

# PROJECT CONCEPT DOCUMENT

## BARBADOS

OCTOBER 14, 2005

**Project Name:** Housing and Neighborhood Upgrading Program, Phase I

**Project Number:** BA-L1002

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**Borrower:** Government of Barbados (GOBA)

**Executing Agency:** Ministry of Housing, Lands and Environment (MHLE)

**Financing Plan:**

		Phase I	Phase II	Total
IDB: (OC)	US\$ million	30	30	60
Local:	US\$ million	10	10	20
Total:	US\$ million	40	40	80

**PTI/SEQ:** Yes/geographic and head count.

**Tentative Schedule of activities:**

Orientation mission	November 2005
Analysis mission:	March 2006
Committee of the Whole:	June 2006

## I. FRAME OF REFERENCE

### A. Background

#### A.1 The economy and the housing sector

1.1 Barbados, a country-island of 431 square kilometers and a population of 271,000, ranks high among LAC countries in terms of social and economic indicators. Its Human Development Index is currently the highest (29th) among all countries in the region. Its per capita GDP (US\$15,290) is more than double the average for the region and 50% higher than that of any Latin American country. Only 13% of its population lives under the poverty level.

1.2 Its economy has undergone changes over recent decades that significantly influence its housing sector. Since 1965 it has shifted away from traditional

agriculture, mainly sugar, into a predominantly service oriented economy, mainly tourism. The sugar industry, which contributed as much as 20 percent of GDP in 1965, reached a low of 1.6% in 2003; for the same period the service sector climbed from 56 to 74%. This has resulted in a small, very open economy, heavily dependent on tourism, and significantly influenced by foreign capital inflows. In the case of domestic nontradable goods, such as housing, the small size of the local economy has also resulted in restricted, oligopolistic supply structures.

- 1.3 The transformation of the sugar industry left a large amount of land, with good urban potential, in a reduced number of owners (including public owned companies). This, along with the small size of the island and the large demand for land by affluent buyers, many of whom came from overseas, has produced strong limitations and inflationary pressures on the supply and cost of land for affordable housing. Since 1999 the average cost for developed residential land has more than doubled, climbing from US\$2.25 to US\$5.00 per square foot.
- 1.4 The import dependency and non-competitive domestic markets of the economy are especially clear in the construction industry. There are no domestic machinery and equipment producers in the country, and local basic raw materials suppliers are rare. There are also very few construction companies (about three) that have the equipment needed to urbanize land. These factors on the supply side, along with the demand for construction services and products from the more profitable and higher income tourism industry, have influenced the housing market by raising construction costs and concentrating housing supply in the mid and high income markets.
- 1.5 In a recent review of the Barbados tourism sector, the country's main export industry, the principal tourism attraction potentials of the island were identified. Excluding the obvious ones of sun, sand, sea, and golf, the major interests of visitors to Barbados are culture, heritage and inland attractions, including especially the Bridgetown urban district and, further inland, Harrison's caverns. In order to fully develop the latter two sites for tourism potential, however, low income neighborhoods that currently surround both sites would have to be upgraded.
- 1.6 GOBA, with strong support from the private sector, has undertaken the renewal of the central inner city area of Bridgetown as one of its special projects. More than half a million tourists arrive in Barbados by cruise ship every year. All the ships include the possibility of a walk tour through the nearby Bridgetown central district. However, few tourists currently do so, in part because there are few attractions offered to them and in part because of safety concerns raised by the dilapidated appearance of some of the surrounding neighborhoods.
- 1.7 A comprehensive plan for the revitalization of the inner harbor area of Bridgetown is in its first stages of implementation, led by the private sector. Two strategically located low-income neighborhoods, Cats Castle and Greenfields, are

in this area. They both have cohesive communities, and a historical and cultural heritage, that could be linked to the area's economic recovery. As of now, however, they constitute a bottleneck to revitalizing the downtown because of their haphazard layout, lack of basic services, and access and safety problems.

## **1. Housing and neighborhood improvement needs of lower income groups**

- 1.8 A total of about 1,000 new units are needed per year in Barbados in order to serve new household formation. In addition another 1,000 units need to be renewed per year because of inadequate conditions that exist in part of the housing stock. The formal housing supply is usually only able to reach households above the fourth and fifth decile of income. The most affordable housing currently offered on the market is priced at US\$45–60,000 (occasionally units costing US\$40,000 are also sold, but these are rare). These will typically be 1-2 bedroom units (400-450 sq. ft. in area) on lots of 3,000 sq. ft., built of either hardwood or cinder block construction (the latter costing about US\$10,000 more). At current lending rates of 6% per annum (amortized over 25 years), these units require a monthly payment of US\$290-\$390. Assuming the maximum borrowing limit currently permitted for mortgages (35% of family income) these units require a minimum household income of US\$20,000 – equivalent to the lowest threshold of the fourth decile of income in the country.
- 1.9 Households below this level of income have largely had to depend on a very limited supply of government built housing or, in the majority of case, fend for themselves through self help, incremental construction and/or informal settlement in substandard neighborhoods. More than 7,000 families live in neighborhoods with substandard conditions in which at least one, and usually several, of the following basic services needs to be provided: access both for pedestrians and emergency vehicles, sanitation, street lighting, refuse collection, flood protection, security of tenure, reduced fire risks and playgrounds and open spaces.
- 1.10 Both the National Physical Development Plan and the Greater Bridgetown Development Plan have identified approximately 130 neighborhoods across the island as areas for slum clearance and/or upgrading and redevelopment. These settlements, which share the substandard characteristic described before, vary a good deal with respect to the types of housing, tenure and layout patterns and services needed, depending mostly on whether they are located in urban or rural areas. A detailed typology of these neighborhoods is currently being developed.
- 1.11 Government has enacted three pieces of legislation that regulate the redevelopment of low-income neighborhoods. These are the Housing Act Cap 226, The Urban Development Commission (UDC) Act, and the Tenancies Act. The first confers upon the Ministry of Housing, Lands and Environment (MHLE) and the National Housing Corporation (NHC) the overall responsibility for the preparation and execution of neighborhood upgrading schemes; the second also gave some responsibilities in this area to the UDC and established a mechanism for the compulsory acquisition by government of land or buildings needed for the

slum redevelopment. The Tenancies Act regulates the right of families, where five or more of them live in the same piece of land, to acquire the land.

- 1.12 Using this institutional and legal framework some governmental institutions have experimented with slum clearance and redevelopment projects. For the most part, however, these projects have aimed at complete demolition of existing structures, to be replaced by new apartment buildings. This approach has proven to be very expensive to government and very disruptive to the existing community fabric. As a result GOBA is considering in-situ integrated neighborhood as an alternative to the above and as an effective tool to achieve its objective of having mixed socio-economic communities.
- 1.13 The other common way by which lower income sectors of the population solve their housing needs is to either build or improve their house incrementally. According to the 2000 Population and Household Survey, 30% of the dwelling units built in Barbados were incrementally-built homes. In Bridgetown, 57% of homeowners built their own home rather than purchase an already-finished house.
- 1.14 In the private sector, building-material supply companies have been providing short-term credit for building materials used in incremental home construction. In the banking sector, credit unions and commercial banks alike have developed new loan products supportive of the incremental construction process. A significantly high proportion of the loans from the building-material supply companies are for families below the fifth decile of the population. Several credit unions have indicated their interested in moving even further down-market in servicing this segment of the market.
- 1.15 The incremental construction of a new house is typically a lengthy process, in particular for incremental housing financed by building material suppliers; since the latter functions without the support of mortgage guarantees, strict limits are placed on the amount that can be borrowed at any one time (US\$3,000 on average). Only after the first loan has been repaid can the borrower request a second loan for the same amount, and so on until the house is finished. As a result, it can take ten to fifteen years to complete the purchase of land and finish the entire housing solution. Moreover, most of those engaged in the process do not receive technical assistance, resulting in poor quality control of the housing solutions.
- 1.16 Until now GOBA has acted as lead executor and financer of affordable housing, intervening in all stages of the housing production cycle, mainly through NHC housing-for-purchase projects, public rental housing and the lending mechanisms provided by the General Workers Loan Fund (GWLF). These programs were created in response to a lack of private sector affordable housing.
- 1.17 Affordable housing production by GOBA, mainly through NHC, has not been commensurable with the needs. Hidden subsidies have been applied in various stages of the housing production process. Land is sold at cost but below market

price, administration costs are not fully accounted for, interest rates are often subsidized, and arrears are very high in the GWLF and rental properties. In most cases these subsidies are not explicitly accounted for. This, along with bidding and selection procedures by NHC that need to be more open and modern, has led to an inefficient use of governmental resources.

- 1.18 NHC is a semi autonomous public institution, noteworthy for its inefficient delivery systems, dire financial situation and conflicting mandates. NHC has been mandated to address two objectives that are often at odds with each other: a social one aimed at providing housing solutions for the poor and a financial one aimed at making the NHC into a financially self-sufficient institution. These two mandates become contradictory when government does not assume the financial burden for the subsidies required to achieve the social mandate. In February 2005, NHC had 578 employees but its production was of only 25 new housing units in progress (including 20 through joint ventures with the private sector). NHCs estimated revenues represent only 59% of total operating and financial expenditures. Due to poor revenue collections, cash flows are insufficient to cover operating needs. All of these have made NHC a highly indebted institution.

