

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

BARBADOS

HOUSING AND NEIGHBORHOOD UPGRADING PROGRAM

PHASE I

(BA-L1002)

LOAN PROPOSAL

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ANNEX I: LOGICAL FRAMEWORK

PROPOSED RESOLUTION

Electronic Links and References	
Basic Socioeconomic Data	http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata
Status of Loan in Execution & Loans Approved	http://ops/approvals/pdfs/BAen.pdf
Tentative Lending Program	http://opsgs1/ABSPRJ/tentativelending.ASP?S=BA&L=EN
Information available in the files of ICF/FMM	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1004640
Procurement Plan	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1250079
Monitoring table for the policy on eligibility of expenditure	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1008145
Environmental and Social Management Report (ESMR)	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=1033773

ABBREVIATIONS

AHT	Affordable Housing Team
BMSC	Building Material Supply Companies
FI	Financial Institution
GDP	Gross Domestic Product
GOBA	Government of Barbados
GWLF	General Workers Loan Fund
HMIS	Housing Management Information System
ICB	International Competitive Bidding
JVP	Joint Venture Program
LAC	Latin America and The Caribbean
MHL	Ministry of Housing and Lands
MIS	Management Information System
NHC	National Housing Corporation
NPDP	National Physical Development Plan
NUT	Neighborhood Upgrading Team
OAG	Office of the Accountant General
PCMU	Program Coordination and Monitoring Unit
PHP	Primary Home Program
POM	Program's Operating Manual
PROPEF	Project Preparation Fund
PS	Permanent Secretary
SECI	"Sistema de Evaluación de Capacidad Institucional"
SSC	Subsidy and Selection Committee
TOR	Terms of Reference
UCD	Urban Development Commission

PROJECT SUMMARY
BARBADOS
HOUSING AND NEIGHBORHOOD UPGRADING PROGRAM – PHASE I
(BA-L1002)

Financial Terms and Conditions ¹					
Borrower: Government of Barbados (GOBA) Executing Agency: Ministry of Housing and Lands (MHL)				Amortization Period:	20 years
				Grace Period:	5 years
				Disbursement Period:	5 years
Source	Amount Phase I (million US\$)	Amount Phase II (million US\$)	Total (million US\$)	Interest Rate:	Libor
IDB (OC)	30	30	60	Supervision and Inspection Fee:	0,0%
Local	10	10	20	Credit Fee:	0,25%
Total	40	40	80	Currency: US\$ from Single Currency Facility	
Project at a Glance					
Project objectives: To improve the housing and neighborhood conditions of low and lower-middle income families and communities in Barbados; and to improve and expand government housing systems that are affordable to households in the first four deciles of income. 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 formal financing of housing affordable to households in the first four deciles 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.					
Special contractual clauses: See ¶3.4.					
Exceptions to Bank policies: None.					
Project consistent with Country Strategy: Yes [X] No []					
Project qualifies for: SEQ[X] PTI[X] Sector [X] Geographic[] Headcount []					
Verified by CESI on: June 28, 2007.					
Procurement: See: ¶3.23; ¶3.24; and ¶3.25.					
The procurement of works, goods and consulting services will be done in accordance with the Bank's new procurement policies and procedures (documents GN-2349-7 and GN-2350-7). The thresholds for international competitive bidding (ICB) will be US\$250,000 for goods contracts, US\$3 million for civil works, and US\$200,000 for consulting services, social communication and training. Calls for tender will be published in Contranet.					

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

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

I. FRAME OF REFERENCE

A. 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 Latin America and the Caribbean (LAC) countries in terms of social and economic indicators. Its Human Development Index is currently the highest (31st) among all countries in the region. Its per capita Gross Domestic Product (GDP) (US\$9,850)¹ is more than double the average for the region. 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 non-tradable 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 tripled, climbing from US\$2.25 to US\$7.50 per square foot. Affordable housing projects cannot compete against high-end development prospects for the very limited supply of land tracts available on the island market. Indeed, the only way to assemble land tracts for affordable housing projects in Barbados today is through compulsory government acquisition. This, in turn, has obliged government to take a stronger, more direct, role in the purchase and development of land for affordable housing, than is the case in other countries.
- 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

¹ Barbados Economic and Social Report 2006.

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 the Bridgetown urban district and, further inland, Harrison's Cave. 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. This plan, which is primarily concerned with the commercial districts of the downtown area, does not include two important low-income residential neighborhoods, Cats Castle and Greenfield, immediately adjacent to the commercial revitalization zone. Both neighborhoods have cohesive communities, and a historical and cultural heritage that is closely linked to the downtown area's identity. However, the substantial physical and social deterioration of the two neighborhoods – including lack of basic infrastructure, substandard and overcrowded housing, and safety issues – are increasingly seen as bottlenecks to the broader revitalization efforts in the downtown area.

B. The sector

- 1.8 An estimated 900 new housing units are needed per year in Barbados in order to serve new household formation. A similar number of additional units (approx. 800) are needed each year in order to replace deteriorated housing stock. The formal supply of finished housing in the country usually only reaches households above the fourth decile of income. The most affordable housing currently offered on the market is priced around B\$75,000 -- typically a small two bedroom unit built of hardwood. At current lending rates of 6 – 7 % per annum these units require a minimum household income of B\$18,000 – an amount in the upper threshold of the third decile of income in the country. However, very few homes are offered on the market at this price; most houses produced in the market are priced above B\$100,000, affordable only to households in the upper fourth decile of income.

- 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 cases, 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: street improvements, 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 A key factor that has allowed government to provide their limited supply of new affordable houses has been the acquisition and provision of land. Government acquires land using two mechanisms, either compulsory land acquisition or private treaty. The land for development that government has vested in the Ministry of Housing has been scarce and has mainly been used in projects for middle-income groups. Acquiring land in the private market in Barbados at prices affordable to the lower income groups is very difficult. According to the law, land obtained through compulsory acquisition can only be used for public projects and government has to be the owner until it transfers the developed housing to the final beneficiaries. This requirement places limitations on public-private partnerships.
- 1.11 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.
- 1.12 Government has enacted three pieces of legislation that currently regulate the redevelopment of low-income neighborhoods. These are the Housing Act Cap 226, The Urban Development Commission (UDC) Act, and the Tenancies Development and Control Act. The first confers upon the Ministry of Housing and Lands (MHL) 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 urban slum redevelopment. The Amended Tenancies Freehold Purchase Act regulates the right of families, where five or more of them live in the same piece of land, to acquire the land.
- 1.13 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 and relocation of residents. 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 upgrading as an alternative to the above and as an effective tool to achieve its objective of having mixed socio-economic communities.

