

## LOW-INCOME HOUSING PROGRAM

(VE-0055)

### EXECUTIVE SUMMARY

**BORROWER AND GUARANTOR:** Republic of Venezuela

**EXECUTING AGENCY:** Ministry of Urban Development [Ministerio de Desarrollo Urbano] (MINDUR), through the Instituto Nacional de la Vivienda [National Housing Institute] (INAVI), in cooperation with regional units.

**AMOUNT AND SOURCE:**

IDB:	US\$52 million (OC)
Local counterpart funding:	US\$35 million
Total:	US\$87 million

**FINANCIAL TERMS AND CONDITIONS:**

Amortization period:	25 years
Disbursement period:	4 years
Initiation of works:	3½ years
Interest rate:	variable
Inspection and supervision:	1%
Credit fee:	0.75%

**OBJECTIVES:** The program's main objective is to improve the low-income population's access to housing by adopting a system of direct subsidies to demand and innovative mechanisms for targeting and selecting beneficiaries. The program also proposes to: (a) strengthen the institutional capacity of the agencies participating in the program, and (b) identify and prepare proposals to correct the principal problems in the country's housing policy. This is a pilot program, the results of which will be used to expand it nationwide.

**DESCRIPTION:** As a pilot test, the program will introduce a direct subsidy to demand and beneficiary eligibility system in four Venezuelan states. The subsidy may be used to obtain new housing or to improve the beneficiary's existing housing. While the subsidies will be granted on an individual basis, they will be used collectively because of the need to match low-income families with unmet housing needs to the stock of housing solutions available. The recent increase in grassroots and technical organizations in the sector will be used to energize demand and stimulate the supply of low-income housing. Therefore, one requirement for qualifying for the subsidy is that

beneficiaries organize into grassroots housing organizations [organizaciones de base habitacional] (OBHs). Technical organizations referred to as housing demand organizations [organizaciones de demanda habitacional] (ODHs) will provide support services to the OBHs.

A decentralized organizational scheme will be set up for program execution, consisting of a program coordination unit [Unidad Coordinadora del Programa] (UCP) set up in the INAVI and four agencies located in the states, called the regional units [unidades regionales] (URs).

The program will consist of the following components:

- a. Investment: (i) for new housing (US\$61 million), direct subsidies will finance some 10,000 new housing solutions. The eligible solutions will be individual, low-cost housing solutions ranging from serviced lots to basic housing units costing a maximum equivalent to US\$7,000. The subsidy will be the equivalent of 80% of the cost of the housing, which includes the land, infrastructure, construction, and titling. Beneficiaries will contribute the other 20% out of their cash savings; and (ii) for **barrio housing improvements** (US\$10 million), financing will be provided for improvements to existing housing units in established barrios that meet minimum infrastructure requirements. New housing in the barrios to replace makeshift structures or to increase property density will also be financed. The total cost of the improvements may not exceed the equivalent of US\$1,600, while that of the new housing units built on existing properties may not exceed US\$4,500. The subsidy will be 80% of the cost; the beneficiary must put up the remaining 20% from cash savings. An estimated 7,000 units will be financed under this subcomponent.
- b. Institutional strengthening: this component will finance (i) **strengthening and technical assistance** for the URs in order, among other things, to introduce the beneficiary eligibility system to be used under the program; to design and introduce modern operations planning and management-control systems; and to build up the existing data processing systems; (ii) **promotion** (US\$1 million), which involves a targeted mass marketing plan to promote local community action by advertising the

program on the radio and in the printed media, to facilitate access by the beneficiaries to information on housing solutions; technical support services contracted to create and organize the OBHs; and specific activities in each region tailored to each one's particular needs; (iii) studies (US\$0.8 million), which are the studies and planning needed to ensure that the mechanisms used under the pilot program become sufficiently widespread and to devise recommendations on the policy, legal, and institutional changes that will make the GDV more efficient in the housing sector and housing more equitable; and (iv) administration (US\$3 million), for hiring the staff of the UCP and the additional staff that the URs will require, and for the equipment and operating and coordination costs.

**ENVIRONMENTAL  
CLASSIFICATION:**

The Environment Committee, at its meeting of May 30, 1995, classified this as a Category III operation. The environmental summary was approved at the CMA meeting of March 5, 1996. The executing agency prepared and disclosed the program's environmental report containing the environmental eligibility standards. Both documents were sent to the PIC on March 5, 1996.

**BENEFITS:**

The proposed operation will: (a) provide a minimum of 17,000 housing solutions for low-income families; (b) give the country experience in a targeted, transparent, and efficient direct subsidy system and identify the best practices on the basis of the testing in four states; (c) introduce an efficient and transparent eligibility system that can be adapted for use in other social programs; (d) contribute to the GDV's efforts to involve community organizations and other nongovernmental organizations as effective players in the housing sector; (e) strengthen the state-level housing agencies, thereby furthering the decentralization process; and (f) increase the participation of private contractors and developers in low-income housing.

**RISKS:**

The following risks were identified:

- a. Decentralized management. The ability of the URs to apply two new mechanisms in Venezuela is critical to the program's success: a beneficiary qualification and selection system and a direct subsidy to demand system. While there could be delays in the process of introducing these systems and/or changes could be made in the application of

the program regulations, the UCP's coordinating role and the institutional-strengthening activities that are part of the program should mitigate this risk. The ODHs - some of which are already experienced in this sector, while others will be strengthened using program resources - will assist the work of the URs.

- b. Macroeconomic context. Continued inflation and a further reduction in income levels among the population might reduce the effective housing demand because the target families would be less able to save for the required down payment. At the same time, these negative trends and continued exchange rate imbalances would reduce the number of housing solutions that could be financed with program resources. In addition, the general wariness among beneficiaries toward the banking system could slow the pace at which they sign up for the program. However, the promotional measures planned under the program and the role that the ODHs will play will help to allay the sense of mistrust and mitigate this risk.

**POVERTY TARGETING:** Pursuant to the Eighth Replenishment document (AB-1704), paragraph 2.15, the proposed program qualifies as a poverty-targeted program. Given the criteria and system for determining beneficiary eligibility, the operating and institutional mechanisms to be used, and the size and cost of the housing solutions that the subsidy will finance, more than 50% of the beneficiaries will be from low-income groups.

**THE BANK'S COUNTRY AND SECTOR STRATEGY:** The Bank's strategy in Venezuela is geared toward modernization of the State, especially through decentralization, and more efficient and equitable social services. In that respect, the proposed pilot operation will test: (a) innovative systems and mechanisms designed to make the public sector more efficient in the housing sector; (b) eligibility and qualification mechanisms that target low-income groups; and (c) an institutional framework and measures that will increase the capacity of regional public agencies and civil society organizations.

**SPECIAL CONTRACTUAL CONDITIONS:** Conditions precedent to the first disbursement:

- a. entry into force of the Operating Regulations (paragraph 3.16);

- b. establishment of the UCP and of at least two URs, with the necessary staffing and resources (paragraphs 3.1 and 3.5);
- c. opening of a special, foreign-exchange account in the name of the program, in the Central Bank of Venezuela (paragraph 3.40) and of the accounts of at least two URs for administration of program resources (paragraph 3.35);
- d. signing of agreements between the UCP and two regional agencies in the states (paragraph 3.2);
- e. presentation of a supplemental agreement between the UCP and at least one financial institution per state (paragraph 3.4), and
- f. a data collection system agreed upon with the Bank (paragraph 3.43).

The loan contract will also contain all the standard clauses concerning, *inter alia*, recognition of expenditures and retroactive financing (paragraph 3.41), supervisory meetings (paragraphs 3.44 and 3.45), final evaluation (paragraph 3.48), contracting of works and consulting services (paragraph 3.37), and auditing (paragraph 3.49).

## I. BACKGROUND

### A. Introduction

- 1.1 The proposed pilot program is the result of a dialogue between the Government of Venezuela (GDV) and the Bank over a period of 18 months regarding the government's interest in increasing the access of its low-income population to housing solutions. The process began with a diagnostic study of the housing sector financed by the Bank in 1994, and continued with an exploration of alternative program designs in the context of existing financial sector and macroeconomic constraints. The resulting proposed program is viewed as a first step in the collaboration between country and Bank in the sector, and a foundation on which to build deeper and broader initiatives in the future.

### B. Assessment of the demand for housing

1. Urbanization, poverty, and the growth of "barrios"
- 1.2 Data from the last census in 1990 indicate that Venezuela has a population of 18 million people. The population had grown by 3.6 million since the previous census in 1980, reflecting a 2.5% annual growth rate. During the same period, however, the urban population grew at 3.3% annually, reinforcing an already advanced process of urbanization: it is estimated that 84% of the population now lives in urban areas, the highest rate in Latin America and one of the highest in the world. This intense urbanization has resulted in a major network of urban centers, primarily located along the country's coast; almost half of the urban population lives in ten cities, all with more than 200,000 inhabitants.
- 1.3 The urbanization process has coincided with the marked growth of poverty during the past 15 years. Although estimates vary according to the definition of poverty, and the method and data sources used, 1/ all indicate a significant increase in poverty since the beginning of the eighties. Over a third of Venezuelan households are now poor and since most of the population lives in urban areas, poverty is primarily an urban phenomenon; 77% of the poor lived in cities in 1991, and 93% of the increase in poverty between 1981 and 1989 came from urban areas. 2/

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1/ An IBRD poverty study using OCEI (Oficina Central de Estadística e Informática) data indicated that 54% of households lived in poverty in 1989, as compared to 32% in 1982. Gustavo Márquez (IESA, 1993) more conservatively estimated 41% in 1989, as compared to 18% in 1981.

2/ S. Morley and C. Alvarez, "Poverty and adjustment in Venezuela", IDB, 1992.

- 1.4 Venezuela's urban growth has far outstripped the supply of formal housing and infrastructure, leading to a great expansion of informal housing, or "barrios": unplanned neighborhoods which begin as squatter settlements and gradually achieve varying degrees of services and consolidation. Although not a new phenomenon, the number of barrios has more than doubled since 1978. Currently, some 53% of the urban population and 41% of the country's total population now lives in approximately 3,800 barrios.

## 2. A profile of the target population

- 1.5 Poor urban families in Venezuela are not homogeneous but they tend to have a number of characteristics in common that allow some useful generalizations. 3/ A typical poor urban household in Venezuela 4/ lives in a barrio of a large city and earns less than US\$213 monthly (the equivalent of two minimum monthly salaries including official bonuses as of December, 1995). The household consists of six members, is a two-parent family (although an estimated 22% of poor urban families are headed by single women), and only one member has a regular income. They live on land that they do not legally own, which they have occupied for about six years and where they have gradually built a two-room dwelling they consider theirs. Or, especially in Caracas, they may rent rooms of a house belonging to another family. They have electricity and piped water for at least part of the day, but they have no access to sanitary sewers, garbage collection services, or nearby public transport routes. This household spends approximately 12% of its income on housing, while 70% are spent on food and clothing. 5/ Households just above that income level, who earn up to US\$321 monthly (three minimum salaries with bonuses, approximately), might live in not too dissimilar conditions. But they are likely to have smaller families, more than one income-earner in the household, devote a smaller proportion of their income to food purchases, and live in a slightly larger dwelling within the barrio, in a location that has better access to public services.
- 1.6 According to national data, the population that earns less than three minimum salaries, which has no access to private, formal-sector housing system solutions, forms the bulk of housing demand, as is shown in the table below:

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- 3/ The profile is based on the Márquez study cited earlier and on data from a socioeconomic survey of 1,545 urban households in four cities: Cumaná, Barquisimeto, Maracaibo, and Valencia, completed as part of project preparation in November, 1995.
- 4/ The Bank's poverty line for 1995 was Bs 9,417 monthly per capita, or US\$32 (at Bs 290), which for a family of five equals US\$160 monthly.
- 5/ Source: OCEI, Encuesta de Presupuestos y Gastos Familiares, 1994.

Table I-1 HOUSING NEED AND INCOME DISTRIBUTION		
Income Group in Minimum Salaries	Share of Population	Share of Housing Need
0 to 3	59%	92%
Above 3 to 7	32%	6%
Above 7	9%	2%

Source: National Housing Council, 1993

C. Assessment of the supply of housing for the target group

1. The housing market

- 1.7 Venezuela's formal housing supply is unable to meet the demand for housing solutions of its population as a whole. The formal housing sector has produced on average 73,000 units annually in recent years (1980-1992), while during the same period an average of 95,000 new households formed. The housing supply gap <sup>6/</sup> is largely the result of two key problems: (a) distortions in the market housing system, and (b) the limitations of existing government housing subsidy programs.
- 1.8 The market housing system - which includes market-rate mortgage finance, urban land, and rental housing markets - has broken down. Private sector housing production has declined dramatically since 1980, from 40,961 units that year to 17,488 units in 1993. Many factors have contributed to this decline. Among the most important are the dramatic deterioration in household real income and the lack of a mortgage system suited to the high inflation of the past few years. <sup>7/</sup> Upper income families pay in cash for their homes, while middle income households, denied market options, have largely seized government-sponsored housing units and, with them, the subsidies intended for low-income groups.
- 1.9 The public sector has tried to make up for the reduction of private sector activity; however, the design of housing policy has itself contributed to the housing supply gap.

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<sup>6/</sup> Source: OCEI, based on data from the last census, estimates a gross housing deficit of 884,603 units, while the National Housing Council projects for 1998 a deficit of 1.5 million units.

<sup>7/</sup> Other factors are: ineffective use of urban land; poor land ownership and cadastral records; and fragmented and centralized infrastructure program implementation. Moreover, rent control laws set rates far below market and make eviction extremely difficult. As a result, formal renting has virtually collapsed in recent years and an estimated 9% of national housing stock lies vacant.

## 2. Government strategies

### a. Programs to increase housing stock

- 1.10 Beginning in 1928 and continuing to the present, the GDV has implemented a wide range of policies aimed at promoting housing production and providing housing units for low-income families. Government initiatives have typically included some combination of: rent subsidies, real estate tax exemptions, interest rate subsidies to buyers, and many types of indirect subsidies to housing developers and financial intermediaries. Although lack of precise data makes evaluation of the impact of the various programs difficult, it is widely recognized that the different subsidy mechanisms - originally developed to address the needs of low-income households - have succeeded in benefitting primarily the middle class.
- 1.11 The central government generally undertook all aspects of social housing development, including financing and direct construction, with negative consequences, including: high cost and variable quality of solutions; low population coverage of programs and increase in pressures for land invasions; exclusion or very limited participation of the private sector; lack of transparency in the allocation of benefits; and low cost recovery rates. More recently, fiscal constraints and the GDV's decentralization strategy have resulted in increasing levels of collaboration with municipal and state governments, as well as with the private sector. In particular, the 1989 Housing Policy Law - the Ley de Política Habitacional (LPH) - significantly changed the shelter policy framework.

### b. The LPH

- 1.12 Housing policy and programs for both rural and urban areas are now framed within the LPH (approved in 1989 and revised in 1994) which created a broad social housing production system based on subsidies in the form of below-market interest rates. <sup>8/</sup> A review of its chief characteristics is helpful in understanding shelter policy as it exists in Venezuela today.
- 1.13 Housing finance and production under the LPH function with two sources of funding (the so-called "five percent" and the "three percent") to invest in three population areas, (Area I, Area II and Area III). <sup>9/</sup> Area I, which represents approximately two thirds of total funding under the LPH, is financed with five percent of national government revenues and five percent of formula transfers to state and local governments (the "situado constitucional" and

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<sup>8/</sup> A detailed analysis of the LPH can be found in the technical files of RE3/S03.

<sup>9/</sup> Financing of housing units in Area III, for higher income levels, has not yet been implemented.

the "situado municipal"). Area I officially targets households of up to three minimum monthly salaries (which currently results in a household income of US\$321), who are eligible to receive loans from intermediary financial institutions (IFIs), with LPH resources, at highly subsidized interest rates. <sup>10/</sup> The IFIs also lend LPH funds to housing developers to build houses for these beneficiaries at interest rates far below market rates.

- 1.14 Resources for Area II, officially targeted to households earning between three and six minimum salaries, are drawn from the Housing Savings Fund (HSF), created for this purpose. The fund's resources (consisting of 3% of payrolls, 1% from employee contributions and 2% from employers) are deposited in savings and loan institutions and mortgage banks. Purportedly a compulsory savings plan, the "savings" of employees in the fund were not corrected for inflation from 1990 to 1993, thereby losing the bulk of their real value; in 1994, a revision of the LPH began to remunerate these savings, but at rates still well below market.
- 1.15 The LPH has achieved some important positive results in a 5-year period. It succeeded in channeling unprecedented financial resources to housing entities, about US\$2.4 billion (of which US\$1.5 billion have so far become housing solutions), thus stimulating, for a time, housing production around the country. It has also made progress in moving the implementation of government-funded housing from the public to the private sector: IFIs have taken on responsibilities for loan underwriting and servicing and private firms undertake many phases of the development of LPH housing. In addition, the LPH has promoted the participation of NGOs in barrio upgrading and the production and maintenance of low-income housing.
- 1.16 The LPH, however, has a number of problems which greatly affect the equity and efficiency of its programs and prevent it from benefiting the lower-income groups, targeted for the Area I program. It largely excludes informal sector workers, an estimated 40% of the work force. Households are eligible to receive a unit under the LPH only if they contribute to the HSF, but workers in the informal sector, who tend to be among the poorest groups, have few incentives to contribute to the fund and are thus ineligible to receive benefits from the LPH. Even the low-income households that do contribute to the HSF stand little chance of receiving a unit. Participating IFIs have the job of qualifying potential borrowers, and hence of selecting the recipients of subsidies and housing units. Typically, IFIs choose households earning the highest income possible, as they are regarded as less risky to their portfolio. In any event, no national system to qualify low-income

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<sup>10/</sup> For example, mortgage loans to Area I households have remained at 7% during the past five years, when market rates have ranged between 20% and 45% per annum.

beneficiaries exists, making targeting of benefits difficult. Private developers also migrate to the highest cost solutions permissible under each area, augmenting the tendency to select higher income clients than those prescribed by the law. And the LPH has not incorporated viable monitoring or sanctioning systems that pressure participating firms and IFIs to select lower-income beneficiaries.

- 1.17 The supply-side subsidy structure itself has serious shortcomings. It is regressive. Since subsidies are dispensed through interest rates, bigger loans result in larger subsidies. Thus, higher income families (Area II) among the eligible groups receive far greater amounts in subsidies. <sup>11/</sup> Also, since the amount of the subsidy fluctuates with changes in the interest rates, the overall fiscal impact of the subsidies is difficult to anticipate. It is expensive; estimates of subsidy amounts vary with interest rates, but they range between US\$4,000 and US\$6,000 per unit for Area I and US\$10,000 and US\$14,000 for Area II. The high cost of units joined with the regressive subsidy lead to low population coverage and increased housing deficits. In addition, the high subsidy and cost levels increase the attractiveness of LPH solutions for the middle-class, further encouraging upward filtration.
- 1.18 Private developers also have problems with LPH guidelines. Developers cannot sell housing units for more than the established sales price ceilings, which are denominated in minimum salaries. <sup>12/</sup> However, changes to the minimum salary occur slowly and erratically. Hence, when building costs increase but sales price ceilings denominated in minimum salaries stay the same, developers' profits and the financial feasibility of their projects are affected negatively. These pressures deter small-scale contractors and all but the most efficient and, typically, largest developers from participating in the LPH programs, and lead to periodic halts in social housing production.

c. Current barrio upgrading programs

- 1.19 Responsibility for improving barrio infrastructure and housing now lies primarily with local governments. Revisions in the country's Municipal Law in 1989 and the approval of the Decentralization Law in 1990 make it possible to shift this responsibility from the central government to states and municipalities. However, the legacy of central control is still reflected in existing programs and in the weakness of most local institutions. Under the LPH,

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<sup>11/</sup> Lower income households of Area I receive only about 40% of the amount in subsidy provided to the higher income households of Area II.