**B. Recent country strategy to meet housing needs of lower income groups**

- 1.19 Three recent changes could make housing solutions more affordable to the lowest income sectors of the population on a sustainable basis. GOBA has recognized the potential and is willing to support the neighborhood upgrading process and has also made important improvements in its approach to the provision of affordable housing. The private sector - because of changes in the financial markets, excess liquidity and greater interest in reaching lower in the housing market - has made its financial and housing products more affordable.
- 1.20 GOBA confirmed these priorities in its Cabinet decision of September 11, 2003, in which it approved the housing and neighborhood upgrading program for low income families. In that resolution GOBA assigned overall responsibility for the program to the MHLE.
- 1.21 GOBA has recently introduced its Joint Venture Program (JVP) and Primary Home Program (PHP). Through these programs Government is shifting its role to one of more facilitation and supervision and bringing private sector as a partner in the development of affordable housing solutions, rather than merely as a contracted supplier.
- 1.22 With the JVP, Government has developed a model in which houses are built, by the private sector, on land that has been acquired by the MHLE and vested to NHC. Development costs and profits are split between government and the private sector developers. But while this scheme has been successful at developing upper middle and middle-income solutions, it has not been used for lower income groups. With the PHP, GOBA proposes to use a similar scheme for those groups. To do so, the PHP is also proposing new standards for its housing

units. The PHP was announced by Government in October 2004, but it is still to be fully implemented.

- 1.23 Changes in the conditions of the private sector also contribute to greater housing affordability. Liquidity in the banking sector has risen steadily during the past five years, almost doubling its value. This has resulted in a general reduction in the prime-lending rate of almost four points, which strongly correlates with mortgage rates (currently around 6.5-7.5%). This, in turn, has helped fuel a boom in the residential mortgage market. Commercial banks target the middle and upper class, but several credit unions are catering their products to lower income groups; however, given the very different nature of this clientele, they need technical assistance to do so.

### **C. The Bank's Strategy**

- 1.24 The primary objectives of the Poverty Reduction and Promotion of Social Equity Strategy of the Bank (OP-1002) are to: (i) strengthen human resource development through poverty reduction; (ii) strengthen environmental infrastructure; (iii) enhance the environment for and promote private sector development; and (iv) improve public sector management capacity. The program will support all four objectives. Furthermore, the program is compatible with the Bank's sector policy for "Urban Development and Housing" (OP-751), specially with its objectives of "improving the socioeconomic conditions of the urban population..." and that of "increasing the effectiveness of the institutions responsible for ... urban development.."
- 1.25 The Country Strategy of the Bank with the country (GN-2051-1), as defined in the latest programming mission (January 2005), includes this operation with a possible loan of US\$30 million.
- 1.26 The Bank has established a line of credit for project preparation and execution (PROPEF) (19/LC-BA) for a total of US\$3 million. Of that total, up to US\$750,000 have been programmed to be used in the preparation and initiation of this operation.

### **D. Coordination with other donors**

- 1.27 The Bank, with funds of the Canadian Technical Assistance Program (ATN/CT-8362/BA), is supporting the preparation of this operation. An intra regional technical cooperation will be prepared in order for country officials to visit similar experiences in other countries of the region.

### **E. Lessons learned**

- 1.28 During the preparation of this operation the lessons learned from similar experiences of the Bank in other countries have been taken into consideration. The Housing and Neighborhood Upgrading Program of Trinidad and Tobago

(1402/OC-TT), as well as other projects in the region, have taught us valuable lessons, among which the most relevant for this operation are:

**1. Neighborhood improvement**

- a. Involves actions to improve communities, yet the broad social return is city- and country - wide.
- b. It is an on-going, incremental process that needs careful, inventive preparation; it also requires strong community involvement, minimizing the disruption and relocation of existing residents.
- c. Effectiveness of these projects requires a comprehensive approach simultaneously addressing several aspects- social, physical, legal, environmental.
- d. Implementation requires institutional coordination, consensus building, and community participation; to obtain these, the Executing Unit of the program needs a certain degree of decision making autonomy and must maintain a strong presence in the neighborhood.

**2. Affordable housing**

- a. The reform of housing policies and practices is a political process, which requires strong political support. Accordingly, the design of reforms should be based on national realities and a broad consultation process.
- b. In the Caribbean, given the characteristics of the markets, efficient housing policies for lower income groups require a combination of public and private sector initiatives.
- c. Implementation of policy reforms should be phased, starting first with pilot projects, then adjusting procedures and gaining support gradually over time.

**F. Program Strategy**

- 1.29 The program will support those initiatives in the country, both in the public and private sectors, which make housing solutions more affordable to the lowest income sectors of the population (see Section B). While doing so it will make them more efficient by applying the lessons learned from other experiences. It will also seek the necessary institutional changes in MHLE and NHC needed for effective program implementation.
- 1.30 To do so the program introduces several key changes in the delivery systems for affordable housing and neighborhood upgrading, changes which complement themselves in terms of affordability and resource requirement. It will put into practice the concept of comprehensive neighborhood improvement with community participation as well as a more balanced approach between public and

private efforts in the provision of affordable housing, with greater fiscal transparency and budgetary planning. These policy changes have required ample consultation during the initial project formulation process with government and private stakeholders in the country. This consultation process is considered a vital initial investment for successful program design implementation.

