

CHILE
PHASED LOW-COST HOUSING AND BARRIO IMPROVEMENT PROGRAM
(CH-0032)

CONTENTS

	<u>Page</u>
MAP	
SOCIOECONOMIC DATA	
EXECUTIVE SUMMARY	
I. FRAME OF REFERENCE	1
A. The housing situation in Chile	1
1. Income level of the population and housing situation	1
2. Population growth and urban development	1
3. Housing needs	2
4. Market constraints on meeting housing needs	2
5. Issues of basic urban sanitation	4
6. Historical experience with State intervention in the provision of housing	5
7. Evolution and prospects of the housing situation	6
8. Basic sanitation record	7
B. The government's housing programs	7
1. Unified general housing subsidy system	9
2. Finished house program	9
3. The barrio improvement program	9
4. The phased low-cost housing program	9
5. Demand for phased low-cost housing	10
C. Previous experience of the Bank and the IBRD in the sector	11
1. The IDB	11
2. The IBRD	11
II. THE PROGRAM	12
A. Conceptualization of Bank support for the operation	12
B. Phased low-cost housing subprogram (Subprogram A)	12
1. Objectives and targets	12
2. The proposed housing solution	14
3. The target population	14
4. Exception to Bank policy	16
C. Barrio improvement subprogram (Subprogram B)	16
1. Objectives and targets	16
2. Description of the solution	16
3. Allocation of solutions	17
D. Cost and financing	18
1. Phased low-cost housing subprogram (US\$100,000,000)	18
2. Barrio improvement subprogram (US\$50,000,000)	19

E.	Financing	21
1.	IDB financing (US\$50,000,000)	21
2.	Local contribution (US\$100,000,000)	21
III.	EXECUTION OF THE SUBPROGRAMS	22
A.	Phased low-cost housing subprogram (Subprogram A)	22
1.	Execution	22
2.	Programming and execution of investments	22
3.	Procedure for letting contracts for housing solutions	22
4.	Bidding procedure	24
5.	Supervision and control of the works	24
B.	Barrio improvement subprogram (Subprogram B)	25
1.	Execution	25
2.	Bidding	25
3.	Monitoring of the works	26
C.	Operating Regulations of the program	26
D.	Operation and maintenance	27
E.	Advance of funds	27
F.	Financial administration	27
G.	Recognition of expenditures and retroactive financing	27
H.	Accounting and auditing	28
I.	Execution period and timetable of investments. Physical initiation of the projects	28
J.	Recognition of the value-added tax (VAT)	29
K.	Inspection and supervision by the IDB	29
L.	Ex post evaluation	29
IV.	THE BORROWER AND THE EXECUTING AGENCIES	31
A.	The borrower	31
B.	Executing institutions and program participants	31
1.	Phased low-cost housing subprogram	32
2.	Barrio improvement subprogram	34
C.	Financial analysis	38
1.	MINVU	38
2.	MINTER	39
V.	JUSTIFICATION FOR THE PROGRAM	41
A.	Technical viability of the phased low-cost housing subprogram	41
1.	Housing solutions	41
2.	Impact of the projects in cities (availability of land)	42
3.	Environmental impact of building and site-servicing projects	43
4.	Contracting of projects	44
5.	Risks and safeguards	45
B.	Technical viability of the barrio improvement subprogram	45
1.	The proposed approach	45

2.	Focus of the subprogram	45
3.	Assistance in improving sanitation conditions	46
4.	Impact on women	46
5.	Awarding of contracts	46
6.	Risks and safeguards	46
C.	Institutional and financial viability	46
1.	Phased low-cost housing subprogram	46
2.	Barrio improvement subprogram	47
3.	Responsibility for water and sewerage, electricity, and gas services, and rates	47
4.	Street maintenance	47
D.	Socioeconomic feasibility of the phased low-cost housing subprogram	47
1.	Economic efficiency in the use of resources for proposed housing solutions	47
2.	Willingness to pay for proposed housing solutions	48
3.	Targeting of housing subsidies, and ability to pay	49
4.	Conclusions	49
E.	Economic viability of the barrio improvement subprogram	49
1.	Methodological approach	49
2.	Water and sewerage components	50
3.	Paving of streets and passageways	51
4.	Conclusions	51
F.	Distributional impact of the program	51

LIST OF ANNEXES

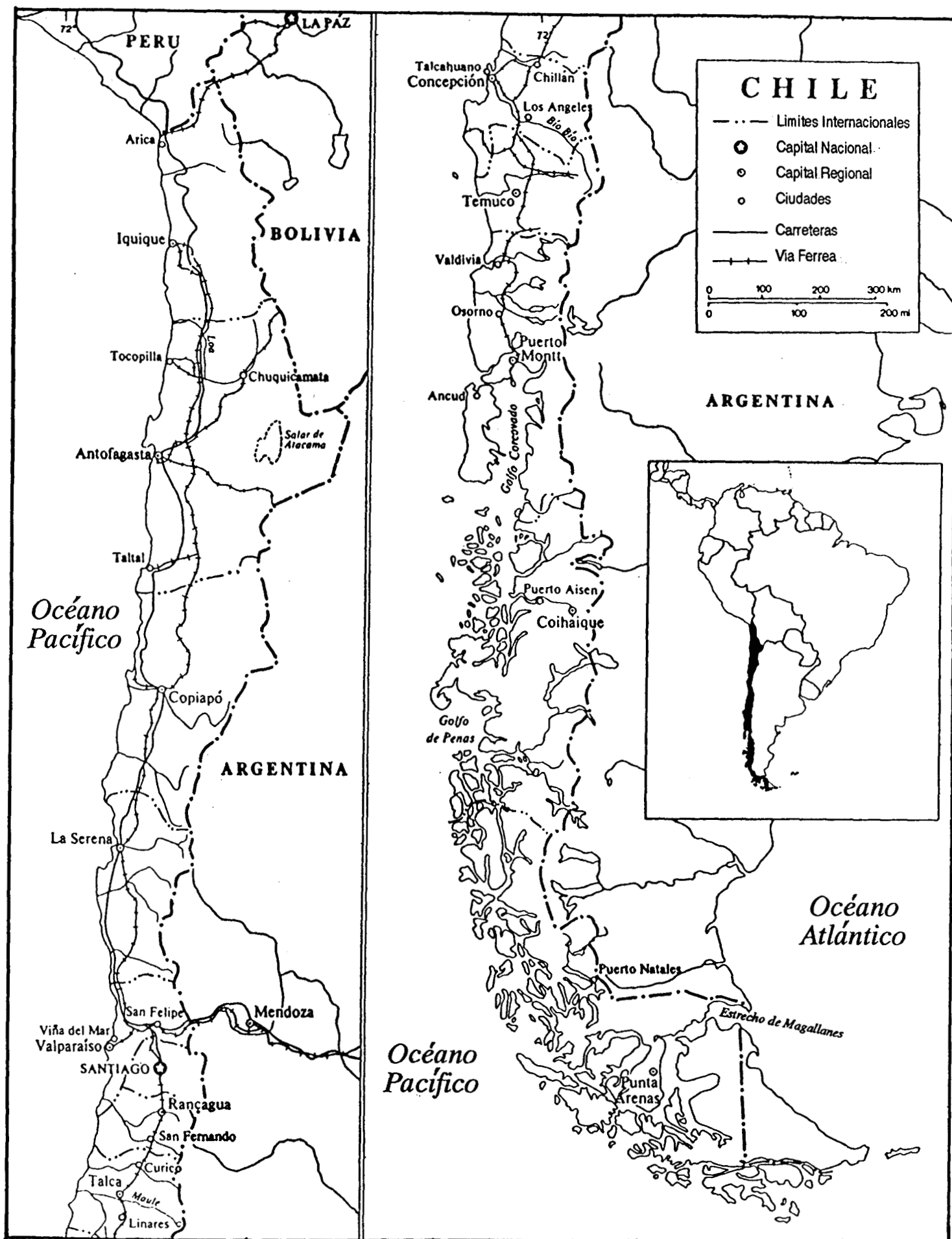
Annex I	Phased low-cost housing sites-and-services program - Technical specifications
Annex II	Operating Regulations - Phased housing subprogram
Annex III	Operating Regulations - Barrio improvement subprogram

LIST OF APPENDICES

Appendix I	Proposed resolution
Appendix II	Recommendations
Appendix III	The program (Annex A to the loan contract)

ABBREVIATIONS

CAS	Comité de Asistencia Social (Social Welfare Committee)
CASEN	National Socioeconomic Survey
CMA	Environmental Management Committee
CPP	Country programming paper
DAU	Urban Development Division, MINVU
DIDER	Regional Development Division, MINTER
DIDESCO	Community Development Division, MINTER
DIFIN	Finance Division, MINVU
DINFO	Information Resources Division, MINVU
DITEC	Technical Studies and Housing Promotion Division, MINVU
DIVAD	Administration Division, MINVU
DPH	Housing Policy Division, MINVU
EIRR	Economic internal rate of return
FNDR	Fondo Nacional de Desarrollo Regional (Chilean Regional Development Fund)
MIDEPLAN	Ministry of Planning and Cooperation
MINTER	Ministry of the Interior
MINVU	Ministry of Housing and Urban Development
PIM	Local Multiple Investment Program
PVP	Phased low-cost housing program
SEREMIs	MINVU regional offices
SERVIUs	MINVU regional operating authorities
SNI	National Public Investment System
SUBDERE	Regional Development and Administration Bureau, MINTER
UF	Unidad de fomento ("development unit"; a unit of account)
VAT	Value-added tax
WTP	Willingness to pay



CHILE

Basic Socio-Economic Data
Statistics and Quantitative Analysis
Economic and Social Development Department

Executive Summary

Social Statistics

Land Area (Km2)	1992	756,629
Population (Thousands)	1992	13,599
Population (Average Annual Growth Rate)	1983-1992	1.7
Rural (Percent)	1992	13.4
Density (Population per Km2)	1992	18.0
Vital Statistics		
Crude Birth (Rate per 1,000 Population)	1991	22.7
Infant Mortality (Rate per 1,000 Live Births)	1991	17.0
Crude Death (Rate per 1,000 Population)	1991	6.5
Life Expectancy at Birth (Years)	1991	71.9
Illiteracy (Percent)	1990	6.6
Primary School Enrollment Ratio	1990	99.4

Economic Statistics

Market Exchange Rate (Pesos/US\$)	5-1993	405.0
GDP per Capita (Average Annual Growth Rate)	1983-1992	3.4
Labor Force (Thousands)	1990	4,753
Unemployment Rate (Percent)	1992	5.0
Consumer Prices (Twelve Month Variation)	4-1993	13.1
Central Government Deficit or Surplus (% of GDP)	1992	2.7
Domestic Credit (% of GDP)	1992	53.7
Balance of Payments (Millions of US\$)		
Current Account Balance	1992	-583
Trade Balance	1992	749
Capital Account Balance	1992	2,944
Change in Reserves (- Increase)	1992	-2,546
Total External Debt (Millions of US\$)	1992	18,474
Total Debt Service (Millions of US\$)	1992	2,724
Debt to GDP Ratio (Percent)	1992	41.2
Debt Service Ratio (Percent)	1992	21.0

19 July 1993

CHILE

Basic Socio-Economic Data

1. Exchange Rates

Pesos/US\$, End of Period
Index 1980 = 100

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Market Rate	87.5	128.2	183.9	204.7	238.1	247.2	297.4	337.1	374.5	382.1
Real Effective Index	111.8	113.7	141.1	167.0	180.0	192.5	188.1	193.3	187.6	177.5

2. Prices

Average Annual Growth Rates in Percent

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Consumer Price Index	28.0	20.3	29.9	19.0	20.2	14.7	17.1	26.0	21.8	15.4
Wholesale Price Index	43.6	25.0	42.9	20.0	19.2	5.6	15.2	21.8	21.7	...

3. International Liquidity

Millions of US\$

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Reserves	2603	2843	2968	3019	3262	3840	4221	6710	7638	9742
Reserves minus Gold	2036	2303	2450	2351	2504	3161	3629	6069	7041	9168
Special Drawing Rights (SDRs)	5	12	0	0	41	44	24	1	1	1
Reserve Position in the IMF	...	...	...	...	...	...	...	...	0	0
Foreign Exchange	2031	2292	2450	2351	2463	3116	3604	6068	7041	9167
Gold (National Valuation)	567	540	519	668	757	679	592	642	597	574

4. National Accounts

Millions of 1988 US\$
1988 US\$

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Gross Domestic Product	22984	24324	24765	26140	27669	29706	32624	33258	35263	38925
GDP Per Capita	1962	2041	2043	2121	2207	2330	2517	2525	2634	2862

Annual Growth Rates in Percent - Constant Prices

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
GDP Per Capita	-4.5	4.1	0.3	3.9	4.0	5.6	8.2	0.5	4.3	8.7
GDP by Type of Expenditure (MP)	-2.8	5.9	2.0	5.6	5.8	7.4	10.0	2.1	6.0	10.4
Consumption	-5.1	0.4	-0.4	4.1	4.4	8.8	8.3	0.8	5.2	9.5
Gross Domestic Investment	-21.6	72.5	-17.1	11.8	22.7	9.2	28.9	-3.0	1.9	27.8
Exports of Goods and Services	0.1	2.2	12.3	9.8	8.8	6.1	15.7	7.6	12.8	12.3
Imports of Goods and Services	-17.8	13.1	-10.3	9.6	17.1	12.1	25.3	0.6	8.6	22.1
GDP by Sector of Origin (MP)										
Agriculture, Forestry and Fishing	-2.3	8.9	7.3	8.8	3.4	5.3	4.8	3.3	1.8	3.6
Mining and Quarrying	-2.0	5.5	3.2	1.3	0.0	4.3	8.3	-0.7	4.8	1.1
Manufacturing	3.1	8.9	2.7	7.9	5.6	8.6	10.0	0.1	5.5	12.2
Electricity, Gas and Water	3.8	7.3	4.5	5.4	4.1	9.9	4.5	3.0	7.6	10.2
Construction	-14.4	1.9	17.8	1.6	10.1	6.3	12.7	2.5	5.0	14.2
Wholesale and Retail Trade	-1.0	3.1	-5.9	5.5	7.6	9.7	14.0	2.5	8.7	14.2
Transport and Communications	-3.3	4.5	5.4	8.2	9.9	11.6	14.2	10.4	12.0	14.2
Financial Services	-13.3	7.6	-2.7	5.5	5.0	5.8	...	...	...	...
Government	1.9	-1.8	0.6	-1.2	0.0	1.2	...	...	...	...
Other Services	1.7	5.7	5.7	6.1	9.6	7.5	178.7	1.8	5.2	9.9

CHILE

Basic Socio-Economic Data

4. National Accounts (cont.)

Composition in Percent - Current Prices

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
GDP by Type of Expenditure (MP)										
Consumption	86.0	83.2	79.8	78.1	75.7	72.7	72.9	73.7	73.4	73.7
Gross Domestic Investment	11.1	17.7	17.3	18.0	20.1	20.1	23.2	23.1	21.6	24.0
Exports of Goods and Services	24.5	23.2	27.3	28.7	31.4	35.1	35.5	34.3	33.7	31.4
Imports of Goods and Services	21.6	24.1	24.4	24.8	27.2	27.9	31.7	31.2	28.8	29.1
GDP by Sector of Origin (MP)										
Agriculture, Forestry and Fishing	5.9	7.1	7.5	7.5	7.2	7.1	...	...	...	...
Mining and Quarrying	10.3	8.4	10.3	9.7	9.1	8.9	...	...	...	...
Manufacturing	20.9	23.0	21.9	20.6	20.6	20.9	...	...	...	...
Electricity, Gas and Water	2.9	2.8	2.9	3.2	3.1	3.2	...	...	...	...
Construction	4.5	4.2	4.1	3.9	4.1	4.1	...	...	...	...
Wholesale and Retail Trade	13.6	12.9	14.1	16.0	16.3	16.6	...	...	...	...
Transport and Communications	5.5	5.6	5.4	4.4	4.6	4.8	...	...	...	...
Financial Services	18.6	18.9	18.3	14.7	14.7	14.4	...	...	...	...
Government	5.7	5.3	4.4	4.0	3.8	3.7	...	...	...	...
Other Services	12.1	11.8	11.0	16.1	16.5	16.4	...	...	...	...

5. Central Government

As a Percent of GDP

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Current Revenues	30.8	31.4	29.3	30.6	31.4	32.3	30.9	26.5	27.7	27.9
Tax Revenue	19.7	20.3	18.8	19.0	19.5	18.6	18.1	16.7	18.2	18.8
Current Expenditures	30.9	30.0	26.7	25.9	23.5	21.6	21.6	19.8	21.0	20.3
Current Savings	-0.2	1.5	2.6	4.7	7.8	10.7	9.3	6.6	6.6	7.6
Capital Expenditure	3.7	4.5	4.7	5.4	5.7	7.3	4.4	5.4	5.3	5.0
Deficit or Surplus	-3.7	-2.9	-1.8	-0.5	2.4	3.7	5.2	1.4	1.6	2.7
Domestic Financing	2.9	2.3	0.9	-1.4	-2.5	-5.9	-6.0	-1.3	-0.9	-0.4

6. Monetary Survey

As a Percent of GDP

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Domestic Credit	72.5	78.2	82.1	95.2	92.5	78.5	71.8	67.1	56.5	53.7
Public Sector	3.7	11.8	21.6	37.8	38.2	29.1	24.8	24.0	17.7	13.3
Private Sector	68.8	66.4	60.5	57.3	54.3	49.4	47.0	43.1	38.8	40.4
Money (M1)	6.5	6.4	5.0	4.8	4.3	4.4	4.1	4.5	4.6	4.9

7. External Trade

Direction in Percent Index 1980 = 100

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Exports of Goods (fob)										
Developed Countries	74.8	70.3	69.3	68.5	68.5	71.8	70.5	72.9	70.1	64.0
Developing Countries	25.2	29.7	30.7	31.5	31.5	28.2	29.5	27.1	29.9	36.0
Latin America	11.9	15.0	14.3	16.5	16.7	12.7	12.0	12.3	14.1	16.6
Imports of Goods (cif)										
Developed Countries	50.1	52.3	51.3	56.4	55.8	53.4	55.1	57.8	53.8	55.7
Developing Countries	49.9	47.7	48.7	43.6	44.2	46.6	44.9	42.2	46.2	44.3
Latin America	25.8	25.9	25.5	23.5	23.7	26.7	25.3	24.0	26.5	24.1
Terms of Trade Index	83.6	78.0	72.6	76.9	81.5	98.6	94.7	85.9	87.4	84.0

CHILE
Basic Socio-Economic Data

7. External Trade (cont.)

	Composition in Percent									
	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Exports of Goods (fob)										
All Food	19.4	22.5	24.4	27.4	26.8	23.6	22.7	24.0	28.1	...
Agricultural Raw Materials	8.3	10.2	8.5	9.9	11.0	9.7	8.1	8.6	8.1	...
Fuels	1.6	1.3	0.5	0.1	0.1	0.2	0.3	0.5	0.5	...
Ores and Metals	65.4	59.7	60.6	55.0	53.6	58.0	59.0	56.3	49.9	...
Manufactured Goods	5.3	6.3	6.0	7.7	8.4	8.5	9.9	10.5	13.4	...
Chemicals	2.2	2.2	2.6	2.6	2.6	3.1	3.8	3.5	4.0	...
Machinery and Transport Equipment	1.1	1.5	0.7	1.7	1.0	0.8	0.7	1.1	1.4	...
Other Manufactured Goods	2.1	2.6	2.7	3.4	4.8	4.7	5.5	5.9	8.0	...
Imports of Goods (cif)										
Capital Goods	12.4	15.7	19.9	21.4	25.0	25.9	27.3	...	...	...
Consumption Goods	32.3	27.8	23.0	21.9	20.5	20.6	20.9	...	...	...
Intermediate Goods	55.3	56.5	57.1	56.7	54.5	53.5	51.8	...	...	...
Fuels	18.7	16.3	17.3	12.4	10.8	11.9	11.4	...	...	...
Other	...	...	...	...	...	...	...	...	...	...

8. Balance of Payments

	Millions of US\$									
	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Current Account Balance	-1117	-2111	-1413	-1192	-808	-167	-767	-598	142	-583
Trade Balance	986	362	884	1092	1230	2219	1578	1273	1575	749
Exports of Goods (fob)	3831	3650	3804	4191	5224	7052	8080	8310	8929	9988
Imports of Goods (fob)	2845	3288	2920	3099	3994	4833	6502	7037	7354	9239
Service Balance	-2200	-2580	-2444	-2368	-2164	-2563	-2560	-2071	-1773	-1764
Freight and Insurance	-7	-13	53	25	31	31	-46	124	41	76
Travel	-145	-167	-146	-151	-168	-221	-2	83	275	260
Investment Income	-1748	-2024	-2044	-1892	-1700	-1919	-1925	-1811	-1809	-1860
Other Services	-62	-130	-48	-94	-65	-91	-204	-163	-33	55
Unrequited Transfers	97	107	147	84	126	177	215	200	340	431
Private	54	47	127	38	65	63	58	54	40	...
Official	43	60	20	46	61	114	157	146	300	...
Capital Account Balance	520	2014	1380	716	1021	1102	1408	3255	942	2944
Non-Monetary Sector	1004	1850	1371	999	1517	1512	1842	3520	1225	1215
Private Sector	-573	321	255	716	803	1195	2450	3278	1207	878
Direct Investment	135	78	114	116	230	141	184	249	576	739
Portfolio Investment	-3	-11	28	197	693	870	1398	766	77	-14
Other Long-Term	-558	423	-272	-204	158	510	616	1069	428	39
Other Short-Term	-147	-169	385	607	-278	-326	252	1194	126	114
Government Sector	1577	1529	1116	283	714	317	-608	242	18	337
Long-Term	1257	1488	1268	640	412	449	-743	274	19	289
Short-Term	320	41	-152	-357	302	-132	135	-32	-1	47
Monetary Sector	-484	164	9	-283	-496	-410	-434	-265	-283	1730
Long-Term	-800	1538	-34	-410	-644	-660	-789	-250	-17	178
Short-Term	316	-1374	43	127	148	250	355	-15	-266	1552
Change in Reserves (- Increase)	529	-93	102	252	-135	-826	-570	-2331	-1245	-2546
Errors and Omissions	68	190	-69	224	-78	-109	-71	-326	161	185

CHILE
Basic Socio-Economic Data

9. External Debt

	Millions of US\$ Ratios in Percent									
	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Total Debt	17928	19737	20384	21145	21489	19592	18033	19131	17902	18474
Long-Term Debt	14723	17044	17628	18125	18007	16068	13790	14619	14744	15195
Public and Publicly Guaranteed	6598	10617	12897	14690	15541	13707	10866	10356	10024	10356
Bilateral	634	568	574	636	686	1078	1042	1039	964	1047
Multilateral	643	917	1532	2294	3218	3391	3550	4143	4315	4405
Bond Holders	81	73	92	58	66	57	43	39	200	320
Banks	4638	8374	10012	11008	10774	8426	5679	4678	4184	4186
Suppliers	371	401	349	378	513	497	352	324	280	380
Other Creditors	231	284	338	316	284	258	200	133	81	18
Private Non-Guaranteed	8125	6427	4731	3435	2466	2361	2924	4263	4720	4839
Use of IMF Credit	606	779	1088	1331	1465	1322	1270	1156	958	836
Short-Term Debt	2599	1914	1668	1689	2017	2202	2973	3356	2200	2443
Interest Arrears on Debt	0	0	0	0	0	0	0	0	1	0
Total Debt Service	2633	2776	2271	2219	2368	2148	2669	2731	3954	2724
Public and Publicly Guaranteed	853	1172	1232	1525	1366	1265	1643	1572	2792	1363
Bilateral	132	78	52	49	42	38	157	164	180	225
Multilateral	60	93	129	224	315	366	494	576	641	747
Private Non-Guaranteed	1423	1255	735	239	365	359	477	523	619	960
IMF Repurchases and Charges	30	46	64	265	457	361	303	326	293	215
Short-Term Debt (Interest only)	327	303	240	190	180	163	246	310	250	186
Debt to GDP Ratio	91	91	90	86	80	66	53	53	45	41
Debt Service Ratio	55	60	48	41	36	25	27	26	34	21

... Not Available

0.0 Indicates that the amount is nil or negligible

CHILE

Basic Socio-Economic Data

Sources and Notes

Executive Summary

Social Statistics:

Land Area: Organization of American States (OAS), América en Cifras 1974.

Population: IDB estimates based on data from Latin America Demographic Center (CELADE) and United Nations Population Division.

Vital Statistics:

World Bank, Social Indicators of Development - 1993 Edition and Economic Commission for Latin America and the Caribbean (ECLAC), Statistical Yearbook - 1992 Edition.

Economic Statistics:

Labor Force: World Bank, Social Indicators of Development - 1993 Edition.

Unemployment: Programa Regional del Empleo para América Latina y El Caribe (PREALC).

1. Exchange Rates:

International Monetary Fund (IMF), International Financial Statistics (IFS).

Real Effective Index: IDB estimates based on data from the IMF, IFS.

2. Prices:

IMF, IFS. Annual figures are expressed as average annual growth rates; monthly figures as a twelve month variation.

3. International Liquidity:

IMF, IFS.

4. National Accounts:

GDP in 1988 US Dollars: IDB estimates.

GDP by Type of Expenditure and Sector of Origin: Banco Central de Chile. Financial Services and Government included in Other Services from 1989.

5. Central Government:

Contraloría General de la República, División de Contabilidad. Refers to General Government which includes central government, decentralized entities and municipalities.

6. Monetary Survey:

IMF, IFS (mid-year observations).

7. External Trade:

Trade by Direction: IMF, Direction of Trade Statistics (magnetic tapes).

Terms of Trade: ECLAC, Balance Preliminar de la Economía de América Latina y el Caribe, 1992.

Export Composition: United Nations Statistical Division (UNSTAT) Commodity Trade (COMTRADE) Data Base; Exports include Re-Exports.

Import Composition: Banco Central de Chile, Boletín Mensual. Fuels include Crude Petroleum.

8. Balance of Payments:

Banco Central de Chile and IMF, Balance of Payments Statistics (magnetic tapes).

9. External Debt:

World Bank, World Debt Tables (magnetic tapes).

CHILE
OPERATIONS DEPARTMENT
OPS/IRO

IDB LOANS

APPROVED AS OF JUNE 30, 1993

	US\$Thousand	Percentage
TOTAL APPROVED *	4,380,680	100.0%
DISBURSED	3,700,977	84.5%
CANCELLATIONS	509,895	11.6%
UNDISBURSED BALANCE	679,703	15.5%
PRINCIPAL COLLECTED	1,218,246	27.8%
APPROVED BY FUND		
ORDINARY CAPITAL	4,134,165	94.4%
FUND FOR SPECIAL OPERATIONS	203,334	4.6%
SOCIAL PROGRESS TRUST FUND	34,351	0.8%
VENEZUELAN TRUST FUND	1,791	0.0%
OTHER FUNDS	7,039	0.2%
APPROVED BY SECTOR		
AGRICULTURE AND FISHERY	758,234	17.3%
INDUSTRY AND MINING	673,079	15.4%
TOURISM AND MICROENTERPRISE	49,560	1.1%
ENERGY	1,032,809	23.6%
TRANSPORTATION AND COMMUNICATIONS	681,822	15.6%
EDUCATION SCIENCE AND TECHNOLOGY	162,560	3.7%
PUBLIC AND ENVIRONMENTAL HEALTH	285,924	6.5%
URBAN DEVELOPMENT	568,961	13.0%
PLANNING AND REFORM	150,842	3.4%
EXPORT FINANCING	3,857	0.1%
PREINVESTMENT AND OTHER	13,032	0.3%

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

CHILE

OPERATIONS DEPARTMENT OPS/IRO

TENTATIVE LENDING PROGRAM

1993		US\$ Millions
CH0032	SITES-SERV. AND NEIGHBORHOODS IMPR. PROG	50.0
1994		
CH0123	SUPPOR MODER.IMPROV.INST.JUSTICE EFFORT	18.0
CH0026	ROAD IMPROVEMENT PROGRAM II	220.5
CH0036	WATERSHED MANAGEMENT PROGRAM	25.0
CH0029	URBAN TRANSPORT AND IMPROVEMENT PROGRAM	90.0
CH0040	MULTISECTOR CREDIT PROGRAM IV	240.0
CH0004	MULTIPLE LOCAL DEVEL. INV. PROGRAM III	210.0
CH0037	POTABLE WATER AND SEWERAGE PROGRAM	125.0
CH0119	WORK TRAINING PROGRAM	80.0
CH0122	RURAL SANITATION PROGRAM	25.0
TOTAL		1,033.5
1995		
CH0058	URBAN AREAS SOLID WASTE	30.0
CH0120	SOIL RECUPERATION & HABILITATION PROGRAM	50.0
CH0121	PREINVESTMENT PROGRAM II	10.0
TOTAL		90.0
1996		
CH0039	PROG.TO INCREASE EFFIC.OF HEALTH SERV.	120.0
CH0031	MINING DECONT.& DIVERSIFICATION	40.0
TOTAL		160.0
TOTAL PROGRAMMED		1,333.5
OTHER POSSIBLE PROJECTS		
CH0035 94	PROGRAM AGAINST POLLUTION IN SANTIAGO	90.0
CH0049 96	PANGUE HYDROELECTRIC PROJECT	50.0
TOTAL		140.0

PHASED LOW-COST HOUSING AND BARRIO IMPROVEMENT PROGRAM

(CH-0032)

EXECUTIVE SUMMARY

**BORROWER AND
GUARANTOR:** Republic of Chile

EXECUTING AGENCY: The executing agency for the phased low-cost housing subprogram (Subprogram A) would be the Ministry of Housing and Urban Development (MINVU), through the intermediary of the Housing and Urban Development Bureau, which would be supported by a technical secretariat. The executing agency for the barrio improvement subprogram (Subprogram B) would be the Ministry of the Interior (MINTER), through the Regional Development and Administration Bureau (SUBDERE), the regional governments, the provincial governments, and the municipalities. Coordination, administration and supervision of execution of the subprogram at the national level would be entrusted to the Regional Development Division (DIDER), which reports directly to SUBDERE.

AMOUNT AND SOURCE:	IDB:	US\$ <u>50,000,000</u> (OC)
	Phased low-cost housing:	US\$ 33,500,000
	Barrio improvement:	US\$ 16,500,000
	Local counterpart funding:	US\$ <u>100,000,000</u>
	Phased low-cost housing:	US\$ 66,500,000
	Barrio improvement:	US\$ 33,500,000
	Total:	US\$ <u>150,000,000</u>
	Phased low-cost housing:	US\$ 100,000,000
	Barrio improvement:	US\$ 50,000,000

TERMS AND CONDITIONS:	Amortization period:	25 years
	Disbursement period:	5 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%

OBJECTIVES: The main purpose of the program is to support the government's efforts to reduce the housing deficit and to improve sanitation standards in existing housing occupied by low-income families now living in substandard conditions (overcrowded or unhygienic). As a target, the program is intended to benefit approximately 50,000 families, 27,000 of them under

the phased low-cost housing subprogram and 23,000 under the barrio improvement subprogram.

DESCRIPTION:

Each subprogram comprises a global multiple-works operation. The objective of the phased low-cost housing subprogram will be achieved by building a basic housing environment consisting of a fully serviced site of at least 100 square meters and a built-in living space of approximately 13 square meters, including a bathroom and a multipurpose room. The beneficiaries of the subprogram may choose the municipality in which they prefer to receive housing and may reject the assignment made by MINVU if it does not suit their needs. This subprogram represents the first stage of the government's phased housing program under which beneficiaries are to have access to a second stage, to be financed with national funds, in which additional financing would be made available for final build-out of the housing unit.

The barrio improvement subprogram will seek to improve the quality of life of the poor population living in unhygienic conditions. It also calls for a number of projects to be executed, taking into account existing infrastructure in each barrio and the nature of land ownership. It is intended that all housing should meet minimum health standards, with a sanitary core unit covering an area of at least 6 square meters, consisting of space for a bathroom and kitchen and in-house connections to potable water, sewers and electricity. Each project is to have basic services including, in addition to those just noted, storm sewers, roads and walkways, and basic signage and fencing.

**ENVIRONMENTAL
CLASSIFICATION:**

The Environmental Management Committee, at its meeting of October 7, 1991, classified this as a Category III operation.

BENEFITS:

The benefits of the program are economic and social. From the economic standpoint, the basic housing environment afforded by the phased housing subprogram is the alternative that prospective beneficiaries with some means showed the greatest willingness to pay for and proved to have a market value greater than the production cost. The change in the housing situation - from one of critical overcrowding (where some families lodge with others) or lack of basic sanitation to one of relative wholesomeness - will help to improve the people's quality of life. From the social standpoint, it will contribute to the redistribution of wealth by providing housing subsidies to

the poorest. A 96% share of the benefits generated by the program would go to the lowest-income groups (see Table V-3).

RISKS:

The main risk facing the phased housing subprogram is that not enough affordable sites will be found on which to build the housing solutions involved. In this connection, sufficient flexibility has been built into the program to allow MINVU to acquire land at market prices.

The barrio improvement subprogram poses no major risks in light of the experience acquired when three earlier stages of similar activities were carried out with the Bank efficiently and on time.

**EXCEPTION TO
BANK POLICY:**

Since, in addition to the serviced site and the bathroom, the phased low-cost housing subprogram provides for a multipurpose room of the minimum size required to accommodate the family initially, it does not strictly speaking conform to the provisions of the Bank's operational policies (OP-751) on the financing of sites and services. The decision to incorporate the multipurpose room in the subprogram is fully justified in the analysis of demand. Moreover, the housing solution provided is only the initial core and not a complete dwelling. In this respect, the phased housing subprogram is in keeping with the spirit of the Bank's policy, and it is therefore appropriate to request a waiver of the policy in this case.

**THE BANK'S
COUNTRY STRATEGY:**

The Bank's operational strategy in Chile for 1991-1994, as defined in the programming paper (CPP) of June 1991, is sufficiently consistent with the government's objectives of strengthening the consolidation and deepening of the export model, conservation, and rational management of the environment and of the social sectors that have the most direct impact on the living conditions and quality of life of the lowest-income groups. This program ties in with the country strategy because it will improve the conditions in which families with very low incomes live and enhance their quality of life.

I. FRAME OF REFERENCE

A. The housing situation in Chile

1. Income level of the population and housing situation

- 1.1 In spite of the rapid growth of the Chilean economy in the last 10 years, the country still has population groups that receive incomes below the minimum subsistence level and are unable to meet their basic needs. In 1990, these people, who are considered indigent, accounted for 16.8% of the population and were found in 13.5% of all households. It is similarly estimated that at that time 44.4% of the population - 38.1% of all households - had incomes lower than needed to buy two basic food baskets. These figures reflect the country's low per capita income level and its concentrated income distribution pattern.
- 1.2 One of the manifestations of the relative degree of poverty underlying the concentration of income is the housing situation of the population. At the end of the 1980s, the last date for which data broken down by income level are available, between 25% and 30% of the houses occupied by families in the lowest two income quintiles were in poor condition compared with the 8% of houses occupied by higher income families. Similarly, more than one fourth of those families (27% and 28%, respectively) lacked in-house potable water or a central sewerage system, whereas only 8% of the houses of the higher income groups faced the same problem. Housing needs, estimated in 1988 at more than one million units, including new houses and improvements to existing homes, are concentrated for the most part in lower-income families. The great majority of families lodging with others or facing other forms of housing emergencies are found among the lowest levels of the income structure.

2. Population growth and urban development

- 1.3 The quantitative evolution and geographic distribution of housing needs at medium and long term are determined by demographic trends and the spatial distribution pattern of the population.
- 1.4 During the most recent intercensal periods (1950-1960, 1960-1970, 1970-1982), Chile's population has grown at moderate and declining rates (2.23%, 2.17% and 1.62% respectively). As a result, its total population stood at 13.17 million in 1990 and is projected to reach 15.3 million by the year 2000. Over the long term, the declining rates of population growth will alleviate demographic pressure for housing. At the short and medium term, however, changes in the average size of households and the rate at which new households are being formed will tend to aggravate the situation. The average size of households in Chile decreased from 4.44 persons per household in 1985 to 4.28 in 1990, and is expected to continue to decline during the 1990s owing to the increase in the number of

nuclear families occupying or hoping to occupy housing units of their own. The rate of formation of new households accordingly rose from 2.4% in the early 1980s to an estimated 2.5% at the present time. As a result of these trends, the number of households, which was 3.11 million in 1990, is expected to reach 3.5 million in 1995.

- 1.5 In terms of spatial distribution, the majority of families with unmet housing needs are concentrated in urban areas and, specifically, in the large cities. In 1990, 82% of the country's population lived in cities, a proportion that is expected to rise to 87% by the year 2000; in the same year 63% of the population lived in the three most populous regions: Metropolitan (39.6%), Region V (10.6%), and Region VIII (12.8%), which contain the major cities of Santiago (5.1 million), Valparaíso-Viña del Mar (0.6 million) and Concepción-Talcahuano (0.55 million). A total of 6.27 million inhabitants, or 48.4% of the country's total population, are thus concentrated in these three metropolitan areas.
- 1.6 Figures from the most recent censuses (1952-1990) point to a shift in the dynamics that govern the way in which the population tends to concentrate; this shift is favoring the growth of medium-sized cities (20,000 to 100,000 inhabitants) and of smaller population centers located inside the area of influence of the metropolitan areas. In the long run, this process will alleviate the pressure of demand which is currently centered on the metropolitan areas.

3. Housing needs

- 1.7 Estimates accepted by MINVU indicate that in 1988 approximately 800,000 families did not own their own homes and a further 330,000 families lived in houses with a variety of deficiencies, mostly involving sanitation and structural condition.
- 1.8 Based on the anticipated increase in the number of families over the next five years (80% of the housing shortfall) and the need to replace dilapidated houses (20% of the shortfall), MINVU estimates that in the next four years it would be necessary to build an average of 100,000 new houses a year in order to meet these needs, rising from 99,000 in 1990 to 102,000 in 1995.

4. Market constraints on meeting housing needs

- 1.9 The high number of families with unmet housing needs shows that the housing sector has been unable to provide the houses needed by the population. On the one hand, the private sector has had a limited role in providing housing and, on the other, the public sector has not been able to offer housing solutions to all social sectors.
- 1.10 Several factors have restricted the capacity of the private sector (construction firms, real estate developers, and the commercial banking system) to participate in providing housing for all the

country's income groups. The most significant of these is the low income level of many of the families, which prevents them from becoming a real demand factor by either saving to buy a home or paying a mortgage.

- 1.11 The existence of positive interest rates and the indexing of mortgage repayments, expressed in development units (UF), have enabled a private home mortgage financing system to evolve in Chile. This system does not benefit lower-income groups, who cannot make the mortgage payments or are reluctant to take on indexed payment commitments on the strength of wages that do not always move in step with changes in the UF. Finally, in Chile, as in other developing countries, real estate developers and commercial banks do not offer housing and financing to all income groups, preferring to gear their operations mainly to the lucrative market of high-income families. As a result, in the period between 1973 and 1990, private mechanisms for home construction and financing accounted for only 10% of the houses built in Chile.
- 1.12 Some 63% of Chile's housing stock is owner-occupied and only 17% rented; the remaining 20% relates to other forms of tenure, notably beneficial use. This implied preference on the part of families for this form of housing, encouraged by government policies promoting individual ownership, has made private investors less interested in providing rental housing. In the past, the supply of rental units was discouraged by regulations introduced by the government, which, though intended to protect tenants, undermined the real value of rentals and made this sector of the housing market rigid; these regulations were abolished in 1982.
- 1.13 The difficulties of the market in providing new housing units are mirrored by its inability to rehabilitate the housing stock that has deteriorated or has other deficiencies. The absence of mechanisms for financing investments of this kind - combined with the limited ability to pay of the people renting or using the substandard houses and the operational difficulties of undertaking programs of this kind - creates a self-sustaining cycle of low returns on housing and little or no investment in rehabilitation.
- 1.14 The constraints that the private sector has historically faced in meeting the needs of major segments of the population prompted the government to intervene in the housing market to assist families in solving their housing problems. Starting at the turn of the century with the first laws to promote low-cost housing, the Chilean government assumed growing responsibilities as promoter, financier, builder and allocator of housing for middle- and low-income groups of the population. It is currently focusing on assistance to lower-income groups through direct demand subsidies, while leaving home construction in the hands of private entrepreneurs, although this has not restricted its role in the sector. The Government of Chile is at present participating directly or indirectly in the construction or financing of more than 70% of the houses being

built in the country, which means that the Chilean housing market has one of the highest levels of State involvement in the region.

5. Issues of basic urban sanitation

- 1.15 During the second half of the 1960s, a social action program known as Operation "Site" (Operación Sitio) was launched in Chile in the housing sector. Through a program of government credits for the purchase of single-family urban homesites, beneficiary families were offered sites measuring between 100 and 160 square meters, equipped with a latrine and provided on the outside with basic utilities (potable water network with standpipes, sewer network without in-house connections, electricity system, paved streets, and curbs). It was hoped that as a result of the program families would use their own funds to hook up to the various utilities and services. In most cases this objective was not achieved, which resulted in areas that represent major health hazards.
- 1.16 The 1990 National Socioeconomic Survey (CASEN III) compiled information which makes it possible to quantify the basic sanitation problem which the people face. On the strength of these data, it is concluded that in 2.3 million homes, or a little more than 70% of the existing housing stock of 3.2 million units, sanitary conditions are good or acceptable. Twelve percent of the dwellings have sanitary deficiencies in one or another service. The balance of 477,000 houses, or 16% of the stock, have serious sanitation deficiencies in that they lack safe systems of potable water supply or human waste disposal.
- 1.17 The vast majority of houses with basic sanitation deficiencies (80%) are located in rural areas. The remaining houses with deficient sanitary conditions, numbering some 100,000, are located in urban areas. The true extent of the basic sanitation problem is actually greater since some of the families classified as having fair sanitary conditions do not have on-site human waste disposal systems. This group is estimated to comprise 20% of the urban houses with fair sanitary conditions (270,000), that is, approximately 55,000 dwellings. As a result, it can be inferred from the CASEN survey data that the basic sanitation problem in urban dwellings affected some 150,000 houses in 1990, 100,000 with sanitation deficiencies and 50,000 families classified as having fair sanitation conditions but with human waste disposal problems.
- 1.18 Between 1983 and 1990 the barrio improvement program financed by the Bank (stages I and II) benefited 89,000 families with deficient sanitary conditions; these outcomes were captured in the figures from the CASEN survey. Implementation of stage III of the program beginning in 1990, which benefited 47,000 houses, will probably have reduced the number of dwellings affected by basic sanitation problems in 1993 to a little more than 100,000.

1.19 The ex post evaluation of stage I of the barrio improvement program found significant reductions in the incidence of gastrointestinal diseases among the infant population in the barrios that benefited from the program. This reduction amounted to slightly more than 50% when the incidence of infant diarrheas was compared between barrios with and without the solutions financed under the program.

1.20 Given that the policies on housing and social order implemented by the Chilean government have eliminated the proliferation of squatter settlements, there has not been, nor is there expected to be, any growth in the number of houses with sanitation problems.

6. Historical experience with State intervention in the provision of housing

1.21 Chile has distinguished itself among the countries in the region in defining and implementing a varied range of policies and strategies in the housing sector. As a result, its housing stock is in better shape than that of other Latin American countries. Different administrations have carried out housing programs, ranging from housing production subsidies (DFL 2 of 1959) to direct construction of houses by the Housing Corporation (Corporación de la Vivienda) and the Urban Improvement Corporation (Corporación de Mejoramiento Urbano) during the period 1971 to 1973.

1.22 The housing sector underwent a significant restructuring in 1977, when the government, in keeping with its economic philosophy, modified the country's housing policy so as to deemphasize public sector involvement in housing construction and transfer some of the responsibilities for production and financing to the private sector.

1.23 Implementation of the reforms was slow and uneven. The granting of subsidies for middle-income groups was quickly welcomed by the commercial banking system and by the construction industry, which provided supplementary credits and finished houses to beneficiaries looking for housing in the UF 700 to UF 2,000 range (US\$14,800 to US\$48,000). Private sector participation in the other segments of the market generated by the government policy was to be fostered by the Ministry of Housing and Urban Development (MINVU) with the aid of measures not entirely consistent with the principles of the policy. In fact, during this period the ministry's regional operating authorities (SERVIUs) granted direct credits both to construction firms and to recipients of subsidies for houses with a final cost of less than UF 700. The targeting of subsidies, which was relatively poor when the policy was first implemented, gradually improved.

1.24 The reform in question led to an increase in the productivity of the sector, even though the total volume of resources allocated to housing declined. The total number of housing units financed using these resources rose from 30,576 in 1970 to 67,716 in 1988. Put

another way, in 1970 the government was using these funds to finance 3.5 units for every 1,000 inhabitants, whereas in 1988 it was financing 5.3 units. In part, these figures point to increased efficiency in the use of the funds; another part of the explanation for the higher number of houses financed in 1988 lies in the lower standards of the houses built in that year compared with 1970.

7. Evolution and prospects of the housing situation

- 1.25 Notwithstanding the reforms which the housing sector has undergone, the public sector has not succeeded in transferring to the private sector its lead role in mobilizing resources for housing. In fact, at the present time, the government is participating in the financing of more than 70% of the homes under construction in Chile. Over the past 20 years (1973-1993) MINVU's activities have taken three different forms, with the following results:

a. Direct arrangement

- 1.26 Housing units contracted directly by the sector to construction firms for subsequent allocation and sale to families enrolled in the application registers (low-income and basic housing). Under this arrangement, 390,000 units were built during the period.

b. Mixed arrangement

- 1.27 Authorizations given to the SERVIUs to contract for houses (Special Basic Housing Program). Under this arrangement, a little over 110,000 units were built.

c. Indirect arrangement

- 1.28 Houses built or purchased by families freely in the market, using the various kinds of housing subsidy they were granted. This arrangement provided partial financing for 270,000 housing units.

- 1.29 In spite of the government's heavy involvement in the sector and the experience acquired in the course of several housing plans carried out by different administrations over the last 40 years, it has not proved possible to provide enough affordable housing to low-income groups to keep pace with the need. Available data show that between 1985 and 1990 new housing starts averaged a little over 50,000 a year, a figure well short of the 90,000 units which it was estimated were needed in 1985 to prevent the number of families without housing from climbing higher. This level of new housing starts was achieved only in 1992. As a result, the number of families with housing problems has been growing steadily over the last few decades. As indicated earlier, the number of families with housing deficiencies in 1993 is put at over 1.1 million.

- 1.30 In the past, MINVU experienced problems in recovering the loans made to top up the cost of the houses offered under public housing

programs. After a general apportionment of the so-called social debts (in which MINVU's portfolio was included), the government took steps to remedy the problems. Foremost among these measures were improvements introduced in the management of the mortgage portfolio to curb the incidence of delinquency. Management of the portfolio was entrusted to private firms selected by public tender, which receive fees based on a percentage of their collections on the current portfolio. In addition to reducing delinquency, these measures sent mortgage borrowers a clear signal regarding the government's intention to bring discipline to the system.

8. Basic sanitation record

- 1.31 The barrio improvement program, which has received partial Bank financing in three stages, has benefited more than 135,000 families by providing sanitary facilities comprising a bathroom, kitchen, and in some cases a washroom, with proper connections to basic utilities. The improvement in living conditions achieved through these sanitation facilities is considerable, and, in combination with the overall social effort directed at this population group, is alleviating the problems of extreme poverty.

B. The government's housing programs

- 1.32 At the present time, government participation in the housing market is of two kinds: (i) it provides partial financing through demand subsidies and (ii) it contracts for houses for allocation to the lowest-income groups on a subsidized basis (see Table I-1). These activities are carried out through the following programs:

TABLE I-1

REPUBLIC OF CHILE
MINISTRY OF HOUSING AND URBAN DEVELOPMENT
CHARACTERISTICS OF HOUSING PROGRAMS

Program title	Required monthly remuneration (UF)	Approximate area in m ²	Amount of direct subsidy (UF)	Minimum savings (UF)	Average cost of housing solution (UF)	Annual target for 1993 (No. of units)
Phased housing 1st stage	0	13-16	132	8	140	16,500
Basic housing	3-4	30-40	140	10	220	26,700
Special workers program	8-10	35-50	80	30	330	16,000
Rural subsidy	0	40	110-140	Site	200	8,000
Unified subsidy 1st tranche	8-18	50	110-140	50	450	18,500
Unified subsidy 2nd tranche	18-35	60	90-120	100	750	7,500
Unified subsidy 3rd tranche	35-50	80	70-100	150	1,250	1,500
Urban renewal	15-60	60	170-200	150	1,000	500
TOTAL						95,200

1. Unified general housing subsidy system

- 1.33 The general subsidy system offers direct and transparent housing subsidies to low- and middle-income families, through different housing programs in Chile. The system is progressive, since more expensive housing, which attracts higher-income beneficiaries, generally enjoys smaller subsidies. Within the range offered under the different programs, the phased low-cost housing program offers the largest subsidies, but the housing solutions available thereunder have the lowest values in relative terms. Families with some means have the option of applying for programs that offer slightly smaller subsidies but which permit them to acquire better housing. Therefore, the different government housing programs and the system of subsidies they offer encourage families from the neediest groups that have some capacity to save to apply for the phased housing program. Moreover, the system for selecting program beneficiaries, which involves public notices for registration of applicants and a point system based on the applicants' needs and socioeconomic level, chiefly favors families from the lowest socioeconomic levels. It is estimated that the floor monthly income of applicants would be US\$60; most would fall into the second income quintile.

2. Finished house program

- 1.34 This program offers low-income families finished houses built under direct contract from MINVU. The ministry directly and openly subsidizes up to 70% of the cost of the houses, and the balance is financed from the savings of the applicants and a mortgage loan granted by MINVU at a rate of interest that is positive but below the going market rate.

3. The barrio improvement program

- 1.35 This program, financed in part by the Bank and executed by the Ministry of the Interior (MINTER), benefits families living in the poorest barrios and lacking urban and sanitary infrastructure. The program finances municipal projects for formalizing ownership of the sites, in-house sanitary and power connections, and installation of a sanitary core unit.

4. The phased low-cost housing program

- 1.36 The government feels that the progress it has made in targeting public housing programs is still not enough to achieve its social targets; it is actively pursuing a policy of channeling a larger share of the resources earmarked for the housing sector to the lowest-income families that find it difficult to gain access to the public programs. For example, the barrio improvement program, which offers the least-average-cost housing solution and is the most targeted of all, is not accessible to all low-income families because it is restricted to the consolidation and clean-up of existing marginal settlements, which limits access by families

living outside the barrios where the program's projects are being carried out. Similarly, other programs, like the basic housing program, offer housing solutions which cost relatively more and have prior savings and creditworthiness requirements that prevent access by lower-income families.

- 1.37 This prompted the government to design the phased low-cost housing program (PVP), to which the present document relates, which is intended to meet the needs of families that are lodging with others or renting and were unable to qualify for the other programs. The program provides families with access to a serviced site and a basic housing solution through a combination of their own amassed savings and subsidies. The families can channel their entire savings capacity into consolidating the finished house. The PVP was designed in consultation with the Bank during the process of preparing this operation and is currently being executed by MINVU, which has to date let contracts for more than 18,000 phased housing solutions.

5. Demand for phased low-cost housing

a. Demand survey

- 1.38 A market survey was conducted to determine the demand for phased low-cost housing, focusing mainly on low-income nuclear families with more than one member that do not own houses and might be interested in the type of housing solution and prices proposed in Subprogram A. For practical reasons and particularly for budgetary reasons, the surveys were limited to 18 municipalities in Greater Santiago. MINVU plans to conduct additional studies in northern and southern Chile this year to perfect the estimates of the demand for housing solutions by low-income groups, and to introduce possible modifications in the products and/or create new ones that give greater satisfaction to the beneficiaries at the same cost.
- 1.39 The main conclusion of the survey is that demand for the solution included in Subprogram A by families currently living under the roofs of others, in the third to fifth income deciles alone, would be in the order of 120,000 units. This figure is much higher than the number of units provided for in this operation. Even in the event that it turns out to be difficult to implement the subprogram in Greater Santiago owing to the high cost of land, demand in the remainder of the country would be sufficient to place all of the planned housing units. Furthermore, 20,000 applicants for phased housing throughout the country have already registered with MINVU.

b. Design of the product

- 1.40 The features of the phased low-cost housing to be offered by MINVU were conceived to differentiate it from other products for low-income groups available on the market. This product incorporates the chief features detected in the market survey of a sample of potential beneficiaries, such as: inclusion of a multipurpose room

in the sanitary core unit to facilitate immediate occupancy, and the possibility of consolidating and expanding the unit to meet the needs of the potential beneficiaries, with due regard to their and the government's financial limitations. The design proposed for the subprogram minimizes the demand risks for the housing and ensures that the focus will not stray from the target groups.

C. Previous experience of the Bank and the IBRD in the sector

1. The IDB

- 1.41 Since 1983 the Bank has provided a share of the financing for three barrio improvement programs totaling US\$151 million, through loans 115/IC (Subprogram C), 223/IC and 577/OC, which have directly benefited slightly more than 135,000 of the country's poorest families. This focus is clearly demonstrated in different sources of information: (a) the study conducted in 1990 by the University of Chile on "Income and costs of the beneficiaries of the barrio improvement program", which concludes that the program beneficiaries belong to the third and fourth income deciles and to the first and second consumption deciles; (b) the study conducted by MIDEPLAN in 1992 on "The housing situation in Chile", which placed 82% of the program's beneficiary households in the first three income quintiles; and (c) the ex post evaluation of the first stage, conducted in 1992, which established that on average, the beneficiaries had monthly incomes of US\$36 per capita and expenses of US\$31 per capita. It should also be noted that the private sector has shown no interest in covering existing demand, since given the socioeconomic level of the families requiring housing, it would be impossible to obtain a reasonable price for the product delivered. The government has thus had to address the problem comprehensively.
- 1.42 The programs financed by resources from Bank loans have been executed smoothly and efficiently and have exceeded the original targets. The Bank's general experience in terms of project identification, execution and evaluation has been very satisfactory, which supports the expectation that no difficulties will arise in the barrio improvement subprogram envisaged in this operation.

2. The IBRD

- 1.43 The World Bank has participated in the housing sector through sector loans 2482 and 3030-CH, the latter currently in course of execution. These loans have essentially supported the basic housing programs and the unified general housing subsidy system.

II. THE PROGRAM

- 2.1 The Government of Chile has requested financing from the Bank to support the housing programs targeted to lower-income groups, specifically for the phased low-cost housing program (PVP), Subprogram A of the present operation, which is intended to provide housing for families that are lodging with others or renting, and for the fourth stage of the barrio improvement program, Subprogram B, which addresses the basic sanitation problems of settlements with sub-standard sanitary conditions.

A. Conceptualization of Bank support for the operation

- 2.2 The Chilean government which assumed power in 1990 decided to undertake a special effort to improve the quality of life of the country's lower-income groups. To assemble funds for this purpose, it carried out a tax reform that consisted basically in raising the value-added tax (VAT) and the corporate income tax. This enabled it to expand social expenditures (health, education, housing, and job training) for the benefit of low-income groups. Some of these revenues have been channeled to the housing sector, specifically to expand existing programs (basic housing) or to launch new programs (the PVP), with increasing emphasis on the lowest two income quintiles.
- 2.3 In the CPP of June 1991, the Bank decided to support the country's development strategy based on sustainable growth with equity and to participate in the financing of selected projects in areas that could strengthen the consolidation and deepening of the export model, conservation, and rational management of the environment, and the social sectors that have the most direct impact on the living conditions and quality of life of the lower-income groups.
- 2.4 The proposed program focuses on meeting needs in this latter respect on a lasting basis and deserves the Bank's firm support, not only on its intrinsic merits but also because of the innovative ways in which it seeks to channel available resources to reach a broader population, and to stimulate the lower-income groups to be very active partners in the effort required.

B. Phased low-cost housing subprogram (Subprogram A)

1. Objectives and targets

- 2.5 MINVU has launched the PVP in order to meet the housing needs of the country's lowest-income groups. The program has been designed to assist "... families that are lodging with others or facing other forms of housing emergencies". The program caters to the basic housing needs of families who do not have houses of their own and who mostly live as lodgers in poor-quality, improvised dwellings lacking water, electricity and sewer services.

- 2.6 The program proposes a two-stage housing solution. The first provides beneficiaries with a serviced site and a basic living space, including the bathroom, a space for a kitchen, and a multipurpose room. The second stage completes a fully built house comparable to the solutions offered by the basic housing program. Through the first stage of the PVP the government hopes not only to provide housing solutions that meet the immediate housing needs of very low-income families but also, by lowering the up-front cost of each solution, to expand the number of beneficiaries of its housing programs. It thus shortens the time that eligible families wait before starting to resolve their particular housing problem. The second stage of the PVP makes funds available to assist beneficiaries in improving the houses, thereby more fully meeting their families' needs.
- 2.7 MINVU has requested the Bank's participation in financing the first stage. To complete their houses, beneficiaries will be free to participate in the second stage of the PVP, which sets additional savings requirements in order to qualify for a further subsidy, or to tackle the task by other means. The sum of the subsidies granted in the two stages of the phased housing subprogram (UF 150, US\$3,600) is greater than the subsidy received by beneficiaries under the basic housing programs (UF 140), in that the contribution required of them is smaller (see Table I-1). In combination, these features are designed to permit access to the solutions offered to families that do not qualify for the basic housing program.
- 2.8 The project presented to the Bank envisages the financing of approximately 27,000 serviced sites for phased housing, as per the specifications described in the following section. MINVU proposes to invite bids for about 4,000 units in the first year, 9,500 in the two following years, and 4,000 in the final year. The regional distribution of the bids will be determined each year by MINVU in accordance with its investment plans and with criteria of equity in meeting the needs of the target population, and regional distribution of sector spending.
- 2.9 The criteria used for the regional distribution of program resources are built around the following parameters: (a) an estimate of regional housing deficits based on surveys, studies, etc.; (b) the number of applicants enrolled for all municipalities in the region; (c) dispersal of urban centers within each region; and (d) level of construction activity in each region, to take account of any price distortions stemming from saturation of contractor capacity or of availability of materials or manpower. The first two parameters cited are the fundamental ones, their weight in the distribution being about 75%.
- 2.10 The size of an individual project will depend directly on the universe of applicants registered in the municipality in question, and should represent a reasonable share of that universe. In this way, if the allocation of units to a portion of those prospective beneficiaries who are at the top of the list does not go through,

there will be enough other applicants to ensure that all solutions will ultimately be assigned.

2. The proposed housing solution

- 2.11 To carry out the first stage of the PVP, and with financing from the Bank, MINVU will let contracts for the construction of fully serviced sites and a basic housing environment, as per the specifications set out in Annex I. The solution envisages fully serviced lots measuring at least 100 square meters, with a minimum living space of approximately 13 square meters of fully built area, a full bathroom and a multipurpose room (see paragraphs 5.5 and 5.6).
- 2.12 The sites will be accessible by the existing road network and will have a community center and areas for relaxation and recreation in accordance with standards set by MINVU. MINVU will encourage municipalities to participate in MINTER's Local Development Program, which, with the help of Bank funding (578/OC), is financing community facilities to ensure that primary health services and primary and secondary education are available to beneficiaries and their families within a reasonable time frame and in accordance with current service standards.
- 2.13 After receiving their basic housing environment under the first stage of the PVP, beneficiaries will commit themselves to completing the finished house in accordance with drawings proposed by the contractors who bid on the works for the first stage. Beneficiaries may freely choose to do this:
- a. using their own funds and with technical assistance to be provided by the municipality or specialized nongovernmental organizations; or
 - b. by participating in the second stage and opting for a further subsidy of UF 18, which can be used to buy materials so as to build themselves or to hire a building contractor to complete construction of the house.
- 2.14 The Bank does not participate in the financing of this second stage of the PVP, which it is hoped will be completed within five years after the sites are awarded to the beneficiaries.

3. The target population

a. Size of the target population

- 2.15 There are an estimated one million families in Chile without housing, most of whom lodge with other families or have use of substandard dwellings. It is also estimated that 100,000 new houses would be needed annually to meet the needs arising from the growth of families. According to available data, almost 85% of housing needs relate to families in the three lowest income quintiles. The PVP's target population comes from this group of families.

b. Regional distribution

- 2.16 The regional distribution of estimated housing needs in 1990 correlates directly with the territorial distribution of the population. In percentage terms, the greatest concentration of needs is found in the Metropolitan Region of Santiago (39%) and in Regions V (12%) and VIII (11%), which contain the metropolitan areas of Valparaíso and Concepción, respectively. There are also unmet needs in the other regions of the country, which account for 38% of the 270,000 families that could benefit from the program.

c. Identification and selection of applicants

- 2.17 Applicants for housing to be provided under the PVP will come from the target group described in the preceding paragraphs. MINVU is planning to register and select applicants in accordance with the provisions of Decree 62 (H. and U.D.) of 1984. There will be two possible application procedures:

- (i) individual, in which the applicant enrolls individually on the lists administered by MINVU; and
- (ii) group, in which registration takes place through organized groups, notwithstanding the fact that the benefits will be granted individually to each member of the applicant group.

- 2.18 Under the provisions of S.D. 140 (H. and U.D.) of 1990, registration to apply for PVP benefits is open to individuals who do not own a house and whose spouse does not either. For this purpose, applicants must:

- (i) prove that they have been surveyed under the CAS-Fiche socioeconomic stratification system;
- (ii) show that they are holders of a term home savings account, except that those applying for the first stage of the PVP under the private program arrangement must show they have their own site available, the value of which meets all or part of the prior savings requirement;
- (iii) provide documented information on the size and composition of their family group; and
- (iv) state, for reference purposes, the grouping of municipalities or the municipality of their preference for the location of the housing unit and the specific location of their choice.

- 2.19 Housing solutions will be allocated in the strict order of precedence of the applicants on a single national list in the municipality or grouping of municipalities where solutions are available. The ranking criteria were defined by S.D. 140 of 1990 and take account of factors of social stratification and accommodation-

sharing; family group; seniority of registration; and cash savings or availability of the applicants' own site in the case of a group application. Most beneficiaries would fall into the second income quintile; their floor monthly income would be about US\$60. Details of the selection and weighting criteria have been incorporated into the subprogram's Operating Regulations.

4. Exception to Bank policy

- 2.20 Since, in addition to the serviced site and the bathroom, the first phase of the PVP provides for a multipurpose room of the minimum size required to accommodate the family initially, it does not strictly speaking conform to the provisions of the Bank's operational policies (OP-751) on the financing of sites and services. However, the decision to incorporate the multipurpose room in the PVP is fully justified in the analysis of demand, and the housing solution provided is only the initial core and not a finished house. In this respect, the PVP is in keeping with the spirit of the Bank's policy, and it is therefore appropriate to request a waiver of the policy in this case.

C. Barrio improvement subprogram (Subprogram B)

1. Objectives and targets

- 2.21 The purpose of the fourth stage of the barrio improvement program, entailing the provision of infrastructure and basic sanitation similar to that of the three earlier stages, is to improve the quality of life of the population living in extreme poverty under substandard sanitary conditions.
- 2.22 The target for this stage is to benefit at least 23,000 families by providing a permanent sanitation solution, thereby improving the quality of life of some 100,000 persons now living in unhygienic surroundings.

2. Description of the solution

- 2.23 Subprogram B calls for a number of projects to be executed, taking into account existing infrastructure in each barrio and the nature of land ownership. It is intended that all settlements involved should reach a standard level of sanitation, so that the components involved in each project will be defined on the basis of existing need.
- 2.24 The solutions envisaged involve both upgrading and resettlement:
- a. Upgrading: so called because they involve in-situ improvements in existing barrios, including, as the need arises, the provision of all or some of the components described. Such projects have accounted for most (92%) of the solutions financed in earlier stages.

- b. Resettlement: when families live on land not amenable to improvement because it is situated in a flood zone or has a highly irregular topography, new serviced lots will be prepared. These projects are used to resolve exceptional problems; only a small portion (8%) of the solutions financed in earlier stages involved resettlement.

2.25 The specific components of the projects will vary depending on the original conditions in the barrios; they must in all cases contain the sanitary infrastructure works described in subparagraph b below (or the elements required to complete them) and, when appropriate, all the utility works described in subparagraph c. Minimum community facilities, as described in subparagraph d below, will be required except where there are establishments in the immediate vicinity of the project that can take care of these needs. See Annex I for the detailed technical specifications of all the elements which a project can include.

- a. Land: lots with a minimum area of 100 square meters, unless the beneficiary already has his own.
- b. Sanitary infrastructure: a sanitary core unit, with a minimum area of 6 square meters, comprising a bathroom, a space for a kitchen, and a connection for a sink, with in-house facilities for hook-ups to potable water, sewers and electricity and corresponding indoor networks and fixtures (toilet, shower, washbasin and kitchen sink).
- c. Utility services: each project must have minimum utility services, which comprise potable water, wastewater and stormwater disposal, electricity, roads and walkways, signage and minimum property fencing.
- d. Community facilities: in groupings of more than 100 housing solutions, minimum community facilities will be required, including land for a children's playground, sports field, and shops. In addition, a community center will be provided. These basic facilities will not be required when there are establishments that can cater to these needs in the immediate vicinity of the development.

3. Allocation of solutions

2.26 The sanitation solutions executed through the subprogram will benefit persons living in substandard sanitary conditions. To qualify for the subprogram neither the prospective beneficiary nor the spouse may own or have been allocated a housing solution under other government programs.

2.27 Ownership of the housing solutions will be transferred to the beneficiaries without charge. