

HOUSING PROGRAMME

(PN-0082)

EXECUTIVE SUMMARY

BORROWER AND GUARANTOR: The Republic of Panama

EXECUTING AGENCY: Ministry of Housing (MIVI)

AMOUNT AND SOURCE:

IDB:	US\$41.67 million
Local counterpart funding:	US\$28.20 million
Total:	US\$69.87 million

IDB Resources:

Reformulation 220/IC-PN: (Undisbursed balance)	US\$15.27 million
New Loan:	US\$26.4 million
Total:	US\$41.67 million

FINANCIAL TERMS AND CONDITIONS:

New Loan:	US\$26.4 million
Amortization period:	25 years
Disbursement period:	4 years
Interest rate:	6.75% variable
Inspection and supervision:	1%
Credit fee:	0.075%

OBJECTIVES: The Program's broad goal is to help the Government of Panama carry out the transition to a more efficient, equitable and transparent engagement with the housing sector. The specific goals are: to put in place the institutional arrangements needed to improve the efficacy of the public sector's investments in housing, to help the Government implement policies that will increase the scope and quality of programs to help low income households, and to expand the role of competitive private sector developers and banks in the production and financing of housing.

DESCRIPTION: In order to provide help to middle income households, the public sector has invested substantial resources each year in producing houses and apartments. While the public sector's arrangements for achieving this goal have proven to be extremely inefficient, the performance of Panama's formal private sector in developing and financing housing has been quite positive. The first strategy behind the present Program is to put competitive private sector supply of housing at the service of the public sector's goal of helping middle income families that do not, under

current circumstances have access to private sector mortgages. The second strategy behind the present Program is to build on and extend the success of a low cost public program that has improved the housing conditions of low income households by supplying them with building materials. Implementing these two strategies will involve significant changes in the way the public sector engages with the housing sector: the government will get out of the business of housing supply and into the business of supporting demand. Specifically, under the existing system, the Housing Ministry (MIVI) produces houses and the National Mortgage Bank (BHN) issues mortgages for financing their purchase. Under the arrangements to be set up through the present Program, public help to low and middle income families will be delivered by means of transparent demand subsidies directly targeted to eligible households. To achieve these changes the Program will consist of four components.

Two investment components will support the first Program strategy: **1) The Direct Subsidy Component (PROVISA)** (\$15.0 million) will introduce a policy of providing demand side subsidies. As a result, middle income households that currently do not have access to the formal housing market, can qualify for mortgages issued by commercial banks and can thus purchase houses developed by the private sector. **2) The Down payment Waiver Component (PROFINCO)** (\$5.9 million) will provide incentives to commercial banks so they can waive down payment requirements for qualified households. The largest investment component will support the second Program strategy: **3) The Low Income Housing Component (PARVIS)** (\$34.5 million) will introduce simplified demand driven procedures so that low income households can apply for grants to help them establish or improve their own housing.

The institutional and policy aspects of these strategy changes will be supported by **4) The Institutional Reform Component** (\$9.57 Million). A. The Housing Ministry (MIVI) will receive assistance in managing the Program components, will phase out the policy of constructing housing, and will receive assistance in undertaking a re-organization that will significantly reduce its operating costs, and in developing housing sector policy. B. The National Mortgage Bank (BHN) will cease providing credit for housing projects, will receive assistance in cleaning up its portfolio of existing loans, and will significantly reduce its operating costs. C. The Social Security Fund (CSS) will cease lending in the primary mortgage market.

CLASSIFICATION: meeting of June 27 1995, classified this as a Category III operation.

BENEFITS: The benefits of the policy, institutional and investment reforms introduced under this Program will be: 1) The efficiency of public sector expenditures in the housing sector will be improved by the switch away from supply side programs, since demand side subsidies will allow more households to be helped with significantly lower operating costs; moreover, since beneficiaries will have far more choice in how to use their subsidies, each household's welfare gain per \$1 of public expenditure will be higher. 2) The scope and quality of support given to low income households will be increased: simplified and decentralized procedures, more flexible project criteria, and higher budget allocations, will significantly increase the MIVI's institutional capacity for, and actual output of, projects that improve housing conditions of low income households. 3) Competitive private sector developers and banks will provide construction and financing services for increasing numbers of households as the MIVI, BHN and the Social Security Fund (CSS), phase out their existing programs. It is central to the Program's objectives that these reforms are designed to be sustainable after Program execution has terminated.