- 1.31 In the affordable housing sector the program proposes three pilot programs that will support the PHP and incremental home construction, all of them based on existing initiatives in the country with a mix of public and private sector participation. The program seeks to increase efficiency and affordability in the existing processes.
- 1.32 The design process for the neighborhood improvement component has been based on a broad consultation with different political actors and is the starting point for the upcoming dialogue with the beneficiary community. It started with the analysis of a broad range of conceptual design alternatives for each site. As alternatives were selected their analysis was elaborated in greater detail, thus preparing them for the upcoming community consultation process.
- 1.33 Two special neighborhood upgrading sites are included in the program, based on their strategic location relative to the Bridgetown redevelopment effort, their links to economic activities, and the existence of a cohesive community fabric.
- 1.34 All the above are proposed as innovations to be included as pilot projects in the first phase of a two-phase program. The first phase aims at providing the basis for a strong second phase, introducing policy reforms, adjusting procedures and gaining support over time. It is expected that in a second phase the neighborhood improvement program will be established at a national level, and the pilot projects for affordable housing will be adopted and launched as national initiatives. The first phase is expected to be implemented in a five-year period, upon which, if successfully completed, a second phase with the same level of funding should start.
- 1.35 In its first phase, the program includes an important institutional strengthening effort that will support the modernization of NHC and the establishment of a neighborhood improvement unit in the Ministry of Housing. These institutional strategy and activities are designed based on an institutional analysis undertaken by Bank consultants, which included a SECI of MHLE and NHC. These two efforts should produce more effective and efficient institutions for the implementation of both phases of the program.
- 1.36 The program proposes a two-phase approach because of the amount and relevance of the policy reforms and housing production procedures being introduced by it. As mentioned above, during the first phase pilot programs, new procedures and regulations will be introduced, tested, adapted and disseminated. The sector institutions will have adapted to its new role and be more efficient and transparent. Thus, its purposes and indicators should reflect those goals. They should also be reflected in the triggers for the second phase; those triggers should



assure that: (i) an expanded and efficient government support system for affordable housing has been established; (ii) increased private sector resources have been mobilized in the financing of affordable housing; (iii) that a national policy and program for neighborhood upgrading is in place; and (iv) the MHLE and NHC are more modern, efficient and transparent institutions.

## **II. THE PROGRAM**

### **A. Objectives and description**

- 2.1 The objectives of the program are to: (i) improve the housing and neighborhood conditions of low and lower-middle income families and communities in Barbados; and (ii) improve and expand government housing systems affordable to households in the first four deciles of income.
- 2.2 Specific objectives of the program are to: (i) produce an improved and expanded government support system for affordable housing; (ii) increase the mobilization of private sector resources in the financing of housing affordable to households in the first four decile of the income distribution; (iii) create an efficient system of government support for the physical and social upgrading of low income neighborhoods; and (iv) adapt and strengthen public housing institutions.
- 2.3 To achieve its objectives the program will have three components: (i) neighborhood upgrading; (ii) support for the production of affordable housing; and (iii) sector and institutional strengthening.
- 2.4 **Neighborhood upgrading (US\$20 million):** includes: (i) the improvement of several prototype sites aimed at starting up a national neighborhood program, and (ii) the urban revitalization of two inner city neighborhoods in the central downtown area of Bridgetown.
- 2.5 About 500 families, in four to five sites, are expected to benefit from upgrading solutions, as a start up effort for a new national upgrading program (US\$10 million); of the latter, two prototype sites have been selected to date from a national inventory of low-income neighborhoods. The first one, Allen View (located on top of the Harrison's Cavern), a smaller, low density settlement typical of more rural areas, and a second one, Garden Land, a large development typical of urban areas. The other sites will be pre selected prior to final analysis of the program.
- 2.6 The national upgrading program will focus on improving infrastructure in the low-income neighborhoods (widening and paving access, drainage, sanitation, street lighting, and water distribution), complemented by other important interventions aimed at providing security of tenure, home improvements credits, and social programs.

