estimated GDP per capita of US\$480. Fifty percent of families live below the official poverty line of US\$155 per month. While rural people are the poorest, seventy-five percent of the total population and, hence, the bulk of the poor live in urban areas, which are growing at 5.4% per annum (the fastest rate in Latin America).

### B. Housing policy, production, and conditions

- 1.2 **Housing policy in Nicaragua.** The characteristics and affordability of housing result from many factors. The main ones are land and basic services, regulation and construction costs, credit finance, subsidies, and institutional structure. Housing policy seeks to reform and lower the costs of these components of housing rather than just build new units. The choice among these factors for improving housing depends on local conditions. Nicaragua has had no explicit housing policy in the sense of attacking these key elements. Instead, the country has sporadically built housing projects or given away land, often in response to emergencies and disasters.
- 1.3 **Housing production.** Sporadic government building has proved wholly inadequate to improving Nicaraguan housing. Roughly 30,000 new urban households form annually, over two-thirds of which have incomes of less than US\$200 per month. Partly as a result of these low incomes, roughly 85% of households cannot afford a commercially built formal-sector unit. Land, home purchase, and home finance markets remain largely undeveloped. The low/moderate-income majority builds their homes themselves largely through hiring small contractors, exchanges with friends, and their own sweat equity over five to twenty years. Hence, housing production in Nicaragua is heavily progressive. Other than such self-help, NGOs have been the most visible suppliers of low-cost housing, producing around 1,500 units per year. The Government estimates that total production covers only approximately one-half of housing need (new household formation plus replacement of deteriorated units) per year. Hurricane Mitch aggravated the problem by destroying 41,000 units.
- 1.4 **Housing conditions.** The lack of formal-sector support of progressive housing has caused a large share of households to suffer from poor housing conditions. Fifty-eight percent of families live overcrowded (2 or more people per room) and 39% of units are constructed with scrap or other impermanent materials. Overall, 70% of the housing stock requires some work, while half this number requires major work or replacement. Although shelter conditions are poor, Nicaragua enjoys some strengths in the housing sector that can be built on. An examination of the factors that influence housing provides further insight into the problem as well as the levers available to solve it.

### **C. Factors influencing housing in Nicaragua**

- 1.5 **Serviced land and property rights.** During the 1960s through the 1980s, Government expropriated and gave land directly to people. Partly as a result, Nicaragua has one of the highest indices of property owner-occupancy in the world - 86% in Managua and 80% overall, compared with 67% in the U.S. Most of these lots in Managua already have basic services. This asset represents a strength on which housing interventions can be built.
- 1.6 Property rights in Nicaragua, however, are complicated. The government expropriations of the 1980s – now sometimes contested by the original owners – have thrown some parcels into a long and cumbersome legal process that is still incomplete. Property Registries – which are supposed to maintain records of title and taxes – function poorly. Registry of title and liens continues to occur manually in archives in each Department, which are often unorganized and incomplete – provoking long and convoluted title searches at the time of property transfer or for recording a new lien such as a mortgage. Partly as a result, 47% of the population that holds some rights to property falls short of formal legal title. Low-income families have weak incentives for spending the time and money necessary to perfect title to their property partly because one of the main benefits of this title – home credit – is largely unavailable. A recent law has decentralized tenure regularization of land tenure to municipalities. In practice, no municipality has either developed capacity in this area or applied the new law.
- 1.7 **Development costs and regulation.** In addition to widespread ownership of land, Nicaragua has another key asset useful for housing programs. Self-help building and development costs are low in absolute terms and relative to household income. The self-help construction of a 36 square meter (m<sup>2</sup>) unit costs US\$2,000. Similarly, various prefabricated housing systems that operate in major urban areas can build a 36 square meter (m<sup>2</sup>) unit in a day for even less than this figure (US\$1,700 to US\$1,900 depending on finishing). The cost of a serviced lot in Managua averages about US\$1,000. Thus, the total cost of the most basic house (structure plus lot) without finishings in Nicaragua is US\$3,000, while developers can build and sell complete core units for US\$4,000 to US\$5,000 (in comparison, new core units cost US\$6,000 to US\$8,000 in Costa Rica, and US\$12,000 to US\$16,000 in Mexico). The cost of the most basic new unit (US\$3,000) also represents a multiple of only 1.6 of the annual income of the median Nicaraguan household (US\$1,860). In contrast, the standard house price-to-income multiple is over 4 for most of Latin America and typically 2 to 3 for most highly industrialized countries with well-functioning land and housing markets. Thus, home construction is relatively inexpensive. Households have so little income, however, that they often cannot afford to improve or purchase units. In this context, relatively small sums can help bridge the gap in affordability.
- 1.8 In theory, municipalities in Nicaragua establish and enforce sub-division and building codes and land-use planning norms. In practice, only Managua attempts these tasks. Building and subdivision codes were revised at the national level in

1998. However, these revisions did not reduce standards and reform the process sufficiently to allow private-sector development to go significantly downmarket. The least expensive house currently built by developer costs US\$25,000 (effectively excluding 85% of the income distribution), and no formal-sector land development for low/moderate-income families occurs.

- 1.9 **Network of NGOs and Municipalities capable of working in Low-Income Housing.** International assistance during and after the conflict of the 1980s and for recovery from natural disasters has helped stimulate a large number of NGOs. While some work in individual communities, others cover a region or the country as a whole. The larger NGOs, in particular, usually work by providing a range of development assistance to a particular area of community – including help with infrastructure, health, microenterprise, and housing. Roughly 20 NGOs have experience specifically in low-income housing, while at least that many have competently operated similar types of investment projects and can acquire the capacity to work in low-income housing with training. Similarly, about half of Nicaragua's 152 municipalities have worked with the Central Government on previous housing efforts.

- 1.10 **Credit Finance.** Given the widespread availability of land, relatively low cost of building, and rich network of NGOs, the lack of finance joined with low income largely explain poor housing in Nicaragua. Overall, home finance is embryonic in Nicaragua. Formal-sector housing finance occurs in two modes – traditional mortgage finance and micro-finance:

- a. *Mortgage finance.* Mortgage finance became legally possible in 1997. The share of mortgage lending in the total portfolio of the Nicaraguan financial system grew from less than 1% in 1997 to 5% in 2001, indicating a strong demand for mortgages. Commercial banks make the great bulk of their mortgage loans in US dollars. Interest rates range around 14% to 18% currently, with tenors averaging about 10 years, and loan-to-value ratios of a maximum 80%. Mortgage lenders have focussed on the upper-middle/upper class and on ex-patriates, with the bulk of loans between US\$30,000 and US\$70,000. The number of mortgage originations increased to about 1,000 per year in 2001 (virtually all for purchase/new construction of owner-occupied units) – compared to new household formation of more than thirty times this number. No mortgage finance for rental property or for purchase of existing housing occurs. Arrears are virtually zero on this small, upper-income mortgage portfolio. However, the requirements for the limited mortgage finance available including full legal title, formal-sector employment, and sufficient income to support a large enough loan (and, hence, fees from the loan) to justify the costs of conventional lending sharply limit financial institutions from going down-market.
- b. *Micro-finance.* The focus of banks on a small, upper-income market has left the immense majority of the population unattended by traditional mortgage credit. A number of NGOs, however, have developed micro-credit programs that serve

low and moderate-income households. The largest of these is the housing micro-finance component of PRODEL, a program supported by Swedish Assistance (ASDI) that operates in eight municipalities. PRODEL makes small loans – averaging US\$600 – to households earning 2 to 5 minimum salaries for home improvement. Interest rates are 18% (in Cordobas), with terms of 1 to 3 years. The PRODEL program now extends US\$700,000 in credits to about 1,200 families per year through two microfinance institutions. Repayment is good, with three-month arrears rates of below 3%. Four other microfinance institutions have also begun to finance housing separate from PRODEL, and make an additional 600 loans per year. In total, microfinance institutions hold a portfolio of US\$5 million housing loans to 6,600 clients originated largely over the last three years. Another housing NGO – Colmena – has received support under the *Programa de Empresariado Social* of the Microenterprise Unit (SDS/MSM) of IDB for funding a demonstration project to place housing micro-finance on a commercial basis. About one hundred organizations work in extending micro-finance. Of these, 16 have portfolios above US\$750,000.

Housing micro-finance eventually could cover much of the income distribution unsuited to traditional mortgage finance. However, time and resources are necessary to hone methods, place these micro credits on a financially sustainable basis, and strengthen the institutions involved to make expansion to scale possible. In addition, a suitable regulatory structure is necessary for this emergent industry as well as for microfinance as a whole. In this regard, a recent law has established a ceiling on interest rates that microfinance institutions can charge. The microfinance industry has developed another proposal in the form of a new piece of legislation. IDB has established an on-going relationship with ASDI in housing in Nicaragua largely with the goal of promoting home micro-finance.

- 1.11 **Subsidies.** The role of subsidies in Nicaragua as well as in many other countries first grappling systematically with housing problems is twofold. First, a substantial housing subsidy program is necessary in the short term to respond to the great pent-up demand of low/moderate-income households for better homes that remains largely unattended by either mortgage or micro lenders and to galvanize markets. In essence, an ample subsidy program buys time by attending immediate need and can promote reform so that market solutions, especially micro credit, can expand in the medium and long term.
- 1.12 Second, a significant subsidy program is essential on an on-going basis to bridge the gap faced by many poor households in affording minimal shelter, largely home improvement but also low-cost new housing solutions (such as construction of a basic pre-fabricated unit on a lot already owned by the family).
- 1.13 **Government housing institutions.** Housing institutions in Nicaragua are weak, uncoordinated, and in flux. Hurricane Mitch underscored the weakness of the institutional and policy environment. In the absence of a framework, Government agencies undertook a variety of initiatives to support housing reconstruction. While

some home building occurred, it made up only a small fraction of the scale of the devastation and had no impact on reforming the sector. Since its creation in 1966, the Housing Bank of Nicaragua (BAVINIC) has been the principal agency responsible for implementing the country's housing strategy. It has directly developed housing solutions and extended loans to purchasers. As public housing banks elsewhere, BAVINIC has produced units affordable only to middle and upper-income groups and experienced devastating loan losses that have decapitalized the institution, which now makes no new investments and is selling off its assets. Given its poor performance, the Government announced its intention to close BAVINIC in 1997, and the Organic Law of INVUR establishes the procedure for its formal liquidation

**D. The country's sector strategy**

- 1.14 Law 290 of June 1998 mentions the creation of the Institute for Urban and Rural Housing, INVUR, as a decentralized entity but without specifying its functions. A Policy Letter signed by Government in 2000 established that INVUR shall facilitate housing and other basic principles, and reaffirmed the intention to close BAVINIC. In January 2001, the President's office completed a proposal for a law consistent with the Policy Letter that specifies the functions of INVUR and details the steps to close BAVINIC. This law was put into effect on June 12, 2002. In tandem, the new Authorities in the sector have worked closely with IDB and participated in a number of forums organized by the U.S. Department of Housing and Urban Development on housing policy that have led to the formation of the Association for Housing of Central America (ACENVI), which is to be supported by a MIF project. Thus, after five years of policy dialogue, the new Administration has embraced key principles agreed on with IDB as embodied in the Law of INVUR.
- 1.15 Prior to and with the passage of the Law of INVUR, Authorities have been preparing to execute the Low-Income Housing Program with the assistance of IDB. INVUR will inherit an adequate building (offices) and \$3 to \$5 million in assets net of liabilities from BAVINIC as mandated by the Law of INVUR. BAVINIC currently has \$1 million in cash in bank accounts that can begin to be used by INVUR under the law. In addition, the new head of BAVINIC – who has become the president of INVUR – has established a core group of managers and technicians with ample experience in operating housing programs in Nicaragua and other Latin American countries that are temporarily supported by BAVINIC, PNUD, and SETEC. INVUR will also inherit BAVINIC's relationships with municipalities, half of which have operated some of its previous efforts. IDB will help strengthen this base with a non-reimbursible Technical Cooperation funded by the Japanese Special Fund to strengthen the core technical and management capacity of INVUR. Given the high priority of housing in the Government's platform, the Government of Nicaragua (GON) intends to continue to provide funding to INVUR in approximately the same amount received by BAVINIC, about US\$1 million per year.