<sup>12/</sup> For Area I, units costing up to 105 minimum salaries may be built, while Area II has a ceiling of 291 minimum salaries for its solutions.

about a third of resources invested in urban areas have gone into barrio upgrading. Central government initiatives under the Ministry of Urban Development [Ministerio de Desarrollo Urbano] (MINDUR) and its agencies, state level programming, and the key operations financed with multilateral agency resources, Programa de Inversión Social Local [Local Social Investment Program] (PROINSOL) and Programa de Mejoramiento de Barrios de Bajos Ingresos [Low-Income Barrio Improvement Program] (PROMUEBA), are endeavoring to avoid the fragmentation and lack of continuity that characterized earlier efforts. Instead, they have begun to incorporate into designs: local implementation, integrated provision of basic infrastructure, parallel social services, and technical assistance and credit that guide consolidation efforts through neighborhood organizations.

- 1.20 A program totaling US\$140 million, PROINSOL is administered by Fondo Nacional Venezolano de Inversión Social [Venezuelan Social Investment Fund] (FONVIS) and supported by an IDB loan of US\$84 million. Its institutional reform component seeks to strengthen the capacity of municipalities and state governments to implement barrio upgrading, while the investment component funds a wide variety of small public works in barrios, such as drains and sewers, roads, schools, libraries and cultural centers. PROINSOL invests 60% of infrastructure cost on a grant basis, and requires a local counterpart investment from municipalities or states of 40%. Fundación para el Desarrollo de la Comunidad y Fomento Municipal (FUNDACOMUN), a primary agency of the Ministry of the Family primarily concerned with barrio improvement and strengthening of municipal governments manages PROMUEBA - a US\$85 million program financed in part with a US\$40 million loan from the IBRD. PROMUEBA finances packages of basic infrastructure investments and land tenure regularization, and offers technical assistance to municipalities. Both PROINSOL and PROMUEBA have had very slow starts, but have recently improved their implementation pace.
- 1.21 In addition to these two initiatives, a number of state agencies, non-governmental organizations (NGOs) and municipal governments have smaller barrio upgrading programs, financed by national budget transfers.

### 3. Key sector institutions and their roles

- 1.22 MINDUR, created in 1975 as a result of the Ministry of Public Works' restructuring, develops specific central government investments in urban areas and supervises Venezuela's complex system of urban planning. Affiliated with MINDUR are the two principal urban development agencies: the Instituto Nacional de la Vivienda [National Housing Institute] (INAVI) and the Fondo Nacional de Desarrollo Urbano [National Fund for Urban Development] (FONDUR). INAVI, which finances and develops low-income public housing and barrio consolidation with LPH resources and its own loan recovery funds, has a central role in implementing housing

policy, although it is expected that, increasingly, its responsibilities will be shared with state and municipal governments. FONDUR, established in 1975, started by buying and developing land to be used by public agencies and private developers for low/moderate income housing; currently, it uses the bulk of its resources to facilitate private development and lending to build Area I units under the LPH. Although an historical advance over direct development and lending by government, INAVI's and FONDUR's current housing programs have serious drawbacks, as discussed above (paragraphs 1.16-1.18).

- 1.23 The Consejo Nacional de la Vivienda [National Housing Council] (CNV) has legal responsibility under the LPH for establishing, monitoring and supervising housing policy, but has functioned largely in an advisory capacity. Rather than acting directly, CNV generally advises MINDUR and other housing agencies, collects sector data and undertakes research. In addition, it has wide nominal authority to regulate housing institutions under the LPH; however, it uses this authority unevenly. In particular, CNV has made little effort to monitor household income limits of the LPH.
- 1.24 Since the Decentralization Law and the LPH were adopted, states have started to be major actors in housing and to replace central government agencies as implementors. Transfers to state and local governments have received high priority and have roughly maintained their value in real terms, and 5% of central government formula transfers to states, and of state transfers to municipalities, must be used for housing. Hence, states have resources to carry out housing programs and virtually all have established, since 1991, state housing agencies, known as Institutos Regionales de Vivienda [Regional Housing Institutes] (INREVIIs). Their institutional capacity is highly variable. A few operate with great efficiency; others appear to be repeating the past mistakes of central government agencies (high cost per unit, low production, heavy subsidies poorly linked to household income and political influence on beneficiary selection).
- 1.25 Non-profit housing organizations and community level housing groups have proliferated as a result of support received through the LPH, primarily for barrio upgrading projects. A handful of experienced housing NGOs <sup>13/</sup> have been joined in the past four years by national, state and municipal level organizations that have received institutional training from CNV under the LPH. INAVI and several INREVIIs, among others, have been using NGOs consistently in the past two years; government housing agencies at all levels have increasingly recognized that NGOs can play a critical role in

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<sup>13/</sup> Such as Fundación de Vivienda Popular (FVP), Fundación Benito Alvarez (FUNBA), ALEMO, Centro de Servicios de la Acción Popular (CESAP), Fundación para el Desarrollo de la Economía Popular (FUDEP), and Fundación Banca Hipotecaria.

maintaining neighborhood improvements, consolidating starter dwellings, and cost recovery. The NGO sector has increasing dynamism and depth, although most organizations are still relatively inexperienced and have been constrained by limited administrative and project funding support.

- 1.26 From their founding in 1958 and 1961 until recently, mortgage banks and savings and loan institutions, were active in intermediating deposits of low- and moderate-income depositors for housing finance. However, with the decline in real incomes and rising levels of inflation, their role in intermediating funds for long-term mortgage loans has almost disappeared. Even in better times, however, low-income groups generally lacked access to the services of these formal sector institutions. Since 1990 they have become the chief lenders of LPH resources; in the case of the savings and loans, by 1994 LPH loans constituted an estimated 20% to 25% of their assets.

4. Summary of constraints in the supply of housing for the target group

- 1.27 Venezuela's urban growth has far outstripped the supply of formal sector housing and infrastructure, leading to a widening housing deficit and great expansion of barrios. The market formal-sector housing system has shrunk dramatically, but the government has been unable to compensate for the decline and, in some respects, has worsened the situation. Despite some advances, the LPH has contributed to a number of serious, inter-related problems: (a) the lack of financing alternatives for middle-income families, high per-unit subsidy levels, and the lack of enforcement of the LPH eligibility requirements causes systematic upward filtering of units and benefits; (b) a relatively high cost, non-transparent and regressive subsidy structure undermines the program's efficiency and equity; (c) poor resource use has caused great waste of public resources; and (d) these problems have contributed to low population coverage relative to housing deficits, and increasing pressures for land invasion.
- 1.28 Yet some recent advances provide a base on which to build sector changes. Perhaps foremost, an institutional infrastructure of NGOs and community groups has emerged in both barrio upgrading and the development of new solutions. Their collective action approach has achieved wide acceptance for low-income housing development, although lack of funding and technical capacity has limited their ability to reach significant scale in production. In addition, a number of the state housing agencies have begun to develop dynamic housing programs.

- D. Program strategy

- 1.29 The proposed operation will use direct subsidies to demand, rather than the indirect subsidies of the LPH. It will establish a points

system for qualifying beneficiaries which will not only target benefits to lower-income families, but also reward savings effort. Through a decentralized institutional design and the use of institutional support resources, it will strengthen the capacity of state agencies to manage housing programs for the urban poor. In addition, the pilot program will promote a more demand-driven approach to social housing development; although the public sector retains many functions and decision-making authority, NGOs and local community groups have a key role in organizing demand, making location and design selections, monitoring construction, and maintaining solutions. Thus, it will build on and will strengthen the network of housing NGOs and community based groups and their collective approach to social housing development. The program will also promote other types of private sector participation in the low-income housing sector, incorporating incentives to attract sector professionals, small builders and developers. Finally, the program includes resources to monitor progress, identify bottlenecks, derive lessons learned and assess sector policy changes necessary to adopt the pilot mechanisms at the national level.

- 1.30 A low-income housing program might well include efforts to effect changes in housing debt finance mechanisms to accommodate the needs and constraints of low-income borrowers, such as tailoring repayment to clients' financial capacity, and involving small, local financial intermediaries and/or NGOs in cost recovery. Moreover, a direct housing subsidy mechanism typically includes a credit component, as the mortgage loan reduces the subsidy cost and allows these programs to reach a larger number of beneficiaries. The design might also have included support for the development of the housing finance market, to provide adequate mortgage lending for moderate and middle income borrowers and thus gradually remove the pressure of their demand for public housing solutions. However, largely because of the current deficiencies of Venezuelan financial sector institutions, and the high levels of inflation that prevail in the economy, these areas of action have been excluded from the pilot program.

E. IDB sector policy and experience in Venezuela

- 1.31 In an amendment to its urban development policy (GP-110-5), the Bank recently established guidelines for housing programs to be financed with its resources. The proposed operation fits within the stated criteria; as the next chapters will demonstrate, it seeks to improve housing conditions for low-income households and to improve public sector effectiveness in the management of public resources allocated to the sector. It also meets the policy's requirement that financed subsidy schemes be transparent, well targeted, and an efficient and equitable means of promoting improved housing conditions for the low-income population.
- 1.32 The operation complements the only other recent IDB loan in the sector, PROINSOL (658/OC-VE) approved in 1993, which finances small

public works in barrios and the strengthening of municipal governments. It also complements the IBRD-financed PROMUEBA, barrio upgrading program, now under execution, which may receive new financing for a second phase in 1997 (see paragraph 1.20). Neither PROINSOL nor PROMUEBA finance housing improvements or new housing solutions.

## II. THE PROGRAM

### A. Objectives

- 2.1 The program's main objective is to improve the low-income population's access to housing solutions by adopting a system of direct subsidies to demand and innovative mechanisms for beneficiary targeting and selection. The program will also: (a) strengthen the participating agencies' institutional capacity, and (b) prepare proposals on how policies and institutions in the sector should be changed. It is a pilot program whose results will be used to expand it nationwide.

### B. Description

- 2.2 As a pilot test, the program will introduce a direct housing subsidy system [subsidio directo habitacional] (SDH) and a beneficiary eligibility system [sistema de elegibilidad de beneficiarios] (SEB) in four Venezuelan states. The subsidy may be used to obtain a new housing solution or to improve an existing housing unit. Although the subsidies will be awarded on an individual basis, their use will be collective.
- 2.3 Collective use of the voucher is a means of forging a link between low-income households with unmet housing needs and the limited stock of housing solutions. The program will take advantage of the recent surge in the number of grassroots and technical organizations in the housing sector to stimulate demand and the low-income housing stock. To receive a subsidy, beneficiaries must thus be organized into grassroots housing organizations [organizaciones de base habitacional] (OBHs), which will make community action easier. To help the beneficiaries organize into OBHs, apply for subsidies and obtain new housing or housing improvements, support will be provided by technical agencies referred to as housing demand organizations [organizaciones de demanda habitacional] (ODHs).
- 2.4 The program targets households whose monthly income is up to the equivalent of US\$62 per capita, which is roughly the equivalent of three minimum salaries. As of the time of the analysis, the minimum salary in Venezuela was roughly the equivalent of US\$107. 14/

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14/ Under the Labor Code, the minimum salary in Venezuela is Bs 15,000. However, in December 1995, variable benefits were also regarded as minimum acquired rights. This means that for someone working under normal conditions, the minimum income is approximately Bs 31,000, or US\$107 (Bs 290=US\$1). Referred to as the "minimum real income", this will be the amount used for purposes of the program.

- 2.5 The states in which the program will be conducted - Carabobo, Lara, Sucre, and Zulia - were selected for a number of reasons: (a) the housing shortage; (b) the percentage of the population living in unregulated urban settlements ("barrios"); (c) the size of the target population and its socioeconomic characteristics; (d) the institutional capacity available to carry out the pilot program; and (e) interest in the program at the municipal level (state capital) and on the part of the governor's office.
- 2.6 Being a pilot experiment sponsored by MINDUR and financed with external funding and national budget resources, the program will be carried out in an institutional and regulatory framework independent of the LPH. However, during program execution, changes needed in the LPH and in the sector's institutional structure will be identified so that the mechanisms introduced under the pilot program could be adapted to an eventual nationwide program. Those recommendations will be discussed with the CNV, the MINDUR, and the Bank and included in a plan of action to bring about the needed changes.

C. Program components and activities

- 2.7 The program will have two components: (a) investment in direct subsidies for new housing units and in barrio housing improvements, and (b) institutional strengthening, which will include support and technical assistance to the participating institutions, promotion of the program, and studies on sector policy and institutions.

1. Investment

a. New housing units

- 2.8 As the program's main component, an investment of an estimated US\$61 million (72% of the total cost) will finance approximately 10,000 new housing solutions. The eligible solutions will be individual, low-cost housing, ranging from serviced lots to incremental housing, with a cost ceiling of US\$7,000 equivalent each (see Table II-1). Subsidies granted on an individual basis but used collectively through an OBH, will be awarded on the basis of the competitive selection process described in chapter III. The subsidy will be 80% of the cost of the solution, which includes land, infrastructure, construction, and titling. The beneficiaries will pay the remaining 20% out of cash savings.

b. Barrio housing improvements

- 2.9 The resources for this component, an estimated US\$10 million (12% of the total cost), will be used for improvements on existing housing in established barrios, that meet the minimum criteria for infrastructure and whose ownership is already established. These resources will also finance new housing solutions in barrios, either to replace makeshift structures or to increase property

density. When the resources are used to upgrade existing housing, the subsidy will be 80% of the cost of the improvement, not to exceed the equivalent of US\$1,600; the beneficiaries will put up the remaining 20% from cash savings. The total cost of the housing replacement/densification on existing property is not to exceed the equivalent of US\$4,500. The subsidy will be 80% of the cost; beneficiaries will be required to put up the remaining 20% from savings (see Table II-1 <sup>15/</sup>). Approximately 7,000 units will be financed under this category.

<b>Table II-1</b> <b>COST CEILINGS AND MAXIMUM SUBSIDIES BY TYPE OF SOLUTION</b> <b>(In US\$)</b>				
TYPE OF SOLUTION	COST CEILING	MAXIMUM SDH	% SDH/COST	SAVINGS MINIMUM
<b>NEW HOUSING UNITS</b>				
Serviced lot	3,500	2,800	80%	700
Incremental housing	7,000	5,600	80%	1,400
<b>BARRIO HOUSING IMPROVEMENTS</b>				
Housing improvements	1,600	1,280	80%	320
Replacement/densification	4,500	3,600	80%	900

## 2. Institutional strengthening

2.10 The purpose of this component is to build up the participating agencies' capacity to carry out the program, to promote the innovative program properly, and to begin to prepare the institutions and review sector policies so that the experience acquired under the program can be applied elsewhere. The lines of activity are described below.

### a. Technical assistance and support for participating organizations

2.11 Under this line of activity, institutional weaknesses identified in the states' executing agencies during program preparation will be corrected. The beneficiary eligibility system to be used for the program and modern operations planning and management-control systems will be introduced, and the existing data systems will be expanded. The necessary training will be provided for each new

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<sup>15/</sup> The cost ceiling is the figure suggested for bidding purposes, since the SDH will be 80% of the total cost of the works, as computed once construction has been completed and the cost has been corrected for escalation.

system. This line of activity will also cover the cost of the program's final evaluation. The preliminary terms of reference for the planned activities are available in the technical files of RE3/S03. The cost of this technical assistance is estimated at US\$1.7 million.

b. Promotion

- 2.12 Because collective action at the community level is so important, special efforts will have to be made to publicize the program on a variety of levels and to promote the role of the OBHs and ODHs. Accordingly, a targeted mass marketing plan has been devised, which involves: (a) preparing programs for communications and contracting advertising time and space with the media best able to reach the target population, which is basically radio; (b) designing printed materials; (c) contracting services to provide technical assistance for the establishment and organization of the OBHs; and (d) arranging for specific activities in each state, tailored to its particular needs. The total cost of the component is an estimated US\$1 million.

c. Studies

- 2.13 These are the studies and planning needed to: (a) ensure that the mechanisms tested in the pilot program are properly implemented nationwide; (b) adapt the proven mechanisms to possible changes in the macroeconomic and sector climate; (c) recommend the policy, legal, and institutional changes that would make government activities in the sector more efficient and equitable; and (d) conduct a seminar, with the Bank and sector officials participating, to review the recommendations and agree upon a plan of action. The studies recommended here would cost approximately US\$0.8 million. Preliminary terms of reference for the studies appear in Annex II-2.

d. Administration

- 2.14 This line of activity consists of financing to hire the staff of the program coordination unit [Unidad Coordinadora del Programa] (UCP) and to cover the additional personnel, equipment, and operating costs of the state-level executing agencies. This component will require approximately US\$3 million. The program's itemized administration budget is available in the technical files of RE3/S03.

D. Costs and financing

- 2.15 The program's total cost is estimated at the equivalent of US\$87 million. Of that, the Bank would loan US\$52 million from ordinary capital and the Venezuelan government would contribute the remaining US\$35 million. A breakdown of the costs and sources of financing is shown in Table II-2:

<b>Table II-2</b> <b>COST AND FINANCING</b> <b>(In US\$ thousands)</b>				
CATEGORY	TOTAL			% TOTAL
	IDB	GDV	TOTAL	
<b>1. Administration</b>	<b>600</b>	<b>2,400</b>	<b>3,000</b>	<b>3.4</b>
1.1 UCP Operation	600	2,400	3,000	3.4
<b>2. Direct costs</b>	<b>49,360</b>	<b>24,140</b>	<b>73,500</b>	<b>84.5</b>
2.1 New housing	40,260	20,740	61,000	70.1
2.2 Barrio housing improvements	6,600	3,400	10,000	11.5
2.3 Institutional strengthening	2,500	-	2,500	2.9
<b>3. Associated costs</b>	<b>1,000</b>	<b>-</b>	<b>1,000</b>	<b>1.1</b>
3.1 Program promotion	1,000	-	1,000	1.1
<b>SUBTOTAL</b>	<b>50,960</b>	<b>26,540</b>	<b>77,500</b>	<b>89.1</b>
<b>4. Unallocated</b>	<b>484</b>	<b>972</b>	<b>1,456</b>	<b>1.9</b>
<b>5. Finance charges</b>	<b>520</b>	<b>7,332</b>	<b>7,852</b>	<b>9.0</b>
5.1 Interest	-	6,652	6,652	7.6
5.2 Credit fee	-	680	680	0.8
5.3 Supervision fund	520	-	520	0.6
<b>TOTAL</b>	<b>52,000</b>	<b>35,000</b>	<b>87,000</b>	<b>100.0</b>
<b>% by source</b>	<b>60.0</b>	<b>40.0</b>	<b>100.0</b>	

- 2.16 The borrower will contribute US\$35 million to the program over its four-year life, with its largest contribution, US\$13 million, to be made in the second year. For 1996, which will cover the program's first six months, the Venezuelan government has budgeted approximately US\$2 million, which is sufficient to cover the expected needs. Since the annual amounts required for the program are manageable in terms of annual national spending, no problems are anticipated in terms of the borrower's capacity to cover the required counterpart funds.
- 2.17 The program resources earmarked for subsidies will initially be divided up proportionally among the states, mainly as a function of the urban populations and the population living in barrios: Carabobo, 25%; Lara, 25%; Sucre, 17%; and Zulia, 33%. These percentages may change after the first year of execution, depending

upon how efficiently or inefficiently each state uses its resources in carrying out the program.

E. Scale

- 2.18 The program was scaled on the basis of the following considerations: (a) the operating capacity of the institutional arrangement adopted to carry out the program; (b) INAVI's pipeline of new housing projects, which will guarantee that up to 20% of the investment resources will be used in the program's first year; (c) the urban property available in the participating states' capital cities that can be developed and converted into program-eligible projects; and (d) effective demand for use of direct subsidies, bearing in mind the beneficiary families' savings capacity and the cost of the eligible solutions. The scale of the program is considered adequate for a pilot program that tests new housing subsidy mechanisms.