- 1.14 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.
- 1.15 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 interest in moving even further down-market in servicing this segment of the market.
- 1.16 The incremental construction of a new house is typically a lengthy process, in particular those financed by building material suppliers. Since this approach functions without the support of mortgage guarantees, strict limits are placed on the amount that can be borrowed at any one time (US\$1,500 on average). Revolving credit is offered to borrowers who are required to make weekly or monthly payments to reduce the outstanding balance, before they can access more credit. As a result, it can take up to ten 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.
- 1.17 Until now GOBA has acted as lead executor and financier 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.
- 1.18 Affordable housing production by GOBA, mainly through NHC, has experienced pricing and cost recovery problems. Land has been sold at cost but below market price, administration costs have not been fully accounted for, and arrears have been high in the GWLF and rental properties. In most cases these subsidies have not been explicitly accounted for. This, along with financial and selection procedures by NHC that need to be more open and modern, has led to an inefficient use of governmental resources. Some of these limitations have arisen from obsolete financial information systems.
- 1.19 Other issues have arisen from NHC having 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. As a result, NHC as a semi autonomous public institution presents a poor financial situation. Its estimated revenues represent only 59% of total operating and financial expenditures. Due to poor revenue collections, cash flows have been insufficient to cover operating needs.

C. The country's sector strategy

- 1.20 Three recent changes could make housing solutions more affordable to the lowest income sectors of the population on a sustainable basis. In the first place, GOBA has made a commitment to systematize its subsidy and system in support of new affordable housing units. In the second place, Government has recognized the important shelter needs of low-income neighborhoods, as an important segment of its overall housing and shelter policy, agreeing to put in place – for the first time – an integrated neighborhood upgrading process in the country. In third place, the private sector - because of changes in the financial markets, excess liquidity and greater interest in reaching lower income groups in the housing market - has made its financial and housing products more affordable.
- 1.21 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 MHL.
- 1.22 GOBA has recently introduced its Joint Venture Program (JVP) and Primary Home Program (PHP). Through these programs Government is: (i) enhancing its role of facilitator and supervisor and bringing the private sector as a partner in the development of affordable housing solutions, rather than merely as a contracted supplier; and (ii) focusing its housing products more in the lower income groups.
- 1.23 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 MHL and vested² 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.
- 1.24 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

² Property remains with The Crown but use with NHC.

prime-lending rate of almost four points, which strongly correlates with mortgage rates (currently around 7 - 8%). 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.

- 1.25 To support these priorities and policies MHL is currently processing one important proposal for Parliament approval, the Special Community Improvement Act; and has recently approved a Cabinet Paper authorizing new policy on housing subsidies and beneficiary selection.
- 1.26 The Special Community Improvement Areas Act establishes a number of development instruments and procedures critical for the upgrading process, including: a mechanism allowing government to intervene in the approved neighborhoods for the compulsory acquisition of needed lands and buildings; guarantees for current neighborhood residents to maintain their ownership or occupancy rights; and procedures for community consultation³.
- 1.27 The Cabinet Paper on housing subsidies aims at improving the efficiency and transparency of government subsidies in the housing sector. Specifically, for the first time, it defines explicit categories and parameters of subsidies to be applied for both the purchase of new homes as well as for incremental home construction. It also defines transparent eligibility criteria and selection procedures for access to the new housing subsidy system.

D. The Bank's sector strategy

- 1.28 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 "...provide infrastructure and essential urban services, seeking to increase the coverage and effectiveness of such services and to make them more accessible to the low-income sectors." and that of "increasing the effectiveness of the institutions responsible for ... urban development.."
- 1.29 The Country Strategy of the Bank with the country (GN-2395), as approved by the Board (May 2006), includes this operation with a possible loan of US\$30 million. It does so recognizing "low-income housing and neighborhood upgrading

³ Specifically, the legislation requires a landlord to maintain the current tenancy agreement for a period of three years after completion of the upgrading project, incentives to the landlord to improve leased property, regulations to deal with residents who do not currently occupy their property, as well as regulations for landlords who want to sell their property in the first five years after the project.

as a priority infrastructure area ... which will support competitiveness of the tourist industry ... and combat social distress.”

- 1.30 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 start up of this operation.

E. Coordination with other Donors

- 1.31 The Canadian Technical Assistance Program supported the Bank in the preparation of this operation with a technical cooperation project (ATN/CT-8362/BA).

F. Lessons learned

- 1.32 During the formulation of the program a number of valuable lessons learned from similar Bank operations in other countries have been taken into consideration – including some housing sector programs currently under execution in other English Caribbean countries (Trinidad and Tobago: Low Income Settlement Program (1402/OC-TT) and Guyana: Low Income Settlement Program (1044/SF-GY) among which the most relevant are:

1. Neighborhood improvement

- a. Neighborhood upgrading is an on-going, incremental process that needs careful preparation, and continuous attention to consensus building and community involvement, minimizing the disruption and relocation of existing residents.
- b. Effectiveness of these projects requires a comprehensive, multi-sectoral approach, simultaneously addressing several dimensions: social, physical, legal, financial, and environmental.
- c. Implementation requires effective institutional coordination and community involvement; 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 public and private partnership, with a significant public sector presence.

- c. Implementation of policy reforms should be phased, starting first with pilot projects, adjusting procedures and gaining support gradually over time.

G. Program strategy

- 1.33 The program introduces several key changes and improvements in the delivery systems for affordable housing and neighborhood upgrading in Barbados, building on initiatives – public and private – recently put in place by government but insufficiently consolidated. It will put into practice a 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 enhancements have been obtained thanks to a process of ample consultation during the project formulation process with government and private stakeholders in the country⁴. This consultation process is considered a vital initial investment for successful program design implementation.
- 1.34 In the affordable housing sector the program proposes three pilot programs that will support the incipient PHP program as well as a new initiative that addresses incremental home construction needs. With the help of the program, existing mechanisms or programs will be strengthened and consolidated around new, more effective criteria of efficiency and affordability.
- 1.35 The design process for the neighborhood improvement component has been based on a broad consultation with different political actors and was the starting point for the 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 consultations.
- 1.36 As noted earlier, two high priority, special neighborhood upgrading sites have been included in the program, selected because of their strategic location relative to the commercial redevelopment effort in downtown Bridgetown, their strong potential links to economic activities in the downtown area, and the cohesive community fabric that characterizes the neighborhoods.
- 1.37 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.

⁴ As well as a significant and long term technical assistance effort by Bank, over the last ten years, in support of the housing sector institutions in the country.

- 1.38 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 MHL. These institutional strategy and activities are designed based on an institutional analysis undertaken by Bank consultants, which included a “Sistema de Evaluación de Capacidad Institucional” (SECI) of MHL and NHC. These two efforts should produce more effective and efficient institutions for the implementation of both phases of the program.
- 1.39 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 their new roles and be more efficient and transparent. Thus, its purposes and indicators reflect these goals. They are also reflected in the triggers for the second phase; those triggers 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; and (iii) the MHL and NHC are more modern, efficient and transparent institutions.

II. THE PROGRAM

A. Objectives

- 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 that are 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 formal 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.

B. Description

- 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) institutional strengthening.
- 2.4 **Neighborhood upgrading (US\$23.2 million):** includes: (i) the improvement of several sites aimed at starting up a *national neighborhood upgrading program*, focused on periurban and rural sites, and (ii) *urban rehabilitation of two inner city neighborhoods* within the downtown revitalization area of Bridgetown.