- 2.7 The two special cases selected for urban revitalization in downtown Bridgetown (US\$10 million), Cat's Castle and Greenfield - with about 120 families each, will be upgraded by re-blocking plots in the site so as to improve their layout, create open spaces, and protect and rehabilitate historic buildings. Some two-story apartments will be built so that no households are displaced from their communities. The program will improve access, sanitation, reduce risk fires, eliminate flooding, provide street lighting, improve refuse collection, secure tenure and provide open spaces.
- 2.8 All upgrading projects will minimize disruption and relocation of existing residents, use appropriate and approved standards, involve the community, create a safe and healthy environment and improve the security of tenure. No households will be displaced from their communities.
- 2.9 **Support for the production of affordable housing (US\$12 million):** will support two complimentary subprograms, as follows: (i) subprogram I, aimed at improving the efficiency and expanding coverage and affordability for low income households for the PHP, and (ii) subprogram II, aimed at improving the effectiveness and coverage of the existing incremental home construction processes among households below the 4<sup>th</sup> decile of income.
- 2.10 Through subprogram I, the program will support the PHP by: (i) contributing seed capital to finance land acquisition and infrastructure development in a sustainable basis; and (ii) introducing a pilot housing subsidy program that will provide funding to convert existing indirect hidden subsidies into an upfront grant for new housing.
- 2.11 More specifically, the program will finance about US\$7 million for the acquisition and urbanization of land for 400 lots for the PHP. These lots will be made available to private sector builders, who will then build and sell houses under agreed standards and conditions affordable to the 2<sup>nd</sup> to 4<sup>th</sup> deciles of the population. Proceeds from the property sales will be channeled back to the PHP for the acquisition and development of future sites. The program will also finance US\$2 million in upfront grants of US\$5,000 to 400 families in the 2<sup>nd</sup> and 3<sup>rd</sup> decile so that they can afford houses produced by the PHP.
- 2.12 The effectiveness and coverage of the existing incremental home construction processes will be increased for households below the fourth decile by: (i) providing financial institutions, both public and private, with technical training for loan management related to incremental home construction for those groups, (ii) the funding of upfront grants both to increase access and reduce the length of the construction period, and (iii) providing technical support during design and construction to families building their houses through an incremental process. The program will finance upfront grants to about 600 families for their home improvement. Three million dollars will be invested in this sub component.

- 2.13 **Sector and institutional strengthening (US\$8 million):** will consist of: (i) the modernization of NHC including a review of its policies, organization and procedures; updating of its operational and financial information system, human resources training and establishing an internal auditing; (ii) strengthening of the MHLE land planning and management process; (iii) improvement of government's procedures for beneficiaries selection and targeting; (iv) the creation and consolidation of a unit within the MHLE for neighborhood upgrading; and (v) project administration and financial costs.

### **III. PROGRAM IMPLEMENTATION**

#### **A. The Borrower and executing agency**

- 3.1 The borrower for this operation will be the Government of Barbados. For its implementation, the program will rely on existing institutions, adapting them to their new roles, more as facilitators and more targeted towards the lower income groups. Thus, the program will be executed by the Ministry of Housing, Lands and Environment. The MHLE will assign responsibility for program coordination, monitoring and financial administration to a streamlined Program Coordination and Monitoring Unit (PCMU), specially created within the Ministry for this purpose.
- 3.2 The PCMU will depend directly on the Permanent Secretary of the Ministry. Its duties will include the planning, coordination, and monitoring of all aspects of program implementation as well as report preparation, procurement, disbursement of program resources, and interface with the Bank and GOBA government officials. The PCMU will ensure that all aspects of Program's Operating Manual (POM) are duly adhered to.
- 3.3 The PCMU will have two sub units, one will be responsible for the implementation of the neighborhood upgrading unit component (NUU) and the other will coordinate the affordable housing component unit (AHU). Once the institutional strengthening and reform process has been implemented, it is expected that these two units will become permanent within MHLE, as part of its new purpose of better targeting to the lower income groups. The PC should disappear after the program is implemented. The NHC and private developers will implement the PHP. The support to the incremental home construction will be the responsibility of those agencies, both private and public, already executing them.

#### **B. Program implementation, monitoring and evaluation**

- 3.4 The NUU will be responsible in the neighborhood upgrading process for the following: (i) site selection; (ii) design criteria; (iii) community participation; (iv) tendering and supervision of designs; (v) procedures for tendering, contracting and supervision of works; (v) coordinating process for granting security of tenure and land titling; and (vi) coordinating for the provision of social services.