**E. The Bank's sector strategy**

- 1.16 The Bank's overall objective in Nicaragua is to promote sustainable economic development, competitiveness, and reduce poverty. Particularly given the devastation of Hurricane Mitch, the assistance of the Bank and other donors has focused increasingly on the vulnerable low-income population, on rationalizing social expenditures, and on sectoral and institutional reform. The Nicaragua Low-Income Housing Program fits well within this framework. The Program targets the poor, takes major steps to reform the housing sector and its institutions, stimulates economic development (in which housing and property ownership plays an important role), and delivers the minimum subsidy compatible with these goals to achieve greater population coverage.
- 1.17 The Bank has engaged in a policy discussion on housing with the GON since the fall of 1997. This dialogue led to a Policy Letter from GON to IDB received by the Bank in April 2000 that reaffirmed the basic principles of the program. The overall objective of housing policy is to facilitate key actors in housing markets rather than direct Government construction of housing. BAVINIC shall close, while the new housing agency – INVUR – shall implement this housing policy. Rather than engage in credit finance directly– a problematic role for a Government institution - INVUR shall promote credit finance by laying its legal and regulatory basis and providing technical assistance. These principles joined with a substantial number of technical studies have guided program design. As these principles are contained in the Law of INVUR, IDB has made the approval of this law the fundamental prerequisite for approval of this Program by the IDB Board.
- 1.18 Two IDB Programs and two MIF operations are relevant to the Program. Most fundamental, a MIF project currently in process of preparation will support the Association for Housing of Central America (ACENVI) to continue its important work. ACENVI is critical to developing and implementing housing policy and new initiatives, including employer-assisted housing, securitization law, two planned mortgage bond issues, and a new law to regulate microfinance institutions. Increasingly, INVUR should take a leadership role in ACENVI. The Program for Municipal Strengthening and Development (NI/0156) provides technical assistance to municipalities, which act as AEs under the Low-Income Housing Program, and infrastructure investment that facilitates adequate housing. The Multisectoral Finance Operation (NI-0167) in preparation by the Bank with the Nicaragua Finance Company (FNI) as an executor may be able to be used for on-lending to regulated financial institutions for mortgage credit. Finally, a Technical Cooperation (ATN/MT-6669-NI) provides support for alternative methods for conflict resolution for property disputes and supports a number of Central Government agencies active in mediating these differences.

**F. The Program strategy**

- 1.19 The Program introduces key reforms consonant with the Policy Letter and the Law of INVUR. Most fundamental, the Program shifts Government's role from direct

production and credit finance of housing to facilitating it, largely through the provision of a subsidy through qualified intermediaries (Auxiliary Entities – AEs). These AEs, rather than INVUR, deal directly with families and largely execute the investment component.

- 1.20 IDB experience in the design and operation of housing subsidy programs over the last seven years has resulted in some fundamental lessons (Angel, 2002). Central Government best funds and sets the rules for housing programs. But the private sector and non-profits best deal directly with families and execute these programs, while municipalities usefully play a key role in upgrading poor communities. As most households cannot afford to purchase a complete commercially built unit, subsidy programs should emphasize the lower-cost solutions that characterize progressive housing, including home improvement and replacement of a unit on a lot already owned by the family as well as purchase of new core units. Individual direct demand subsidies to moderate and middle-income families work well because financial institutions will often complement the subsidy with a loan for these households and developers will build for this income group. However, group subsidies channeled through non-profits and for-profits experienced in working with low-income households are usually necessary to reach the poor organized in communities. The subsidy program must serve as a transition to credit and markets. In this regard, Programs must address supply bottlenecks – particularly those involving land tenure and land development – through investment components and technical assistance rather than focus exclusively on demand. Programs function best when they join tested methods of intervention (such as individual direct demand subsidies for moderate-income households, and group subsidies for the poor) with one or two new components (such as housing microcredit and urban land tenure regularization). Finally, Angel (2002) finds that monitoring and evaluation is critically important to keep housing programs on track.
- 1.21 The Nicaraguan Low-Income Housing Program incorporates these lessons as: (a) Central Government funds and sets rules for the Program, while Auxiliary Entities including non-profits, for profits, and municipalities execute it; (b) it emphasizes low-cost housing solutions, including rehabilitation and new construction on a lot owned by the family or an Auxiliary Entity in the case of the group subsidies; (c) the Program uses group subsidies for poor families and individual direct demand subsidies for moderate-income families; (d) it contains an investment component and technical assistance for housing microfinance; (e) support for land tenure regularization and technical assistance for reform of subdivision and building regulations attack key supply bottlenecks; (f) the Program joins tested approaches to subsidies (individual direct demand subsidies for moderate-income families and group subsidies for poor families) with new interventions in housing microfinance and land tenure regularization; and (g) it incorporates strong monitoring and evaluation.

## **II. THE PROGRAM**

### **A. Objectives, description, and phases**

- 2.1 **Objectives.** The overall objective of the proposed Program is to improve housing conditions of low and moderate-income households by providing subsidies, deepening markets, and strengthening institutions in the sector. Specifically, the operation strengthens a housing policy and program agency, INVUR, in order to: (a) shift central government's role from direct production and finance of low/moderate-income housing to facilitating private-sector provision ; (b) stimulate markets by creating strong incentives and providing technical assistance for home credit, savings, and land tenure regularization; and (c) decentralize program implementation to qualified organizations and strengthen their capacities..
- 2.2 **Description.** The program has three components. First, the investment component delivers a small subsidy to low-income households for home improvement, new construction of starter units on lots already owned by families, and purchase of newly constructed core units. Second, the institutional component strengthens INVUR and the Auxiliary Entities. Third, the policy reform component provides technical assistance aimed at bottlenecks in the sector.
- 2.3 **Two phases.** The Program has been developed as a multi-phase operation with two possible phases of three years each. This structure allows adapting the project size to the levels of debt and counterpart funding suited to the country, and the introduction of innovations necessary for progress in the housing sector. Phase one will focus on establishing the operation of the subsidy, the strengthening of the key operating entities - INVUR and the AEs - and policy reform. The second phase, if approved, adds housing microfinance to the investment component, as well as continues with the subsidy.

### **B. Investment component (US\$18.51 million)**

#### **1. Investment Component**

- 2.4 The subsidy is split into two lines of investment in order to reach different housing sub-markets and income groups: (a) group subsidies for poor communities; and (b) individual subsidies for moderate-income families.

#### **a) Group Subsidies (US\$10.56 million)**

- 2.5 Group subsidies that serve the poorest families constitute the bulk of the investment component (two-thirds of the total of subsidy funds) (See para. 3.10 for more details). Typically, households will complement the group subsidy only with a downpayment to complete the financial package necessary to replace or repair existing deteriorated homes or to construct new units on lots donated by



Auxiliary Entities. Groups of poor households – families earning below US\$155 per month - can apply collectively for the subsidy via qualified NGOs and municipalities serving as Auxiliary Entities (AEs). In essence, the AEs will pre-qualify households for the subsidy, prepare plans and estimates, supervise the construction work (self-help of the families joined with assistance from carpenters), and channel and account for the subsidy funds. The experience of other IDB programs in Nicaragua and studies show that a substantial share of these very poor households dedicate the bulk of their income to paying for food and medicine, and have little ability to save a cash downpayment. Hence, poor households that receive a group subsidy can meet the 15% downpayment requirement in cash or in-kind (i.e. labor or construction materials).

- 2.6 The eligible uses of group subsidies are home improvement and expansion (subsidy amount: up to US\$600), replacement of a core unit on the lot owned by the family (subsidy amount: US\$1,300), and purchase of a newly constructed core unit (subsidy amount: US\$1,300).<sup>1</sup> Groups can elect to contribute a part of the subsidy of each household to collective neighborhood infrastructure – such as street paving and sanitation improvements. Either the beneficiary households or a municipality or NGO acting as an auxiliary entity must hold full legal title to land to receive the subsidy. By the end of construction, titles must be transferred and registered in the name of the individual household beneficiaries. Subsidies cannot be used to regularize land tenure on property under litigation or legally contested in other ways.
- 2.7 INVUR will make an initial assignment of the group subsidy to municipalities nationwide based on population, poverty, and economic growth indices in a formula specified in the Operating Regulations. INVUR will then conduct funding rounds that rank and select among proposals for group subsidies based on: (a) contribution of the families in cash and other quantifiable resources (building materials); (b) contribution of the Auxiliary Entity in technical assistance, and other complementary investment (infrastructure, microenterprise finance) or services (child care, job training, etc.); and (c) access of the resulting housing to employment centers. INVUR will make funds unused by designated municipalities within specified time periods available to other jurisdictions. The Operating Regulations of the Program and of FOSOFI contain the details of the Group subsidy.

**b) Individual Subsidies (US\$5.20 million)**

- 2.8 Individual low and moderate-income families - earning up to US\$350 per month - interested in receiving a subsidy can apply through microfinance institutions and commercial financial institutions that qualify as Auxiliary Entities under the Program (See para. 3.11 for more details). These individual families must contribute the remaining funds necessary for their construction project in the form

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<sup>1</sup> This last use will only be financially possible for these poor families with counterpart contributions from participating Auxiliary Entities (NGOs and municipalities).

of both a loan and a downpayment of a minimum of 15% of the subsidy amount. A minimum of 50% of this downpayment must be made in cash, while the remainder can be accounted for in kind (materials, labor). Thus, the individual subsidy is meant as a contribution to a low/moderate-income family that will primarily fund their housing solution through other means (savings and a loan). Experience in other direct demand subsidy programs shows that they function poorly and are subject to abuse unless the lender has a stake in the outcome, through provision of a loan. In addition, an important goal of the Program is to leverage the subsidy with credit. Microfinance and financial institutions serving as AEs will process household applications for both the individual subsidy and for the accompanying loan.

- 2.9 The eligible uses for the individual subsidy include home improvement and expansion (subsidy amount: up to US\$600), construction of a new core unit on a lot owned by the family (US\$1,300), and purchase of a new unit built by developers and construction contractors (US\$1,300). The house can reach a maximum of 60 square meters with a market value of no more than US\$10,000. The individual subsidy will be portable – that is, the subsidy will go to the family, which then chooses among different types of units, different projects, and different developers for using it. Thus, while the group subsidy will work primarily through institutions with a public purpose (municipalities and NGOs) and serve the poor, the individual subsidy will stimulate the involvement of the for-profit private sector in social housing, including manufactured homebuilders, developers, microfinance institutions, and others. Households must hold full legal title to receive the individual subsidy. Full legal title must be registered in the name of the individual beneficiary by the end of construction. Subsidies cannot be used on property under litigation or legally contested in other ways.
- 2.10 The individual subsidy will be distributed on a first-come, first-serve basis to households qualified for the subsidy and for a loan through participating microfinance and financial institutions. The Operating Regulations of the Program contain the details of the Individual subsidy.

**c) Administration of the subsidy**

- 2.11 INVUR's role is to provide through FOSovi the subsidy, and qualify and work with the Auxiliary Entities., INVUR will maintain and enforce the procedures under which these organizations operate the subsidy program. Auxiliary Entities selected by INVUR work directly with households. INVUR will fund through FOSovi, set the rules, and regulate and monitor the subsidy system. In addition, INVUR will conduct research, and implement institutional reform.
- 2.12 Auxiliary Entities (AEs) work directly with households and receive payment for services that they perform from INVUR. Their duties include receiving and helping families complete applications, pre-qualifying households for the subsidy, reviewing (individual subsidy) or preparing (group subsidy) plans and estimates, monitoring construction and making progress payments, and channeling and

accounting for subsidy funds. In effect, AEs operate as the first-tier of the Program whose rules are set and funds provided by INVUR through FOSOFI. Project preparation has included workshops with organizations that are good candidates for AEs aimed at preparing them for the Program and gearing the Program to their operational requirements.

**d) Performance-Based Fees to the Auxiliary Entities (US\$1.75 million)**

- 2.13 INVUR will pay AEs a fee for their work in channelling the subsidy in the amount of US\$100 per unit based on performance.