- 2.5 About 2000 families, in about thirty sites, are expected to benefit from upgrading solutions linked to the new national upgrading program (US\$12.4 million). Five prototype sites (350 families) have been selected to date from a national inventory of low-income neighborhoods and their upgrading projects prepared. The first one, Allen View (located on top of the Harrison's Cave), a smaller, low-density settlement typical of more rural areas; a second one, Garden Land, a large development typical of urban areas; and three other smaller more suburban types of settlements are included. The other sites to be upgraded by the program in the first 18 months have been pre selected (see technical files).
- 2.6 All sites to be upgraded should: (i) be identified in the National Physical Development Plan; or approved for special development under the Special Community Improvement Areas Act; (ii) either have a deficiency or lack at least two of the basic services (see ¶1.9); (iii) have an organized community which supports the upgrading project; and (iv) have an upgrading plan that does not exceed the limit of US\$8,000/family.
- 2.7 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 (not part of the program) aimed at providing security of tenure, home improvements credits, and social programs. The maximum investment for regular neighbourhood upgrading projects is US\$8,000 per family. Acceptions to this ceiling would require MHL approval and IDB no-objection.
- 2.8 Additionally, in support of the *revitalization process currently underway in downtown Bridgetown*, the two strategically located inner city, low-income neighborhoods in the downtown area—Cats Castle and Greenfield—with about 100 families each, will be upgraded by reblocking plots in the site so as to improve their layout, create open spaces, and protect and rehabilitate historic buildings (US\$10.8 million). Some apartments will be built on site so as to accommodate households displaced by the reblocking exercise, and allow for greater densities and open spaces. The program will improve access, sanitation, reduce risk fires, eliminate flooding, provide street lighting, improve refuse collection, secure tenure and provide open spaces.
- 2.9 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.
- 2.10 No beneficiary financial contribution is required from residents towards the investment costs of the neighbourhood upgrading projects. For the two special neighbourhood upgrading sites, some façade improvement to repair and upgrade old commerical and residential buildings that are in disrepair may be required to improve the visual quality of the neighbourhood and to preserve those buildings that are on the national registry of historic buildings. In the event that façade

improvements are included in the neighbourhood upgrading project, joint ventures with town and business owners would be sought.

- 2.11 In the case of households awarded new apartment units in the two special case neighborhoods in downtown Bridgetown, and recognizing the significant improvements in housing quality these households will experience with their new units, the latter will be expected to partially repay the cost of the new units. However, the majority of cost of the units will still be subsidized, in recognition of: (i) the severe affordability constraints of the households that will be selected for these units⁵; and (ii) the important social benefits that accrue to all the families in the neighborhood by relocating these households into high density housing and thus freeing up space for collective infrastructure, streets and green spaces. In the case that actual residents are tenants they will receive a lease on the apartments, with NHC holding the property.
- 2.12 It is recognized that upgrading projects of this nature require community consultation and participation in the planning and design of the project to ensure sustainability. The programme developed a community involvement strategy that allows community input into upgrading designs and community development actions and ensures good communication between residents and the programme. As part of this strategy, community liaison officers will be hired from the communities and a public awareness strategy will be developed for the programme (US\$1.2 million).
- 2.13 **Support for the production of affordable housing (US\$12 million):** will support two complimentary subprograms, as follows: (i) a *new homes subprogram*, aimed at strengthening the current PHP program to expand the supply of new, fully-built affordable homes by approximately 100 units per year; and (ii) an *incremental home construction subprogram*, aimed at strengthening the effectiveness and coverage of the incremental home construction process for lower income households by providing partial packages of technical assistance and subsidies for approximately 120 households per year.
- 2.14 The *new homes subprogram* will strengthen and expand the existing PHP in two important ways: (i) setting up and funding a more sustainable mechanism for the joint public-private land development and construction of affordable homes; and (ii) introducing a pilot housing subsidy program to increase the affordability of PHP homes.
- 2.15 More specifically, this subprogram will finance US\$7 million for land acquisition and development of 400 lots for the PHP. These developed lots will be made available to private builders, who will then finance, build and sell the houses, in a joint venture with government, under agreed standards and conditions affordable to the second to fourth deciles of the population. Proceeds from the property sales

⁵ The majority of the expected beneficiaries will be elderly, single-person households with minimal sources of income and a high percentage of them are tenants.

will be channeled back to the PHP for the acquisition and development of future sites. The initial investment of the program will allow for the acquisition and development of land for 400 lots; an estimated 200 additional lots will be developed with the funds that are recovered during the life of the program.

- 2.16 In order to increase the affordability of PHP homes, this subprogram will also finance US\$2 million in grants of US\$5,000 per household, for a total of 400 families in the second to fourth decile. The grants, which will be provided on an upfront basis, may be applied towards the purchase of a home under the PHP or towards the purchase of a new home outside of the PHP. The maximum total cost of a house that may be purchased through the PHP, using a subsidy from the program, is B\$100,000 (US\$50,000). At least 20% of these houses must have a total value equal to or below B\$70,000 (US\$35,000). Houses in this price range correspond to a two bedroom masonry-constructed house and a one-bedroom basic hardwood house, respectively. In the case of new homes that are purchased outside of the PHP, the house may be constructed on land owned by the new home owner, or on land developed and sold by the private sector; in either case, the total cost of the final house (and property) should not exceed B\$110,000 (US\$55,000) – US\$5,000 more than the PHP, to compensate for the current subsidy on developed land sold through the PHP.⁶
- 2.17 The *incremental home construction and improvement subprogram*, in turn, will strengthen the existing incremental construction processes for households up to 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) funding upfront grants both to increase access and reduce the amount of time required for incremental home construction; and (iii) providing technical support during design and construction to families building their houses incrementally. Under this subprogram about 600 families will receive upfront grants of up to US\$5,000 for their home construction or improvement; these grants will be offered as a financial package covering both technical assistance requirements as well as a construction subsidy. Three million dollars will be invested in this sub component.
- 2.18 Through this subprogram, the operation will support the completion of integral projects that result in a technically complete housing solution, for example: improvements to existing houses, such as a new roof or floor; room additions – bedrooms, bathroom, or kitchen; or completion of a core house. The program will only finance up to 70% of the total cost of the improvement/addition up to a maximum of US\$5,000. The applicants must be able to finance the amount required to complete the project and must demonstrate the same.

⁶ Under the PHP, developed land is sold for B\$7.00 per square foot, some B\$3.00 per square foot below the current market rate of around B\$10.00 per square foot. On a 3,000 square foot property (the average size of a PHP property), this amounts to a subsidy of B\$9,000 per lot.