- 3.5 Land titling in upgraded neighborhoods will be the responsibility of the Legal Department of the MHLE. The design and production of final drawings, and execution of physical works, will be carried out by private companies sub-contracted by MHLE.
- 3.6 The AHU will be responsible for the overall coordination, policy guidelines and monitoring of the affordable housing component. NHC and the private sector will be responsible for executing the component. AHU will assure that all lots financed by the program under the PHP, will be sold to the target population and will coordinate the home improvement sub-component. The MHLE will be responsible for the selection of the subsidy beneficiaries.
- 3.7 NHC and private developers will be responsible for the PHP project cycle. NHC will: (i) in conjunction with MHLE, identify and acquire land; (ii) design infrastructure development; (iii) tender, contract and supervise physical works; and (iv) supervise the construction of houses by private developers. Developed land will be provided by NHC to private developers through a joint venture agreement, who will finance and build houses in that land, and sell them as per the agreed program requirements. As previously noted, NHC is already doing most of these activities through its actual program, except that they are not target for the lower income groups.
- 3.8 AHU and private and public institutions will be responsible for the home improvement sub-program. AHU will be directly responsible for: (i) coordinating and sub contracting technical training to financial institutions for loan management related to incremental home construction for low income households; (ii) selecting beneficiaries for, and providing the up front grants; and (iii) funding the technical support provided during design and construction. Private and public financial institutions will select clients, approve credits, provide technical support and supervise construction.
- 3.9 Implementation of the activities of the sector strengthening component will be coordinated and supervised by the PCMU. The program will be implemented in a five-year period.
- 3.10 GOBA and the Bank will review at the end of each year the annual operating plan (AOP) and will agree on the AOP for next year. The program will finance and intermediate and final evaluations conducted by independent evaluators.
- 3.11 Procurement of goods and services will be done in accordance with the new policies of the Bank. During project preparation limits will be established for the different types of biddings and acquisitions and the procurement plan for the program will be prepared. No exceptions to the Bank's policies are expected.
- 3.12 The MHLE will present to the Bank yearly progress reports and financial statements audited by a firm of independent auditors and financed by the program.

#### **IV. DEVELOPMENT IMPACT**

##### **A. Benefits and beneficiaries**

- 4.1 The program is expected to produce an improved and expanded government support system for affordable housing, especially for families in the first four deciles of the income distribution. At the end of the program the concept of comprehensive neighborhood improvement will have been implemented, institutionalized and accepted by all key actors in the sector, as an effective way to provide a housing solution to some of the lowest income sectors of the population. Through the program's support to the PHP and the home improvement processes a greater percentage of government resources will go to benefit families below the 5<sup>th</sup> decile.
- 4.2 The role of government in policy making, regulation and monitoring of affordable housing and neighborhood improvement will be enhanced and their institutions adapted to this new role. A national upgrading policy will have been formulated and approved by government and the NUU will have been established as a permanent unit within the Ministry. Government will have tested, and hopefully efficiently adapted and adopted, the upfront grant system both for new homes and home improvement. A new, more transparent beneficiary selection system will be fully operational in the MHLE.
- 4.3 NHC will be a more efficient and modern institution. It will have reviewed and updated its policies, organization, procedures, operational and financial information system, trained its human resources and established an internal auditing.
- 4.4 The program will increase the mobilization of private resources into the financing of affordable housing. It will do so by helping private financial institutions increase the number and value of loans to families below the 5<sup>th</sup> decile and by making it more attractive for those lower income households to invest – through savings and/or home improvements – in housing.
- 4.5 Through the program about 600 families below the 5<sup>th</sup> decile will have improved their houses, 2,000 new houses for families in that same income group will have been built and 1,000 households living in neighborhoods will have improved their living conditions.
- 4.6 Improvements in the two special sites make the revitalization of the downtown area more likely. Conditions in those communities will be significantly better; hazards because of fire, unhealthy conditions and high densities will be reduced. The economic potential of both sites will increase when the project provides a better environment and link to the city center. Several historical buildings will be saved.

**B. PTI/SEQ classification**

- 4.7 This operation qualifies as a social equity-enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (document AB-1704). Furthermore, this operation qualifies as poverty targeted investment (PTI). The neighborhood improvement component is geographically targeted to the poor and the rest of the components specify their target audience as the population of the first four deciles of the income distribution.

**C. Environmental and social impacts**

- 4.8 The program is expected to have a positive impact in the environment mainly because of the provision of basic services to the squatter settlements that now do not have them. Many of the home improvement loans will also be used for the provision of basic services, reduce overcrowding or the construction of toilet facilities. Improvement in the two special neighborhood cases will also reduce fire hazard and overcrowding.
- 4.9 Several laws and regulations exist within the country to protect the environment, relevant among them are the National and Bridgetown Development Plans, the Coastal Zone Management Plan (produced with Bank support) and the regulations of the water and sewerage agency. The program will comply with all those laws and regulations.
- 4.10 Even though a positive environmental impact is expected from the project an impact assessment will be carried out to identify risks and prepare a Social and Environmental Analysis to ensure that the impact is the expected one. This strategy will give special consideration to ensure coordination with all agencies responsible for the provision of urban basic services, land use planning and effective community participation.
- 4.11 Key issues to be analyzed in the environmental analysis are: capacity of executing agencies to assure compliance with relevant laws and regulations, criteria for site selection, health and safety construction regulations, waste treatment capacity, potential resettlement and social exclusion. The analysis will propose a strategy to address those issues and recommendations for the program's operational manual.