**e) Environmental Risk Maps (US\$300,000)**

- 2.14 Risk maps will direct the use of housing subsidies to environmentally appropriate areas. **INVUR will enter into an agreement with INETER – the agency in charge of preparing environmental risk maps in Nicaragua. The celebration of this agreement is a condition for first disbursement of the Program's financing.** These maps classify areas in the municipality as of high, medium, or low risk. The subsidy can go to low-risk zones without restriction and to medium-risk zones with mitigating measures, but cannot be used in high-risk zones. In addition to this environmental screening, households will be required to have adequate water and sanitation by the end of the construction financed by the subsidy. The preparation of these maps will be financed with nonreimbursable cofinancing resources from the Austrian Hurricane Mitch Disaster Assistance and Reconstruction Trust Fund in the amount of \$300,000. This fund was established with resources donated by the Republic of Austria to be administered by the Bank, and provides for the joint cofinancing of investment components of operations financed by IDB, which address the most urgent needs of Honduras and Nicaragua in their reconstruction efforts. A detailed description of this activity and a certification of availability of resources dated July 18, 2002 appear in Annex III.

**f) Support for land tenure regularization (US\$1.0 million)**

- 2.15 Most low/moderate-income households lack registered title. Hence, the program will provide support to regularize and register the land titles of a minimum of 3,000 such households, including potential beneficiaries of the subsidy.
- 2.16 The Program will not work with land with ownership under litigation or contested in other ways either in the subsidy component or in land tenure regularization..

**C. Institutional strengthening component (US\$2.47 million)**

- 2.17 **Technical and management support for INVUR (\$849,000).** INVUR will inherit US \$3 to 5 million in net assets, an adequate building, and working relationships with many municipalities from BAVINIC. In addition, the head of

INVUR has assembled a core group of managers and technicians with considerable experience in housing, while the Central Government intends to contribute US\$1 million per year (the amount provided formerly to BAVINIC) to INVUR's operation. The Program builds on this base through a Technical Cooperation of the Japanese Special Fund expected to be approved before the Program and through the Program's institutional strengthening component. The Technical Cooperation supports: (a) key consultancies to strengthen INVUR's management and technical capacity for eight months; (b) the design and development of an automated management information system to connect INVUR to its Auxiliary Entities; and (c) development of the structure of the organization. **Establishing and functioning of the information system necessary to operate the subsidy system is a condition for first disbursement of the subsidy.** Hiring of the core technical, management, and accounting capacity of INVUR is a condition prior to first disbursement of the financing. The Program will continue to fund INVUR's most critical technical and management functions, the continued operation of INVUR's management information system, performance-based fees to the AEs for their work in channeling the subsidy, a housing strategy/research/evaluation unit, and a public relations campaign (see below).

- 2.18 **Training and Information System (US\$871,000).** The Program will also provide support to: (a) train INVUR staff; (b) train and assist INVUR's Auxiliary Entities in using the Program; and (c) maintain the information system to be established with support of the pending JSF TC to connect INVUR with its AEs in real time.
- 2.19 **Housing Strategy, Research, and Evaluation Unit (US\$350,000).** This unit will be in charge of collecting data on housing in Nicaragua, developing strategy, and monitoring and evaluating the programs of INVUR including this Program. In particular, this unit will take the lead as guided by the President of INVUR in developing a national housing strategy and action plan, which is a benchmark for approval of the second phase of the Program by IDB, and for working with ACENVI. The ACENVI has galvanized planning for two mortgage bond issues, helped draft a new securitization law, made recommendations to Government on a new law for regulation of microfinance institutions, and launched an employer-assisted housing initiative. A project of the Multilateral Investment Fund currently in preparation will provide support to ACENVI, including that necessary for an appropriate regulatory structure for housing microfinance in conjunction with Swedish Assistance (ASDI). However, as the lead authority in the sector, INVUR must take a greater role in this effort and in promoting these initiatives. INVUR leadership in completion of two of the four ACENVI reforms is one of the triggers for approval of the second phase.
- 2.20 **Public Relations Campaign (US\$400,000).** The proposed housing program departs substantially from the sporadic efforts so far undertaken in Nicaragua. In this regard, the Program will develop a publicity campaign using different media appropriate for low-moderate income households, create a web site, publish a

monthly bulletin, and design and produce printed material geared to different classes of participants in the Program, e.g. households, AEs, and home builders. The publication of the names of subsidy recipients is a benchmark for evaluation of the first phase and approval of the second phase.

**D. Policy reform and technical assistance (US\$1.0 million)**

- 2.21 **Technical assistance for housing microfinance (US\$250,000)** – The Program will provide technical assistance to support: (a) workshops in housing microfinance for financial NGOs and financial institutions conducted by local and international experts; (b) on-site technical assistance to microfinance institutions and financial institutions that want to qualify as AEs for the individual subsidy; (c) analysis to establish a second-tier mechanism<sup>2</sup> to channel funding for housing microfinance to first-tier lenders; and (d) design of the housing microfinance investment component of the second phase.
- 2.22 **Land tenure regularization. (US\$150,000).** Full legal tenure is a requirement for application for a Program subsidy during the first phase. However, roughly half of households lack full legal tenure. In that regard, technical assistance will support studies of land tenure during the first phase of the Program in order to incorporate the cost of regularization into the subsidy during the second phase of the program.
- 2.23 **National housing strategy (US\$300,000).** Over the last two years, the Bank and other organizations – in particular, U.S. HUD – have sponsored studies and forums to help establish housing programs and policy in Nicaragua and a public-private partnership of leaders influential in the sector called the Association for Housing of Central America (ACENVI). However, the country still lacks a National Housing Strategy. Technical assistance shall support the studies necessary to prepare this document in conjunction with ACENVI. The NHS will contain an action plan with detailed proposals for policy reform and/or investment aimed at 3 to 5 bottlenecks in the sector (a benchmark for approval of the second phase) that will help guide development of the second phase of the Program.
- 2.24 **Dissolution of BAVINIC (US\$300,000).** This technical assistance helps finance the studies and actions necessary for the dissolution of BAVINIC. This support will supplement the funding from BAVINIC (10% of its cash flow and sale of assets) specified under the law to support this organization's dissolution.

**E. Second Phase**

- 2.25 **Additional investment component: housing microfinance.** The first phase contains technical assistance (t.a.) for housing microfinance. The second phase, if

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<sup>2</sup> No Government entity except FNI will serve as a second-tier lending institution per IDB and Government policy.

approved, will build on this t.a. by providing resources for such credits in an amount estimated at US\$4 million.

- 2.26 **Additional technical assistance component: subdivision norms.** Municipalities have the responsibility for regulating land development in Nicaragua, although these jurisdictions do an uneven job at this task. One root of the problem is the lack of subdivision codes and building codes suited to low and moderate-income residential development. If approved, the second phase of the Program will help: (a) analyze the existing construction and subdivision code, and propose changes in content and process; and (b) disseminate these and other environmental standards to municipalities and to the development industry. The estimated cost of this support in the second phase is US\$200,000.

**F. Program size and cost**

- 2.27 The Bank financing for the first phase is US\$22.5 million with local counterpart of US\$2.5 million, and US\$300,000 of non-reimbursible cofinancing from the Austrian Mitch Fund. The size of the Program was determined based on studies by international consultants that have evaluated the capacity of municipalities, NGOs, and microfinance institutions to serve as Auxiliary Entities, and of INVUR itself. The break down by investment category and source of funds is presented in Table 2.1.

**Table 2.1:**  
**Program Costs (in US\$000)**

COMPONENTS	IDB (FOE)	Austrian Mitch Fund	LOCAL	TOTAL	% TOTAL
<b>1. Investment</b>	<b>18,509</b>	<b>300</b>	<b>1,071</b>	<b>19,880</b>	<b>78.6</b>
1.1 Group Subsidy	10,558	0	721	11,279	44.6
1.2 Individual Subsidy	5,201	0	350	5,551	21.9
1.3 Land Tenure Regularization ()	1,000	0	0	1,000	4.0
1.4 Administrative Cost (Subsidies)	1,750	0	0	1,750	6.9
1.5 Environmental Risk Maps	0	300	0	300	1.2
<b>2. Institutional Strengthening</b>	<b>2,470</b>	<b>0</b>	<b>1,251</b>	<b>3,721</b>	<b>14.7</b>
2.1 Training & Information System	871	0	0	871	3.4
2.2 HSRE Unit (Research & Evaluation)	350	0	0	350	1.4
2.3 Publicity Campaign	400	0	0	400	1.6
2.4 Management Support INVUR	849	0	1,251	2,100	8.3
<b>3. Policy Reform &amp; T. A.</b>	<b>1,000</b>	<b>0</b>	<b>0</b>	<b>1,000</b>	<b>3.9</b>
3.1 Housing Microfinance	250	0	0	250	0.9
3.2 Land Tenure Regularization (TA)	150	0	0	150	0.6
3.3 NHS and Action Plan	300	0	0	300	1.2
3.4 Dissolution of BAVINIC	300	0	0	300	1.2
<b>Sub-Total</b>	<b>21,979</b>	<b>300</b>	<b>2,322</b>	<b>24,601</b>	<b>97.2</b>
<b>4. Financial Costs</b>	<b>521</b>	<b>0</b>	<b>178</b>	<b>699</b>	<b>2.8</b>
4.1 Interest	296	0	0	296	1.2
4.2 Credit Commision	0	0	178	178	0.7
4.3 Supervision and Inspection	225	0	0	225	0.9
<b>TOTAL</b>	<b>22,500</b>	<b>300</b>	<b>2,500</b>	<b>25,300</b>	<b>100</b>
% per source	88.9	1.2	9.9	100	

## G. Financing plan

- 2.28 The Bank loan (US\$22.5 million), a non-reimbursible cofinancing from the Austrian Mitch Fund (US\$300,000) and Government resources (US\$2.58 million) for the first phase are intended as the first half of a multi-phase program. Counterpart contributions for the first phase of the Program will be distributed over the three years of execution.

### III. PROGRAM EXECUTION

#### A. The borrower and executing agency

- 3.1 The borrower is the Republic of Nicaragua. The executing agency will be INVUR, a decentralized agency of Government established under the laws of Nicaragua. INVUR is governed by a Board of Directors comprised of the main stakeholders in the Program and the housing sector. A semi-autonomous unit within INVUR, called “FOSOFI”, with a Board of Administrators appointed by the head of INVUR will disburse the subsidy component of the program. This structure was established to help ensure transparency and objective use of the subsidy. GON will transfer the proceeds of the loan and the local counterpart directly to INVUR and the subsidy funds to FOSOFI. **The celebration of an agreement between the Borrower and INVUR to transfer the resources from the Bank and the counterpart is a condition for first disbursement.**

#### B. Organizations participating in execution of the subsidy component

- 3.2 The subsidy forms the bulk of the Program. The execution of the subsidy component relies on a partnership between qualified organizations – called “Auxiliary Entities” - and INVUR.
- 3.3 **Auxiliary Entities (AEs).** The individual subsidy and the group subsidy require different types of AEs because they reach different housing sub-markets. Qualified NGOs and municipalities serve as Auxiliary Entities for the group subsidy, which accounts for the bulk of the Program’s investment. The group subsidy is designed to assist poor communities. Qualified microfinance and financial institutions serve as Auxiliary Entities for the individual subsidy. The individual subsidy is designed to assist creditworthy moderate-income households and to engage formal-sector financial institutions and builders in social housing. See paras. 3.10 to 3.14 for details.
- 3.4 **Depository Financial Institutions** open accounts at the request of households and Auxiliary Entities for households to save their downpayment.
- 3.5 **INVUR** qualifies organizations as Auxiliary Entities, reviews the applications received from AEs, authorizes FOSOFI to disburse subsidy funds, monitors the participants in the process, and sets and enforces the rules of the system. FOSOFI, the subsidy unit within INVUR, disburses and accounts for the use of the subsidy funds.
- 3.6 **Construction contractors, manufactured home builders, and developers** perform the construction work. The Program offers many different opportunities to private-sector builders. Developers of low-cost core units and manufactured homebuilders can market their products to families holding the individual subsidy, which bridges the affordability gap so that they can acquire these products. Families then choose the product that best suits their needs. Construction contractors will perform the bulk of the work under both types of subsidy.