- 2.19 Eligibility criteria for both subprograms stipulate that applicants must: (i) be a citizen of Barbados; (ii) joint applicants must have a combined annual income of less than B\$22,500; (iii) be a first-time home buyer and neither the applicant or his/her spouse own a house, except for those applying for the incremental home construction program, who should only own the house to be improved; and (iv) when financing is required to either buy a house or finish an incremental home project, the complementary funding must be pre-approved by a financial institution.
- 2.20 **Institutional strengthening (US\$1.5 million):** will consist of: (i) the modernization of NHC – with emphasis on its financial administration and information; (ii) strengthening of the MHL land planning and asset management process; (iii) improvement of government's procedures for beneficiaries selection and targeting; (iv) the consolidation of two units, so as to become permanent within the MHL structure, for neighborhood upgrading and affordable housing; and (v) funds for the preparation of projects for both phases of the program.
- 2.21 More specifically, the strengthening of financial information and administration systems at NHC will consist of: (i) the installation of a new accounting system (Smart Stream System) with a module for cost accounting, allowing not only for a modernization of NHC's accounting system, but for interface with the Barbados Treasury; (ii) the improvement of the agency's financial operating systems (Loans, Rental and Payroll), thereby strengthening accounting controls for these systems and substantially improving the tracking of rents and loan collections; (iii) modernization and standardization of information system equipment; and (iv) modernization of the NHC website to permit submission on line of loan and rent applications and enquiry of balances.
- 2.22 Within MHL, in turn, a land inventory system will be created to monitor and control the acquisition and transfer of parcels of land from MHL to NHC, as well as subsequent use of the land in housing projects by NHC. This system will be tied to the new cost accounting system at NHC thereby strengthening the available information on financial reflows into the PHP from sale of PHP homes and/or developed lots. Also within the MHL, at the request of the GOBA authorities, the program will provide pre-investment funding to study possible improvements to the country's public asset management system, under responsibility of the Ministry. The program will also finance the creation and start up operation of the MHL resource center. It will consolidate, update and make available the necessary technical information and provide technical assistance to strengthen and update the Ministry's Document Management System responsible for the storage and management of official documents and files.

C. Cost and financing

- 2.23 Total project cost for the first phase is US\$40 million of which US\$30 million will be IDB's contribution (75%) and US\$10 million will be local counterpart

(25%). A second phase for another US\$40 million has been programmed. Table II-1 shows the distribution of cost by component and funding source:

Table II-1
Total Project Costs (US\$ Million) – Phase I

Item	IDB	LOCAL	TOTAL	
	US\$	US\$	US\$	%
I. Neighborhood upgrading	18.0	5.2	23.2	58
1.1 Periurban neighborhood improvement	11.2	0.0	11.2	28
1.2 Urban rehabilitation of inner-city neighborhoods	5.6	5.2	10.8	27
1.3 Community participation	1.2	0.0	1.2	3
II. Affordable housing	9.0	3.0	12.0	30
2.1 PHP program support – land acquisition and development	4.0	3.0	7.0	18
2.2 PHP program - family subsidies for new houses	2.0	0.0	2.0	5
2.3 Incremental home construction	3.0	0.0	3.0	7
III. Institutional strengthening	1.5	0.0	1.5	4
IV Administrative and financial cost	1.5	1.8	3.3	8
4.1 Project unit	0.0	1.8	1.8	4
4.2 Evaluations and audits	0.1	0.0	0.1	0
4.3 Preparation, supervision and design of projects	1.4	0.0	1.4	4
Totals	30.0	10.0	40.0	100

- 2.24 Local funding will be used to complement the financing for the upgrading of the two special cases, acquisition and urbanizing of land for the PHP program, and the project unit.

D. Second Phase Triggers

- 2.25 Table II-2 presents the triggers for the second phase of the program. It is expected that these indicators will be achieved 48 months after the start of the program. Their means of verification are listed on table II-2 and in the logical framework (see annex I). The objectives of the first phase should be achieved independently of the second. In the first phase the support systems, both in the public and private sectors, for neighborhood upgrading and affordable housing should be established and the NHC and the MH should be strengthened. Those achievements should be the basis to consolidate and expand the systems for neighborhood improvement and affordable housing in the second phase.

Table II-2
Triggers for the Second Phase of the Program

Key Objective	Phase II Triggers (By the end of year 4)	Information Source
An improved and expanded government support system for affordable housing and neighborhood upgrading.	<ul style="list-style-type: none"> Progress in the implementation of the Special Community Improvement Act as reflected in that at least fifteen neighborhoods have been improved in an integrated and participatory way and design for ten other sites has been completed. At least 200 subsidies for incremental home construction and 100 for new houses have been awarded to families in the first four deciles of the income distribution. 	Project reports and mid-term evaluation
Increase the mobilization of private sector resources in the financing of housing affordable to households in the first four deciles of the income population.	<ul style="list-style-type: none"> At least 400 lots have been developed and made available to private sector to build houses on them; 320 of those houses have a total cost of less than B\$100,000 and 80 less than B\$70,000. At least 75% of the 100 families that were awarded the subsidies for new houses have received loans from the private sector and used the total amount to buy a new house. The 200 families that were awarded the subsidies for incremental home construction have mobilized complementary private sector resources to improve their housing units. 	Project reports, mid-term evaluation and financial intermediaries reports.
Adapt and strengthen MHL and NHC.	<ul style="list-style-type: none"> A more efficient and transparent beneficiary selection system based on a random selection process and a proxy means test is in operation for both MHL and NHC. New information and financial systems are in operation in both NHC and MHL. 	Project reports and mid-term evaluation.

III. PROGRAM EXECUTION

A. The borrower, guarantor 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 MHL. The MHL will assign overall responsibility for program coordination, monitoring and financial administration to the Permanent Secretary (PS) of the MHL.
- 3.2 To assist the PS with his responsibility for program coordination, monitoring and financial administration a streamlined Program Coordination and Monitoring Unit (PCMU), has been created within the Ministry. The PCMU reports directly to the

PS of the Ministry. Its duties 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 government officials. The PCMU ensures that all aspects of Program's Operating Manual (POM) are also duly adhered.

- 3.3 The PCMU has two sub teams: a Neighborhood Upgrading Team (NUT) responsible for the implementation of the neighborhood upgrading component and an Affordable Housing Team (AHT) that will coordinate the affordable housing component. Once the institutional strengthening and reform process has been implemented, it is expected that these two units will become permanent within MHL, as part of its new purpose of better targeting the lower income groups. 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. Project execution and administration

- 3.4 Project execution and administration will be regulated by its POM, a draft of which has been produced and agreed with the MHL during project preparation. **Official enhancement by the MHL of the POM is a condition for first disbursement of the project.**
- 3.5 The NUT will be responsible in **the neighborhood upgrading process** for the following activities: (i) site selection; (ii) design criteria; (iii) community participation; (iv) tendering and supervision of designs; (v) procedures for tendering, contracting and supervision of works; (vi) coordinating the process for granting security of tenure and land titling; and (vii) coordinating the provision of social services.
- 3.6 Sites have been pre-approved as eligible for neighbourhood upgrading for the first 18 months of the project. Neighbourhoods were selected using criteria which conform with the National Physical Development Plan and those listed on ¶2.6. Any additional neighbourhoods beyond the pre-approved list has also to meet these requirements and would require the approval of MHL as well as the no-objection of the IDB.
- 3.7 Special Community Improvement Areas Act (see ¶1.26) is the instrument that will allow MHL to intervene and guarantee legal rights in a site defined for special community improvement. Thus, its entry into effect is a requirement for the implementation of the inner-city neighborhood revitalization subcomponent. The design and production of final drawings will be carried out either by private companies sub-contracted by MHL or, in the case of small neighborhoods, by the NUT. Execution of physical works will be done by private contractors.
- 3.8 The community consultation process is detailed in the program's Community Action Plan. As part of this plan, information meetings will be held with the