**V. ISSUES**

**A. Design issues**

- 5.1 Cabinet assigned the responsibility for the preparation and implementation of the program to the MHLE. Based on that the program proposes the creation of two units within the MHLE (§3.3-3.6) who will be responsible for all issues related to affordable housing and neighborhood upgrading respectively. Given that different pieces of legislation assign those responsibilities to two different institutions (see

¶1.11), the proposed institutional set up for those units still needs to be discussed further with GOBA.

## **B. Program issues**

- 5.2 **Adequate response from both public and private institutions.** The program introduces a new way of doing business in the housing sector in the country, demanding new roles from both the public and private sectors. It proposes an improved and expanded government role for affordable housing, demanding its strong support for the concepts of integrated neighborhood improvement and incremental home construction. Private sector is expected to increase the mobilization of resources towards the lower income sectors. Institutions from these sectors will require time to adjust; leading to the risk of possible implementation delays. To counter this risk, during project preparation extensive consultation and dialogue has taken place to ensure the necessary political support and economic interest for this change. Also, the program includes, mainly in the sector and institutional strengthening component, several activities or mechanisms to assist in this transition.
- 5.3 The **NHC**, a weak institution with important deficiencies, will play a key role in program implementation while undergoing a significant process of reform. This may hinder project execution. To reduce this risk a diagnostic of the institution has been preformed, and - based on it - an action plan of minimum institutional requirements to be implemented in NHC before project approval has been agreed, as well as a preliminary set of institutional strengthening activities to be carried out during project implementation (the latter to be detailed during project preparation).

## **VI. PROGRAM PREPARATION AND ACTION PLAN**

- 6.1 The program has been widely discussed with GOBA to ensure necessary political support. This has resulted in a relatively well advanced level of project preparation. Necessary resources to continue and complete project formulation, as well as assist in project start up, are available from PROPEF funding. Based on this it is expected that the program could be presented for consideration of the Board of the IDB by June 2006.
- 6.2 Timely preparation of the PROPEF umbrella agreement by GOBA and its continued strong support and encouragement, are critical for the project to move ahead on schedule.

LOGICAL FRAMEWORK HOUSING AND NEIGHBORHOOD UPGRADING PROGRAM (BA-L1002)			
NARRATIVE SUMMARY	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	KEY ASSUMPTIONS
<b>Goal (Objective)</b> To improve the housing and neighbourhood conditions of low and lower-middle income families and communities in Barbados	<ul style="list-style-type: none"> <li>(x) % of the NHC resources are targeted at families below the 5<sup>th</sup> decile by 2013 (Baseline:.....)</li> <li>PHP and neighbourhood improvement programs have been implemented and accepted by all key actors in the sector</li> <li>Housing deficit reduced by (x) % by 2013 (Baseline:.....)</li> </ul>	<ul style="list-style-type: none"> <li>Government Reports</li> <li>Baseline Study conducted</li> <li>Program ex-post evaluation</li> </ul>	<ul style="list-style-type: none"> <li>GOB support for a more equitable housing policy remains strong</li> <li>Resources are provided to the HPU (MHE) to produce quarterly housing statistics</li> </ul>
<b>Purpose (Outcome)</b> An improved and expanded government support system <sup>1</sup> for affordable housing	<ul style="list-style-type: none"> <li>Number of total housing solutions (new<sup>2</sup> and improved<sup>3</sup>) produced with government support for the 1<sup>st</sup> to the 4<sup>th</sup> deciles has increased from (x) to (y) by 2009. (Baseline:.....)</li> <li>Average time for completing an incremental home has reduced by (x) years compared with the control group</li> </ul>	<ul style="list-style-type: none"> <li>Government Reports</li> </ul>	<ul style="list-style-type: none"> <li>GOB support for a more equitable housing policy remains strong.</li> <li>Institutional capacity is in place to produce reports</li> </ul>
To increase the mobilization of private sector resources in the financing of affordable housing	<ul style="list-style-type: none"> <li>(x) % increase in the number (or value) of loans disbursed by private institutions to families below the 5<sup>th</sup> decile by 2009 (Baseline:.....)</li> <li>Low-income households participating in government housing programs contribute (#) \$m in savings<sup>4</sup> (including land) by 2009.</li> </ul>	<ul style="list-style-type: none"> <li>Government and private bank reports.</li> <li>Program reports.</li> </ul>	<ul style="list-style-type: none"> <li>Interest of both the private and public sector in lower-income groups remains strong</li> <li>Social and economic stability</li> </ul>
To create an efficient system of government support for the physical	<ul style="list-style-type: none"> <li>Reduce the current inventory of households in substandard neighborhoods by (x) % by 2009.</li> </ul>	<ul style="list-style-type: none"> <li>Program reports</li> </ul>	<ul style="list-style-type: none"> <li>Political support for neighborhood upgrading remains high.</li> </ul>