## **C. Program principles and project cycle of investment component**

### **1. Principles**

- 3.7 The Program and its subsidy component put into practice three core principles. First, they deliver a modest subsidy to low-income households that these families can choose to use for a range of low-cost housing solutions (rehabilitation, replacement of a deteriorated home, purchase of a newly constructed core unit). This builds on the country's high rate of owner occupancy rates – over 80%. Most low/moderate-income families already own a lot or a house in poor condition but lack the finance to fix it up or replace it.
- 3.8 Second, the Program attacks the two fundamental bottlenecks to housing in Nicaragua: land tenure and credit finance.
- 3.9 Third, the Program and the subsidy component decentralize execution to local organizations – the EAs – while Governments acts as a facilitator and funder of the sector. Five years of policy dialogue have led to the creation of a new apex entity in housing, INVUR, and adoption of the basic principles necessary for modern housing programs and policy contained in the Law of INVUR. The Program will build on this base institutionally as well as technically.

### **2. Project cycle of subsidy component**

- 3.10 **Project cycle of the group subsidy.** A municipality or NGO acting as an Auxiliary Entity assembles a group of households suffering from poor or no housing with sufficiently low income (below US \$155 per month) to qualify for the Program. This group of households most often will consist of 50 to 200 families in an existing low-income community located in a an area of low or medium environmental risk. The AE will then make an initial consultation with INVUR to confirm the eligibility in principle of this project. Based on this preliminary qualification, the AE will then work with families to prepare plans and estimates for the construction work taking into account the amount of the subsidy, the commitment of self-help labor and materials of the families, the need for any environmental mitigation, and any other resources available. In this regard, some AEs are likely to be able to supplement Program and household resources with technical assistance or cash resources. The AE then submits this project proposal including plans and estimates, information on the families, and environmental data to INVUR. INVUR analyzes the eligibility of the families, the environmental data, the finance of the package, and the construction work involved against Program norms and for feasibility. With INVUR's approval, the subsidy unit within INVUR (FOSovi) disburses the approved subsidy amount to an account maintained and managed by the AE in progress payments (typically three – 40%, 40%, 20%) as construction occurs. FOSovi verifies these construction expenses mainly through presentation of receipts by the AE, but also through physical inspection. Skilled workers contracted by the AE conduct the specialized parts of the building and supervise families in their self-help work.

- 3.11 **Project cycle of individual subsidy.** The bulk of applications are likely to come from formally employed moderate-income families (earning \$155 to \$350/month) seeking to construct or replace a house on a lot they own that apply to a microfinance or financial institutions that is qualified as an AE. Sometimes, a developer (or manufactured homebuilder) will recruit moderate-income families interested in buying their product (a core unit in a new subdivision constructed by this builder or a manufactured home) and send these families to a financial institution qualified as an AE (the same bank providing construction and take-out finance to the project, in the case of a subdivision) to apply. In either case, the applicant presents construction plans and estimates, and opens a bank account (in the AE itself, if the AE is a commercial bank) to accrue the required downpayment in cash. The AE then reviews this application and pre-qualifies the family as eligible for both the subsidy from the Program and a loan from the AE. The AE then submits the package electronically to INVUR, which reviews the AE's analysis of the income of the family, environmental eligibility, financial feasibility of the project, and the construction work involved against the Program's norms. With INVUR's approval, FOSovi disburses the approved subsidy amount to an account maintained and managed by the AE in progress payments as construction occurs. FOSovi verifies these construction expenses through presentation of receipts by the AE for individual families, and through presentation of receipts and, as necessary, physical inspection for developer subdivisions. The AE must disburse the household's downpayment and the loan amount against the construction work before the subsidy is expended.
- 3.12 INVUR selects AEs to participate in the Program as AEs for the individual subsidy that meet the following criteria: (a) legally constituted in the case of NGOs; (b) existing loan portfolio superior to US\$750,000 with one-month arrears of no more than 5%; (c) minimal organizational structure and basic equipment that meet the requirements of the Operating Regulations of the Program; (d) audited financial statements and accounting control capable of managing the subsidy; (e) demonstrated experience in lending and loan recovery; (g) coverage of a geographic area of at least 25,000 people; and (h) present a certificate confirming the organization and its personnel have no conflicts of interest pursuant to the Operating Regulations of the Program. Preliminary analysis indicates that sixteen financial NGOs and most of Nicaragua's banks meet these conditions. Interested organizations that meet most but not all of these conditions can receive technical assistance to help them qualify.
- 3.13 INVUR selects organizations to participate in the Program as AEs for the group subsidy that: (a) are legally constituted (in the case of an NGO); (b) demonstrate experience through the organization's trackrecord or through contracting expertise in executing housing projects or other infrastructure projects; (c) have completed to INVUR's satisfaction a training program to qualify as an Auxiliary Entity; (d) have in-house or contracted capacity to design housing projects; (e) have an organizational structure and equipment that meet the requirements of the Operating Regulations of the Program; (f) have financial statements audited and certified by a licensed independent accountant and accounting control capable of managing the

subsidy; (g) have a headquarters that houses the organization's operation; and (h) present a certificate confirming the organization and its personnel have no conflicts of interest pursuant to the Operating Regulations of the Program.

- 3.14 INVUR will discipline or expel AEs and other organizational actors and individuals from participation in the Program if it detects problems that remain uncorrected. In this regard, INVUR will set up and operate a monitoring and evaluation system for the AEs that involves: (a) reports of each AE four times per year containing information on applicants, status of project/portfolio, and use of subsidy and downpayment funds; (b) field visits to AEs in order to investigate a 5% random sample of subsidy cases as part of annual operational audits; and (c) a hotline to record and investigate complaints

#### **D. Program management**

##### **1. INVUR**

- 3.15 The Board of Directors of INVUR will consist of the President named by the President of the Republic; and the Ministers of Transport and Infrastructure, of the Treasury and Public Credit; a representative of the Administrators of Pension Funds and ASOBANP; a representative of the Council of the National Association of Developers and of Building; representatives of the Association of Municipalities; representatives of associations of community groups; and representatives of associations of trade unions. The fund that manages the subsidy, called FOSOFI, is a semi-autonomous unit within INVUR. FOSOFI has a separate Board of Administrators named by the President of INVUR. The autonomy of FOSOFI acts as an additional filter to protect the subsidy fund from political manipulation.
- 3.16 The Law of INVUR requires the delivery of the Operating Regulations of FOSOFI to the Congress for approval within 90 days of the publication of the Law of INVUR in the official Gazette. The Operating Regulations of FOSOFI, which must conform to the law will contain the functional details of the subsidy system. Assisted by an IDB consultant, INVUR has prepared Operating Regulations for FOSOFI and for the Program. **Hence, putting into effect the operating regulations of FOSOFI via approval by Congress and the approval of the corresponding regulatory norms of the Law by the President of Nicaragua are a condition for disbursement of the subsidy under the Program.**
- 3.17 A non-reimbursable TC pre-approved by JSF that is expected to receive IDB approval before that of the Program will support consultancies for this key technical and management capacity necessary for INVUR to begin functioning (for eight months). Government has requested that an independent firm specialized in human resources or a specialized entity such as UNDP shall be contracted to conduct competitions for these consultancies. These consultancies are for: a) an overall manager of activities to establish INVUR; b) an institutional expert to assist in structuring INVUR; c) a firm to develop the information system of INVUR that communicates with AEs; d) an expert in subsidies and finance to detail the subsidy

system; e) an expert in land tenancy and development; and f) an expert in environmental mitigation to detail the risk mapping system. The general manager of INVUR, together with the institutional expert, the experts on housing finance, land and environmental issues, and the head of the accounting department, will make up the core technical, management and accounting capacity of INVUR. **In this regard, the hiring of the core technical, management and accounting personnel of INVUR is a pre-requisite for first disbursement of the Program.**

## **2. Auxiliary Entities**

- 3.18 Municipalities and NGOs with experience and a track record in projects working in low-income housing and supervising self-help construction, and that meet other requirements are eligible to fulfill the role of AEs for group subsidies. A large number of these organizations potentially qualify. Nicaragua has over one thousand NGOs. However, approximately 20 have a track record in low-income housing and – thus – are eligible to qualify immediately as AEs under the Program's criteria. A similarly sized group of NGOs has experience in infrastructure and other investment projects in low-income neighborhoods and could qualify as AEs for the group subsidy once they complete INVUR's training program. Roughly half of Nicaragua's 152 municipalities have the capacity to prepare project designs and cost estimates, contract work, and assist groups of households in conducting the construction. INVUR will train those organizations interested in these tasks so that they have the capacity to use the Program.
- 3.19 Organizations that have a good record in lending for housing or for micro enterprise (with one-month arrears below 5%), a portfolio of at least US\$750,000, and that meet a series of other requirements can qualify as AEs for the individual subsidy. Sixteen financial NGOs as well as most of Nicaragua's Banks meet these qualifications. Project preparation has involved a series of meetings with these NGOs and a consultancy specifically to examine their capacity for housing microfinance (Brown, 2002). All sixteen are interested in participating in the Program. Independent of the Program, about 6 of the 16 now make housing loans, and have a portfolio of 6,600 credits totalling US\$5.0 million.<sup>3</sup> Three others have concrete plans to enter into housing. These nine microfinance institutions have a total of 96 agencies in 15 different departments and 234 credit officers. Only a fraction (about one third) of this capacity is now used for home credits. As their ratio of loans to capital is a low 3.11 (compared to a leverage ratio averaging 3.8 for twenty leading microfinance institutions in Latin America and 6 under CAMEL standards), these nine microfinance institutions are able to accommodate new debt in substantial amounts. In summary, these microfinance institutions as a group "have ample capacity" to extend micro credits to complement the individual subsidy under the IDB Program (Brown, 2002)."
- 3.20 However, these microfinance institutions face an important barrier in extending housing microcredits on a substantial scale. They have limited funding available to

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<sup>3</sup> Of these, two of these are supervised financial institutions and can access resources from a wider variety of sources, including Nicaragua's main second tier government finance institution, FNI.

extend credit to complement the individual subsidy. In total, the individual subsidy component of the Program is likely to create an effective demand for US\$5 million to US\$10 million in loans during the first phase, and a similar loan volume in the second phase. As regards funding, the Program has a multi-pronged strategy. Under the IDB-ASDI collaboration, Swedish Assistance has agreed to increase the funding available to housing microfinance institutions by US\$3 million over the next three years from its current level of US\$700,000 per year. Other donors (USAID, U.S. HUD) have worked in housing in Nicaragua and expressed interest in collaborating with IDB, particularly in housing microfinance. The Program will provide funding for housing microfinance in the amount of US\$4 million in its second stage – if approved - while the Multi-Sectoral Finance Program in preparation by IDB may include US\$10 to US\$15 million in resources for mortgage credit.

- 3.21 In addition to the efforts of IDB, Governmental Authorities and the private sector are aware of the need for increasing funding to the microfinance institutions for housing and are taking measures. FNI – a Governmental second-tier finance institution - intends to make funding available in limited amounts from a trust this organization manages to non-supervised microfinance institutions, as well as to the two regulated microfinance institutions with its own funds. The Central American Bank for Economic Integration (CABEI) is also interested in making funding available for housing microfinance. A number of these microfinance institutions have notified their funding sources – many of them European donors and international NGOs - of the Program and have requested funding for extending housing microcredits to complement the individual subsidy. Finally, repayments from the existing portfolio of US\$5 million in microhousing loans – which have an average term of three years – can be recycled into new home credits. Taking confirmed funding and likely additions from CABEI and FNI into account, sensitivity analysis (Brown, 2002) shows that these nine microfinance institutions are likely to extend US\$7 million in housing credits over the next three years in addition to recycling their existing portfolio of US\$5 million housing credits. This supply (US\$7 million) falls within the range of effective demand for microhousing loans (US\$5 to US\$10 million) likely to be induced by the individual subsidy of the first phase of the Program during the same time period.