RISKS: The program faces three principal risks. The first is political: changes in the government could undermine the commitment to carry out the institutional and policy aspects of the program. The second risk is related to the role of the private sector: the Program relies on the private sector, particularly the commercial banks, to serve a market segment that traditionally it has not found to be profitable. The third risk concerns the misuse of subsidies: beneficiaries might seek to sell or otherwise dispose of their subsidy so as to increase expenditure on something other than housing.

None of these risks can be entirely eliminated, but the Program does provide incentives to reduce their likelihood. Firstly, while downsizing public agencies does involve political costs, Program financing will simultaneously allow the Government of Panama to substantially increase the number of households that will receive a housing subsidy. Secondly, the demand subsidies are structured so as to decrease the risks facing the banks that issue mortgage loans to the beneficiaries. Thirdly, the size of the subsidies has been estimated using data on household expenditures so that the value of the housing that becomes accessible, is proportionate to observed preferences.

THE BANK'S The Bank's strategy in Panama is to give priority to

COUNTRY AND SECTOR STRATEGY:	1) programs that support the transition to a more competitive economic environment characterized by a less protective trade regime and a less distorted labor market; and 2) programs that combat poverty and improve equity and efficiency in the provision of social services.
PROCUREMENT INTERNATIONAL COMPETITIVE BIDDING:	BY The cut off levels over which Program procurement will be by international competitive bidding are: \$200,000 for services; \$300,000 for goods, and \$1 million for works.
EXCEPTION FORSEEN UNDER BANK POLICY:	It is proposed that UNDP be hired, without open competition, as administrator for the hiring of consultants for Component 4: Policy and Institutional Reforms. (See Para. 3.16 and Annex X A).
SPECIAL CONTRACTUAL CONDITIONS:	<ol style="list-style-type: none"> 1. The conditionality is structured so that compliance with the institutional and policy reforms set out in Component 4 will trigger disbursements in the investment components. On the other hand, the investment components themselves are de-linked such that problems in the execution of one need not compromise the execution of others. 2. Component 4 (Policy and Institutional Reforms) has three subcomponents. <ol style="list-style-type: none"> A. The conditionality for the MIVI subcomponent includes, as condition prior, an agreement with the UNDP and, as conditions for subsequent disbursement, the hiring of consultants and the timely presentation and execution of an agreed reorganization plan for MIVI. (See Paras. 3.16-3.19) B. The conditionality for the BHN subcomponent includes, as condition prior, the hiring of consultants and, as conditions for subsequent disbursement, the timely presentation and execution of an agreed restructuring plan for BHN. (See Paras. 3.20-3.24) C. The conditionality for the CSS includes, as condition for prior and subsequent disbursement, its ceasing to issue mortgages. 3. Investment Components 1 & 2 (PROVISA) and (PROFINCO) will have, as their condition prior, the establishment of their respective coordinating unit, each with legal authorization and operating regulations. Subsequent disbursements are conditioned on maintaining satisfactory progress in the reforms of BHN and CSS referred to in 2B and 2C above. (See Paras.

3.7-3.12)

4. Investment Component 3 (PARVIS) will have, as condition prior, the establishment of its respective coordinating unit, with legal authorization and operating regulations. Subsequent disbursements are conditioned on maintaining satisfactory progress in the reforms of MIVI referred to in 2A above. (See Paras. 3.13-3.15)

RECOMMENDATION:

It is proposed that the Board authorize the administration to amend the contract for loan 220/IC-PN, but not its financial conditions, to accord with the contract for the present program. (See Para. 1.37, 2.37)

POVERTY IMPACT:

Currently the Government devotes about 30% of its investments in the housing sector to helping approximately 3,300 low income households each year. Under the reforms initiated through this Program, at least 60% of the government's investments in the sector will be devoted to improving the housing conditions of some 7,000 low income households each year. Overall, nearly 50% of Program resources will be targeted to 26,000 households at or below the poverty line in Panama, helping them achieve minimally acceptable standards of sanitation, water and dwelling. (See Para. 3.34)