### III. THE PROGRAM'S INSTITUTIONAL FRAMEWORK AND EXECUTION

#### A. Institutional framework

- 3.1 The MINDUR, the program's executing agency, will carry out its activities through the INAVI, following a system for decentralized execution under which the INAVI will establish the UCP, which will report to the INAVI president's office. The UCP's organization will be simple, with qualified professional staff and detailed manuals and procedures that will be part of the Operating Regulations (see Annex III-2). As a condition precedent to the first disbursement of the loan, the UCP staff must be selected and hired in coordination with the Bank and the UCP must be allocated the necessary resources for operation.
- 3.2 Program execution will be decentralized through the participation of four regional institutions selected for their experience in the low-income housing sector, their operations capacity, their presence and reputation in the state, and their willingness to participate in the program. Each will enter into an agreement with the UCP regulating the former's participation. Conclusion of at least two of the agreements will be a condition precedent to the first disbursement. The selected agencies are: Instituto de Vivienda y Equipamiento de Barrios [Barrio Housing and Infrastructure Institute] (IVEC), in Carabobo; Fundación para el Desarrollo de la Región Centrooccidental [Foundation for the Development of the Central Western Region] (FUDECO), in Lara; Fundación Regional de la Vivienda [Regional Housing Foundation] (FUNREVI) in Sucre; and Instituto de Desarrollo Social [Social Development Institute] (IDES) in Zulia. To facilitate program execution, each agency will set up a coordinating unit called the regional unit [unidad regional] (UR).
- 3.3 The other principals in the program's execution are as follows: the ODHs, agencies with the wherewithal to organize families and promote housing developments, which might be NGOs, private developers or builders, civil organizations, public agencies, foundations, or private companies; the OBHs, groups of households that qualify for direct subsidies under the housing project and ranging in size from as few as 25 families for barrio housing improvements or 50 families for new housing, up to as many as 200 families for either improved or new housing; the financial institutions, which will receive the beneficiaries' savings and channel the program resources; and private contractors, who usually build the new housing developments and do some of the barrio housing improvement projects.

B. Participating entity functions

- 3.4 The UCP will establish and adjust, as necessary, the program's basic parameters and will make certain that it is carried out consistently and coherently. Its principal functions will be: (a) administration and financial control, including monthly correction of the program's quantitative variables to maintain their real value, according to the Central Bank's consumer price index; (b) information and promotion; and (c) assessment and supervision, including registration of ODHs, supervision of the URs, and review of the participating financial institutions [instituciones financieras participantes] (IFPs) for inclusion in the program. As a condition precedent to the first disbursement, a supplemental agreement between the UCP and at least one financial institution per state must be submitted.
- 3.5 The following will be among the functions of the URs to be created within the regional organizational structures: (a) establish and operate the eligibility system and determine the applicants' qualifications for the subsidy; (b) provide financial support and training to the ODHs, and contract them to perform specific services; (c) evaluate and monitor projects; (d) issue calls for proposals on works, inspect them, and approve payments to builders; and (e) help the ODHs and the OBHs locate suitable properties and obtain the permits necessary to carry out the projects. The UR will normally hire third parties to perform some of these functions. As a condition precedent to the first disbursement, two of the URs must be established in the regional agencies, properly staffed and funded.
- 3.6 In preparation for program startup, the executing agency, using its own resources, which will be recognized as part of the local counterpart contribution, will begin organizing the UCP and the URs.
- 3.7 The ODHs have a crucial role in organizing demand for the program. Under an agreement with the URs, the functions of the ODHs will be to: (a) compile the socioeconomic data needed to establish eligibility and submit that information, with the necessary documentation, to the URs; (b) help the OBHs open a program-related savings account with an eligible financial institution, and encourage savings; (c) help the OBHs locate and protect (from potential squatters) a suitable tract of land; (d) when an OBH wins a competition, prepare the preliminary and final designs of the project; and (e) once completed, help the OBHs move into the new housing solutions, get connected to and pay for the municipal services and - in the case of serviced lots - construct a unit. The URs will offer the ODHs financial support through contracts for specific jobs and will train them when it believes instruction is required.
- 3.8 The OBHs, in turn, must: (a) choose an ODH, prepare and agree upon a contract with the UR and that ODH; (b) open a "blocked" savings account with an eligible IFP; and (c) make certain that their

members provide all the information needed to determine whether the OBH is eligible. After winning a competition, the OBH is to: (a) encourage its members to continue saving until they have the down payment needed for the selected housing solution; (b) with the help of the ODH and the UR, locate and obtain control over a land tract; (c) provide the ODH with the information needed to prepare the project's preliminary and final designs; and (d) for solutions in established barrios, organize the families to help build the solutions themselves, supplementing the work of the microbuilders.

- 3.9 Private contractors will build the new developments and may also participate in other aspects of the developments, in cooperation with the ODHs, such as: locating suitable tracts for developments; preparing project designs, and obtaining any necessary permits. Under the plan, microbuilders will help build the housing solutions in the barrios, although in this case families may opt to build their own solutions.

C. Program execution

- 3.10 Program execution will be governed by a set of Operating Regulations, a preliminary version of which appears in Annex III-2. Those Regulations cover, among other things, the program's operating mechanisms and the criteria that the beneficiaries, the OBHs, the ODHs, and the projects must meet to be eligible and/or to qualify for the program. The following documents, which set forth the rules for the program's operations, will be an integral part of those Regulations: (a) UCP and UR organization manual; (b) the beneficiary eligibility system; (c) subsidy regulations; (d) manual for the program's financial management; (e) OBH guidelines; (f) project evaluation guidelines; (g) appraisal manual; (h) bidding manual; (i) inspection manual; and (j) standard contracts needed to carry out the program. A condition precedent to the first disbursement will be that these Regulations enter into force. The following are the main features of the Regulations.

1. General plan for the investment component

a. Registration of families, establishment of OBHs, and qualifying and competing for the direct subsidy

- 3.11 Families interested in participating in the program are to supply their basic socioeconomic data, including what they can save as a down payment toward a housing solution. At that point, a determination is made as to whether a family meets the program's eligibility criteria, which are that they: (a) have a monthly per capita income of up to US\$62; (b) have never received a subsidy under the LPH; (c) in the case of new housing solutions, have not owned any housing solution during the previous three years; and (d) in the case of housing improvements, have a site equipped with the basic infrastructure services in an eligible municipality.

- 3.12 To remain in competition for the subsidy, families must then organize into an OBH. The qualified, UCP-registered ODHs will assist in establishing an OBH, where necessary; when the individual families apply to the URs, they will be referred to the ODHs to be organized into groups. Once an OBH has been established or an existing OBH has applied, the ODH will provide the socioeconomic information needed to compete for the direct subsidy. That information, which is to be obtained through on-site visits, will be recorded on a socioeconomic file card, which is input for the beneficiary eligibility system [sistema de elegibilidad de beneficiarios] (SEB) (see Annex III-2).
- 3.13 The point system that the SEB uses rewards households that demonstrate greater socioeconomic need (75% of the point score) and that make a greater effort to save for the initial down payment (25% of the point score). As a result, larger families with smaller incomes and living in more makeshift conditions score more points for "need". Families that save more and for longer, score more points for "effort". The ODHs help members of each OBH open their blocked accounts with participating financial institutions and encourage savings.
- 3.14 The UR receives the grouped file cards from the ODHs no less than 15 days prior to each competition, and figures each family's point score. The OBH's point score is the average of its member families' point scores. Each UR will hold separate competitions for new housing solutions and for solutions in barrios, at least twice each year. Those competitions will select the OBHs with the highest point score, until all available funds have been used. The winners will receive a subsidy pledge.
- 3.15 Following the competition, the ODHs will help the selected OBHs to obtain their solutions. In the case of new housing solutions, the ODHs, in consultation with the OBHs, will locate the site and design the project to be financed. In the case of barrio solutions, the ODHs will help obtain the permits, find microbuilders, and upgrade the public utilities.

b. Submittal of housing projects

- 3.16 The project that a selected OBH submits for a housing solution must conform to the program's legal, technical, environmental, financial, and economic requirements, stipulated in the project evaluation guidelines that will be part of the program's Operating Regulations.
- 3.17 The value of the subsidy that a family can receive will vary according to the type of solution proposed. The ceiling costs and maximum subsidies at the start of the program appear in chapter II (see Table II-1). Those figures will be reviewed and periodically adjusted according to the cost system used under the program.

c. Selection of contractors

- 3.18 The selection and hiring of the contractors for the construction work and professional services to supervise and inspect the works will depend on the type of solution. The procedures established are summarized below.
- 3.19 New housing: The UR will issue separate calls for bids for construction of the serviced lots and for incremental housing. In both cases, the bidding conditions and selection system that the UR, with help from the UCP, will use will follow the criteria cleared by the Bank. With each project, the UCP will review and approve the procedure followed by the UR and, once the guarantees stipulated in the bidding conditions have been provided, the UR will enter into a contract with the contractor and will request the corresponding advance payment from the UCP. During construction, the contractor will send the payrolls to the UR for approval and payment. Payment will be made with the proper price adjustments, based on a polynomial formula 16/ with coefficients approved by the Central Bank of Venezuela and used by the INAVI for cost escalation adjustments.
- 3.20 Barrio housing improvements: The housing improvement works can be carried out in one of two ways: by hiring a qualified builder or by having the beneficiary do the work under the supervision of a professional from the ODH. The corresponding ODH will provide a list of ODH-approved builders for the UR to review and accept. The UR will qualify the builders on the basis of technical criteria that demonstrate the builders' capacity to carry out the improvement works contained in the subprojects of individual beneficiaries. Once the builders have been declared eligible, each beneficiary will decide how his or her subproject will be carried out. The UR will have an appraisal manual to use for this purpose. Once the guarantees for both contracting systems have been provided, the UR will enter into an agreement with the builder and with the beneficiaries who opt to build the improvements themselves. The builders will receive two payments, one in advance and another upon completion of the works. The final payrolls are to be approved by the UR and to be properly adjusted for prices, following the polynomial formula and using the coefficients approved by the Central Bank of Venezuela.

d. Project inspection and monitoring

- 3.21 The UR will also conduct limited competitive bidding for supervision of the works. The main features of the program's inspection manual will be: (a) physical and financial monitoring of the works; (b) review of the payrolls, considering the volume of work done;

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16/ The formula includes materials commonly used in the construction of low-income housing in Venezuela, mainly steel and cement.

and (c) with the UR's endorsement, approval of any changes and/or adjustments in the designs and of any additional works that may have to be done. The OBH and the ODH involved in the project will monitor the project through a committee of up to six representatives: five from the OBH and one from the ODH. The committee will hold monthly working meetings with the inspector and the contractor to stay abreast of the progress on the works.

e. Consolidation

- 3.22 A period of consolidation has been planned both for the new housing component and for the barrio housing improvement. During that period, beneficiaries will continue to save on a regular basis. Those savings will be used to make the first utility payments; the remaining funds will go toward moving the families into their new housing solutions or to consolidate the serviced lots or the improvements.

f. Ex post evaluation of subprojects

- 3.23 An ex post evaluation of the subprojects will be conducted three months after the works are completed and will include: (a) verification that the project works have been completed, that their quality is up to the established standards, and that their final cost compares favorably with the original reference budget; (b) verification, by means of a sampling, that the project beneficiaries belong to the target population; and (c) review of the level of consolidation of the housing based on such indicators as the following: percentage of housing units on which utilities and property taxes are paid; the beneficiaries' degree of satisfaction with their new situation; and their willingness to do community maintenance work.

2. Startup of the new housing component

- 3.24 To enable the program to achieve results in as short a time frame as possible, two types of activities will be carried out simultaneously. On the one hand, in each of the four states, 12 projects <sup>17/</sup> have been identified that have the program's basic features and could be initiated very quickly. In this case, the UR, assisted by the UCP, will identify potential OBHs that would be assigned an ODH so that they might begin the process. To do this, 20% of the resources of the investment component would be assigned. At the same time, the activities of regular projects would get under way, regular projects being those subject to actual demand by the target population and processed according to the project cycle described earlier.

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<sup>17/</sup> A project is a tract of land with basic services and ready to be subdivided into lots.

3. Execution of the institutional strengthening component

- 3.25 The UCP will hold primary responsibility for this component. However, the regional agencies, as the beneficiaries of the activities to improve operations and management, will share responsibility for their respective activities.

a. Technical assistance for participating agencies

- 3.26 Evaluations conducted during program preparation identified the areas in which each state-level executing agency requires support. General terms of reference have already been prepared and will serve as the basis for hiring the necessary consulting services. Before the program gets underway, the functional adaptation of the URs will begin and the terms of reference for the consulting services needed to set up the various systems and to carry out the training activities will be confirmed. Once the loan is declared eligible for disbursement, the UCP will issue the call for bids for the consulting services, following Bank procedures. While the UCP will be in charge of selection and hiring, it will share the duties of consultant monitoring and supervision with the URs.
- 3.27 The UR will coordinate the technical support activities for the community organizations. Targeting the specific needs identified through the technical support activities, the activities to be carried out will be determined and submitted to the UCP for approval. The latter will review the plans, clear them for the financial resources, and allocate the resources. Through limited competitive bidding at the local level, the UR will then contract the necessary services.

b. Promotion of the program

- 3.28 The lines of activity to promote the program will be detailed before the program gets under way. The mass marketing program proposed will include targeted measures involving both direct contact and indirect contact through the media. One of these lines of action - surveying, information, and establishment of OBHs - will be carried out by the URs, which will have the capacity to rate and hire ODHs for these purposes. One of the basic activities will be to supply the beneficiaries with sufficient information about the experiences of groups that have already received subsidies, the solutions available, etc. As for the communications program, the plan devised for the first year divides the resources and responsibilities among each state; the URs are to hire and supervise execution of these activities. Any change in the program must be submitted to the UCP for consideration. In subsequent years, each UR is to submit its plan for the upcoming year to the UCP for review and approval.

c. Studies

- 3.29 The consulting services needed to conduct the studies on how to adjust policies and on how the mechanisms of the pilot program can be adapted to changes that occur that first year in the macro-economic and legal situation, will be decided by the UCP and presented to the Bank for review and clearance. The UCP will be in charge of finalizing the preliminary terms of reference shown in Annex II-2, and preparing the documents needed for the respective limited calls for bids. In the program's third year, it will organize a seminar with the Bank and the principal sector authorities to discuss the findings of the studies and agree upon a plan of action to steer change in the sector.

4. Flow of funds and financial management

- 3.30 The resources, both from the loan and from the counterpart contribution, will be transferred to the program as they are required, following the plan of execution. Program funds will flow as follows: the UCP will have two bank accounts, one in United States dollars with the Central Bank of Venezuela, and another in bolívares with a commercial bank. The loan proceeds will be held in the dollar account in the Central Bank as a means of alleviating, to some extent, the impact of inflation on program resources. The Venezuelan government will deposit the counterpart funds in the commercial bank account in bolívares.
- 3.31 The URs will each have a commercial bank account in bolívares. The program will engage either a single bank with branch offices in each of the four states or one bank in each state that offers the necessary services. Accounts will be opened at these banks for each OBH; the savings are to be deposited in those accounts. The OBHs' accounts will be "blocked"; in other words, beneficiaries may not withdraw their savings unless they withdraw from the program.
- 3.32 To minimize the impact of inflation on the counterpart funds in bolívares and on the beneficiaries' savings, those funds will be invested in very low-risk financial instruments, rapidly convertible securities with relatively high yields. In varying scenarios the returns on the invested funds could range from a real profit of 4% to a real loss of approximately 8%. Management of the investments will be negotiated with the banks selected to manage the UR and UCP accounts.
- 3.33 During program execution, the URs will request that in keeping with their respective financial commitments, the UCP transfer the resources to their respective local accounts. As appropriate, the UCP will instruct the Central Bank to transfer the loan proceeds, converted into bolívares at the exchange rate in effect at the time of transfer. The UCP will transfer any additional amounts needed from its own account in bolívares. The UR will pay the contractors and other suppliers out of the funds received.

- 3.34 As for the financial commitments that the UCP itself must honor, it will also transfer loan proceeds from its account with the Central Bank to its commercial bank account in bolívares.
- 3.35 The bank accounts will be managed in accordance with the provisions of the financial management manual that will be agreed upon with the Bank and will constitute part of the Operating Regulations. The accounts required under the financial strategy must be established as a condition precedent to the first disbursement.

D. Awarding of contracts for construction and consulting services

- 3.36 Given the preestablished scale of the program and the identification of new housing projects in the program's first year, the bidding procedures for awarding the respective contracts were examined in light of the local laws currently in effect and the Bank's procurement procedures. Considering the amounts that the subprojects are expected to involve (an average of US\$0.7 million) and the fact that these subprojects will be built in different states and at different times, the bidding will likely be local. The preliminary procurement schedule is available in the technical files of RE3/S03.
- 3.37 The procurement of goods and services and the awarding of construction contracts must be carried out in accordance with the procedures set forth in Annex B to the loan contract. International competitive bidding will be mandatory for procurement of goods and services exceeding US\$350,000 and for construction contracts of over US\$3 million. These thresholds are warranted since when similar projects were conducted in the country, international bids were attracted when the amounts involved exceeded these thresholds. Bidding for contracts involving lesser amounts will be done in accordance with local legislation, which in the case of competitive bidding contains no restrictions that would preclude bidders from the Bank's member countries and is compatible with Bank procedures. The consulting services will be hired in accordance with Bank procedures, as stipulated in Annex C to the loan contract.

E. Maintenance of works

- 3.38 To accustom beneficiaries to paying for basic services (water, light, sewerage), provision has been made for a six-month consolidation period during which the OBHs will continue to save on a regular basis. These savings will be used to pay for utilities. The utility companies will be able to perform routine maintenance on their infrastructure works. Each new housing beneficiary will be given an ownership manual which will contain, among other things, a simple maintenance plan and basic recommendations for protection of the environment.

F. Disbursement schedule

- 3.39 Based on the plan of execution, below is the tentative schedule for disbursement of the loan proceeds and the local counterpart contribution:

Table III-1 ESTIMATED DISBURSEMENT SCHEDULE (In millions of US\$ equivalent)						
SOURCE	YEAR 1	YEAR 2	YEAR 3	YEAR 4	TOTAL	%
IDB	9	18	20	5	52	60
LOCAL	5	10	13	7	35	40
TOTAL	14	28	33	12	87	100
%/YEAR	16	32	38	14	100	

- 3.40 Prior to the first disbursement, the borrower must submit evidence, to the Bank's satisfaction, that a mechanism has been agreed upon for transferring the loan proceeds to the executing agency by means of a special dollar account in the name of the program at the Central Bank of Venezuela, into which the loan proceeds will be deposited.

G. Recognition of previous expenditures and advance of funds

- 3.41 The borrower has asked the Bank to recognize expenditures on activities it conducted in preparation for program execution (housing investments are not included) and those it plans to conduct prior to the date on which the resolution of the Board of Executive Directors approving the loan is passed. The project team reviewed the requirements presented and the rules and procedures that will be applied in using the funds. Based on this review and to ensure that the program is properly prepared, the project team considers that the Bank could recognize previous expenditures of up to US\$2 million as part of the local counterpart contribution and US\$2 million as part of the loan for consulting services and the procurement of equipment.
- 3.42 Because of the type of activities to be carried out and the expected pace of execution, it is recommended that an advance fund of up to 10% of the loan, or US\$5.2 million, be established.