## **E. Phasing**

### **1. First Phase**

- 3.22 The first phase of the Program focuses on the operation of the subsidy system and on the strengthening of INVUR and the AEs and on policy reform. Meeting key program benchmarks related to these goals will trigger IDB Board consideration of the second phase – see Table 3.1 for these benchmarks. These benchmarks are geared to the three components of the Program: investment, housing market and policy reforms, and institutional strengthening. The investment components measure advance in the three key areas dealt with in the first phase of the Program: disbursement of subsidies, regularization of land tenancy, and credit (as induced by the subsidy). The market and policy reform benchmark have to do with

preparation of a National Housing Strategy and the initiatives of the public-private partnership, ACENVI – which are key to consolidating the change from direct finance and production by Government to facilitating the private-sector. The institutional indicators deal with the financial sustainability of INVUR – by fixing a maximum for its annual administrative expenditures – and confirming the execution of the Program as designed through operational audits.

## 2. Second Phase

- 3.23 The first phase of the Program will lead to a substantial expansion in housing microfinance. By the time of the second phase, housing microfinance will have reached a scale suitable for creation of a second-tier mechanism for on-lending funds to regulated and non-regulated financial institutions for originating such credits. The Law of INVUR precludes this organization from performing a second-tier credit role. In contrast, FNI has served as a second-tier credit finance institution for other IDB programs, has lent for housing, has an interest in housing microfinance, and is the only public-sector institution appropriate for a second-tier lending role based on agreements between Government and the Bank. Based on studies in the first phase that define a second-tier mechanism, the second phase will provide funding estimated at US \$4 million for housing microfinance.

**Table 3.1: Benchmarks for Review for Consideration of Second Phase**

Key Objectives	Benchmarks
Investment	<ul style="list-style-type: none"> <li>-90% of funding for the subsidy committed and 50% disbursed for housing improvement and new construction</li> <li>-1,000 loans under process and 2,000 loans disbursed to complement the individual subsidy by participating AEs.</li> <li>-Tenancy of 3,000 properties regularized</li> <li>-Identities of 100% of subsidy recipients published in a major newspaper and on the Internet</li> </ul>
Housing market and policy reforms	<ul style="list-style-type: none"> <li>-National Housing Strategy completed with detailed proposals for policy reform and/or investment to address three to five bottlenecks in the sector</li> <li>- Two of the following four actions in collaboration with ACENVI : (1) one project in employer-assisted housing implemented; (2) a securitization law appropriate for development of a secondary market enacted; (3) one mortgage bond issued; and (4) approval of a new law to regulate microfinance institutions.</li> <li>-75% of BAVINIC's assets sold</li> </ul>
Institutional strengthening	<ul style="list-style-type: none"> <li>-Administrative budget (including all payroll) of INVUR and FOSovi together averages no more than US \$1.5 million per year</li> <li>-At least two operational audits of the Program completed showing execution consistent with Program design</li> </ul>

**F. Flow of funds and financial management**

- 3.24 The proceeds of the loan and the local counterpart will be distributed in a revolving fund. INVUR will have two special accounts, one for the Bank financing and the other for local counterpart resources. The local counterpart will be kept in local currency.
- 3.25 INVUR will make two types of disbursements directly during the first phase to: (a) pay for the acquisition of goods and services required for the Program; and (b) pay for its operational expenses. INVUR will also request that Program funds be disbursed to the account of FOSOFI in the Central Bank for paying the subsidy as investment projects come on line. FOSOFI will disburse the approved subsidy amount to accounts maintained and managed by the AE in progress payments as construction occurs. FOSOFI will verify these construction expenses through presentation of receipts and, as necessary, physical inspections. The Program's acquisitions and operational expenses are to be paid as they occur. Disbursements will follow a Board-approved quarterly plan.
- 3.26 INVUR will carry out the financial management according to rules and procedures agreed with the Bank contained in the operating regulations.

**G. Procurement of goods and services**

- 3.27 Construction contracts over \$250,000 will require international competitive bidding, although it is unlikely the Program will involve direct funding of construction work in significant amounts. Goods will be procured following the procedures set out in Annex B in the loan contract. International competitive bidding will be mandatory for procurement of goods over US\$500,000. Experience in Nicaragua and elsewhere indicates that only contracts above this threshold elicit international interest. Purchase of goods less than US\$250,000 will be carried out in accordance with national procurement legislation. Consultants will be hired in accordance with the Bank's procedures as set out in Annex C of the loan contract.
- 3.28 As an exception to standard Bank selection procedures, it is proposed that the municipalities, NGOs, and microfinance and financial institutions that will participate as "Auxiliary Entities" (AEs) in the execution of the subsidy component of the Program be selected from a roster of prequalified AEs, rather than by competitive comparison and ranking of technical proposals or offers. These entities must be financial institutions, NGOs, municipalities or other agencies which meet the eligibility criteria established in the Organic Law of INVUR and its regulations. The eligibility criteria and fees for the AEs which will participate in the Program will be agreed upon between INVUR and the Bank, and will be published at the beginning of Program execution and thereafter on an annual basis in order to encourage the participation of the largest possible number of qualified institutions. Participating AEs will be required to demonstrate satisfactory performance in order to maintain qualification. Selection of AEs on the basis of a competitive ranking of proposals is not proposed since the services to be performed are identical for all

AEs which meet the prequalification criteria. Finally, the fees which INVUR will pay the AEs for participating in the Program will be, on average, less than the equivalent of \$100 per unit.

## H. Disbursement schedule

- 3.29 In accordance with the implementation schedule the program will disburse as follows:

**Table 3.2:**

**Disbursement Schedule  
(Equivalent to US\$000)**

Source	Year 1	Year 2	Year 3	Total
IDB (FOE)	5,276	7,737	9,487	22,500
Austrian Mitch Fund	224	076	0	300
LOCAL	754	829	917	2,500
<b>Total</b>	6,254	8,642	10,404	25,300
% / Year	24.7	34.2	41.1	100

## I. Recognition of expenditures and revolving funds

- 3.30 Local counterpart will be used in conjunction with a Technical Cooperation pre-approved by JSF in process of final approval by IDB to hire the key technical and management capacity necessary to establish INVUR. These expenditures will follow procedures similar to the ones of the Program.
- 3.31 Given the type of activities and the expected financial requirements, the project team recommends that up to the equivalent of 5% of the financing of the first phase (approximately US\$1,125,000) be used to establish the initial revolving fund.

## J. Bank monitoring and operational audits during Program execution

- 3.32 A start-up workshop will follow declaration of eligibility for disbursements. This workshop will familiarize organizations participating in the execution of the Program with the strategies, expected achievements, and main goals.
- 3.33 Given the innovative nature of the Program, important decisions may occur in the early part of the project that change implementation. Thus, the Program requires close monitoring. Hence, in addition to annual external audits that mainly evaluate the Program's overall accounting, there will be annual operational audits of the Program to: (a) select a sample of the subsidies disbursed by the Auxiliary Entities to compare the Program's implementation with its original design through examining the use of funds, the housing solution produced, the experience of participants in the Program (households, Auxiliary Entities, developers, contractors), and other factors; and (b) identify issues that require decision or consensus, as well as problems and changes required in the execution. **The completion of at least two of these annual operational audits showing that**



**Program execution has been consistent with its design is a benchmark for the second phase.** The monitoring and mechanism for changes and approval of funding will be based on the Program's benchmarks and monitoring indicators (see the Logical Framework in Annex 1). The Bank's Country Office will track the general progress of the Program. The project team will participate in these reviews. In addition, the Project Team will conduct: (a) a review mission after the first year and a half of operation or after 50% of resources have been committed during the first phase (whichever comes first); and (b) a review mission after three years of operation or after 90% of resources have been committed during the first phase (whichever comes first).

**K. Periodic evaluations and final evaluation**

- 3.34 There will be two independent evaluations - . an intermediate evaluation to take place 18 months after entry into effect of the Loan Contract and a final evaluation – as well as presentation by INVUR of Annual Plans. The final evaluation will take place after three years of Program execution, or when 50% of Program resources (that is, the resources of the project's first phase) have been committed.. At the time of this evaluation, the borrower should, at a minimum have attained key benchmarks for each major Program objective in Table 3.1.

**L. Environmental and social impact**

- 3.35 The environmental and social impact of the first phase of the Program will be strongly positive because it provides adequate shelter to 17,500 households. The Program is poverty targeted as two thirds of all subsidies go to households earning below the poverty line set by GON (US\$155 per month per family) adjusted for family size. The remaining subsidies go to households earning up to US\$350 per month<sup>4</sup>.
- 3.36 The Program introduces a tested<sup>5</sup> instrument that orients construction to environmentally safe areas and strengthens municipalities' capabilities to manage natural hazard risks. The Program requires the development of environmental risk maps for all areas in which investments (i.e. the housing subsidies) will be made. For the ten largest municipalities, the process involves digitizing information from aerial photographs, field visits and community participation to prepare separate maps of the risk of flooding, land and mudslides, earthquakes, and environmentally fragile areas (parks, aquifers, etc.). These maps classify areas in the municipality as of high, medium, or low risk for each of these factors. A final map joins this information together into an overall risk map for the municipality. The subsidy can go to low-risk zones without restriction and to medium-risk zones with mitigation measures. The subsidies cannot be used in high-risk zones. Such maps have already been prepared and the method tested for three of the larger municipalities

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<sup>4</sup> In comparison, the IDB poverty line for the typical family of five members is US\$360 per month (US\$60 per month per individual).

<sup>5</sup> The Environmental Risk Map strategy has been approved for its application in similar housing programs in Panama, Guatemala and El Salvador.

(Chinandega, Dipilto, and Granada). The remaining seven maps will be prepared during the first four months of the Program by INETER. Based on the same principles, smaller municipalities will use a less costly, simpler method for preparing risk maps based on expert reconnaissance. A non-reimbursible cofinancing from the Austrian Mitch Fund will finance the preparation of these remaining risk maps.

- 3.37 As part of their preparation to participate in the Program, qualified Auxiliary Entities will receive training in the project cycle that will include the operation of risk maps (and the identification of environmentally-safe areas), and education on environmental protection during project execution activities including construction.
- 3.38 The Program will also tie the provision of subsidies to the requirement of minimum provision of infrastructure as follows: a water stand pipe located within 150 m of the house, a latrine built within the house's plot and floor made of concrete or other permanent material. Families will have the option to include the provision of minimum infrastructure for individual houses as part of the cost to be covered by the subsidy. Also, groups of such families can dedicate a portion of the subsidy to improvements of a collective nature – such as the provision of water networks, pluvial drainage or garbage collection. NGOs and municipalities that will serve as Auxiliary Entities for the “group subsidy” modality have noted that they can often provide some complementary resources to leverage the impact of the subsidy – resources that could be used to provide basic infrastructure.
- 3.39 Both the Auxiliary Entities and INVUR will screen projects for environmental risk and minimum infrastructure requirements. In addition, the Housing Strategy, Research and Evaluation Unit of INVUR (through field investigation of a 5% random sample) will periodically check that subsidies are delivered to environmentally appropriate zones, check mitigation measures, and confirm that properties receiving subsidies meet infrastructure requirements, and gender and indigenous considerations.
- 3.40 A household survey of five neighborhoods well suited to the Program shows that women head a substantial portion of low-income families in Nicaragua, and that women substantially exceed men in these areas – typically about 3 females for every 2 males. Thus, the Program will benefit women disproportionately. Women head of households will also be identified as a key target in the Program's advertising campaign, while subsidies will be provided jointly in the name of the couple or in the name of the woman, if head of household. Similarly, title to property regularized under the Program will be held jointly in the name of the heads of households.
- 3.41 The Program also sets the necessary conditions for indigenous groups to benefit according to their particular priorities and cultural choices. The modality of “group subsidy” will permit indigenous groups to apply for subsidies collectively if they choose to do so, while communal titling - currently in practice in some areas or regions in the country - will be eligible among the options offered by the Program.

**M. Financial statements and external audits**

- 3.42 INVUR is responsible for keeping updated accounting records. Each year, it will present the financial statements of the Program duly audited by a firm of independent public accountants acceptable to the Bank. The cost of auditing will be covered by Program resources.

## IV. VIABILITY, OUTCOMES, AND RISKS

### A. Socio-economic and financial viability

- 4.1 **Affordability.** Analyses of construction costs, of willingness of households to save, and of debt service carrying capacity of low/moderate-income households were conducted as part of project preparation to set the level of the subsidy. Table 2 distills some of the results of this exercise. For example, a household earning US\$100 per month (column 1) that receives a group subsidy of US\$600 for rehabilitation can afford the typical cost of adding a new room; note: this is because the total available funding of US\$690 falls in the range of the cost of this housing solution (US\$500 to US\$800). A household earning US\$200 per month (column 3) that receives an individual subsidy of US\$1,300 for new construction can afford to construct a new core unit on land they own, while one earning US\$300 (column 4) can afford to purchase a developer-built core unit.