- community to introduce the program and the proposal for neighbourhood upgrading. The NUT, in collaboration with the Community Coordinator, will provide follow-up and hold meetings to prepare for visits by the neighbourhood upgrading design consultant. Before the preparation of final designs for the neighbour upgrading and before construction detailed design work begins, the community has to demonstrate its support for the proposed works. Once work commences, meetings will be held to coordinate and prepare the community for the work to be carried out. Community liaison officers will keep the community abreast of what is going on and assist in mediating any problems that may arise.
- 3.9 The two special cases of neighborhood improvement in downtown Bridgetown require temporary relocation during construction for certain families. This will be done in accordance to the Community Action Plan. The HNUP will provide suitable temporary lodging free of cost to the affected residents.
- 3.10 The AHT 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. For the **new homes subprogram**, AHT 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 MHL will be responsible for the selection of the subsidy beneficiaries.
- 3.11 NHC and private developers will be responsible for the PHP project cycle. NHC will: (i) in conjunction with MHL, 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 selected through a public tendering process. Developed land will be provided by NHC to the selected private developers, through a joint venture agreement, who will finance and build houses in that land, and sell them in accordance with program rules as outlined in the program operating manual concerning target population and selling prices. As previously noted, NHC is already doing most of these activities through its actual program, except that they are not only targeted for the lower income groups.
- 3.12 MHL acquires the land, usually through a compulsory acquisition, and vests it in NHC. NHC designs, tenders, contracts, and supervises the infrastructure development. Once the land is urbanized, NHC enters into a partnership with private developers for them to build houses. However, in those partnerships, since the acquisition process allows the transfer of land only to the final beneficiaries, government keeps the ownership of land and makes it available to private contractors, selected through a public tendering process, for them to build houses which have to comply with the specifications set by NHC (in this case total price ceiling of B\$110,00 and B\$100,000).
- 3.13 To buy the houses produced by the program some families will need both a grant and a loan from a financial institution. Families will apply for both through the

financial institutions (FI). Annual income declared by the applicants will be verified by the FI through which the application is made. Verification will involve the filling out of a questionnaire to report both income and consumption, and desk-revision of the documents provided by the applicant. The reported combined annual income will be cross-verified through a proxy means test that has been developed during project preparation and that the MHL is incorporating into its selection process. To promote greater efficiency in the beneficiary selection process, a Housing Management Information System (HMIS) will be developed that would condense and accelerate the application procedures.

- 3.14 Applications that both, satisfy the eligibility criteria for subsidy and are pre-approved for a loan, will be sent by the FI to the AHT for revision and final selection for the grants. Final selection among those applicants that fulfilled the eligibility criteria will be done using a random selection system. The Cabinet has already approved this system, which will involve the computerized selection of applicants based on agreed ranking criteria inclusive of number of families per household, the elderly or specially challenged persons living within households. AHT will make available to the public the results of the grant selection process, notify the FI and transfer the upfront grant to the beneficiary's account in the FI, so it may be used as the initial payment for the house. This process is regulated in the recently approved Cabinet Paper for housing subsidies.
- 3.15 With the funding from the loan and the grant the families will buy their new house, from both NHC and/or the private developer. Funds from the sale of the new houses will be used to pay both the private developer for the house and GOBA for the developed land. Payment made to NHC for the sale of the land reverts back to the Land Acquisition and Development Fund within NHC, via the office of the Accountant General. The Land Acquisition and Development Fund will only finance the acquisition and urbanization of land for families in the first four deciles of the income distribution.
- 3.16 A Subsidy and Selection Committee (SSC) will be established in the MHL. The SSC will approve all upfront grants, and review and establish the maximum income threshold and the annual budget for each type of subsidy. This committee will comprise the PS in the MHL, a representative from the NHC, the Project Officer for Affordable Housing, the Senior Accountant from the HNUP and a representative from the Accountant General's office. The HMIS will provide the mechanisms for the SSC to carry out its functions and respond in a timely manner. The income thresholds for the subsidies will be reviewed annually to adjust for inflation. The annual budget per type of subsidy will be the basis upon which the maximum number of applications to be received by the FI will be established.
- 3.17 AHU and private and public institutions will be responsible for the **incremental home construction** sub-program. AHT 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; (iii) funding the technical support provided during design and construction; and (iv) providing oversight of the incremental home construction process. Financial institutions and building material supply companies will select clients and approve credits to complement the grants. Technical assistance to the families will be provided by specialized local institutions (polytechnic institute, NGO).
- 3.18 Families improving their house through an incremental home construction process will apply for funding through participating financial institutions and building materials supply companies (BMSC). Institutions like the Polytechnic will assist the applicants in transforming their needs into a simple technical and financial application. That application will include a questionnaire to report both income and consumption and will be presented by the family to the FI or BMSC.
- 3.19 Applications that both, satisfy the eligibility criteria for subsidy and are pre-approved for a loan, will be sent by the FI or BMSC to the AHT for revision and final selection for the grants. Final selection among those applicants that fulfilled the eligibility criteria will be done by the SSC using a ranking selection system. AHT will make available to the public the results of the grant selection process, notify the FI or BMSC and transfer the upfront grant to the beneficiary's account in the FI or BMSC so it may be used for the home improvement.
- 3.20 The funding provided by the FI or BMSC and the grant will be used by the families for the incremental home construction. The technical assistance institutions will continue supporting the families throughout that process, assuring greater quality control and that the funds are spent on the home improvement project they were intended for.
- 3.21 Implementation of the activities of the **sector-strengthening component** will be coordinated and supervised by the PCMU. Actual responsibility for execution (preparation of Terms of Reference (TOR) or specifications, quality control, acceptance of services), for the strengthening of the financial of information systems subcomponent at NHC will be shared by the Corporation's Financial Comptroller and Management Information Systems (MIS) Manager. The office of the Accountant General (OAG), given its future role as internal auditor, will coordinate preparation of systems specifications with the NHC. For the development of the Internal Audit Office at NHC, OAG will coordinate activities with NHC General Manager.
- 3.22 The specifications for the land inventory system were jointly developed by the MIS Managers at MHL and NHC. This joint responsibility will continue during implementation of the system. For the preparation of the asset management project at NHC, its Chief Property Manager will have technical responsibility over proposed systems and the PS will monitor those aspects related to policy and legal matters. Finally the MIS manager at MHL will be responsible for the implementation of the Document Management System.