H. Bank monitoring during program execution

- 3.43 The monitoring and evaluation will identify any problems and the changes needed in program execution and/or goals. The Bank's

Country Office will monitor the program's overall progress. The method used to monitor and evaluate the program will be a function of its goals (Annex III-5), and the necessary data will be compiled in accordance with the procedures and methods agreed upon with the Bank prior to the first disbursement. In principle, the plan for monitoring and evaluating the program will be as follows:

- 3.44 Startup meeting. Within three months after the date on which the loan is declared eligible for disbursement, the borrower, with the Bank's assistance, will hold a seminar or workshop to launch the program. Attending the event will be the staff of the UCP and of the URs who will be in charge of executing the program activities. The content, duration, and other aspects of the meeting will be agreed upon with the Bank.
- 3.45 Annual reports and meetings. The executor will file semiannual reports detailing each component's progress and the progress made toward each annual goal established in the program benchmarks around which the annual work plans will be structured. Annual meetings will be held within two months following presentation of the second semiannual report. Attending the meetings with the Bank will be a representative from the INAVI, the executive director and technical staff of the UCP, and the directors of the URs.
- 3.46 The annual reviews will cover the following as a minimum: (a) a review of program execution during the previous year, including activities carried out and disbursements made; (b) a comparison of the program's actual achievements with the goals detailed in the tables of goals and benchmarks; (c) an evaluation of the operating mechanisms, with particular emphasis on the ODHs' participation; and (d) an agreement on the plans for the program's activities in the year ahead, including decisions on any corrective measures, possible changes in regulations, allocation of resources by investment category, and new goals resulting from the review.
- 3.47 The second year's annual meeting will evaluate the progress made with the studies funded with program resources and the sector policy changes they recommend. Then the UCP will organize a seminar for sector officials and the Bank to discuss a plan for policy changes, in anticipation of the direct subsidy program's expansion into other states (see paragraph 3.29).
- 3.48 Final evaluation. As this is a pilot program, once all the resources for the investments in housing solutions have been committed, a careful evaluation will be conducted of the program results, particularly how effectively and smoothly the operating mechanisms and regulations were applied. The purpose of the evaluation is to determine, in the studies on adjusting housing policies, whether the program can be extended to other states. The evaluation will be carried out by independent consulting services, to be hired using program resources (see paragraph 2.11), according to the terms of reference prepared by the UCP and agreed upon with the Bank.

I. External auditing

- 3.49 Every year during the life of the program, the executing agency will present the program's financial statements, duly audited by a firm of independent accountants acceptable to the Bank.

#### IV. PARTICIPATING INSTITUTIONS

##### A. Borrower

- 4.1 The borrower will be the Republic of Venezuela, which will appoint as executing agency the Ministry of Urban Development [Ministerio de Desarrollo Urbano] (MINDUR). MINDUR will carry out the program through the National Housing Institute [Instituto Nacional de la Vivienda] (INAVI), in association with the URs.

##### B. Executing agencies

###### 1. INAVI

- 4.2 The INAVI, established in 1975, executes and administers low-income housing policy. Its main focus is the housing problem of that sector of the population that enjoys special protection in terms of the housing stock. The law that established the INAVI authorizes it to negotiate and grant subsidies, which are a key element in this program. Until early 1990, the INAVI was building and financing housing on force account; recently, however, it has begun to rely more and more on the private sector to build and finance housing solutions. Managerial changes and operational adjustments have made the INAVI more efficient. The number of active employees dropped from close to 5,500 in 1989 to approximately 3,000 in 1994. The INAVI has also become stronger on technical matters, some of which - those that have proven useful - have been and will continue to be reviewed and adjusted for use in this program. In the last three years, the INAVI has invested an annual average of US\$62 million in housing solutions.
- 4.3 The UCP will be organized along simple lines and will have a staff of qualified professionals and detailed manuals and procedures that will be part of the Operating Regulations. The selection and hiring of the UCP staff, which is to be done in consultation with the Bank, will be a condition precedent to the first disbursement of the loan. The UCP's executive director will report to the office of the president of the INAVI and will have direct contact with the Bank. The executive director will ensure that the program functions smoothly and will be in charge of the inter-agency liaison with the ministries and the housing programs involved in the program. Overseeing operations will be a general manager who, with the help of two assistants, will supervise the operations of two offices, one technical and one administrative. The technical office will coordinate and supervise all program activities, especially relations with and assistance for the state-level executing agencies. The administrative office will oversee finances, issue and monitor the subsidy, and keep all the program records. In all, the UCP will have a staff of 12 and an annual operating budget equivalent to US\$1 million.

## 2. The state agencies

### a. State of Carabobo: IVEC

- 4.4 The IVEC is an autonomous institute that is part of the state government. It was established in 1990 to study and manage low-income housing policy, which it has done throughout its five years in operation. During this time, the IVEC has invested in 14 urban development projects for a total of 12,200 families, and has conducted programs in 132 barrios with a total of 500,000 beneficiaries. In 1994, its operating budget was the equivalent of approximately US\$13 million. It is experienced in establishing and assisting grassroots organizations in housing-related matters. Its organizational structure includes the type of functions needed for the program and a staff trained in housing brokerage functions. The institutional analysis conducted indicates that the IVEC has the capacity needed to carry out the program activities.

### b. State of Lara: FUDECO

- 4.5 The FUDECO is a nongovernmental organization founded in 1964, and has extensive experience with government institutions and civil society and in preparing and carrying out social welfare projects. Its 1994 operating budget was the equivalent of approximately US\$2 million. The members of its board of directors represent various sectors of business, academia, organized labor, and government. FUDECO is well known and widely respected and has trained staff. Its image as an honest and professional institution gives it widespread drawing power. An analysis of comparable institutions revealed that of all the public and private institutions in the state of Lara, the FUDECO showed the strongest capacity for efficient execution of regional development programs.

### c. State of Sucre: FUNREVI

- 4.6 The FUNREVI is a nonprofit, autonomous foundation with legal status and its own equity. Founded in 1994 and attached to the governor's office, the FUNREVI's institutional mission focuses entirely on housing. It has the authority not only to execute and finance housing solutions, but also to investigate, prepare, and execute housing policies in the state. It has a solid reputation and credibility in the region, strong drawing power, and is known for its integrity and professionalism. In 1994, it operated with approximately US\$2.6 million.

### d. State of Zulia: IDES

- 4.7 Created in 1976 as a nonprofit foundation, the IDES is part of the state government. Its work program focuses on four housing programs, including consolidation of barrios and new housing. With a staff of 59, its professionals have technical expertise and together form a multidisciplinary team of architects, engineers,

economists, sociologists and, what is particularly important for this program, social and community workers. It administered US\$3.2 million in resources in 1994, generating 3,600 housing solutions.

- 4.8 The URs will each have a technical office and an administrative office. The technical office will be in charge of the ODH rating procedures, determining beneficiary eligibility, project review, evaluation, and monitoring, obtaining the necessary permits, evaluation and social monitoring, contracting and inspection of works, and legal matters pertaining to the agreements, contracts, and guarantees. The administrative office will be in charge of financial control and administration. The staff detailed to these offices will be paid out of program resources and the state agency will contribute the office infrastructure. Each UR will also have financial resources with which to contract specific technical services, such as appraisals and inspections.

## V. FEASIBILITY AND RISKS

### A. Institutional viability

- 5.1 The high priority given to the program by the national government, as well as the interest of both the four governors and the municipal authorities in the state capitals, should provide the political support necessary for program success. The location of the UCP in INAVI's presidency affords the program independence of action and a wide network of contacts and relationships in the housing sector at the central and regional level; it also makes possible the use of existing project evaluation and management information systems and viable procurement processes. The highly qualified technical team in INAVI which served as counterpart to the Bank during program preparation will form the nucleus of the UCP, thereby assuring a smooth transition to execution.
- 5.2 The four selected state-level institutions have demonstrated institutional capacity to execute programs, familiarity with the issues of the low-income housing sector, and experience in working with municipal governments, developers, community groups and NGOs. Organizational weaknesses detected during analysis will be addressed through the training and oversight activities of the UCP, as well as the program's institutional strengthening component.
- 5.3 The ODHs have a key role in harnessing effective demand and linking it with supply. Incentives to encourage their participation include: performance-based support from program resources, administrative seed money for a core group of ODHs in each state, and training. Eight ODHs have already been identified and registered for the program, and a preliminary inventory of 10 others have been targeted for promotion by the UR to encourage their early participation.
- 5.4 The collective use of the direct subsidy mimics and harnesses a pattern familiar to many barrio residents: collective land invasions and collective efforts to pressure for public services. Focus groups conducted for project preparation indicated that low-income households understand well the effectiveness of working in groups, highly value them and have recent experience in organizing to pressure for local services in that context. The role of the OBHs and the ODHs also builds on recent promotion and training of community groups under the LPH.
- 5.5 National and regional developers and builders have been consulted throughout program preparation regarding key program features and procedures. They have expressed a high level of interest, especially small and medium-sized regional builders. Incentives to attract their participation include the turnkey projects to be financed during the first year, adjustment of cost ceilings for

eligible solutions with inflation, organized effective demand through the OBH and the ODH, construction finance, flexibility in development designs, and familiarity with dealing with INAVI and the state-level executing agencies. It is anticipated that the program will attract primarily local micro-contractors for the barrio solutions.

B. Financial viability

- 5.6 The GDV made available substantial resources from its preinvestment loan (606/OC-VE) to prepare the program and to finance the transition activity until the first disbursement, and has assigned in its Budget Law for 1996 sufficient counterpart funds for its execution during the first year. The program requires that the GDV commit a total of US\$35 million over four years, with a maximum annual contribution of US\$13 million, which is a manageable sum when compared to the 1990-1995 government expenditures in the housing sector of US\$1.5 billion under the Area I of the LPH. The priority which the government has assigned to low-income housing expenditures assures that the contractual commitment to allocate local counterpart will be honored.

C. Socioeconomic considerations

1. Effective demand

- 5.7 Savings capacity. Two studies during analysis investigated the capacity of low-income beneficiaries to save sufficiently for the down payments needed to receive solutions in conjunction with the subsidy. A focus group study <sup>18/</sup> concluded, conservatively, that households in this income range could afford to save between US\$25 and US\$50 per month, with a median of around US\$40. However, an accompanying study of informal finance mechanisms in barrios of the four states indicated that households frequently save more, for a time, to take advantage of special opportunities, such as the purchase of land or construction materials. It found that 10% to 40% of the families' total savings comes from sources outside their normal monthly income, such as loans from relatives and friends, extra labor of different members of the family to increase cash flow temporarily, and/or rotating savings clubs. In addition, experience in Venezuela and other countries in the region indicates that organization into groups greatly helps low-income households save for a down payment, so the roles of the OBH and the ODH are expected to enhance savings capacity.
- 5.8 This savings capacity indicates that the development period for new solutions will allow the accumulation of a down payment for all

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<sup>18/</sup> Focus groups in the state capitals (Valencia, Cumaná, Barquisimeto, and Maracaibo) consisted, per group, of 10-16 men and women with family incomes of up to four minimum salaries.

eligible alternatives. Three of the four solutions - house improvement, serviced lot and in-fill unit - require monthly savings within the stated capacity of low-income households to save in 18 months, a reasonable time period. Savings for the down payment for a progressive unit may take longer; therefore, for the down payment for this solution savings will be allowed to continue throughout the construction period, so long as 40% of the required amount has been deposited prior to that date (see Operating Regulations). Moreover, families organized into groups are likely to demonstrate a higher monthly savings capacity than the US\$25-50 per month stated in the surveys of individual households. The table below illustrates the monthly savings necessary to accumulate the down payment for the various solutions, assuming the highest allowed value for solutions in each category:

<p>Table V-1 ANALYSIS OF MONTHLY SAVINGS CAPACITY (in US\$)</p>					
	Cost ceiling	Maximum Subsidy	Total Down payment	Monthly savings 18 months	Monthly savings 24 months
House improvement	1,600	1,280	320	18	13
Serviced lot	3,500	2,800	700	39	29
In-fill unit	4,500	3,600	900	50	38
Progressive unit	7,000	5,600	1,400	78	58

- 5.9 Eligible solutions. Although lessons learned from other housing programs in the region (especially Costa Rica, Colombia, Chile, and Uruguay) influenced the choice and range of products eligible for financing, it was the conclusions of studies carried out during program preparation that determined the final choices. The results of the individual household surveys, the focus groups, the informal finance study and a market test of possible housing products undertaken in the barrios of all four states, pointed to the desirability and feasibility of the collective use of the voucher and a variety of solutions to satisfy different levels of savings capacity and different household preferences. The range of products also responds to the characteristics of the barrios in each state, local availability of desirable land, and the experience and interests of developers and housing NGOs in the pilot states.
- 5.10 Interviews with builders and an analysis of INAVI and FONDUR Area I projects, costs of urban land and similar types of solutions in each of the four states, guided the setting of cost ceilings for the different types of solutions. All have been calculated at December, 1995 prices. The UCP will adjust these ceilings for

inflation each month and review them annually as part of the on-going monitoring of the program.

## 2. Land availability

- 5.11 Serviced urban land represents a bottleneck for new formal-sector development in Venezuelan cities. Overcentralized land-use planning, fragmented urban service provision, and low fiscal and management capacity of many municipalities contribute to the problem. However, an assessment of serviced vacant parcels in the four program states conducted during analysis, shows that a more-than-adequate supply of land suitable for social housing exists in three of the four states. The eligible urban areas in Carabobo, Lara and Zulia have land immediately available for development according to program guidelines.
- 5.12 Only Sucre has few parcels ready for new development. The physical characteristics of the site of the capital city, Cumana, limit land availability. Although the city has plans to extend infrastructure into the nearby hills to open up new areas, this development is unlikely to occur during the program's execution. However, FUNREVI - the state housing agency that will house the UR in Sucre - has the most efficient and productive barrio upgrading program in the country. It has organized many OBHs, launched infrastructure provision projects in 48 barrios in the state, and begun to finance home improvement in barrios. Hence, home upgrading, rather than new development, is likely to dominate the program's solutions in this state.
- 5.13 Three program features promote the availability of serviced land. First, the first-year plan includes the financing of existing serviced parcels ready for development, already in the hands of INAVI or other housing agency. Second, an important responsibility of the UR will be to assist in negotiating land purchase from public entities and from private sector owners. In most cases, the state housing entity linked to the UR will also already own or have ready access to a number of suitable parcels. Finally, the program provides incentives for the ODH to assist in locating suitable parcels, and involves private sector developers, some of whom own suitable parcels.

## 3. Feasibility of projects

- 5.14 The appraisal of the housing projects, whether for new solutions or for home improvement will include: (a) a social evaluation; (b) economic analysis; (c) technical review and appraisal of designs; and (d) environmental analysis.
- 5.15 Social feasibility: targeting. The Bank defined the poverty line in Venezuela for 1995 at Bs 9,417 per capita, an amount which corresponds roughly to households that earn less than two minimum salaries. The program targets households earning up to US\$62 per

capita monthly, approximately an income of three minimum salaries for a family of five. However, it is expected that well above half of the program's beneficiaries will be families living in poverty, as defined by the Bank, because: (a) the solutions that may be financed with program resources are low in cost; (b) the collective use of the voucher enhances mutual knowledge among members, reducing chances of filtration to better-off families; and, most important c) the beneficiary eligibility and qualification system's points system rewards needs as well as effort, ensuring that lower-income households benefit from the program.

- 5.16 The technical team in INAVI has developed an eligibility system similar to those being used in housing programs in Colombia and Chile and in the Venezuelan state of Aragua, with the assistance of external consultants. It set minimum eligibility thresholds on the basis of income (less than three minimum salaries), existing shelter (urban location in eligible municipalities and, for new solutions, no ownership of an existing solution), and not having received previous housing subsidies under the LPH or the program. Beneficiaries then compete on the basis of income, access to basic services, social and environmental conditions of existing shelter, family composition, urban context and savings using a points system. It also uses as reference poverty maps developed by MINDUR, and includes a field visit to assess living conditions of potential beneficiaries. A preliminary version of the eligibility system (see Annex III-2) is being tested on existing INAVI projects and will be adjusted as necessary during the first year of the program. Institutional strengthening resources are also being provided by the program to refine the instrument and to train the UR in its effective use.
- 5.17 Technical feasibility. During its long experience in the sector, INAVI has developed and refined construction standards for low-income housing development to guide the formulation, evaluation and monitoring of its projects. It has also developed relatively simple and effective procurement processes. These instruments were reviewed during project analysis and judged appropriate for program use. With minor adaptations, they will be employed by the UR to guide the technical evaluation of projects.
- 5.18 Development of new solutions must comply with minimum standards established by Venezuelan law and complemented by program guidelines. Home upgrading projects must also follow minimum criteria that guide the type and quality of structure to be built in order to ensure technical feasibility (see Annex III-2).
- 5.19 Environmental feasibility. Under Venezuelan law, urban housing projects do not need environmental impact assessments, but only building permits issued by the municipal governments if standard technical, urban development and environmental criteria are met. To complement existing regulations at the municipal level, INAVI, with external consultant support, developed environmental criteria

to guide lot choice, sanitation infrastructure, housing unit design, permissible deforestation levels, minimum green areas, garbage collection services, and the slope and width of roads, among others. These criteria have been included in the Operating Regulations (see Annex III-2).

- 5.20 Possible limited negative effects on the environment were identified for activities to be financed by the program, particularly in the construction phase of project development; mitigating measures were recommended and have been incorporated in the Operating Regulations.
- 5.21 The program's economic feasibility depends primarily upon market mechanisms to ensure that the housing is a "least cost solution" and that there is an adequate rate of return. Families who receive subsidies have a direct interest in obtaining the best possible housing within the budget constraint imposed by the subsidy and their savings. As long as the housing market is reasonably competitive, transactions can be expected to be economically efficient. To ensure a competitive environment, buyers must have sufficient information, and there should not be extensive collusion among builders or materials producers. The program seeks to ensure a competitive environment by: (a) organizing households in groups, which reduces average information costs (e.g. a community leader can take on the role of getting information regarding different suppliers and prices and share this information with the group); (b) financing information-gathering and dissemination on housing costs and characteristics being produced by the market (within the promotion component); and (c) including incentives to encourage the participation of multiple private sector developers and construction firms.
- 5.22 In order to monitor the program and increase the information available regarding the supply of housing solutions, the program will take advantage of a computerized cost system now being used by INAVI. The UCP will make the necessary adjustments in the system, establish the procedures for updating the unit costs, and be responsible for keeping them current to ensure their usefulness and transparency. The UR will use it at the state level to: (a) guide the comparison of bids in procurement competition; (b) produce reference budgets for project evaluation; (c) estimate price adjustments in work orders due to inflation; and (d) carry out ex post evaluations of projects.
- 5.23 Project sustainability. Organized groups of low-income households assisted by ODHs have a large role in the key development decisions in the program - where to buy land, the design and size of units, sub-division layout. The sense of ownership and level of satisfaction that should ensue from this enhanced role will be an important factor in ensuring the ongoing consolidation and maintenance of individual units and the shared spaces.

- 5.24 In the case of new solutions, to ensure sustainability of the projects, the ODH will assist the OBH in the transfer of beneficiaries into their new homes. To assist in the consolidation of serviced lot developments, ODHs will work with OBHs to purchase lower cost materials and guide the subsequent construction of minimum, expandable shelter. For both new solutions and home upgrading projects, the ODH will also make sure that beneficiaries connect and start paying for municipal services.
- 5.25 The UCP will use socioeconomic indicators to conduct ex-post and impact evaluation of projects, and determine the effectiveness and efficiency of their execution, as well as their sustainability in the medium term. Lessons learned will be incorporated into operating procedures of the pilot program, as well as into the design of the anticipated program expansion at national levels.

D. Women as participants and beneficiaries

- 5.26 It was ascertained during analysis that no formal obstacles in Venezuela, either in law or in practice, prevent a woman who heads a family from receiving a direct subsidy, saving in a financial institution, participating in a community organization, or holding title to property. Hence, women can qualify for the housing solutions financed with the proposed subsidy system. In addition, the program recognizes the special vulnerability of the woman-headed households by assigning them special recognition (extra "points") in the individual household qualification process (see Annex III-2).
- 5.27 Community efforts among low-income groups in Venezuela, as in other countries in the region, are heavily dependent on women's volunteer efforts, both as leaders and in their rank and file. Thus, it is likely that women's participation and voice will be important within the OBHs that are central to the program's design.

E. Environmental impact

- 5.28 The program was classified as Category III by the CMA. An Environmental Summary was prepared, reviewed by the CMA on March 5, 1996. The summary suggested environmental criteria to be used in the appraisal of projects to be financed with program funds. Those criteria have been incorporated into the project eligibility guidelines for both new solutions and home upgrading. The environmental analysis concluded that the program had generally positive impacts, and that those potentially negative effects identified could be mitigated at relatively low cost and moderate effort.

F. Benefits

- 5.29 The proposed operation will: (a) provide a minimum of 15,000 solutions to low-income households; (b) afford the country experience with a targeted, efficient and transparent direct subsidy system

and extract best practices from its use in the individual states; (c) establish an efficient, transparent eligibility system that can be adapted for use by other social programs; (d) contribute to GDV efforts to involve community organizations and other NGOs as effective actors in the sector; (e) strengthen state level housing agencies, thereby assisting the process of decentralization in the sector; and (f) increase the participation of builders and developers in low-income housing.