**Table 4.1:**  
**Illustrative Subsidy Finance Package**

Monthly Household Income				
	Column 1 US\$100	Column 2 US\$100	Column 3 US\$200	Column 4 US\$300
Type of Subsidy	Group	Group	Individual	Individual
Type of housing solution	Self-help rehabilitation (e.g. room addition).	Self-help replacement of existing house with core unit	Replacement of existing house with core unit	Purchase of commercially constructed core unit
Cost of housing solution	US\$ 500 – 800	US\$ 1,450	US\$ 2,000	US\$ 4,000
Subsidy amount	US\$ 600	US\$ 1,300	US\$ 1,300	US\$ 1,300
Required minimum down payment	US\$ 90	US\$ 195	US\$ 195	US\$ 195
Maximum affordable loan @ 22%, 5 yrs	N/A	N/A	US\$ 1,800	US\$ 2,700
Total available funding	US\$ 690	US\$ 1,495	US\$ 3,295	US\$ 4,195

- 4.2 **Cost effectiveness.** In essence, the subsidy component of the Program leverages a small up-front grant with household savings and, with the individual subsidy, a micro loan for a low-cost housing solution (improvement or a starter unit on a lot owned by the family). This is the least cost and only financially sustainable approach to housing investment in a poor country such as Nicaragua. The average amount of the subsidy (estimated at US\$900 per unit) is at or below that of the sporadic housing projects of Nicaragua. Many Government projects and those supported by donors as part of disaster relief have delivered subsidies of at least US\$2,000 per unit because they have built new homes for purchase, and/or because they have failed to leverage the subsidy with a downpayment or a loan.
- 4.3 **Investment in housing and fiscal sustainability.** The investment of the first phase of the housing program – about US\$6 million per year over three years – represents 1.0% of the Government's budget. In comparison, many countries including those of Latin America and Caribbean typically invest from 3% to 6% of

their budgets in housing. Hence, the Program effectively increases the minimal investment in the housing sector somewhat to international standards.

- 4.4 The Nicaraguan Government is currently working with the International Monetary Fund to achieve fiscal stability. This reform involves reduction of Central Government expenditures by 30%, which is likely to occur over the next three years, the period of the first phase of the Program. Hence, Central Government will be able to contribute only very modest sums (the level of annual funding of BAVINIC, about US\$1 million, at most) to the Program during this period. Partly for this reason, the first phase of the Program specifies the minimum local counterpart of 10% of the total amount (US\$2.5 million). This required counterpart can be borne with the net worth that INVUR (US\$ \$3 to \$5 million) inherits from BAVINIC as mandated by the Law of INVUR, which is largely in the form of a loan portfolio and land, both of which can be sold. The availability of FOE funding for the IDB loan also greatly reduces cash demands on Government. However, GON must commit to gradually funding the subsidy medium term to ensure the Program's sustainability. Hence, the Government's share specified in this document for the second phase rises to 20% (US\$5 million).
- 4.5 **Household Demand.** Effective demand for the Program's subsidy totals about 170,000 of Nicaragua's 750,000 households.<sup>6</sup> In comparison, both phases of the Program will, together, assign roughly 35,000 subsidies – to about one out of every five of these households. Although the effective demand for subsidies significantly exceeds the supply funded by the Program, analysis during project preparation shows that the other requirements for a subsidy (for household savings, preparation of plans and estimates, legal title, environmental risk or mitigation, the point system to select projects of groups of households for the group subsidy) will filter this potential demand to manageable levels and spread it over the project's term.

## **B. Development impact and outcomes**

- 4.6 The Program will produce outcomes with substantial developmental impact related to the overall goal: to deepen markets and build institutions in order to improve housing conditions of low/moderate-income households as follows (also see the Program's Logical Framework in Annex I). These outcomes will: (a) improve housing conditions for 17,500 low/moderate-income families; (b) cover 40% of new household formation that would otherwise occur in the informal sector<sup>7</sup>; (c)

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<sup>6</sup> Overall, 70% of the 600,000 units of the existing housing stock require improvement or replacement – roughly 420,000 units. In addition to the existing housing stock, roughly 15,000 of the 30,000 new urban households that form annually build their own homes informally. As roughly two thirds of households meet the income criteria of the program, the total demand for improvement of existing housing under the operation is about 275,000 while the demand for units for newly formed households for the six years of the program is roughly 60,000 (15,000 x 6 x .66) – a total of 335,000. Assuming that half of the 335,000 households that both need and can qualify for the program are interested in applying for the Program, the total effective demand is approximately 170,000.

<sup>7</sup> Roughly fifteen thousand of the 30,000 new households formed each year receive no support from government, finance institutions, or formal-sector builders, and resort to housing in the informal sector. The number of housing solutions produced per annum (6,000) over the three-year first phase, will cover 40% of this unsatisfied demand

improve and expand low/moderate-income housing finance; (d) strongly stimulate economic and employment growth<sup>8</sup>; (d) build wealth of low/moderate-income households<sup>9</sup>; (e) mobilize household savings (as the individual subsidy requires that households open an account at a depository financial institution, and save the required downpayment); (f) establish a new housing policy and program agency; (f) strengthen INVUR leadership of a council of public and private-sector leaders (ACENVI); (g) start a social housing development industry; and (h) strengthen a network of for-profit and non-profit organizations with capacity in low-income housing.

**Table 4.2 – Development Outcomes of First Phase**

<b><u>Key Goal</u></b>	<b><u>Indicators</u></b>
Improve overall housing conditions	-Improvement of housing conditions for 17,500 households. -Coverage of 40% (6,000 housing solutions per year) of unsatisfied household formation (15,000 households per year).
Deepen markets	-Direct construction expenditures of US\$55 million, overall economic stimulus of US\$165 million, and generation of 16,500 jobs. -Credit portfolio for project-related lending of US\$5.5 million. -Recipients of Program subsidy increase household wealth by \$2,000 on average.
Build institutions	-Participation of 20 NGOs, 75 municipalities, and 5 microfinance institutions actively in the Program as Auxiliary Entities. -Participation of five developers or manufactured home builders in the production of 5,000 new core units. -Establishment of INVUR through: a) filling all positions; and b) operative information system and administration system. -Strengthening of INVUR leadership of a housing public-private partnership, IACENVI, critical to developing strategy and implementing new initiatives.

## C. Institutional viability

- 4.7 Nicaragua has lacked an agency with the capacity to implement a housing program of substantial scale. Partly for this reason, the Program relies on the private sector – the Auxiliary Entities – for execution. INVUR “steers rather than rows” by providing the funding necessary to fuel the Program and by setting and monitoring the rules for its execution. In addition, the Program provides support to strengthen INVUR and private sector participants.

<sup>8</sup> Housing investment has a high multiplier (about 3 times direct expenditures in many countries), has functioned as the lead sector in bringing many national economies out of recession, and produces substantial numbers of unskilled and semi-skilled jobs. The Program will generate direct construction investment from the subsidy, downpayment, and credit of roughly US\$55 million, thus resulting in an overall economic stimulus of approximately US\$165 million (applying a multiplier of 3), and about 16,500 new jobs in the Program’s first phase

<sup>9</sup> Experience in other Central America countries in similar programs that show a cost to benefit ratio of 1 to 2 suggests that the subsidy, which averages about US\$900 per family, will result in recipient households gaining an average of US\$2,000 in household wealth - about a year’s earnings of the median household.

- 4.8 **Capacity of INVUR.** INVUR will inherit \$3 to \$5 million in net assets, an adequate building, and working relationships with many municipalities from BAVINIC. In addition, the head of INVUR has assembled a core group of managers and technicians with considerable experience in housing, while Central Government intends to contribute about US\$1 million per year (the amount provided formerly to BAVINIC) to INVUR's operation. The institutional strategy of the Program is to build on this base through a Technical Cooperation pre-approved by the Japanese Special Fund under consideration by IDB and the institutional strengthening component of the Program. The Technical Cooperation will strengthen INVUR's management and technical capacity, develop an automated management information system, train INVUR and the AEs, and establish the structure of the organization. In addition to continuing to assist INVUR in these areas, the Program supports performance-based fees to the Auxiliary Entities for their work in channeling the subsidy, a housing strategy/research/evaluation unit, and a public relations campaign. Overall, the US\$3 to \$5 million in net assets inherited from BAVINIC and the funding to be provided under the TC and the Program are more than adequate to support INVUR for the three years of the first phase, while any Central Government funding will go to increase the production of units under the subsidy system.
- 4.9 **Capacity of the AEs.** The Program has set performance-based fees at levels that make participation attractive for the municipalities, NGOs, microfinance institutions, and financial institutions qualified to become AEs. About half of Nicaragua's 152 municipalities are competent executors of a pre-existing housing effort. Roughly 20 NGOs have experience in building low-income housing. Six microfinance institutions have originated \$5 million in microhousing loans. This set of municipalities, NGOs, and microfinance institutions with existing experience in low-income housing are likely to qualify as AEs, and represent the initial pool of executors of the subsidy component. In addition, Nicaragua's largest commercial bank has expressed willingness to lend to moderate-income households for purchase of developer-built core units under the individual subsidy. The number and geographic distribution of these organizations indicate that the Program will have significant scope and execution capacity from the beginning. The Program will support INVUR to train the municipalities, NGOs, and microfinance institutions that lack capacity.
- 4.10 **Capacity of construction industry.** The construction industry contains thousands of small contractors, while a number of low-cost pre-fabricated home builders function that can each produce the components for hundreds of units each year, and can assemble a home in one day. In addition, IDB has received numbers of inquiries about the Program from international prefabricated home builders interested in starting operations in Nicaragua.

**D. Social and environmental impact**

- 4.11 The environmental and social impact of the first phase of the Program will be strongly positive because it provides adequate shelter to 17,500 low and moderate-income households. The Program introduces a tested instrument – environmental

risk mapping - that orients construction to environmentally safe areas and strengthens municipalities' capabilities to manage natural hazard risks. The Program will also tie the provision of subsidies to the requirement of minimum provision of infrastructure and allow funding of these improvements with the subsidy. Both the Auxiliary Entities and INVUR will screen projects for environmental risk and minimum infrastructure requirements. In addition, INVUR (through field investigation of a 5% random sample) will periodically check that subsidies are delivered to environmentally appropriate zones, check mitigation measures, and confirm that properties receiving subsidies meet infrastructure requirements, and gender and indigenous considerations. Thus, the Program will benefit women disproportionately because women substantially exceed men in these communities. Women head of households will also be identified as a key target in the Program's advertising campaign, while subsidies will be provided jointly in the name of the couple or in the name of the woman, if head of household. The modality of "group subsidy" will permit indigenous groups to apply for subsidies collectively if they choose to do so, while communal titling - currently in practice in some areas or regions in the country - will be eligible among the options offered by the Program. A minimum of three thousand lots will be regularized in the first phase, while regularization of title will become an eligible expense for the subsidy in the second phase. The second phase, if approved, will also develop and disseminate appropriate subdivision norms.

## **E. Risks**

- 4.12 **Funding for micro loans.** The individual subsidy relies on a credit to complete funding for the home. But mortgage finance and housing microfinance in Nicaragua are still emergent industries. Sensitivity analysis, however, shows that microfinance institutions are likely to be able to lend \$7 million in housing microcredits in addition to recycling the \$5 million of their current portfolio over the next three years for housing. In comparison, the individual subsidy component of the Program is likely to stimulate an effective demand for US \$5 to \$10 million in microcredits. Thus, the likely supply of housing microcredits falls within the likely range for demand stimulated by the first phase of the operation. The single-minded attention on ramping up the subsidy by INVUR precludes a major effort in funding microfinance in the first phase of the Program, while the collaboration with ASDI gives this organization - rather than IDB - the lead in expanding housing microfinance capacity. Once greater capacity exists, the second phase of the Program, will introduce a housing microfinance component to meet any shortfall and to help structure this emergent industry.
- 4.13 **Capacity of AEs.** GON has weak institutions in shelter and settlement. Partly for this reason, the Program relies on the private sector for execution - that is, NGOs, municipalities, and microfinance institutions qualified as Auxiliary Entities. A solid base of these organizations currently exists. All together, roughly 75 municipalities and 20 NGOs have experience in low-income housing projects, and are likely to qualify to execute the group subsidy. Six microfinance institutions that currently extend housing credits and one commercial bank are the initial pool



for operation of the individual subsidy. Technical assistance will train AEs unable to qualify immediately under Program.

- 4.14 **Capacity of INVUR.** INVUR inherits significant capital (US \$3 to \$5 million), an adequate building, and existing relationships with many municipalities from BAVINIC. The head of INVUR has also assembled a core staff of technicians and managers. In addition, the JSF Technical Cooperation and, then, the Program will support the key technical and management capacity necessary for INVUR to function.
- 4.15 **Approval of Operating Regulations of FOSOFI.** The Law of INVUR sets the norms and specifics of the operation of the subsidy system. However, it also requires that the Operating Regulations of FOSOFI – the subsidy unit within INVUR - return to Congress for final approval. A meeting between the Bank's Resident Representative and Congressional Deputies indicates that they took this decision in order to ensure the a-political operation and transparency of the Program – a goal firmly shared by IDB as well as INVUR – and that they fully intend to approve the Operating Regulations of FOSOFI. INVUR and the Bank have also agreed on a draft of these Operating Regulations. Given this agreement and the specifics contained in the Law of INVUR on the operation of the subsidy, the project team believes that the risk that Congress will not approve the Operating Regulations of FOSOFI is minimal. In the meantime, it is important for INVUR to go ahead with the other aspects of the Program – institutional strengthening, land tenancy regularization, and technical assistance. Hence, the project team recommends that the approval of the Operating Regulations of FOSOFI by Congress and the corresponding regulatory norms by the Executive be a condition for disbursement of the subsidy.
- 4.16 **Autonomy of beneficiary selection and transparency.** The selection of beneficiaries for government-supported housing in Nicaragua has lacked transparency. This Program contains four critical safeguards in this respect as reflected in the Operating Regulations. Most important, beneficiary selection comes from the grassroots rather than the top down. AEs – which are generally non-partisan organizations – screen and pre-qualify applications. INVUR approves households for the subsidy only after their pre-approval by the AEs. The Law of INVUR specifically precludes INVUR from dealing directly with households. The Law of INVUR also structures the subsidy unit as a semi-autonomous unit with a separate Board of Administrators from that of INVUR. The Program supports and INVUR intends a substantial public relations and informational campaign that includes posting the names of subsidy recipients on the INVUR web site and/or publication in a widely circulated newspaper. Finally, INVUR will establish a hotline to receive and investigate complaints. Hence, multiple safeguards join to promote the transparency of operation of the Program, in general, and beneficiary selection, in particular.

NICARAGUA

MULTI-PHASE LOW-INCOME HOUSING PROGRAM (NI-0064)  
FIRST PHASE

LOGICAL FRAMEWORK

OBJECTIVE	INDICATORS – END OF PROJECT	VERIFICATION	ASSUMPTIONS
<p><b>Goal</b></p> <p>Deepen markets in order to improve housing conditions of low and moderate-income households</p>	<p>Improvement of housing conditions for 17,500 households</p> <p>Participation of 20 NGOs, 75 municipalities and 5 microfinance institutions actively in the Program as Auxiliary Entities</p> <p>Participation of five developers or manufactured home builders in the production of 5,000 new core units</p> <p>Direct construction expenditure of \$55 million, overall economic stimulus of \$165 million, and generation of 16,500 jobs</p> <p>Recipients of Program subsidy (“incentive”) increase household wealth by \$1,800 on average</p>	<p>Project monitoring and sample surveys of homeowner investments</p> <p>Program evaluations</p>	<p>National economic and political stability</p>
<p><b>Purpose</b></p> <p>Establish a system of direct up-front subsidies that: (a) makes rehabilitation and core units affordable for low and moderate-income households; and (b) stimulates home credit, home savings, and regularization of title.</p>	<ol style="list-style-type: none"> <li>1. Establishment of an efficient and transparent subsidy system that processes a continuous flow of applicants and effectively assigns the program’s subsidies</li> <li>2. Credit portfolio for project-related lending of US \$5.5 million and</li> </ol>	<ol style="list-style-type: none"> <li>1. Status reports by INVUR</li> <li>2. Reports by Auxiliary Entities to INVUR</li> <li>3. Records of home lenders</li> <li>4. Records of Land Registries of Departments</li> </ol>	<ol style="list-style-type: none"> <li>1. Efficient operation of Auxiliary Entities</li> <li>2. Housing micro-finance project supported by Swedish Assistance expanded and technical assistance under this project strengthens the capacity of micro-lenders.</li> </ol>

OBJECTIVE	INDICATORS – END OF PROJECT	VERIFICATION	ASSUMPTIONS
	<p>development of home micro-lending from pilot project to an established industry</p> <p>3. Savings account for property receiving subsidies under the project of US \$1.0 million.</p> <p>4. Support for regularizing land title for 3,000 lots</p>		<p>Technical assistance under this project stimulates existing mortgage lenders to go down-market</p> <p>3. Subsidy amounts awarded catalyze households to apply for mortgages and home lenders to offer such credit</p> <p>4. Efficient support of land title regularization</p>
<p><b><u>Outputs</u></b></p> <p>1. The subsidy system has been set up, is operating efficiently, and has invigorated the demand for housing rehabilitation and new construction.</p> <p>2. Housing microfinance component lending effectively</p> <p>3. Auxiliary Entities have effectively processed household applications and channeled the subsidy</p> <p>4. Land regularization carried out effectively</p> <p>5. Establishment of a strong housing policy organization, INVUR, that can guide reform in the sector</p> <p>6. National Housing Strategy and Action Plan prepared</p>	<p>1. 100% disbursement of subsidy funds</p> <p>2. 5,500 loans made, 90-days arrears rate of less than 5%</p> <p>3. Training and technical assistance and performance-based fees to Auxiliary Entities provided</p> <p>4. Effective land regularization strategies identified</p> <p>5. INVUR has developed the capacity not only to operate the subsidy project but also to conduct research and orient policy change</p> <p>6. Final version of NHS delivered</p>	<p>1. INVUR report on social promotion campaign, INVUR reports on monitoring visits to Auxiliary Entities (including analysis of samples of households), and end-of-program evaluation</p> <p>2. Reports of Auxiliary Entities</p> <p>3. Land regularization evaluation</p> <p>4. Final program evaluation</p>	<p>1. Knowledge of the program and how to use it is widespread among low/moderate-income households.</p> <p>2. A sufficient number of qualified organizations have an interest in and apply to become Auxiliary Entities</p> <p>3. Other agencies of national and local government participate in and follow the recommendations and changes resulting from laws, workshops, and technical assistance of INVUR.</p>

OBJECTIVE	INDICATORS – END OF PROJECT	VERIFICATION	ASSUMPTIONS
<b><u>Activities</u></b>  1. Invest in Home Improvement, New Construction and Land Regularization  a. Subsidies assigned b. Microcredits extended and collected c. Home rehabilitation and new construction occurs d. Regularization of land occurs in one municipality  2. Institutional Strengthening  a. INVUR fully established b. Authorized Entities qualified and strengthened	a. 100% of subsidies assigned b. Credit extended to complement all 5,500 individual subsidies c. Subsidy application and assignment system automated with software and hardware delivered to Authorized Entities, and authorized underwriting system in place d. Construction review system in place e. 3,000 parcels or lots regularized	a. Progress reports, sample analysis of households, and end-of-program evaluation by INVUR b. Reports by Auxiliary Entities c. Final evaluation  a. Progress and Final Report of TC b. Sample analysis of EAs	a. Households are interested in the program and organizations qualified as Auxiliary Entities actively participate. Households are interested in borrowing b. Support of GON for policy reforms c. Cooperation of other agencies of local and national government in relevant areas such as land (Property Registrars of Departments) and finance (superintendencia bancaria) d. Plans for expansion of home micro-lending in Nicaragua by Swedish Assistance, IDB, and other donors (USAID) occur, and participation by Nicaraguan microfinance institutions in the Program e. Appropriate norms or law regulating microfinance institutions approved  a. Support of GON for the proper establishment of INVUR b. A sufficient number of Auxiliary Entities are interested in the program and want to participate actively across the country

OBJECTIVE	INDICATORS – END OF PROJECT	VERIFICATION	ASSUMPTIONS
<p>3. Policy Reform</p> <p>a. Technical assistance to lenders in home micro-finance and mortgage finance completed</p> <p>b. Technical assistance for subsidy funding of land regularization completed, and project modified to fund such regularization</p> <p>c. Technical assistance for foreclosure and enforcement of other security for home lending completed</p> <p>d. Technical assistance for reducing charges on real estate and finance transactions for low-income households completed</p> <p>e. Housing research and policy/program formulation capacity established in INVUR</p>	<p>a. Home micro lending expands beyond pilot project stage to achieve the capacity to extend 3,000 credits per year.</p> <p>b. Some regulated financial institutions participate in the program either as Auxiliary Entities and/or as lenders.</p> <p>c. Barriers to foreclosure and enforcing other security interests in real property identified and recommendations followed</p> <p>d. Charges and norms that impede the purchase, construction, and finance of low/moderate-income housing identified and recommendations followed</p> <p>e. INVUR data and policy unit fully staffed and research program underway</p>	<p>a. Reports and studies by Swedish Assistance and IDB Micro-Finance Unit on home micro lending projects in Nicaragua.</p> <p>b. Mortgage data from Superintendencia Bancaria</p> <p>c. Status reports and end-of-program evaluation by INVUR</p> <p>d. Reports from Auxiliary Entities</p>	<p>a. INVUR invests Program resources and places a high priority on the development and activities of a unit for Housing Strategy</p> <p>b. President of INVUR takes an active role in promoting policy changes</p>

## TENTATIVE PROCUREMENT PLAN

MAIN ACQUISITIONS	SOURCE OF FINANCE	TOTAL AMOUNT	METHOD OF PROCUREMENT	PRE-QUALIFICATION	ESTIMATED DATE
<b>1. INVESTMENT</b>					
<b>Land Tenure Pilot</b>					
3 consultancies with a cost average of \$60,000 (technical studies)	100% IDB	US\$200,000	PB	Yes	2003
<b>Risk Maps</b>					
1 consultancy with a cost of \$70,000 (maps for larger municipalities)	100% Austrian Fund	US\$70,000	NPB	Yes	2003
3 consultancies with a cost average of \$75,000 (maps for smaller municipalities)	100% Austrian Fund	US\$225,000	NPB	Yes	2003,2004, 2005
<b>2. INSTITUTIONAL STRENGTHENING</b>					
<b>Training and Information System</b>					
1 consultancy with a cost average of \$300,000 (training activities)	100% IDB	US\$300,000	IPB	Yes	2003
<b>HSRE Unit (Research and Evaluation)</b>					
Operational Audit \$20,000/year	100% IDB	US\$60,000	NPB	No	2003, 2004, 2005
Financial Audit \$10,000/year	100% IDB	US\$30,000	NPB	No	2003,2004, 2005
10 consultancies with a cost average of \$20,000 (technical studies)	100% IDB	US\$200,000	PB	Yes	2003,2004, 2005
<b>Public Relations Campaign</b>					
1 consultancy with a cost of \$150,000	100% IDB	US\$150,000	NPB	No	2003
5 consultancies with a cost average of \$50,000 (support material production)	100% IDB	US\$250,000	NPB	No	2003,2004, 2005
<b>3. POLICY REFORM &amp; TECHNICAL ASSISTANCE</b>					
<b>Housing Microfinance TA</b>					
2 consultancies with a cost average of \$100,000 (workshops)	100% IDB	US\$200,000	NPB	Yes	2003,2004
2 consultancies with a cost average of \$25,000 (technical studies)	100% IDB	US\$50,000	PB	Yes	2004
<b>Land Tenure Regularization</b>					
6 consultancies with a cost average of \$25,000 (technical studies)	100% IDB	US\$150,000	PB	Yes	2004,2005
<b>NHS and Action Plan</b>					
12 consultancies with a cost average of \$25,000 (technical studies)	100% IDB	US\$300,000	PB	Yes	2003,2004, 2005
<b>Dissolution of BAVINIC</b>					
3 consultancies with a cost average of \$50,000 (technical studies)	100% IDB	US\$150,000	PB	Yes	2003,2004
IPB-International Public Bidding NPB-National Public Bidding PB-Private Bidding					

## COFINANCING PROFILE

NICARAGUA

AUGUST 9, 2002

**Project name:** Multi-Phase Low-Income Housing Program, First Phase:  
**Name of the Trust Fund:** Preparation of Environmental Risk Maps  
Austrian Hurricane Mitch Disaster Assistance and Reconstruction Trust Fund (Joint cofinancing of investment component for Project NI-0064)

**Project number:**

**Country team:** Leader: Bruce Ferguson (RE2/FI2); other members: Jesus Navarrete (RE2/FI2); Jaime Cofre (COF/CNI); Caroline Clarke (RE2/EN2); Laura Profeta (LEG/OPR); Cristina Landázuri (LEG/OPR); Jorge Vargas (consultant); Miguel Angel Murillo (consultant); Mario Navarro (consultant); Rodolfo Mora (consultant).

**Executing agency:** Institute of Urban and Rural Housing of Nicaragua (INVUR), in cooperation with the Nicaraguan Institute for Territorial Studies (INETER)

**Beneficiaries:** Republic of Nicaragua

**Financing plan:** Cofinancing (Austrian Mitch Fund)      US\$      300,000

**Execution period:** 18 months  
**Disbursement period:** 24 months

**Special contractual condition:** The first disbursement of the Austrian Mitch Fund will require:  
(1) compliance with the conditions precedent established in the General Conditions of the Loan Contract,  
(2) celebration of an agreement between the Borrower and INVUR for execution and transfer of resources,  
(3) celebration of an agreement between INVUR and INETER for the preparation of the environmental risk maps.

## **I. BACKGROUND**

- 1.1 A large percent of the population in Central America inhabit areas that are highly vulnerable to disasters caused by earthquakes, landslides and hurricanes. Despite this vulnerability, environmental considerations in most countries of the region are poorly integrated in the planning of urban development and housing, especially in its actual practice. This lack of effective integration seems the result of two main factors. First, although some cities have urban development plans, and these plans do identify areas vulnerable to natural disasters and for environmental preservation, the implementation is poorly realized. The execution of these plans is the responsibility of municipal governments who often lack the necessary instruments for the effective application of these plans. Second, in general these plans do not consider those developments that take place informally, and that account for more than 50% in urban areas in the region. As a result, even when governments have the capacity to regulate urban development plans for the formal sector, the location and construction of low-income houses and small businesses that make up informal settlements, is not regulated, making them prime targets to the losses caused by these natural events.
- 1.2 Nicaragua is no stranger to the losses caused by natural phenomena. The country lies atop of 3 tectonic plates, with active local and regional fault systems and 7 active volcanoes. The country is also located at the western extreme of the Caribbean hurricane belt and is regularly hit with severe wind and intense rainfall. With mountainous terrain and complex river basin systems, landslides and flooding are common. Hurricane Mitch was a reminder of just how vulnerable the population and the housing sector in particular is to wind storms, flooding and landslides. In addition to Hurricane Mitch in 1998, Tropical Storm Gert in 1993 and Hurricane Cesar in 1996 hit Nicaragua to devastating effects, especially with regards to the low-income housing stock. Hurricane Mitch alone destroyed 41,000 units.
- 1.3 The location and construction techniques of housing contribute to the losses caused by these natural events. Yet the 152 municipalities that make up the country have few effective instruments for evaluating the risk of damage to urbanization generally, and housing in particular, and for encouraging human settlements in safe areas.
- 1.4 The Multi-Phase Low-Income Housing Program aims to improve housing conditions of low- and moderate-income households in Nicaragua. The investment component – one of the three components that comprise the Program and the largest in terms of resources assigned – consists of a subsidy program for low/moderate-income households. As part of this component, the Program addresses the needs related with environmental vulnerability of low-income housing settlements by introducing an instrument that orients construction to safe areas and strengthens municipalities' capabilities to manage natural hazard risks: the environmental risk maps.



- 1.5 **The environmental risk maps** classify areas in the municipality as of high, medium, or low risk according to their environmental vulnerability. The mapping involves the preparation of separate maps of the risk of flooding, land and mudslides, earthquakes, and environmentally fragile areas. A final map joins this information together into an overall risk map for the municipality. The Program requires the development of environmental risk maps for all municipalities in which investments (i.e., housing subsidies) will be made.

## **II. OBJECTIVES**

- 2.1 The objective of this project is to contribute to the development of the strategy that addresses the needs related with environmental vulnerability of low-income housing settlements in Nicaragua by providing financial support for the preparation of environmental risk plans for all the municipalities in the country.

## **III. DESCRIPTION**

- 3.1 The project will consist of one single task: the preparation of environmental risk maps for all municipalities in the country. Two sets of maps will be prepared. The first set of maps will cover the 10 largest municipalities of the country, while the second set will cover the remaining (smaller) 142 municipalities. The first set of maps will be prepared with the use of instruments of moderate precision such as aerial photographs and satellite images that will be complemented with field work and community participation. This set of maps will be prepared during the first four months of the Program by INETER personnel and consultants contracted and supervised by INETER. Maps for 3 of the 10 municipalities were completed as part of program preparation, hence the project will support the production of the maps for the remaining 7 municipalities of this first set. The second set of maps (for smaller municipalities) will be prepared following a simpler method that will rely primarily on field work and community participation. This set of maps will be prepared over the course of the first eighteen months of the Program by INETER personnel and consultants, which will be contracted and supervised by INETER.

## **IV. JUSTIFICATION**

- 4.1 The environmental risk maps will orient low-income housing construction to safe areas and strengthen the capabilities of municipalities to manage natural hazard risks. In so doing, the preparation of environmental risk maps for every municipality in the country becomes crucial in the articulation of an effective strategy to address – in a viable manner – the needs related to environmental vulnerability of human settlements in the country, especially those inhabited by low-income groups. Hence, these maps will serve as an input to more effective land-use planning by Nicaraguan municipalities – a goal also supported under the Multi-Phase Low-Income Housing Program.

- 4.2 The environmental risk maps are also a key element in the execution of the Multi-Phase Low-Income Housing Program. Within Program execution housing subsidies will be directed only to fund housing in municipalities that have an environmental risk map. Once the map is prepared for a particular municipality, INVUR's regulations will require all subsidy applications to comply with the map's designated exclusion zones. Housing subsidies will not be eligible for households' locations in areas designated as uninhabitable. The compliance with map areas will be first checked by the Auxiliary Entity (e.g., the municipality) promoting the project and subsequently by INVUR before granting final approval.
- 4.3 The project is in accordance with the strategy of the Bank in Nicaragua, which has as one of its three main priorities, to address the needs of the low-income population. By contributing to the setting of an environmental strategy the project contributes to addressing one form of vulnerability that affects primarily low-income families and, in so doing, to building a more solid foundation for their rising from poverty.

## **V. BUDGET**

- 5.1 The total cost of the project is estimated at \$300,000. The funds will serve to prepare the remaining 7 maps for the 10 largest municipalities. The cost of each individual map of this first set is \$10,400, for a total of \$72,800 for the whole set. This amount includes the expenses incurred by the involvement of INETER in the production process. The funds will also cover the preparation of the individual maps for the remaining 142 municipalities. The cost for each individual map of this second set has been estimated in \$1,600 for a total of \$227,200 for the whole set. As with the first set of maps, this amount includes the expenses incurred by the involvement of INETER in the production process.

## **VI. EXECUTION**

- 6.1 The beneficiary of this project will be the Republic of Nicaragua. The executing agency will be INVUR, in cooperation with INETER.
- 6.2 The production of the two sets of maps will be carried out by means of separate processes, which will be supervised by INETER. The actual production of the two sets of maps will be carried out following the methodology developed and piloted during project preparation. ToRs developed for map making and community workshops, identification of firms/consultants and guidelines for mitigation measures, checklists and formats can be found in the technical files of the Program.
- 6.3 For the actual production of the two sets of maps, consultants (firms or individual consultants) selected and contracted by INETER will submit a work plan at the beginning of the contract and a final report at the end of the contract. Work plan

and final report will be submitted to the INETER official in charged of the project who will also supervise the compliance with activities and timeframes.

- 6.4 INETER will submit financial reports to INVUR – the executing agency – detailing the use of Austrian Mitch Fund resources.
- 6.5 The activities that comprise this project will be administered and executed following the procedures and mechanisms that regulate the execution of the Multi-Phase Low-Income Housing Program, with the exception of the execution and disbursement period and the conditions precedent to first disbursement, which will be as set forth in the first page of this Annex.

## **VII. RESPONSIBILITIES WITHIN THE BANK**

- 7.1 The Bank Country Office in Nicaragua will be responsible for the supervision of the execution of the activities comprising this project. The specialist in the country office is Jaime Cofré [tel: (505) 267-0831, fax: (505) 267 3469] E-mail: [jaimeco@iadb.org](mailto:jaimeco@iadb.org).

## **VIII. RECOMMENDATION**

- 8.1 The Projet team recommends the use of the resources of the Austrian Mitch Fund in the amount of \$300,000 to finance the activities described in the present document.

### **CERTIFICATION**

I certify that resources from the Austrian Mitch Fund (Disaster Assistance and Reconstruction Fund from Austria for Central American Countries affected by Hurricane Mitch) are available for up to US\$300,000 in order to finance the Preparation of Environmental Risk Maps. The commitment and disbursement of these resources shall be made only by the Bank in US Dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except that local consultants working in their own borrowing member country shall have their remuneration defined and paid in the currency of that country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of the activities comprising this project. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.

(original firmado)

07/18/02

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Arnoldo M. da Fonseca, Chief  
Technical Cooperation Coordination Unit

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Date

# Housing Reform Framework for the Multi-Phase Nicaragua Low-Income Housing Program (NI-0064)

Category	Status	Program Intervention
Subsidies	Great pent-up demand exists for home improvement, in particular, but also for new construction for low-income households. Low building costs mean that a modest subsidy can help these families achieve a minimal housing solution. Reaching the poor requires that local organizations help organize demand.	The investment component of each of the two phases of the Program funds 17,500 subsidies targeted at low-income households. The total of 35,000 subsidies will cover 5% of Nicaraguan families. The subsidy is modest in size and channeled through appropriate organizations (Auxiliary Entities) in order to reach low/moderate income families.
Credit Finance	Mortgage finance serves only upper-income households. Housing microfinance projects reach low/moderate-income households for home improvement, but at relatively small scale (1,800 loans per year) under the PRODEL program supported by Swedish Assistance (ASDI) and other funding sources.	The individual subsidy creates strong incentives to complement the subvention with microfinance and savings. T.A. during the first phase of the Program lays the foundation and designs an investment component to provide funding for housing microfinance during the Program's second phase.
Serviced land and property rights	An extraordinarily high share of the population - over 80% - own their property. However, only about half of these households (53%) hold full legal title. Much of the remainder has varying degrees of rights short of full legal title.	The first phase includes support for regularizing land tenure of 3,000 households. The subsidy component during the first phase, however, is available only to households with full legal title, while the second phase makes regularization of tenancy an eligible cost for the subsidy.
Development costs and regulation	Municipalities are in charge of but fail to regulate housing development. The country lacks building and subdivision regulations that balance affordability with safety, contributing to environmental problems and disasters.	During the second phase, the program provides t.a. to prepare balanced subdivision and building regulations, and disseminate them to municipalities. Environmental screening based on risk maps ensures use of the subsidy in appropriate areas throughout the Program.
Institutions	Nicaragua has lacked an institution capable of implementing a housing policy. Instead, it mainly resorts to sporadic building of units often funded by international assistance responding to emergencies. The housing bank, BAVINIC, has collapsed financially.	The Program strengthens a new housing policy and program agency, INVUR, normed under a new Law (Law of INVUR). An independent organization selects INVUR management staff through competitions. BAVINIC is dissolved by a series of specified steps and its liabilities absorbed by GON.