<sup>1</sup> Including, but not limited to, the Primary Homes Program (PHP)

<sup>2</sup> Includes primary and core units

<sup>3</sup> Improvements to a primary place of residence

<sup>4</sup> Subject to definition of procedures for savings requirements



upgrading of targeted sub-standard <sup>5</sup> neighborhoods and security of tenure	<ul style="list-style-type: none"> <li>(#) Households have secure tenure status by 2009</li> <li>Each targeted community in the program has participated in the decision-making process for their upgrading project and have been consulted on community development priorities by 2009</li> </ul>	<ul style="list-style-type: none"> <li>Social surveys</li> <li>Program reports</li> </ul>	<ul style="list-style-type: none"> <li>Tenants satisfy the criteria for secure tenure</li> <li>Residents are willing to participate in the project</li> <li>Communities and government are open to the participatory process</li> </ul>
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COMPONENT	PHASE ONE (BY 2009)	PHASE TWO (BY 2013)	MEANS OF VERIFICATION	ASSUMPTIONS
<b>Products (Output/Inputs)</b>  <b>New housing construction</b>	<ul style="list-style-type: none"> <li>(#) New houses priced below US\$50,000<sup>6</sup> have been built for beneficiaries in the 1<sup>st</sup> four deciles</li> <li>All lands necessary for Phase I of the program have been vested in the NHC by 2007</li> </ul>	<ul style="list-style-type: none"> <li>(#) New houses priced below US\$50,000 have been built for beneficiaries in the 1<sup>st</sup> four deciles</li> <li>All lands necessary for Phase II of the program have been vested in the NHC by 2010.</li> </ul>	<ul style="list-style-type: none"> <li>Government Reports</li> <li>Program Reports</li> </ul>	<ul style="list-style-type: none"> <li>Access to serviced land for construction at reasonable prices and in appropriate neighborhoods.</li> </ul>
<b>Housing improvement</b>	<ul style="list-style-type: none"> <li>(#) Families below the 5<sup>th</sup> decile have improved their homes through the program</li> </ul>	<ul style="list-style-type: none"> <li>(#) Families below the 5<sup>th</sup> decile have improved their homes</li> </ul>	<ul style="list-style-type: none"> <li>MH</li> <li>Building Supply Companies</li> <li>Program Reports</li> </ul>	<ul style="list-style-type: none"> <li>Appropriate income verification procedures established.</li> </ul>
<b>Upgrading of low-income communities</b>	<ul style="list-style-type: none"> <li>The national upgrading policy has been formulated and approved by government.</li> <li>The community participation policy for upgrading has been defined &amp; incorporated in government programs.</li> </ul>	<ul style="list-style-type: none"> <li>(#) Communities are participating in the community development process.</li> <li>(#) Families living in</li> </ul>	<ul style="list-style-type: none"> <li>MH</li> <li>Ministry of Public Works.</li> <li>Program Reports</li> </ul>	<ul style="list-style-type: none"> <li>Communities are responsive to the organizational process.</li> </ul>

<sup>5</sup> Those exhibiting poor housing and/or road conditions; inadequate drainage and/or disposal of liquid and solid waste; underutilization of the housing stock and/or lack of or poorly maintained public space

<sup>6</sup> Total includes land, foundation and transaction/administrative costs in 2004 US\$

	<ul style="list-style-type: none"> <li>• (#) Neighborhood projects have been prepared</li> <li>• (#) Families living in neighbourhoods that have been upgraded</li> <li>• New rules and procedures for title regularization have been adopted</li> </ul>	<p>neighbourhoods that have been upgraded <sup>7</sup></p> <ul style="list-style-type: none"> <li>• (#) Families with secured land tenure</li> </ul>		
<p><b>Sector and institutional development</b></p> <p>To enhance the role of government in policy making; regulation and monitoring of housing and neighbourhood upgrading sectors</p> <p>To strengthen-and make more transparent-the beneficiary selection [and procurement process]</p> <p>A monitoring and evaluation System has been established in the MH</p>	<ul style="list-style-type: none"> <li>• MH, NHC, TPD and other targeted government bodies have adapted their institutions to their new role by 2009</li> <li>• The MH management information system is fully operational</li> <li>• The monitoring and evaluation system is fully operationalized and produces bi-annual reports</li> </ul>		<ul style="list-style-type: none"> <li>• MH</li> <li>• NHC</li> <li>• Executing Agency</li> </ul>	

**MH**= Ministry of Housing / **NHC** = National Housing Corporation (Executing Agency) / **TPD** = Town Planning Department.

<sup>7</sup> (# of families connected to the sewage system; # of families upgraded from pit toilet to water-bourne facilities; # of families with piped water in the house; # kilometers of road paved; # new connections to the electricity supply)