G. Risks

5.30 The following risks have been identified:

- a. Decentralized management. Program execution rests largely on the ability of UR to use two mechanisms new to the Venezuelan context: a beneficiary qualification and selection system and a direct subsidy system to demand. As a result, there may be delays in implementation and/or variability in the application of program regulations. However, the coordinating role of the UCP and the institutional strengthening features that have been built-into the program should mitigate this risk. The ODHs – some of which already have extensive experience in the sector while others will be strengthened will program resources – will support the URs' work.
- b. Macroeconomic context. Continued inflation and further reduction in income levels may have an impact on the effective demand for solutions, diminishing target families' capacity to save for a down payment. At the same time, these negative trends and continued exchange rate imbalances, would reduce the number of solutions that may be financed with program resources. In addition, general distrust of banks on the part of beneficiaries may affect the speed with which families will seek to participate in the program. However, the promotion efforts that will be undertaken as well as the role of the ODHs will help to bridge the distrust and mitigate this risk.

**INSTITUTIONAL STRENGTHENING COMPONENT:  
PRELIMINARY TERMS OF REFERENCE FOR STUDIES**

**I. BACKGROUND**

- 1.1 The Venezuelan housing sector has performed unevenly, even relative to other Latin American countries. Despite relatively high national per capita income, informal settlement represents a much larger share of settlement than in most other Latin American countries, and formal-sector production per thousand (3.9) is well below the Latin American average (5.92).
- 1.2 Starting in 1990, the National Housing Law LPH [Ley de Política Habitacional] has come to dominate Venezuelan housing programs and policy. During its first three years of operation, it achieved significant advances. It raised considerable sums for housing, involved the private sector in lending and development more than previously, and set a flexible framework for shelter programs and policy.
- 1.3 However, the LPH has serious drawbacks and has failed to address many critical bottlenecks. Because it lacks a beneficiary selection system, the LPH excludes informal-sector household and channels the bulk of its subsidies to middle income and professional households. The LPH is highly inefficient. The form and implementation of its principal subsidy – a below market interest rate – causes many problems, including lack of transparency and periodic shut-down of production. Only about two-thirds of the US\$2.4 billion raised by the LPH from 1990 to 1995 actually reached housing developments; and the distortions of the LPH have greatly reduced the effectiveness of the US\$1.6 billion that did finance units.
- 1.4 The LPH has also failed to address other problems. Extension of infrastructure to urban land remains highly fragmented and urban land-use planning ineffective. Inflation, the lack of a constant value unit, and no replacement for the traditional fixed-rate mortgage have resulted in the virtual disappearance of market-rate housing loans. Rent control still throttles production, particularly in Caracas. Even the initial advances of the LPH have fallen away, as the amount of funds invested and units produced has declined precipitously in 1994 and 1995. The overall result is that housing is a very serious problem for all except the upper income groups.

- 1.5 In short, Venezuela requires re-thinking of its housing sector programs and policy. The present program was designed to demonstrate better practices in four states, and can contribute to informing needed reforms. But additional analytical work needs to be undertaken to recommend changes in the institutional and legal framework of the housing sector which will not only make possible the replication of the program at national level, but also will contribute to the reform of the sector as a whole.

## II. PRELIMINARY OUTLINE OF STUDIES

### A. Housing finance study

1. Including a credit component in a housing subsidy system
- 2.1 Many countries in the region now use three components to finance home purchase for low- and middle-income households: (a) a down payment, (b) a market-rate mortgage loan, and (c) a direct subsidy. In contrast, the pilot program uses two components – a down payment and a subsidy – for two reasons: (a) because the Venezuelan macro-financial context precluded the use of a market-rate mortgage, and (b) because of the difficulties of extending market-rate mortgages to low-income households. However, the lack of this third component increases the amount of subsidy necessary for each household and, thus, limits the scope of the pilot program and its replicability on a larger scale. The housing finance study will therefore investigate the use of tripartite home finance for subsequent phases of IDB-sponsored social housing programs in Venezuela, and in the context of the study's other areas of investigation.
2. Lending to low-income households
- 2.2 Lending to low-income households for housing presents special challenges. Often operating in the informal market, these households typically lack formal title and hence collateral for borrowing in the formal market; they generally borrow small sums extended as individual credits, which makes lending to them unattractive for formal-sector housing finance institutions; and collecting on their debt service payments can be viewed as difficult by formal sector lenders.
- 2.3 In Venezuela, there are some experiences of NGOs and community-based organizations that have helped to solve these problems by taking over many of the lending tasks normally performed by formal sector. Rotating micro-credit funds have achieved much higher cost recovery in real terms than any other method of low income housing finance. Yet, key bottlenecks exist to expanding micro-credits for housing: (a) the funding to capitalize these revolving loan funds

exists in only small amounts, because it comes from ad hoc government sources; (b) loan pricing has not kept up with inflationary pressure, leading to fast decapitalization of the funds; (c) expansion of current small experiments is hampered by the absence of a critical mass of viable community housing groups.

- 2.4 The housing finance study shall investigate micro-credit methodologies in housing, and how to address existing bottlenecks, especially through: (a) identifying more reliable sources of funding, and intermediary institutions; (b) identifying institutional strengthening needs of NGOs and informal sector institutions that can onlend these credits; and (c) recommend appropriate terms, conditions and methodologies to successfully lend to low-income households.

### 3. Market rate housing finance instruments

- 2.5 Venezuelan organizations have recently made a number of efforts to lay the foundation of formal-sector market-rate housing finance. These measures include: (a) CASA, a double indexation scheme initiated by the Savings and Loans; (b) plans for establishment of a secondary market by BANAP, the second-tier housing finance bank; (c) the Recovery Fund of Area III of the LPH; and (d) a proposal by the major social housing developers to raise funds on capital markets for long-term housing finance.
- 2.6 A number of models exist for promoting market-rate housing finance in the region, such as double indexation mortgage and constant value units. The housing finance study shall examine these and other relevant efforts to promote market-rate housing finance, and make recommendations on their application in Venezuela.

#### B. Expansion of an eligibility system to housing programs

- 2.7 The LPH and the vast bulk of social housing programs at the state and local levels in the country lack an effective way to target benefits to the intended beneficiaries, low-income households. The pilot program establishes an eligibility system to target project funds in the participating states. The point system utilized rewards both household need and effort (in the form of length and time of savings for a down payment). This study will explore the effectiveness of the eligibility system in the pilot program, suggest changes, and develop an action plan for expansion of an effective system to be used throughout Venezuela.

#### C. Reform of housing institutions

- 2.8 Until the last five years, central government agencies largely monopolized social housing and housing policy. Since then, largely as a result of the LPH, state governments have assumed an active role. The largest local governments are also establishing their

own housing agencies. Under the Decentralization Law of 1989, local governments have gained the main responsibility for barrio upgrading, yet they largely lack the funds - which remain in regional infrastructure supply agencies and state housing agencies - for effective barrio upgrading programs. In addition, intermediary and community based housing non-profits have proliferated.

- 2.9 Preliminary analysis conducted for a diagnostic of the housing sector suggests that Venezuelan housing institutions show a very wide range of efficiency. Average annual production of solutions per employee of five housing agencies studied ranged from 5.4 to 34.9. The share of administrative expenditures as a percent of the budget of these agencies ranged from 2.7% to 23.2%.
- 2.10 In sum, the institutional picture is increasingly complex and housing entities function within a wide range of efficiency. Much overlap and confusion exists. The two large central government housing agencies perform many of the same functions, and overlap with state institutions. Some have largely lost their function, although they continue to exist, while others have just emerged.
- 2.11 This study shall focus on two main issues within this complex picture:
  - a. **The division between the central government and state/local governments.** The study shall investigate the activities and performance of sub-national housing agencies, and focus on striking a useful balance between centralized guidelines and local autonomy.
  - b. **Rationalization of the housing sector.** The study shall examine overlap of institutions in the sector, analyze an optimal public sector/private sector division of roles, and make recommendations as to the rationalization of the chief national housing institutions.

### **III. CONTRACTING CONSULTING SERVICES**

- 3.1 International consulting services, of either firms or individuals, as well as local consultants, shall be contracted, following normal Bank procedures, by the UCP to carry out these studies, beginning during the second year of program execution. Detailed terms of reference for the consultancies and the proposed short lists of consultants shall be presented to the Bank for its review and approval. The total budget for these studies is the US\$0.8 million.

## PRELIMINARY OPERATING REGULATIONS

### I. PURPOSE AND DEFINITIONS

#### A. Purpose

- 1.1 These regulations stipulate the terms and conditions of the low-income housing program.

#### B. Definitions

- 1.2 In these regulations, the terms listed below shall be understood as follows:

<b>Beneficiary</b>	Representative of a family that qualifies as eligible to receive the SDH subsidy
<b>Borrower</b>	Republic of Venezuela
<b>Builder</b>	A professional in the construction business or a construction firm that installs public services and/or builds housing
<b>Executing Agency</b>	The MINDUR, through a program coordination unit attached to the office of the president of the INAVI
<b>Family or household</b>	Legally married couples, common-law couples, or groups of individuals related up to the third degree of consanguinity, the second degree of affinity, or first degree of civil and who share the same living quarters
<b>IDB or Bank</b>	Inter-American Development Bank
<b>IFP</b>	Participating financial institutions with which beneficiaries shall deposit their savings and where accounts for managing the program resources shall be opened
<b>IMRPC</b>	Minimum real per capita income: defined as US\$62 per member of the beneficiary family
<b>INAVI</b>	Instituto Nacional de Vivienda [National Housing Institute]

<b>Loan</b>	The contract for loan, entered into by the IDB and the borrower
<b>LPH</b>	Ley de Política Habitacional [Housing Policy Law]
<b>OBH</b>	Organización de Base Habitacional [grassroots housing organization]: a group of beneficiaries qualified for a subsidy in a housing project and consisting of no fewer than 50 and no more than 200 families
<b>ODH</b>	Organización de Demanda Habitacional [housing demand organization]: an NGO, private consulting firm or group of consultants (at least one sociologist, one civil engineer/sanitation engineer, and one architect) qualified by the UCP to advise and train OBHs in the various procedures described in these regulations
<b>Program</b>	The low-income housing program (PSHIS)
<b>Projects</b>	New housing or housing improvements financed with the SDH and beneficiary savings
<b>PSHIS</b>	Low-income housing program
<b>SDH</b>	Direct housing subsidy: direct assistance from the state, which a beneficiary may receive only once in a lifetime and need not repay and consisting of a supplement for the following purposes: (a) to purchase (if appropriate) and develop a lot; (b) to build a basic housing unit; and (c) to improve housing
<b>Serviced lot</b>	A lot of at least 80 square meters, fully serviced, which means water, sewerage, and electric power systems, streets, and sidewalks
<b>States</b>	The four states proposed for the program: Carabobo, Lara, Sucre, and Zulia
<b>UCP</b>	PSHIS coordination unit
<b>UR</b>	A unit in each state's regional agency in charge of running the PSHIS

## II. PROGRAM OBJECTIVES AND DESCRIPTION

- 2.1 The program's main objective is to provide the low-income population with better access to housing by means of direct subsidies to demand and innovative mechanisms for beneficiary targeting and selection. The program also proposes to: (a) strengthen the institutional capacity of the institutions that participate in the program, and (b) identify the main problem areas in the country's housing policy and draw up recommendations to correct them. As this is a pilot program, its results shall be used to expand it nationwide.
- 2.2 The program targets households with monthly per capita incomes up to the equivalent of US\$62, which is basically that of a household of five earning the equivalent of three minimum salaries or less.
- 2.3 The program shall be carried out in the states of Carabobo, Lara, Sucre, and Zulia, over a maximum of four years. The approach used shall be one of a direct subsidy to demand, which, although awarded on an individual basis, must be used collectively. To receive a subsidy, beneficiaries must go through a selection process, which shall be tested and improved over the life of the program.
- 2.4 The institutional framework in which the program is carried out shall be independent of the regulations stipulated in the LPH. However, the program shall identify any changes needed in the sector's regulatory and institutional framework in order to apply the pilot program's mechanisms nationwide.

### A. Program components and activities

- 2.5 The program shall have two components: (a) investment in direct subsidies for new housing and for barrio housing improvements, and (b) institutional strengthening, which includes support and technical assistance for the participating institutions, program promotion, and studies on housing sector policy and institutions.

#### 1. Investment

##### a. New housing

- 2.6 New housing is the program's main component and involves an investment of an estimated US\$61 million (72% of the total cost) to finance approximately 10,000 new housing solutions. The eligible solutions shall be low-cost, individual alternatives, ranging from serviced lots to incremental housing, with a cost ceiling equivalent to US\$7,000. The subsidies, granted on an individual basis but used collectively through an OBH, shall be awarded on the basis of competition and selection procedure, described in detail in

chapter III. The amount of the subsidy shall be the equivalent of 80% of the cost of the development, including land, infrastructure, construction, and titling. Beneficiaries shall contribute the remaining 20% out of their cash savings.

b. Barrio housing improvements

- 2.7 The resources for this component, estimated at US\$10 million (12% of the total cost), shall finance improvements to existing housing in established barrios, that meet the minimum infrastructure criteria and whose property titles have already been established. This component shall also finance new solutions in barrios to replace makeshift structures or to increase property density. The subsidy for housing improvements shall be 80% of the improvement cost, which is not to exceed the equivalent of US\$1,600; beneficiaries shall contribute the remaining 20% from their cash savings. The total cost of the replacement/densification of housing on existing lots is not to exceed the equivalent of US\$4,500 and the subsidy shall be 80% of the cost, with the beneficiaries contributing the remaining 20% from their savings. An estimated 7,000 housing units in this category will be financed.

2. Institutional strengthening

- 2.8 The purpose of this component is to strengthen the participating institutions' capacity to carry out and adequately promote the innovative program proposed, to begin to prepare the institutions and to reexamine sector policies so that the experience gained from the program can be put into practice. The lines of action are described below.

a. Technical assistance and support for participating institutions

- 2.9 This subcomponent consists of measures to correct institutional weaknesses in the state executing agencies identified during program preparation. The beneficiary eligibility system to be used during the program shall be introduced, modern operations planning and management-control systems shall be designed and instituted, and the existing data systems supplemented. Any training needed for each new system shall also be provided. The cost of this technical assistance is estimated at US\$1.7 million. The preliminary terms of reference for these activities are available in the technical files of RE3/S03.

b. Promotion

- 2.10 Given the importance of collective action at the community level, special measures will be needed to publicize the program at various levels and to promote the work of the OBHs and the ODBs. For these purposes, a targeted mass marketing plan has been devised which

involves: (a) preparing communication programs and contracting for advertising with the media best able to reach the target group, which is basically radio; (b) designing printed materials; (c) hiring services for the technical support in establishing and organizing the OBHs; and (d) facilitating specific activities in each state tailored to each one's particular needs. The total cost of the component is an estimated US\$1 million.

c. Studies

- 2.11 Studies and planning shall be carried out to: (a) ensure that the mechanisms tested under the pilot program become sufficiently generalized; (b) adapt the tested mechanisms to any changes in the macroeconomic and sector environment; (c) recommend policy, legal, and institutional changes to make the Venezuelan government's activities in the sector more efficient and more equitable; and (d) hold a seminar with the Bank and the participating authorities to review the recommendations and agree upon a plan of action. The proposed studies are expected to cost approximately US\$0.8 million. A preliminary version of the terms of reference for the studies appears in Annex II-2.

d. Administration

- 2.12 This includes financing to hire the staff of the program coordination unit (UCP) and to cover the additional staff, equipment, and operating expenses of the state-level executing agencies. Approximately US\$3 million will be needed for this component.

B. Program administration

- 2.13 The program shall be jointly administered by the regional units and the UCP, which shall operate at the central level and whose main function shall be to ensure that the activities carried out in the four states are consistent. The UCP shall also manage all program resources. This component shall provide the resources to hire the UCP's staff, any additional staff that each state unit may require, and the equipment and operating costs of the executing and coordinating units.

C. Allocation of resources

- 2.14 Initially, the program resources earmarked for subsidies shall be divided among the states largely on the basis of the size of their urban populations living in poverty: Carabobo, 25%; Lara, 25%; Sucre, 17%; and Zulia, 33%. The UCP shall review these percentages after the program's first year, based on how efficiently the resources have been used.

### III. ELIGIBILITY

#### A. Municipalities

- 3.1 The eligible municipalities shall be cities with populations of over 100,000, their suburbs, and satellite cities in the following four states: Carabobo, Lara, Sucre, and Zulia.

#### B. Barrios

- 3.2 The eligible barrios must qualify as established barrios by MINDUR standards. They must have a settled population of at least five years' standing and basic infrastructure, and may not be located in unstable areas or environmental protection areas.

#### C. Beneficiaries

- 3.3 For new housing. Families living in makeshift circumstances in the municipalities selected for the program who meet the following criteria shall be eligible to apply for the program:

- a. They have a monthly per capita income of less than US\$62.
- b. At no time in the previous three years have they been owners of any other housing solution and/or land within the urban perimeter of any Venezuelan city.
- c. They have never before received a housing subsidy.

- 3.4 For barrio housing improvements. Families that meet the following criteria shall be eligible to apply for this program:

- a. They have a monthly per capita income of less than US\$62.
- b. In the last three years they have been the owners of a housing solution and/or property within the urban perimeter of one of the cities included in the program.
- c. The barrio has basic services – i.e., water, sewerage, and electric power – or, should one or more services be lacking, the municipality has pledged to install the service within the next 12 months.
- d. They are members of an OBH.
- e. They have never before received a housing subsidy.

- 3.5 Families that meet all the eligibility criteria may take part in the competitions through the OBH to which they belong, and then opt

to apply for a subsidy. The requirements for the competition are as follows:

- a. Families shall fulfill all the eligibility criteria.
- b. The OBH shall submit the families' general and socioeconomic information, as stipulated in the application manual that is part of these Regulations.
- c. Families shall have a savings account (at least three months old) with a financial institution.

D. Projects

3.6 Beneficiaries may apply for an SDH for the following types of solutions:

1. New housing

- a. Incremental housing: to purchase or obtain the land, to purchase or build the subdivision with basic services, and to purchase or build the housing.
- b. Serviced lot: to purchase or obtain the land and construct serviced lots, or to purchase serviced lots.

2. Barrio housing improvements

- a. Housing improvements: to improve the structure, kitchen, and bathroom in the existing housing unit or enlarge the unit.
- b. Replacement/densification: to replace an existing structure on the same property.

3.7 The project eligibility criteria appear in Appendix 2 of this document.

E. Participating institutions' functions

3.8 The UCP shall establish and adjust the program's basic parameters as needed, to ensure that it remains coherent and consistent as it is carried out. Its main functions shall be:

- a. Financial: (i) administer and financially manage the loan proceeds and the local counterpart funding; (ii) qualify the financial institutions to participate in the program, based on their institutional viability and their experience in the low-income housing sector; (iii) applying the Central Bank's consumer price index, adjust the program's quantitative variables every month to maintain their real value; (iv) every three months, review the cost of the program solutions and,

following the structure of a polynomial formula with Central Bank-approved coefficients, make any necessary adjustments; and (v) after the program's first year, allocate to each participating state its share of the program resources, based on the URs' efficiency and expeditiousness.