C. Procurement of goods and services

- 3.23 The procurement of works, goods and consulting services will be done in accordance with the Bank's new procurement policies and procedures (documents GN-2349-7 and GN-2350-7). The thresholds for international competitive bidding (ICB) will be US\$250,000 for goods contracts, US\$3 million for civil works, and US\$200,000 for consulting services, social communication and training. Calls for tender will be published in Contranet.
- 3.24 Purchases of goods, works and consulting services will be reviewed ex ante. This approach may be replaced by ex post review, after the program has been in execution for at least one year, by agreement between the executing agency and the Bank's Country Office in Barbados (that agreement will also establish the corresponding thresholds), provided the executing agency is in compliance with Bank requirements for that approach.
- 3.25 Annex II includes details on program procurement. The executing agency will update the procurement plan in the course of its semiannual reports.

D. Execution period and disbursement schedule

- 3.26 The disbursement period for the program is five years. The following table contains a projection of the annual disbursements by financier during the program. The disbursement for the first year includes the repayment of the PROPEF funds that were used for project preparation.

Table III-1. Annual Disbursement Schedule by Financier
(in US\$ million)

Source	2008	2009	2010	2011	2012	Total
IDB	4.0	8.6	9.0	6.1	2.3	30.0
GOBA	5.4	3.6	0.4	0.4	0.2	10.0
Total	9.4	12.2	9.4	6.5	2.5	40.0
% Year	23.5	30.5	23.5	16.3	6.2	100.0

E. Revolving fund

- 3.27 It is recommended that a special account be established as a revolving fund, with an advance equal to 5% of the Bank loan, equivalent to US\$1.5 million.

F. Monitoring and evaluation

- 3.28 The PCMU will be in charge of monitoring the performance and progress of program execution. This will be done through periodic evaluations of the program and its impact, including six-month progress reports and two program performance reviews - on the 30th and 50th month. The second review will be used to verify compliance with agreed upon triggers for phase two. Both these reviews will be conducted by independent evaluators paid by the project.

- 3.29 The Bank and the PCMU will carry out annual reviews of program execution. The review will consist of an assessment of the overall program execution during the previous year, including a comparison of specific program achievements with the indicators in the logical framework, annual operating plan and procurement plan, an evaluation of the effectiveness of program management, a review of stakeholder participation and perceptions, a comparison of actual versus planned disbursement, the identification of issues affecting program execution and of solutions or adjustments required for the upcoming year to ensure efficient implementation.
- 3.30 During program execution, the MHL will deliver the program's audited financial statements on an annual basis. The external audit will be performed by a firm of independent auditors acceptable to the Bank, in accordance with the requirements set out in documents AF-100 and ASF-300, and terms of reference previously approved by the Bank (documents AF-400 and AF-500).
- 3.31 The external audit will be financial. The program's annual audited statements will be delivered within 120 days after the close of each financial year (beginning with the year in which the program was made effective). The program's final financial statements will be submitted within 120 days after the last disbursement.
- 3.32 The procedures set out in the Bank document on standard procedures for the selection of external audit services (document AF-200) will be used to select and contract the auditing firm. The costs of the program's external audit will be covered by the project and financed with proceeds from the Bank's loan.

IV. VIABILITY AND RISKS

A. Technical viability

- 4.1 The infrastructure works for neighborhood upgrading are very simple (road surfacing, water and sewerage pipelines, street lighting) and will follow the standard norms and usual construction designs and process of the corresponding agencies; therefore, no technical problems are expected during construction. The two special cases do present the challenge of having to re-block some existing houses. This more than a technical problem, are processes that need to assure community participation and coordination, which has been planned for and, for which resources have been assigned in the project.
- 4.2 The quality of the houses built through the incremental home construction process will improve because of the technical assistance to be provided to the families during design and construction as part of this sub component.

B. Institutional viability

- 4.3 The program supports a shift in the operating paradigm of the MHL, moving away from the role of direct supplier of low-income housing solutions to that of

facilitator, regulator and supervisor of the housing sector. The program is a catalyst to this change and is designed to consolidate the transition and strengthen the Ministry's institutional capacity to fulfill its new role. However, within this framework, the implementation of all components of the program is based on existing institutions, processes and procedures. Responsibility for physical execution of works is devolved to the private sector. The Ministry's role of facilitator has been enhanced by the creation of the PCMU. Its role, and that of NHC, as implementing agencies will be strengthened by the reforms and actions included in the institutional strengthening component.

- 4.4 Capacity limitations, mainly within NHC, that could have affected execution were identified during project preparation and solutions to these limitations were included in the program's design. Thus, to strengthen coordinating and monitoring authority, the PCMU was established at the level of MHL Permanent Secretary with separate units for the Neighborhood Upgrading and for the Housing components, and with an administrative unit responsible for the program's accounting and control of financial transactions. Furthermore, the NHC strengthening in the financial and internal audit areas, as well as the implementation of the land inventory system will also facilitate the execution and control of the Neighborhood Upgrading and of the Housing components.
- 4.5 The program is designed in two phases to assure its institutional viability. 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 adapted, adopted and launched as national initiatives. As mentioned, during the first phase pilot programs, new procedures and regulations will be introduced, tested, adapted and disseminated. During the first phase the sector institutions will have adapted to its new role and be more efficient and transparent. Thus, its purposes and indicators reflect these goals. They are also reflected in the triggers for the second phase.

C. Socioeconomic viability and program beneficiaries

1. Affordability and targeting of housing solution beneficiaries

- 4.6 As noted earlier, Barbados has an estimated demand for approximately 1700 new housing units per year – including 900 to accommodate new household formation, and 800 to replace deteriorated housing stock. Housing supply for lower income households has failed to respond. Over the last 10 years, private developers have been unable or unwilling to put on the market each year more than a handful of new housing units affordable to households with incomes below the fourth decile of income. And in the public sector, the affordable housing supply has not fared substantially better: between 1999 and 2005, the NHC provided an average of only about 135 new housing solutions each year, the majority affordable only to households above the fourth decile of income.

- 4.7 The GOBA's current Primary Homes Program targets low-income households below the fifth decile. The income requirements established by the program are adequate to ensure affordability down to the second decile (Table IV-1). With the subsidy, the program fully covers the 85% of the population defined as low-income.

TABLE IV-1: Affordability (B\$)

House Type	Total Cost	Mortgage Payment	Gross Monthly Salary	Affordability (Economic Decile)
Without Subsidy				
1 bedroom hardwood	61,305	395.28	1185.84	Upper 2 nd
2 bedroom hardwood	78,330	504.68	1514.04	Mid 3 rd
3 bedroom hardwood	94,815	610.89	1832.68	Lower 4 th
2 bedroom wall	103,635	667.72	2003.17	Upper 4 th
3 bedroom wall	131,250	845.65	2536.94	Upper 6 th
With Subsidy				
1 bedroom hardwood	51,305	330.80	992.41	mid 2 nd
2 bedroom hardwood	68,330	440.25	1,320.75	upper 2 nd
3 bedroom hardwood	84,815	546.46	1,639.39	upper 3 rd
2 bedroom wall	93,635	603.29	1,809.88	Lower 4 th
3 bedroom wall	121,250	781.22	2,343.65	Upper 5 th

Note: Mortgages are based on a 25 year period at 6%

- 4.8 Preliminary analysis of the PHP applicants shows that between 29% -58 % of applicants fall within the first four deciles.