- b. Qualification and supervision: (i) qualify the ODHs to participate in the program, using the criteria specified in these Regulations; (ii) monitor the URs to ensure proper implementation of the beneficiary eligibility system; (iii) contract for and supervise the institutional-strengthening measures for the state executing agencies and (iv) supervise, coordinate, and approve, as appropriate, the activities of the state executing agencies.
  - c. Information and promotion: keep the program books and accounts and prepare and submit the semiannual reports and/or any other reports required; general promotion of the program.
- 3.9 The URs, to be set up as part of the organizational structure of the four state agencies, shall have the following main functions:
- a. adopt and operate the eligibility system and hold the competitions for subsidy applicants;
  - b. promote the program;
  - c. train the ODHs and hire them for specific services;
  - d. evaluate and monitor the projects;
  - e. conduct bidding for works, inspect the works, and approve disbursements to builders;
  - f. based on a sampling of the families in each OBH, verify that the program eligibility criteria are being fulfilled;
  - g. where necessary, help the ODHs and OBHs locate suitable tracts of land and obtain the permits necessary to carry out the projects; and
  - h. manage the program's resources in accordance with these Regulations.
- 3.10 As a rule, the UR shall delegate some of its functions to other institutions; for example, it may hire engineering firms to monitor the projects and a housing-related NGO to disseminate information about the program.
- 3.11 As their name implies, the ODHs play a key role in organizing demand for the program. The UR shall assign each ODH a specific

geographic area in which it shall promote the program and organize low-income families into OBHs; the UR shall also refer families in these areas to the proper ODHs. By agreement with the UR, the following shall be the responsibilities of the ODHs:

- a. interview families to obtain the socioeconomic information needed to determine their eligibility, and submit that information and all the necessary documentation to the UR;
- b. help the OBH open a savings account for the program at an eligible financial institution, and encourage savings;
- c. help the OBH locate a suitable tract of land and protect it (from potential squatters);
- d. when the OBH wins a competition, prepare the preliminary and final designs of the project; and
- e. once the project is complete, help the OBH move into the new housing solutions, connect into and pay for the municipal services and, in the case of serviced lots, build a unit. The UR shall offer financial support to the ODHs through contracts for specific works and shall train them as it sees fit. The UR shall also offer administrative resources to a small group of ODHs in each state, to get the program off to a more vigorous start.

3.12 To compete for the subsidies offered under the program, families must organize into OBHs. To participate, each OBH must: (a) choose an ODH, which is to enter into a contract with the UR; (b) open a "blocked" savings account with an eligible IFP; and (c) ensure that all its members have supplied the ODH with the information needed to determine their eligibility. Once an OBH wins a competition, it shall: (a) encourage its members to continue saving until they have the down-payment needed for the housing solution selected; (b) locate the property and obtain the necessary rights to it, with the help of the ODH and the UR; (c) provide the ODH with the information needed to prepare the project's preliminary and final designs; and (d) for barrio solutions, organize families to help build their own solutions, supplementing the work of the microbuilders.

3.13 Private builders shall construct the new housing developments and, with the ODH, may participate in other aspects of the developments such as locating suitable sites for development, preparing project designs, and obtaining the necessary permits. They may also sell developments they have built and need not seek UR approval if these developments meet the eligibility criteria for projects built under the program. The microbuilders shall participate in the construction of barrio housing solutions, although in this case families may opt to build the solution themselves.

- 3.14 The IFPs, contracted by the UCP because of their financial soundness, administrative efficiency, and interest in participating in the program, shall receive the beneficiaries' savings and the resources of the program. The bank accounts are to be managed in accordance with a financial management manual that shall be agreed upon with the Bank and that shall constitute part of these Regulations.

#### IV. THE DIRECT HOUSING SUBSIDY

##### A. Subsidy value

- 4.1 The following scale shall be used to determine the cost ceiling of a housing solution purchased or improved with an SDH and the maximum value of the SDH that can be applied:

Type	Cost ceiling US\$	Maximum SDH US\$	Percentage	Minimum savings
NEW HOUSING				
Serviced lot	3,500	2,800	80	700
Incremental housing	7,000	5,600	80	1,400
BARRIO HOUSING IMPROVEMENTS				
Housing improvements	1,600	1,280	80	320
Replacement/densification	4,500	3,600	80	900

- 4.2 The price shown in the contract of sale shall be used to determine the value of the housing solution; in the case of construction work on a beneficiary's property, the value shall be the appraised value by the UR or by an ODH designated to do so in accordance with the property appraisal manual that shall be an integral part of these Regulations.
- 4.3 The cost ceiling indicated in the preceding table is the maximum that bidders can offer for a solution when they compete for construction contracts. The figure must include the external inspection costs (3% of the works) and the ODH's training and assistance (3% of the works) during construction and then during settlement of the new housing development.
- 4.4 The SDH shall be 80% of the total cost of the works, regardless of the figure computed at the time the construction work is completed, even if it is higher than the project cost ceiling.

B. Savings

- 4.5 The applicant must save 20% of the cost of the works, computed either at the time the construction work is completed or within 18 months thereafter. To meet that requirement, the applicant must have sufficient savings to make the initial payment supplementing the financing for new housing or housing improvements.
- 4.6 The savings or initial payment shall be certified by an IFP. The applicant shall deposit the money and may not make any withdrawals so long as the application is pending. Should the applicant be awarded an SDH, said applicant may make a withdrawal only for purposes of applying it toward the purchase or construction of the housing solution.

V. BENEFICIARY SELECTION

- 5.1 The UR shall process applications and select the SDH beneficiaries based strictly on the point score that the applications receive when the following factors of need and effort are weighed.
- a. The socioeconomic report measures the relative degree of poverty of the individual and his or her household.
  - b. Savings or initial payment. In this case, the point score shall be based on the amount saved.
  - c. Household.
- A. Adjustments to the cost ceiling for the housing solutions
- 5.2 Every three months, the cost ceiling for the various types of solutions shall be adjusted using the following procedure:
- a. The reference budgets of the model solutions for each state shall be adjusted using the polynomial formula based on coefficients approved by the Central Bank of Venezuela.
  - b. The cost in bolívares shall be converted into dollars at the official exchange rate and the cost ceilings shall be set for the next quarter.
  - c. If the dollar values have changed, approval from the IDB Country Office must be requested prior to proceeding with any adjustments.

## VI. APPLYING FOR THE SDH

- A. For new housing
1. Requirements
- 6.1 The following requirements must be met to compete for a subsidy:
- a. The beneficiary and project eligibility criteria must be met.
  - b. The amount of each family's savings must be at least 40% of the 20% contribution required of each family.
2. Procedures for OBH establishment, household qualification, and SDH competitions
- 6.2 Families interested in participating in the program shall provide their basic socioeconomic information, including their willingness to save for a housing solution. At that point, it is verified whether the families meet the program criteria for membership in an OBH, i.e.: (a) their monthly per capita incomes must be US\$62 or less; (b) they must never have had a subsidy under the LPH; (c) in the case of new solutions, they must not have been the owner of any solution at any time during the previous three years, and (d) in the case of housing improvement, they must reside on an urban property with basic infrastructure services in an eligible municipality.
- 6.3 To remain in competition for a subsidy, families must then organize into an OBH. The UCP-qualified and registered ODHs shall help establish the OBH whenever necessary. When individual families apply for the program, they shall be referred to an ODH to be organized into groups. Once an OBH is established or when an established OBH applies, the ODH shall complete the socioeconomic information needed for the OBH to compete for a direct subsidy. The information, which shall be obtained through on-site visits, shall be presented on a socioeconomic form that becomes input for the SEB.
- 6.4 The point system that the SEB uses rewards households that demonstrate the greatest socioeconomic need (75% of the point score) and that make the greatest effort to save toward the initial payment (25% of the point score). As a result, larger families with lower incomes, living in very makeshift circumstances, score higher on "need" while families who save more and for longer periods of time score higher on "effort". The ODHs help members of each OBH to set up their blocked accounts with participating financial institutions and encourage savings.

- 6.5 The UR shall receive groups of OBH forms from the ODH no less than 15 days prior to each competition, and shall figure each family's point score. The point score for the OBH is the average of its families' scores. At least twice each year, every UR shall hold separate competitions for new housing and for barrio solutions and select the OBHs with the highest point scores – until all available funds are used. The OBHs, in turn, shall receive a subsidy commitment.
- 6.6 Subsequent to the competition, the ODHs, when necessary, shall help the selected OBHs obtain their solutions. For new developments, the OBH and the ODH shall work together to locate the property and design the project to be financed. For solutions in barrios, the ODHs may help obtain permits, locate microbuilders, or improve public services.

3. Submittal of housing projects

- 6.7 The projects that the selected OBHs submit shall meet the legal, technical, environmental, financial and economic requirements of the program stipulated in the evaluation guidelines that shall be part of these Operating Regulations.
- 6.8 The amount of the subsidy that a family may receive shall depend on the type of solution for which it is applying. The cost ceilings and maximum subsidies upon program initiation are shown in chapter II (see Table II-1). Those figures shall be reviewed and periodically adjusted, in accordance with the cost system to be used under the program.

4. Conditions

- 6.9 The family is entitled to receive 80% of the cost of the works, inspection, and training, as calculated at the time of their completion.
- 6.10 To receive a subsidy, each family shall agree to honor the following obligations:
- a. to pay the basic utility charges and property taxes to the municipality;
  - b. to maintain the common areas of the housing solutions; and
  - c. if the solution is a serviced lot, to build a basic housing unit within a period of no more than three years.
- 6.11 Should the beneficiary families fail to honor any of the obligations stipulated in the preceding paragraph at any time during the first five years of residence or if any misinformation or misrepresentation is discovered in the documents presented as proof that

the above requirements have been fulfilled, the families concerned shall be subject to one of the following penalties:

- a. The program or state institution in charge may evict the family from the housing unit and/or serviced lot and turn it over to another qualified applicant; alternatively, the beneficiary family may be required to repay the full value of the SDH plus interest at the official borrowing rate.
- b. The program or state institution in charge may request that the municipality penalize the family or families by levying the fines allowed under local legislation.

B. For barrio housing improvements

1. Requirements

6.12 The competition for the SDH shall be held once the following requirements have been met:

- a. The eligibility criteria for the beneficiaries and for the project have been met.
- b. The OBHs are qualified.
- c. The amount of each family's savings is at least 40% of the 20% that each family is expected to contribute.

2. Procedures for OBH establishment, household qualification, and SDH competitions

6.13 See section VI.A.2 above.

3. Conditions

6.14 Families shall be entitled to receive an SDH equal to 80% of the cost of the works and of the technical assistance received, calculated at the time of their completion.

6.15 To receive a subsidy, each family shall agree to honor the following obligations:

- a. to pay basic utility changes and property taxes to the municipality; and
- b. to maintain the housing solutions' common areas.

6.16 If a beneficiary family fails to comply with any of the obligations specified in the preceding paragraph during the first five years of residence or if any misinformation or misrepresentation is discovered in the documents presented as proof that the stipulated

requirements are fulfilled, the families concerned shall be subject to one of the following penalties:

- a. The beneficiary family shall repay the full amount of the SDH, plus interest at the official borrowing rate.
- b. The program or state institution in charge may request the municipality to penalize the family or families by levying the fines allowed under local legislation.

C. Allocation of resources

1. Financing

- 6.17 The program shall make the payments to the ODH during project preparation. The beneficiaries shall use their savings and the SDHs received to pay for the construction work contracted for the selected housing solution and any technical assistance and additional training that they may need from the ODH.

2. Other financing

- 6.18 Government agencies and other institutions may make contributions. The value of a solution may be the ceiling cost established in these Regulations, plus contributions from other institutions provided they are used to finance part of the infrastructure works.
- 6.19 Contributions of other types, such as studies and training, shall not be taken into account when computing the value of a solution.

VII. OPERATING PROCEDURES FOR NEW SOLUTIONS

A. Promotion

- 7.1 Target population: Working in combination with the URs, the UCP shall publicize the objective and *modus operandi* of the program in the region's local media and at centers and establishments frequented by the target population. In most cases, the promotional work shall be done via direct contacts made when UR staff visit places where the target population who might fulfill the program's eligibility criteria live. Various means shall be used to promote the program, including informational brochures geared to potential beneficiaries and containing specific information on the experience of other OBHs, the costs and types of developments that have been financed with program resources, and a list of the ODHs in their area that can assist them.

- 7.2 ODH: Working with the URs, the UCP shall prepare written and illustrated materials on how the ODHs are organized, what their functions are, how one participates and what one pays to the ODHs. This material shall be supplied to the NGOs that work with communities, to professional consultants and to consulting firms active in the sector either on the design side or the construction side.

B. Qualification of the ODHs

- 7.3 The UCP shall keep a list of ODHs. To be listed, the interested ODH must meet at least the following requirements:

- a. **Have legal status.** Here, the NGOs, professional associations, private consulting firms, or any combination of the above shall be accepted.
- b. **Prove its financial solvency** by providing evidence of its capital and guarantees that the Regulations require.
- c. **Have at least three professionals participating who are experienced in the following areas:** community training, urban subdivision and housing plans, the design of basic services such as water supply, sewers and streets.
- d. **Supply the annual balance sheets and reports by independent auditors.** The first year, this information shall not be required of newly created institutions.

- 7.4 Only those ODHs whose listing is current may advise the OBHs. Decisions to refuse an ODH's listing application must be explained. The interested party may turn to the UCP to appeal such a decision.

C. Contract with the ODH

- 7.5 In consultation with the UCP, the UR may enter into a contract with an ODH which shall stipulate the following:

- a. A nonrefundable advance equivalent to 20% of the value shall be paid once the first results for a 50-family OBH materialize.
- b. Subsequent payments shall be based on the ODH's results as it performs its duties.
- c. Once a result materializes, the ODH shall obtain a certificate from the OBH and signed by at least two thirds of its membership, indicating that they consent that the ODH should continue to work for the OBH.

- 7.6 The contract entered into with the ODH shall stipulate that payment of fees shall be contingent upon concrete results. The UR shall

provide the ODH with manuals specifying the requirements and procedure for achieving the results listed below:

- a. The UR's qualification of the OBH and, ultimately, of its members.
- b. A statement of eligibility for the land where the project shall be developed and for the architectural proposal.
- c. The UR's approval of the layout and specifications of the water supply, sewer, electric power systems and streets. These designs are to be submitted with their respective engineering designs, technical reports, and the budgets needed for the serviced lot projects.
- d. Approval of the training and of all reports on assistance provided for monitoring the construction works in progress.
- e. Approval of the training and assistance given to the OBH during the period when the beneficiaries are being moved and fulfillment of commitments made to the municipality on payment of basic utilities charges and property taxes.

7.7 This contract shall become invalid in the following cases:

- a. If within one year the ODH has not achieved any result.
- b. If the OBH decides to terminate the services of the ODH, which it can do each time a result has been obtained.
- c. If the UR and/or UCP decide to terminate the ODH's services for justified cause.

D. OBH qualification

7.8 In keeping with the program's work manual, once an ODH is declared eligible it must seek groups of families who have applied and organize them into an OBH. <sup>1/</sup> The ODH shall work with these family groups to help them fulfill the requirements. It shall provide them with technical assistance, conduct studies and give them the training that will enable them to participate successfully in the program.

7.9 An OBH must have no fewer than 50 families. Once a group of families has been identified by the ODH, the latter must collect socioeconomic and legal information from each of them, in accordance

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<sup>1/</sup> Individual families that wish to participate in the program shall be referred to the existing OBHs or to an ODH that is helping to form an OBH.

with the work manuals. This information shall be supplied to the UR when the competition is announced.

- 7.10 Each UR shall announce an open competition every six months to qualify the OBHs.
- 7.11 The UR shall confirm the information supplied by the ODH by visiting a statistically representative sample of the participating families. If the information prepared by the ODH does not square with the survey information, the OBH shall be disqualified from that competition.
- 7.12 The UR scores each family individually and then figures the average of each OBH. It ranks the applicant OBHs in descending order, starting with the one that receives the highest score.
- 7.13 With clearance from the UCP, the UR then declares the OBHs with the highest point scores as the qualified applicants. Once the OBHs have been qualified, the ODHs that assisted them may request payment of their fees. If more OBHs are needed, the UCP shall decide whether to qualify more OBHs on the list or to announce a special competition instead.

E. Requirements to qualify the land and the architectural proposal

- 7.14 Once an OBH has been qualified, the UR shall review the documentation to approve the site and/or its purchase, as the case may be, and the architectural proposal for land development and site servicing shall be delivered to the UR. For the UR to give its consent at this stage, all technical and environmental eligibility criteria stipulated in the manuals must be fulfilled. The following documentation shall be supplied to the UR:
  - a. A copy of the property deeds, and information on mortgages, disputed claims or any other problems.
  - b. Should a property purchase be involved, the ODH is to prepare a duly-justified purchase-price offer.
  - c. A certificate attesting to the feasibility of providing services, issued by the corresponding department of the municipality or by the respective municipal utility company.
  - d. A certificate from the corresponding department of the municipality attesting to the fact that the property is within the city's urban perimeter and indicating the use for which the property is zoned and the planned density.
  - e. Reports on: surface and subsurface drainage systems, currents of water on the property and soil type.

- f. Reports on: accessibility, existing streets, existing water-supply, sewer and electric power systems.
- g. Report on the presence of sanitary or industrial stabilization ponds, urban or industrial solid waste treatment plants, industrial districts or businesses that can produce significant amounts of air pollution (petrochemicals, iron, tanning, soap manufacture, among others).
- h. Layouts with the architectural proposal for land development and site servicing and the respective descriptive reports.

F. Qualification of the land and the architectural proposal

- 7.15 The qualification is in two parts: a technical evaluation and, should purchase be proposed, a commercial appraisal of the property. The technical evaluation shall include a review of the feasibility of the basic services, and environmental and safety standards.
- 7.16 When a property purchase is proposed, the UR shall subcontract for a commercial property appraisal. The procedure shall be as follows:
  - a. A small group of appraisal firms and/or professional appraisers shall be qualified, based on their practical and professional experience.
  - b. An appraisal contract competition shall be announced.
  - c. The appraisal shall be commissioned and shall use the market or price comparison method.
  - d. The report shall be delivered with all information compiled and analyzed.
- 7.17 The property shall not qualify if the following conditions obtain:
  - a. Basic services are not possible.
  - b. The negative environmental effects cannot be mitigated.
  - c. The physical features necessary for a subdivision are not present.
  - d. The appraised value of the site when subdivided into the proposed lots is more than 10% of the above-indicated cost ceiling for the minimum solution.
- 7.18 If the property qualifies, the purchase price of the land shall be approved:

- a. If the appraised value is within 10% of the price proposed by the ODH, the UR shall approve the purchase price.
  - b. If the appraised value is over 10% less than the purchase price, the UR shall ask the ODH to adjust its price to the appraised value before approving the price.
- 7.19 In exceptional cases, properties not utility-certified by the municipality shall be accepted. In such cases, the ODH must present a study of alternative utility solutions.

G. Adjustments to the OBH

- 7.20 Once the property is qualified and its purchase or inclusion in the project approved, the number of members of the OBH must be made to match the number of lots into which the tract will be subdivided.
- a. If there are more members than there are lots, those who have scored the most points in the individual qualification shall remain beneficiaries.
  - b. If there are fewer members than lots, then a request shall be made to include other beneficiaries.

H. Preparation of the land development and site servicing project

- 7.21 The ODH shall prepare the complete project based on the approved architectural proposal. The documentation turned over to the UR must include the following:
- a. Site and architectural plans.
  - b. Design drawings of the water, sewer and electric power systems, streets, sidewalks and other necessary services.
  - c. Technical and descriptive reports.
  - d. Itemized budget by item of work (unit prices). Each item must contain technical specifications.
  - e. Documentation of the families and legal documents included in the manual.

I. Ex ante evaluation of projects

- 7.22 The projects submitted shall be evaluated by the UR, which shall consider the legal, technical, environmental and financial aspects. The UR shall check to see that all technical and environmental standards stipulated in the program's regulations have been observed and shall review the budget to make certain that the cost ceiling for the chosen solution is not exceeded. If it is, the UR shall return the technical proposal to be reformulated.

J. Contract

- 7.23 Once the project is approved, the UR shall summon the beneficiaries to sign a contract stating that they shall be given the subsidy and that they consent that the sums shall be paid directly to the builder and to the ODH. The beneficiaries shall authorize their share (savings) to be disbursed, at the UR's instruction, to the builder and the ODH.

K. Selection of the builder

- 7.24 The UR shall issue an open call for proposals for construction work on the serviced lots and the incremental units separately. The bidding conditions and the selection system used by the UR shall conform to criteria acceptable to the IDB. The same builder may submit proposals for the serviced lots and the incremental units at the same time, in which event the same builder could win both contracts. Local competitive bidding shall be required for contracts up to US\$3 million; contracts over that amount shall be awarded on the basis of international competitive bidding.
- 7.25 The bidding for the serviced lots shall mainly be price-based, since the technical specifications prepared by the ODH must be met.
- 7.26 Proposals submitted for the incremental units shall include a design. The cost ceiling for this solution is the reference price and no proposals over that amount shall be entertained. The bidding conditions shall contain only certain basic criteria. The party submitting the proposal must put forward the best housing proposal (finishings, size, etc.) and include the respective designs.

L. Contracting for and executing the works

- 7.27 The UCP shall review and evaluate the procedure carried out by the UR. Once the guarantees set forth in the bidding conditions have been fulfilled, the UR shall enter into a contract with the builder and make the corresponding advance payment. The bidding specifications and construction contracts are to include the environmental specifications described in Appendix 4 of this document. The builder shall then submit payrolls to the UR for its approval. The payment shall be made with all necessary price adjustments, using the program's polynomial formula and the coefficients approved by the Central Bank of Venezuela.

M. Inspection

- 7.28 The UR shall issue an open call for proposals for works supervision contracts. The inspector shall agree to perform the following activities, which are detailed in the inspection manual:

- a. Monitor the physical and financial aspects of the work.
  - b. Review payrolls, measuring the volume of work done.
  - c. With the UR's clearance, approve design changes and/or adjustments and any additional work necessary.
- 7.29 The inspector shall submit reports to the UR every 15 days, filed on the UCP-prepared forms as shown in the inspection guide. The inspector shall also undertake to hold monthly working meetings with the builder and representatives of the OBH and the ODH to report on the progress of the work.

N. Monitoring by beneficiary families

- 7.30 To monitor the work, a committee shall be formed consisting of as many as five representatives from the OBH and one from the ODH. This committee shall visit the work site twice a month and review its progress. They shall present their respective reports to the UR twice a month, with any observations they deem appropriate. If the committee has any objection to the work of either the builder and/or the supervisor, it may register its complaint with the UR. The UR pledges to look into the problem and make a decision within 15 days of the date on which the complaint was filed. If the committee still objects, the matter shall be referred to the UCP for a final decision, which may not be appealed.

O. Ex post evaluation

- 7.31 Each project's ex post evaluation, done three months after the work is completed, shall be divided into three parts:
- a. A review to ensure that the works under of the project have been completed and that their quality is up to the standard planned in the technical reports of the preinvestment studies. The final cost of the work shall be compared to that set forth in the reference budget that the UR put together before it called for proposals.
  - b. A sample survey taken to confirm that the project's beneficiaries are from the target group.
  - c. A determination of how consolidated the development has become, based on a number of indicators, which include: the percentage of beneficiaries who have moved into the new housing; the percentage of housing units subject to paying utilities and property taxes; the beneficiaries' satisfaction with their new situation; their willingness to do the community maintenance work.

### VIII. OPERATING PROCEDURES FOR BARRIO HOUSING IMPROVEMENTS

- 8.1 The amount of the subsidy that a family can receive is determined by the type of solution being financed, as follows:

Type of solution	Cost ceiling	Maximum SDH US\$	Percent	Minimum savings
Housing improvements	1,600	1,280	80	320
Replacement/densification	4,500	3,600	80	900

- 8.2 The cost ceiling in the above table refers to the maximum sum that bidders can budget per housing solution at the time they apply to compete to be selected as builders and must include the external inspection costs (3% of the work) and the ODH's assistance and training (3% of the work) during construction and over the next six months as the rehabilitated barrio consolidates itself.

A. Promotion, qualification of ODH and contract with the ODH

- 8.3 These procedures are the same as those described earlier in the case of new housing projects.

B. Qualification of the OBH

- 8.4 Once the ODH has been declared eligible and following the program manual, family groups are to be found among the target population and then organized into an OBH. The ODH shall work with these groups of families, helping them fulfill requirements, providing technical assistance, studies or training to accomplish the results mentioned in sections 6.12 to 6.16.
- 8.5 An OBH shall have no fewer than 25 families. Once the ODH has identified the groups of families, it shall compile socioeconomic and legal data on each one, following the manuals that are part of these Regulations. This information shall then be supplied to the UR when it announces a competition.
- 8.6 Each UR shall regularly announce competitions to qualify the OBHs. The UCP, for its part, may announce special competitions should it see fit.
- 8.7 The criteria that the UR shall use to qualify the OBHs are the same as those mentioned earlier. The UR shall confirm the information supplied by an OBH by taking a statistically representative sample survey on visits with participating families. If the information

prepared by the ODH does not square with the results of the survey check, that OBH shall be disqualified from that competition.

- 8.8 The UR qualifies each family individually and then computes the average score for each OBH. The applicant OBHs are then ranked in descending order, with the one with the highest point score in first place.
- 8.9 With the UCP's clearance, the UR then declares the OBHs with the highest point scores as the qualified applicants. Once the OBHs have been qualified, the ODHs that assisted with the work may request payment of their fees. If more OBHs are needed, it shall be up to the UCP to decide whether to continue to qualify more OBHs on the list or to announce a special competition instead.

C. Project presentation requirements

- 8.10 The following documents must be submitted for a project to be approved:
- a. A copy of the property title. If the property is owned by either the state or the municipality, written evidence must be presented containing the owner's express consent to have the land so used.
  - b. A certificate attesting to the availability of services, issued by the corresponding department of the municipality or by the municipal utility company.
  - c. A certificate from the corresponding department of the municipality attesting to the fact that the property is within the city's urban perimeter, indicating the use for which it is zoned and the planned density.
  - d. Remodelling projects for each housing unit, with the descriptive reports and budgets.
  - e. Report on possible natural hazards that can be mitigated and those that cannot.

D. Ex ante evaluation of the projects

- 8.11 The projects submitted shall be evaluated by the UR and the legal, technical, environmental and financial aspects set forth in Appendix 3 shall be taken into account. The UR shall make certain that all technical and environmental standards stipulated in the program's regulations have been observed. The UR shall also review the budget of the work, checking to make certain that the costs do not exceed the cost ceiling for the chosen solution. If that occurs, the UR shall return the technical proposal to be reformulated.

E. Selection of the builder

- 8.12 The ODH shall supply the UR with a list of builders approved by the OBH to be qualified. Once qualified, each property owner shall determine how his or her subproject will be carried out:
- a. A contract with a professional from the list of UR-qualified builders, or
  - b. Direct execution, under the supervision of a professional builder from the ODH.
- 8.13 For construction budgets, the UR shall review the budgets presented and shall approve them so that contracts can then be made using those budgets.

F. Contracting and execution of the works

- 8.14 Once the guarantees established for the two types of contracting have been established, the UR shall enter into a contract with the builder and with those beneficiaries who will build the works themselves. Builders shall receive two payments, one in advance and another upon completion of the work. The final payrolls must be approved by the UR and include the proper price adjustments, based on the program's polynomial formula and using the coefficients approved by the Central Bank of Venezuela.

G. Inspection

- 8.15 The UR shall call for proposals for works supervision contracts. The inspector shall pledge to perform the following activities, detailed in the inspection manual that shall be part of these Regulations:
- a. Monitor the physical and financial aspects of the work.
  - b. Review the payrolls, measuring the volume of work done.
  - c. With the UR's clearance, approve design changes and/or adjustments and any additional work necessary.
- 8.16 The inspector shall submit reports to the UR every 15 days, filed on the UCP-prepared forms shown in the inspection guide. The inspector shall also pledge to hold monthly working meetings with the builder and representatives of the OBH and the ODH to report on the progress of the work.
- 8.17 Only one inspector per project shall be contracted; any given project shall consist of subprojects involving two contracting methods.

H. Monitoring by beneficiary families

- 8.18 To monitor the work, a committee shall be formed consisting of up to five representatives from the OBH and one from the ODH, who shall visit the work twice a month and review its progress. It shall submit its respective reports to the UR twice a month, containing any observations it deems appropriate. If the committee has any objection to the work of either the builder and/or the inspector, it may register its complaint with the UR. The UR undertakes to look into the problem and make a decision within 15 days from the date on which the complaint is filed. If the committee still objects, the matter shall be referred to the UCP for a final decision, which may not be appealed.

I. Ex post evaluation

- 8.19 An ex post evaluation shall be done of each project three months after the work is completed and shall be divided into two parts:
- a. A review to ensure that the works under the project have been completed and that their quality is up to the standard planned in the technical reports of the preinvestment studies. The final cost of the work shall be compared to that set forth in the reference budget that the UR put together before it called for proposals.
  - b. A sample survey taken to verify whether the project's beneficiaries are from the target group.
- 8.20 The degree to which the housing units have become consolidated shall be reviewed, based on such indicators as the following: percentage of housing units subject to payment of utilities and property taxes, the beneficiaries' satisfaction with their new situation, their willingness to do the community maintenance work, their willingness to pay for the utilities and property taxes, and others.

IX. TRANSITION PHASE

A. Background

- 9.1 To increase the likelihood that the program will produce results in as short a time as possible, special procedures may be used to consider and approve new housing projects during the program's first 12 months. The following paragraphs describe the procedures that differ from those already explained in earlier paragraphs.

B. Qualification and contracting of the ODHs

- 9.2 The UCP need not conduct a competition during the transition phase. It shall identify those ODHs that have worked or are working in the housing sector and that meet the requirements indicated earlier in this document. Once the ODHs have been selected, the UCP shall hire them in the manner indicated in section 7.5 above.

C. Qualification of the OBHs

- 9.3 During the transition, the UR need not announce a competition to qualify applicants. The UCP shall itself qualify the OBHs that present their documentation. A minimum point score for qualification shall be determined; any OBH scoring higher than the minimum shall automatically qualify. In any case, the UCP shall decide how many OBHs shall be qualified, based on the number of properties and projects available at this stage.

D. Qualification of the property

- 9.4 The UCP shall approach public and private institutions for donations of available tracts upon which to develop projects. If appropriate, the UCP shall purchase lands whether or not projects are fully developed. Before purchasing the land or asking for it in the form of a grant, the UCP shall qualify the property in accordance with the procedure described in section VII.F of these Regulations.

E. Project preparation and ex ante evaluation

- 9.5 The UCP shall directly contract for development of the project on the land tracts qualified and acquired. If possible, it shall ask for assistance from the technical departments of public institutions like the INAVI and others to carry out these projects.
- 9.6 The ex ante evaluation of the projects shall be done with the help of specialized staff from other public and/or nonpublic institutions active in the sector; the evaluation parameters shall be those used by the INAVI.

## BENEFICIARY ELIGIBILITY SYSTEM (SEB)

### I. OBJECTIVES AND GENERAL DESCRIPTION

- 1.1 The SEB is a plan for selecting beneficiaries for the low-income housing program, to ensure that its benefits accrue to low-income households. The SEB's chief components are a computation system that will ensure that the necessary conditions are present, and data compilation by means of the low-income housing program's own operating mechanisms.
- 1.2 The SEB would be used during the period when applicants register, apply, and qualify and would work as follows: once it is established that an applicant, who must be a member of an OBH, meets the program's basic eligibility requirements, additional information will then be compiled by the UR and/or an ODH contracted for that purpose, through on-site visits to check the situation of the program applicant. The information – filed on a socioeconomic file card – will be the SEB's input. The result will be each applicant's point score.
- 1.3 The selection mechanisms will include: selection criteria, the weight of those criteria, an eligibility system and its introduction, and subsequent supervision. The system designed will be used for applicant selection, awards, administrative management, and monitoring of resources with their recovery in mind.

### II. SEB ENROLLMENT REQUIREMENTS

#### A. Basic information

- 2.1 Families are to submit the following documents:
  - a. Parents' identification documents.
  - b. Affidavit of employment and/or sworn statement of earnings.
  - c. Proof of marriage or of a common-law relationship, if applicable.
  - d. Children's birth certificates.
  - e. If a family member listed on the application is disabled, a document certifying that fact.

- f. For the barrio housing improvements program, proof of property ownership, including a supplemental title and/or document proving purchase of property, whichever is appropriate. In the case of nonowner applicants, a sworn statement to that effect.
- g. A document certifying residence, issued by the neighborhood association for the sector in which the applicant lives, if such an association exists.

B. Criteria

- 2.2 The variables considered for the system will be classified into two groups: **need** and **effort**. Each of these is defined below.

1. Need

- 2.3 This criterion considers all variables that supply information on a family unit's social condition. The data are drawn from the socio-economic file cards. The following are the considerations that fall under the "need" category: household, single parent, children who are minors and noncontributing relatives, income, housing situation, form of tenancy and public utilities.

a. Household

- 2.4 This variable is the number of people in the family group. Included here are all those persons who contribute to the family income and/or are economically dependent on either the applicant or the latter's spouse, provided their kinship can be legally proven. These people must all be living under the same roof.

b. Single head of household

- 2.5 The single head of household is defined as the applicant who does not have the support of a spouse, but who is a member of a family group that contributes to the family income and/or is economically dependent on the applicant. Single head of household may be a single father or mother.

c. Family dependents

- 2.6 These include children under the age of 18. Proof of the children's school enrollment or trade must be shown; children and/or relatives (legally verifiable) of any age who are disabled and cannot work and who are economically dependent on the applicant or his or her spouse, and those persons under the age of 18 whose guardian is the applicant or his or her spouse.

d. Income

- 2.7 The income of an applicant a permanent job shall be the monthly, weekly or bimonthly fixed wage, as the case may be; the applicant must show proof of employment and the wage earned. If the applicant earns income in the informal economy, he or she shall present a sworn statement of earnings, with the corresponding invoices attached. To arrive at the income used in this selection process, the income data will be averaged into monthly earnings to make it comparable to a real wage.

e. Condition of the housing currently occupied

- 2.8 When evaluating the housing structure, the following will be considered: (a) the construction materials used for the walls, roof, and floor; and (b) the density, which will be measured by the number of persons per room.

f. Type of tenancy

- 2.9 For this variable, two alternative scenarios will be considered: the case of an applicant opting for the new housing program and that of an applicant opting for the barrio housing improvements. In the former case, applicants may be renting or borrowing the property, or living in a household without contributing toward it. In the case of housing improvement projects, applicants are to have title to the property or supplemental proof of title and must meet either of the following conditions: (a) owns his or her own housing free and clear; or (b) owns his or her housing but is still paying on it.

g. Public utilities

- 2.10 This means the applicant's access to the various public utilities in the development in which he or she lives. These include: a sewer system and drinking water supply in the home.

2. Effort

- 2.11 Effort will be measured by the amount saved in advance and the length of time the applicant has been saving.

a. Amount saved

- 2.12 Savings can be in two forms: cash or a deed to some piece of property. The money shall be deposited in a savings account in the name of either the applicant or his or her spouse, in a financial institution participating in the program. At the time of application, the applicant shall show proof of his or her savings by

submitting a statement from his or her bank. Property put up as savings must be appraised by the proper authority.

- 2.13 To establish the point score, the value of the property and/or amount of accredited savings will be stated in the form of real wages.

b. Length of time accruing savings

- 2.14 The length of time accruing savings will be measured from the time the applicant amasses the minimum savings for the program to which he or she is applying. However, for the first two competitions, during the transition phase in the program's first year, this factor will not be considered.

c. Weighting

- 2.15 To obtain each beneficiary's point score, the various variables considered under each criterion will be weighted. Since the low-income housing program's main objective is to help those most in need, the variables having to do with the beneficiary's housing needs will account for 75% of the total score. The other 25% will measure the effort that applicants have made to save, since this project tries to involve people actively in improving their own housing situation.

- 2.16 Need will be weighted in such a way that the more needy the applicant the higher his or her score; in other words, the less the applicant has in the way of resources, the larger the family he or she must maintain, the worse his or her housing, etc. By the same token, the program will also reward those who, although their income is under three minimum wages, have managed to save more and have saved for some length of time. Those who score the most points on the variables classified under effort will be those who have managed to save the most. The maximum total point score breaks down as follows:

	Percent	Points
Need	75	750
Savings	25	250
	100	1,000

### III. BREAKDOWN OF POINT SCORE BY VARIABLE

#### A. Under the heading of "need"

Variable	Point score
1. Family group	111
2. Single head of household	54
3. Condition of housing	111
4. Form of tenancy	111
5. Family income	126
6. Family dependents	126
7. Public utilities	111
TOTAL	750

#### 1. Family group

Number of persons	Point score
1	13
2	27
3	41
4	55
5	69
6	83
7	97
8 or more	111

#### 2. Single head of household

Single father or mother	Point score
If applicable	54

3. Condition of the housing

Features	Point score
<b>CONSTRUCTION MATERIALS</b>	
Walls:	
- Tin, cardboard, rough wood and other such materials	25
- Brick or cement	12
Roof:	
- Zinc	25
- Tile, flagstone or others	12
Flooring:	
- Dirt	25
- Cement or other	12
<b>DENSITY</b>	
- Fewer than 3 people per room	12
- From 3 to 5 people per room	24
- More than 6 people per room	36

4. Form of tenancy

a. For the new housing program

Features	Point score
Renter	70
Borrower	90
Noncontributing occupants	111

b. For the barrio housing improvements program

Features	Point score
Owner (free and clear)	70
Owner (still paying)	111

5. Family income

Salaries	Point score
less than two real minimum wages	126
two or more real minimum wages	95

6. Family dependents

Number of persons	Point score
1	21
2	36
3	51
4	66
5	81
6	96
7	111
8 or more	126

7. Public utilities

Status of the services	Point score
No drinking water	60
No sewer connection	60
Neither water nor sewer services	111

B. Under the heading of effort

Features	Point score
1. Amount of savings	150
2. Time spent saving	100

1. Amount of savings

Amount saved	Point score
1 real minimum wage	17
2 real minimum wages	29
3 real minimum wages	41
4 real minimum wages	53
5 real minimum wages	65
6 real minimum wages	77
7 real minimum wages	89
8 real minimum wages	101
9 real minimum wages	113
10 real minimum wages	125
11 real minimum wages	137
12 or more real minimum wages	150

2. Time spent saving

Time spent saving	Point score
3 months	16
6 months	28
9 months	40
12 months	52
15 months	64
18 months	76
21 months	88
24 months or more	100

IV. SYSTEM

A. System design

- 4.1 The SEB's design is very solid in terms of functionality, scalability (sharing with other data processing platforms to work with databases) and the productivity of its functions. The Windows environment will be used.
- 4.2 One of its main features will be proper management of the data contained in the databases; for example, the variables created to record the necessary data represented under the aforementioned weighted groups may be interrelated to properly report the number of times the data was accessed, so as to keep track of what happens with the information compiled in the SEB.
- 4.3 The structure of the system will be protected against manual damage by precluding direct user intervention; for example, at some point in the day the SEB's backup commands will be activated, and a backup copy will be made of all data processed thus far, should a user forget to make backup copies of all the information stored in the databases.
- 4.4 The SEB will have a security system with restrictions making it impossible to erase or change any data without a password authorizing the user to enter data into the system.

- 4.5 The SEB will have security controls that only the UCP will know, since this system may not be used by a UR to further the personal or political ends of any member. Loans will be given only to those families who meet the eligibility criteria clearly stated in this project's policies.

**MINIMUM STANDARDS FOR PREPARING  
NEW HOUSING PROJECTS**

Once an OBH is qualified to receive an SBH, the OBH and the ODH will begin to prepare the project, which must meet the following criteria:

A. Site eligibility criteria

For a tract of land to be used to build projects involving serviced lots and/or incremental units, the following legal, technical and environmental requirements must be met:

1. Legal requirements

- a. A letter from the private or public owner pledging to sell or donate the property.
- b. A copy of the property deeds, with information on mortgages, disputed claims or any other existing problem.
- c. A statement from the corresponding municipal department or the municipal utilities companies attesting to the feasibility of providing services.
- d. A document issued by the corresponding municipal department, attesting to the fact that the property is within the city's urban perimeter, showing the use for which the property is zoned and the planned density.

2. Physical requirements

- a. The surface or subsurface drainage system over at least 90% of the area.
- b. Any stream on the property must be easy to correct.
- c. The soil must be permeable, with good stability and good resistance to compaction, and offer good structural stability.

3. Urban-spatial requirements

- a. Accessibility: a road within 1,000 meters of the property.
- b. Water supply: a water supply system within 1,000 meters of the property either already installed or to be installed within the next year.
- c. Sewers: a sewer system within 1,000 meters of the property either already installed or to be installed within the year.

- d. Electric power: an electric power system within 2,000 meters of the property either already installed or to be installed within the year.

4. Current or planned use of neighboring properties

- a. There shall be no sanitary or industrial stabilization ponds, urban or industrial solid waste treatment plants, industrial zones or businesses with significant air-pollution potential (petrochemicals, iron and steel, tanning, soap manufacture, among others) within a radius of 2,000 meters. 1/

B. Standards for submitting the preliminary subdivision project

- a. The average density for these subdivisions will be 300 inhabitants per hectare.
- b. The parcels may be no less than 80 square meters.
- c. The road system planned for the subdivision should be used to the maximum (if possible, have houses fronting on both sides).
- d. The "technical regulations governing urban development and housing construction in incremental housing developments" stipulated in the urban development law and the resolutions and regulations (Official Gazette 33,289 of 1985) must be observed.
- e. Those features that the urban ordinance law does not address are to conform to INAVI standards, as in the case of education areas and community services.

C. Standards for submitting the final design

1. Technical specifications: street system

- a. At "T"-shaped subdivision intersections, the turning radius must be 4 meters from the curb.
- b. Following the land's natural topography, the course material can be laid on flat and/or sloping terraces (no more than 0.5% for housing and no more than 3% for serviced lots); in

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1/ Should a selected site fail to meet one or more requirements, the ODH must prove that there will be no appreciable negative environmental impact and that necessary mitigating measures will be introduced during the project's execution.

the latter case, the incline, direction and modified curves will be determined.

- c. The slopes created on the altered topography should be at a V:H ratio of 1:1 in the case of cut, and 1:5 in the case of fill. The incline can be varied if the geological study so indicates.
- d. In general, the standards observed will be those set forth in the "Manual de Vialidad Urbana, MINDUR" [City Street Manual, MINDUR], 1981.

2. Technical specifications: water supply, sewer and drainage systems

- a. Comply with the "sanitation standards for projects, construction, repair and remodelling, and maintenance of buildings" (Official Gazette 4,044, 1988).
- b. Comply with the "standards and instructions for the sewer system project of the National Sanitation Administration and the "technical regulations governing urban subdivisions and housing construction that apply to the progressive urban developments" (Official Gazette 4,085, 1989).

3. Technical specifications: electric power systems

- a. Comply with the applicable provisions of the following standards and codes: the national electric power code (CEN90), CADEFE design standards for feeder lines and distribution networks. Where no specific standards exist, the standards applied shall be those of the country of origin of the materials and equipment.

D. Criteria for submitting the housing project, if any

- a. The complete housing project must be presented: architecture, structure, sanitation facilities and electric power installations: designs, technical reports and budgets.
- b. The construction material used for flooring, walls and roofing should be suited to the area (climate, availability and cultural customs). If more than one type is used in the area, a least-cost analysis should be done.
- c. In general, comply with the "technical regulations governing urban subdivisions and housing construction that apply to progressive developments" (Official Gazette 4,044, 1988).

**MINIMUM STANDARDS FOR PREPARING BARRIO  
HOUSING IMPROVEMENT PROJECTS**

Once an OBH is selected by the UR in a competition, the ODH will begin preparing the project, a process involving the following steps:

A. Eligibility criteria for the properties

For a site to be declared eligible for housing improvement projects, it must meet the following legal, technical and environmental requirements:

1. Legal requirements

- a. A copy of the deed for each lot or, failing that, a copy of the certificate of legal title to it. A certificate from the property owner authorizing execution of the project, stating the intention to take the measures necessary to sell or donate the property to the project. If the owner is in the private sector, the beneficiary must have title to the property.
- b. A document issued by the appropriate municipal department attesting to the existence of basic services or, if not, pledging to install same within one year.
- c. A document issued by the appropriate municipal department, attesting to the fact that the property is within the urban perimeter of a program-eligible city and indicating the use for which the property is zoned and the planned density.

2. Physical requirements

- a. If there are streams on the site, there must be a plan in progress to ensure its stability.
- b. The soil must be permeable, with good stability, good resistance to compaction and high structural stability.
- c. There must be no risk from such factors as flooding or deep streams.
- d. The groundwater level must be less than 2.5 meters.

3. Spatial-subdivision requirements

- a. Accessibility: a road within 500 meters.
- b. Water supply system: in existence or to be installed within the year, with sufficient capacity to handle the existing demand.

- c. Sewers: either in existence or to be installed within the year, with sufficient capacity to handle the new demand.
  - d. Electric power system: either in existence or to be installed within the year.
- 4. Current or planned occupation of neighboring properties
  - a. No sanitary or industrial stabilization ponds, urban or industrial solid waste treatment plants, industrial districts or businesses that can generate appreciable amounts of air pollution (petrochemicals, iron, leather tanning, soap manufacture, among others), within a radius of 5,000 meters.
  - b. No special conservation or environmental protection areas controlled by decentralized units of the Ministry of the Environment within a radius of 500 meters. 1/
- 5. Community services
  - a. Education services: existing or planned within a radius of no more than 2,000 meters and able to absorb the new demand.
  - b. Health services: existing or planned, within a radius of no more than 5,000 meters, and able to absorb the new demand.
- B. Criteria for submitting the preliminary urban subdivision project
  - 1. Spatial requirements
    - a. The average density for these urban subdivisions will be 300 inhabitants per hectare.
    - b. The "technical regulations governing urban subdivisions and housing construction in progressive urban developments" and the "standards for urban infrastructure" must be observed, as stipulated in the urban development law and the resolutions and regulations (Official Gazette 33,289).
    - c. Those aspects of services infrastructure that the urban development law does not address shall be governed by INAVI standards, as in the case of education and community services (Official Gazette 33,289).

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1/ If the site selected fails to meet one or more of these conditions, the ODH must provide explanations and proof that there will be no appreciable adverse environmental impacts and that the necessary mitigating measures will be introduced during the project's execution.

C. Standards for submitting housing improvements subprojects

- a. Each project must include an architectural design (floor plans and cross sections) showing one or more areas that will be improved and/or enlarged and the budget.
- b. Every project must comply with the "technical regulations governing urban subdivisions and housing construction in progressive urban developments" (Official Gazette 4,044, 1988).
- c. If the housing is so deteriorated that it cannot be improved or modernized, then a basic housing unit will be built, consisting of a multi-purpose area, kitchen and bathroom.

D. Environmental standards that barrios must meet to be eligible for consolidation and housing improvements

Barrios located in the following areas will not be eligible for the housing improvements program:

1. Legally restricted areas

- special environmental conservation and protection areas under the control of the decentralized units of the Ministry of the Environment.
- protected watershed areas
- areas set aside for industrial uses or as environmental preserves in the territorial and urban development plans, at the national, regional and local levels.

2. Areas with physical-environmental restrictions

- areas with streams
- areas with inclines of over 25%
- areas subject to flooding or water-logging
- areas with a groundwater level from 0 to 1 meter.
- areas of medium to high seismic risk

3. Areas with urban-spatial restrictions

- areas with no water supply service, sanitary sewers or drain sewers.

- areas with no regular trash collection service
- areas that are more than 500 meters away from public transportation and public education
- areas that are more than 2,000 meters away from community health services.

## ADDITIONAL ENVIRONMENTAL SPECIFICATIONS

### A. Environmental specifications to avert negative impacts caused by construction of the new developments

The specifications listed below will be added to the bidding documents and conditions and construction contracts.

#### 1. Deforestation

Since Venezuelan law does not stipulate minimum specifications for deforestation (save in the case of road clearing), other than a general guideline from MINDUR and generic rules in the law on cutting, transplanting and pruning vegetation, minimum parameters will be established for preserving vegetation and compulsory reforestation:

- a. To ensure the minimum shade and ventilation, at least 30% of the property must be covered with vegetation, 25% of which will be trees.
- b. Properties covered with trees may not be completely cleared; at least 20% of the natural vegetation must be preserved. If that 20% cannot be preserved, an area equivalent to 25% of the total area of the property must be reforested.
- c. To prevent a significant increase in runoff, no more than 70% of the property (including areas planned for streets, parking, housing, common areas) may be made impermeable. Vegetation must cover at least 30% of the property.

#### 2. Earth movement

To avoid eyesores and create a harmonious landscape, minimize erosion and keep drainage ditches clear:

- a. The maximum height allowed under the Standards on Earth Movement and Environmental Conservation (Decree 2,212) for cut and fill without terraces will be 15 and 10 meters, respectively.
- b. Slopes must be replanted or reforested with suitable, rapid-growth vegetation.
- c. The wearing surface of a tangent section of roadway must be sloped to drain off surface water.

3. Opening up streets and access roads

To minimize soil breakup and erosion and in compliance with the Environmental Standards for opening streets and building access roads (Decree 2,226 of April 23, 1992), the following will be required:

- a. The streets and access roads must be planned following the curves of the topography.
- b. The percentage of streets in the project must be reduced without compromising accessibility.

4. Construction of urban infrastructure systems (drainage, water supply and sewers)

To avoid the risks of accidents caused by infrastructure construction done subsequent to the occupation of the housing, if the development is built by stages, each stage must be completed before the next is started so that the infrastructure is installed before the housing is occupied.

5. Housing planning and construction

The housing designs must be suitable for the climate and user friendly. To maximize the program's positive effects while increasing job opportunities, the developer is also to promote the inclusion of local, nonspecialized labor in the project.

B. Environmental standards to avoid negative effects during the stage when the new developments are being settled

To make certain that the new developments do not overtax existing services and infrastructure, a statement will be required from the agencies responsible for the services and for the infrastructure stating the criteria for selecting land tracts and ensuring their capacity to cope with the projected new demand within the time frames planned for occupation.

To make certain that vacated, unconsolidated settlements are not invaded by new groups when their population moves to the new barrios, the program should make certain that the vacated lands are returned to their owners, which if they are in the private sector, must sign an agreement either to keep their property under constant surveillance or to occupy it immediately, in accordance with the land use planning for the property; if neither of these is a viable alternative, the properties should become the property of the government, which will see that they are guarded.

C. Environmental standards to minimize the negative impact of housing improvement projects

There are three negative impacts that must be avoided in the housing improvement projects:

- a. The first are the risks of accidents associated with the settlement of barrios in high risk areas or areas subject to legal restrictions. To avoid this, the criteria for selecting the eligible barrios for this component will be determined.
- b. The second impact are the risks that the program will lose its credibility if the benefits do not accrue to the intended target population. However, the beneficiary eligibility system and the compulsory involvement of community associations should ensure that the program's benefits accrue to the target population.
- c. Finally, the risks associated with introducing labor alien to the community will be averted by the work of the community associations, which will help hire the labor needed for the housing improvement work, making certain that local labor is given preference.

## LOGICAL FRAMEWORK

	OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
	<p><b>Help to</b> improve the living conditions of the poor, stimulating community participation in the housing sector and promoting a greater participation of the private sector in housing production for low-income groups.</p>	<p>Percentage decrease of OCEI indicators between 1996 and 1999.</p> <p>Amount of resources invested per capita in the housing sector for low-income strata by existing housing programs, as compared to amounts invested for the same income group under the pilot program, in the 1996-1999 period.</p> <p>Percentage increase in the number of housing solutions built by the private sector, for the different income groups, as compared to the number of solutions produced by the public sector in the 1996-1999 period.</p> <p>Implementation of new housing programs for low-income groups that incorporate a beneficiary eligibility system and direct subsidies, beginning on May 1, 1999.</p>	<p>Program data.</p> <p>Official reports by sectoral institutions.</p> <p>Reports by relevant private sector organizations (e.g., builders' associations).</p>	<p>Existence of ODHs willing and able to provide assistance to community groups.</p> <p>Collective use of housing subsidies stimulates the interest of builders to produce housing solutions. There is interest among low-income families to form/join groups.</p> <p>Program's positive results stimulate the replication of subsidy system in other states in the country.</p>
OSE	<p>Establish and test a direct subsidy system that makes possible the expansion of poor families' access to new housing solutions, or to the improvement of their existing shelter.</p>	<p>10,000 low-income families have own homes and 7,000 have improved their current shelter, by January 30, 1999.</p>	<p>Program records and number of direct subsidies given.</p>	<p>Decision-makers in the legislative and executive branches accept and implement pilot program's recommendations.</p> <p>Sufficient verifiable socioeconomic information is available to make eligibility system viable.</p>

	OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
UTS	<p>Low-income families (Area I) own and occupy built housing solutions.</p> <p>Low-income families (Area I) living in barrios and owning property, have improved their housing solutions.</p> <p>Regional entities, NGOs, community associations and microenterprises are trained and participating in housing sector activities.</p> <p>Recommendations with regard to new housing sector policies have been proposed.</p>	<p>Number of direct subsidies and titles for housing solutions are given, in the amounts and dates anticipated.</p> <p>Number of direct subsidies granted on dates and in numbers anticipated.</p> <p>UCP, URs, ODHs and OBHs present proposals through MINDUR, to executive and legislative decision-makers, about new housing sector policies, based on the experience and outcome of the pilot program and the studies carried out, prior to February 15, 1999.</p>	<p>Registered documents.</p> <p>Records of direct subsidies granted.</p> <p>Management information.</p> <p>Budget accounts.</p> <p>Disbursements processed.</p> <p>Proof of the presentation of document with recommendations to appropriate authorities.</p>	<p>Housing deficit does not increase.</p> <p>Owners do not sell their housing solution.</p> <p>Owners remain organized in community organizations.</p> <p>Owners improve their solutions gradually within the context of the specific projects.</p>
	<p><b>For new housing projects:</b> subsidy granted to beneficiary; implementation, supervision, inspection, and receipt of solution; signing of contract; bidding and procurement; prequalification and qualification procedures; document preparation; permits; project selection; project inventory; project competition; preparation of data and documents; eligibility of beneficiaries.</p>	<p>2,000 new housing solutions completed, have been officially received and assigned as of September 15, 1997, 2,500 additional ones as of February 15, 1998, 2,500 others by July 30, 1998, and an additional 3,000 by January 30, 1999.</p> <p>At least 10% of solutions have been subject to additional consolidation following construction financed by the program.</p>	<p>Notification of beneficiaries.</p> <p>Savings accounts of eligible beneficiaries.</p> <p>Records of the works/project completion.</p> <p>Inspection, supervision and management reports.</p> <p>Processing of disbursements.</p> <p>Budget accounts.</p> <p>Contracts undertaken.</p>	<p>Beneficiary eligibility criteria are adopted, respected and applied.</p> <p>Purchasing power and savings capacity of the targeted population is maintained.</p> <p>Program is credible.</p> <p>Low turnover of trained staff in the URs, the ODHs and the OBHs.</p> <p>Program continues to be given priority.</p> <p>Country's fiscal situation.</p> <p>Country's financial and political stability.</p> <p>Active participation by the private sector.</p>

	OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
UTS (T.)	<b>For housing improvement projects:</b> works completed; execution, supervision and inspection of works; contract signing; awards; bidding process (price competition); qualification and registration of microentrepreneurs; preparation of necessary documentation; budgets for projects; eligibility of project construction determined (needs); eligibility of beneficiaries; eligibility and selection of barrios.	The improvement of 10,000 homes has been completed, corroborated by official receipt of financed construction by August 1, 1997, another 1,900 by December 15, 1997, an additional 2,000 by June 30, 1998, and 2,100 more by January 30, 1999.	Notification of beneficiaries.  Savings accounts of eligible beneficiaries.  Records of works/project completion.  Inspection, supervision and management reports.  Processing of disbursements.  Budget accounts.  Contracts signed.	
	<b>For institutional strengthening:</b> contracting of consulting services; purchase of goods; selection and contracting processes; preparation of necessary documentation; setting of priorities and sequence of activities; needs analysis.	30% of serviced lots financed with program resources have been subject to additional consolidation.  90% of all projects for all types of housing solutions in barrios have used private builders.	Contracts signed.  Management reports.  Budget accounts.	
	<b>Beneficiary eligibility for new solutions:</b> demand assessment; certification of eligible beneficiaries; community organizations (local neighborhood associations); confirmation of data in the field; preregistration of forms and incorporation of socioeconomic data into the processing system; support to the applicant; registration of applicant; information for potential applicant.	Four URs have been strengthened, equipped and are working by August 15, 1996, four ODHs by September 15, 1996, and eight OBHs by January 30, 1997.	Savings accounts opened in financial institution.  Official list of eligibility certificates.	

	OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
UTS (T.)	<b>Beneficiary eligibility for housing improvements:</b> certification of eligible beneficiaries; data input into the eligibility system; needs analysis; data verification in the field; preregistration of forms and incorporation into system for processing; information regarding program and assistance to community groups and interested parties.	1,200 qualified eligible beneficiaries by March 31, 1997; 1,800 more by August 30, 1997; 2,000 more by February 1, 1998; and 2,200 more by August 1, 1998.  1,550 interested parties fill out forms and register by January 30, 1998; 1,950 additional ones by July 30, 1997; 2,100 more by January 15, 1998; and 2,300 more by July 15, 1998.	Savings accounts opened in financial institution.  Official list of eligibility certificates.  Evaluation reports of ODHs and OBHs.  Evaluation reports of the eligibility system.  Data forms.  URs' management information.  Budget accounts.	
	<b>Eligibility of community organizations and associations:</b> training and equipment; registration; legalization; confirmation and qualification of status; sign-up and preregistration; interview and information.	Four UR/ODH contracts have been signed and institutions are working by the third trimester of 1996, four more by the fourth trimester of the same year, and four additional ones by the first semester of 1997.  Eight OBHs are registered and are working by December 31, 1996, another 16 by March 31, 1997, 16 others by June 30, 1997, 32 others by December 31, 1997, and another 32 by March 31, 1998.	Signed contracts.  OBH records.  URs' management information.  Records, training sessions, and equipment.  Budget accounts.	
	<b>Dissemination:</b> signature of contract and execution; selection and contracting process; preparation of necessary documentation; strategy and means defined.	4,000 low-income families request information from the URs by December 31, 1996; 5,000 by June 30, 1997; 5,000 by December 31, 1997; and 6,000 by June 30, 1998.	URs' management information.  Eligibility system reports.  Contracts signed.  Budget accounts.	

	OBJECTIVES	VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
MINARY ITIES	Signature of contract, and declaration of loan eligibility; loan approval; preparation of loan document; operating regulations; beneficiary eligibility criteria; selection of URs; establishment of the UCP.	<p>The IDB declares the loan eligible during the third trimester of 1996.</p> <p>The UCP submits eligibility conditions prior to first disbursements to the IDB during the third trimester of 1996.</p> <p>The Government of Venezuela and the IDB sign loan contract during the third trimester of 1996.</p> <p>IDB Board of Directors approves the program's financing during the second trimester of 1996.</p>	<p>IDB's official notification.</p> <p>Notification of submission of documents by the UCP.</p> <p>Loan contract signed.</p> <p>Approval memorandum by the IDB Board of Directors.</p> <p>Subsidiary contracts signed between the UCP and the URs.</p> <p>Notification of the formation of the UCP.</p>	<p>Budget resources assigned to loan counterpart needs.</p> <p>There is continuing interest on the part of the URs in participating in the program.</p> <p>Program continues to be given priority.</p> <p>Program is promoted among the target population.</p> <p>Cost increases are moderate.</p> <p>Legislative and executive authorities approve the signing of the loan contract.</p>

PROPOSED RESOLUTION

VENEZUELA. LOAN \_\_\_\_/OC-VE TO THE REPUBLIC OF VENEZUELA

Low Income Housing Program

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Venezuela, the purpose of which is to cooperate in the financing of the execution of the Low Income Housing Program. Such financing will be for the amount of up to US\$52,000,000, or its equivalent in other currencies, except that of Venezuela, which are part of the Ordinary Capital resources of the Bank, and will be subject to the "Terms and Financial Conditions" and the "Special Contractual Conditions" of the Executive Summary of the Loan Proposal.