TABLE IV- 2: Profile of PHP Applicants (B\$)

# of Applicants	%	Annual Salary	Economic Decile
299	6	<12,000	2 nd
1,138	23	12,000-17,988	2 nd -3 rd
1,466	29	18,000-23,988	3 rd -5 th
1,108	23	24,000-29,988	5 th -6 th
912	19	30,000-36,000	6 th -7 th

2. Neighborhood upgrading

- 4.9 **Cost Benefit Analysis.** The socio-economic analysis of the neighborhood-upgrading component was done in two parts: one for the sites corresponding to the national, periurban neighborhood improvement subcomponent, and another for the two special case neighborhoods linked to the rehabilitation of downtown Bridgetown. For the periurban neighborhood improvement subcomponent, a representative sample of two sites was analyzed – Garden Land and Allen View. The downtown rehabilitation neighborhood sites consisted of Cats Castle and Greenfields. The four sites were selected to represent the component based on one or more of the following criteria: geographic location, historical significance, socio-economic status, infrastructure needs and/or suitability for use as a prototype for futures areas to be upgraded. Despite important differences in density between the periurban and the downtown rehabilitation sites, in most other regards the four sites have many similar characteristics. The average size of

the project neighborhoods is 110 families. According to the 2000 Census, 50% of the houses are wooden structures (outer walls), compared with 27% for the national average; 36% have pit latrines, compared with 16% nationally; only 49% of residents have a secondary education, compared to 56% nationally; and 27% of the labor-force is unemployed, compared to only 8.0% nationally.

- 4.10 Accordingly, with the exception of the public rental housing solutions planned (only) in the two downtown neighborhoods (see below), the investments planned in the four sites are also similar, consisting primarily of: (i) improvements to the existing water distribution system; (ii) provision of adequate street lights; (iii) improvements in the sewer system; (iv) flood prevention; (v) upgrading of streets, footpaths and road surfacing as needed; (vi) more efficient and reliable garbage collection; (vii) provision of parks, playgrounds and green spaces; (viii) reblocking of plots to reduce overcrowding, standardize lot sizes and improve access to infrastructure lines and mains; and (ix) temporary resettlement to accommodate those who will be unable to return to their previous lots.
- 4.11 The program guarantees that those persons living in the project areas prior to upgrading will be allowed to stay after upgrading. Accordingly, in the case of the two downtown neighborhood sites, in addition to the infrastructure improvements noted above, the site investment plan also includes construction of approximately 80 new public rental housing units to accommodate families who will need to be permanently relocated on site.
- 4.12 There are no affordability issues associated with any of the sites, since no financial contributions are required from residents.
- 4.13 The cost and benefit data for the 4 sample sites were used to calculate the economic returns on the project. The net stream of costs and benefits were discounted using a discount rate of 12%. For both subcomponents, the economic benefits of each project site were defined as the net increase in property values estimated to result from the project investment plan – both on site (in the project area) as well as in the immediate surrounding areas; the estimated increases were determined by a professional appraiser familiar with the real estate market in the neighborhood area. In the case of the two downtown sites, the latter also included the market value of the new apartment units built on those sites to permanently relocate families as a result of reblocking needs. Similarly, the cost stream consisted of the full infrastructure investment plan for each site, as well as the costs for temporary and permanent resettlement of families. Specifically, in the case of the two downtown sites, this includes the full investment cost for the new apartment sites for permanent relocation of families affected by reblocking. Based on the above, the two sample sites for periurban neighborhood improvement (Garden Land and Allen View) generated a combined net present value of US\$740,000 and an internal rate of return of 91%. In the case of the two downtown sites (Cats Castle and Greenfields), the net present value was estimated at US\$4.5 million, with a internal rate of return of 75%. The analysis did not account for other positive externalities that the project will bring.

D. Community participation

- 4.14 The program introduces several key changes and improvements in the delivery systems for affordable housing and neighborhood upgrading in Barbados, building on initiatives –public and private—recently put in place by government but insufficiently consolidated. These policy enhancements have been obtained thanks to a process, initiated by the Bank, of ample consultation during the 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 and must continue during the life of the project for its successful implementation.
- 4.15 The communities whose neighborhoods will be upgraded were consulted and the program includes a community consultation plan and social workers to ensure that this dialogue continues. The project will not require involuntary resettlement; some transitory resettlement will take place for the two special cases, for which communities have and will be consulted and for which no charges will be made.

E. Financial viability

- 4.16 The program is considered financially viable for several reasons. First, the program is a social investment one, funded mainly by the national budget. Its funding requirements have been kept within the current budget constraints of MHL and GOBA. Second, for GOBA the adoption of several of the proposed subsidies --up-front housing and incremental home construction subsidies-- will reduce its average per capita subsidy outlay compared to the current system of interest rate subsidies, resulting in a large number of beneficiaries per subsidy dollar. Third, program implementation will mobilize additional resources into the housing sector from family savings and commercial bank loans. Finally, at a macro level, the subsidy systems to be introduced by the program will permit more accurate budgetary planning, thus increasing the prospects for financial sustainability of housing subsidy programs in the future. The subsidy sub component is introduced as a pilot project (400 subsidies), if GOBA decides to make it permanent, its budgetary implications will have to be considered.

F. Environmental impact

- 4.17 The NPDP provides the spatial framework for the urban development of areas and regions around the country. They ensure that new developments only take place in areas where their natural, cultural and historical values can be conserved and enhanced. All sites included in the program must be within the NPDP. Several agencies, mainly the Ministry of the Environment and Energy, are responsible for the enforcement of the laws and regulations for environmental management, and for issuing certificates of environmental clearance to new development projects.
- 4.18 During project preparation an environmental impact assessment was conducted (in program files). It indicates that the program is expected to have a positive

impact on the environment mainly because of the provision of basic services to the neighborhoods that now do not have them or need to be improved. Many of the home improvement loans will also be used for the provision of basic services, reduction of overcrowding or the construction of toilet facilities. The Environmental Analysis (EA) includes an environmental and social management plan that has been incorporated into the project design and whose recommendations must be followed during project implementation.

- 4.19 Through the neighborhood improvement component emergency vehicular access, community areas and facilities, increased safety (through de-bushing, increased road lighting, construction of speed bumps, etc.) and risk reduction to fires and flooding, will be provided to many sites.
- 4.20 The EA also reviewed the capacity of the agencies responsible to execute environmental supervision and monitoring of the program related activities. The EA confirmed that they have that capacity and the one needed to implement the program's environmental and social plan.

G. Benefits and beneficiaries

- 4.21 The program will benefit about 3,400 families (more than 4% of the national population). It will be a poverty-targeted investment. All of the neighborhood improvement beneficiaries are considered below the poverty level (sector count) as are 100% of the beneficiaries of home improvement loans. Sixty percent of beneficiaries of new housing solutions are expected to have annual family incomes below the poverty level. This implies that, during phase I of the program, 90% of the housing solutions will go to the poor.
- 4.22 The program introduces several key changes and improvements in the delivery systems for affordable housing and neighborhood upgrading in Barbados, building on initiatives –public and private– already in place but insufficiently consolidated. It will put into practice a 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 enhancements have been obtained thanks to a process of ample consultation during the project formulation process with government and private stakeholders in the country. This consultation process is considered a vital initial investment for successful program design and implementation.
- 4.23 In the affordable housing sector the program proposes three pilot programs that will support the incipient PHP program as well as a new initiative that addresses incremental home construction needs. These programs will benefit 1200 families from the second to fourth deciles of the income population.
- 4.24 Through the neighborhood improvement component about 2,000 families, from the first four deciles of the income population, are expected to benefit from the

program. The upgrading of the two special neighborhood sites will contribute to the Bridgetown redevelopment effort and its economic activities.

- 4.25 The program includes an important institutional strengthening effort that will support the modernization of MHL and NHC and the establishment of a neighborhood improvement unit in the MHL. These two efforts should produce more effective and efficient institutions for the implementation of both phases of the program and the housing policies of GOBA.

H. Risks

- 4.26 As part of the Risk Analysis exercise implemented during project preparation, the following key risks were identified:
- 4.27 **Inadequate 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. 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 have taken place to assure the political support and economic interest for this change. Also, the program includes several activities or mechanisms to assist in this institutional transition, including: a two phase program that in its first phase only introduces pilot projects, an action plan for the implementation and marketing of the subsidy system, intermediation services by commercial banks to families seeking housing subsidies and extensive community consultation and participation.
- 4.28 **Need for clear and synchronized priority actions.** Although the program has a strong support from relevant authorities and it is within the Physical and Development Plan and Strategic Plan for Barbados, institutional weakness and not currently synchronized priorities among implementing agencies, could have a negative impact on project implementation. Clear and strong political support towards the program's objectives all through its project cycle, and the institutional support to strengthen the key public agencies participating in the program – NHC and MHL, are key measures to reduce this risk.
- 4.29 **Delays in the approval by Parliament of the Special Community Improvement Act.** As noted in paragraphs 1.25 and 3.7, the entry into effect of this Act will allow the executing agencies to enter into the special communities for the implementation of the neighborhood improvement component. Hindrances in the approval and entry into effect of this piece of legislation could delay the implementation of this component. To date, the Act has been prepared and discussed at the technical level within GOBA. Government is fully aware of the need to have the Act approved and is committed to doing so to comply with the intent of the Programme.

<p style="text-align: center;">LOGICAL FRAMEWORK</p> <p style="text-align: center;">HOUSING AND NEIGHBORHOOD UPGRADING PROGRAM – PHASE I (BA-L1002)</p>			
NARRATIVE SUMMARY	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	KEY ASSUMPTIONS
<p>Goal (Objective)</p> <p>To improve the housing and neighbourhood conditions of low and lower-middle income families and communities in Barbados.</p>	<p>(Two years after the end of the 1st phase)</p> <ul style="list-style-type: none"> • PHP and integrated neighborhood improvement programs have been implemented and accepted by all key actors¹ in the sector. • At least 4% of the population in the island has improved its housing conditions as a direct result of the program. 	<ul style="list-style-type: none"> • Government Reports. • Mid-term and Final Evaluations. 	<ul style="list-style-type: none"> • GOB support for a more equitable housing policy remains strong. • Adequate and timely response from both private and public institutions.
<p>Purpose (Outcome)</p> <p>An improved and expanded government support system for affordable housing.</p>	<p>(By the end of year four of the program)</p> <ul style="list-style-type: none"> • # of new completed housing units below B\$100,000² produced and sold with private sector participation³ has increased to an average of 140 units per year. (Baseline: 20) • Reduce the current inventory of 7000 households in substandard neighborhoods by 25% by 2012. 	<ul style="list-style-type: none"> • Government Reports. • Mid term and final evaluations. 	<ul style="list-style-type: none"> • GOB support for a more equitable housing policy remains strong. • Adequate and timely response from both private and public institutions.
<p>To increase the mobilization of private sector resources in the financing of affordable housing.</p>	<ul style="list-style-type: none"> • 15 % increase in the number (or value) of loans disbursed by private institutions to families below the 5th decile by 2012 (Baseline:) • Low-income households participating in government housing programs contribute at least 30% of costs for incremental homes and at least 80% of costs for new homes. 	<ul style="list-style-type: none"> • Government and private bank reports. • Program reports. 	<ul style="list-style-type: none"> • Adequate and timely response from both private and public institutions. • Social and economic stability.

¹ Includes: MH, NHC, 70% of beneficiary communities, 2 private financial lending institutions and 3 builders.

² In constant 2007 prices.

³ Private sector contribution of 50% or more of total costs.

To create an efficient system of government support for the physical upgrading of targeted sub-standard ⁵ neighborhoods.	<ul style="list-style-type: none"> • The NUU has become a permanent unit within the MHL. • 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 2012. • In the last two years of the program, the government has completed improvements on at least 6 neighborhood sites per year. 	<ul style="list-style-type: none"> • Program reports. • Social surveys of mid term and final evaluations. • Program reports. 	<ul style="list-style-type: none"> • Political support for neighborhood upgrading remains high. • Residents are willing to participate in the project. • Communities and government are open to the participatory process.
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COMPONENT	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
Products (Output/Inputs) New affordable housing solutions	(By the end of year four of the program)⁶ <ul style="list-style-type: none"> • 320 new houses priced below B\$100,000 have been built for beneficiaries in the 1st four deciles • All lands necessary for Phase I of the program have been vested in the NHC by the end of the third year of execution. 	<ul style="list-style-type: none"> • Government Reports. • Program Reports. 	<ul style="list-style-type: none"> • Access to serviced land for construction at reasonable prices and in appropriate neighborhoods.
Incremental Home Construction	<ul style="list-style-type: none"> • 400 Families below the 5th decile have improved their homes through the program. 	<ul style="list-style-type: none"> • MHL. • Building Supply Companies. • Program Reports. 	<ul style="list-style-type: none"> • Appropriate income verification procedures established.
Upgrading of low-income communities	<ul style="list-style-type: none"> • At least 15 neighborhoods have been improved in an integrated and participatory way and the design for ten other sites has been completed. • All infrastructure improvements for the two “special case” neighborhoods have been completed. 	<ul style="list-style-type: none"> • MHL. • Program Reports. 	<ul style="list-style-type: none"> • Communities are responsive to the organizational process.

⁵ 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.

⁶ Unless otherwise stated.

<p>Sector and institutional development</p> <p>To strengthen-and make more transparent-the beneficiary selection.</p> <p>To strengthen the housing management system.</p> <p>To strengthen the land planning system.</p>	<ul style="list-style-type: none"> • A new, more efficient and transparent beneficiary selection system is in operation for both MHL and NHC. • The new information and financial systems are in operation in both NHC and MHL. • The land inventory system has been implemented in the MHL and NHC. 	<ul style="list-style-type: none"> • MHL. • NHC. • Executing Agency. 	
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MHL= Ministry of Housing and Lands / **NHC**=National Housing Corporation/ **PCMU**=Program Coordination and Monitoring Unit
NUU=Neighborhood Upgrading Unit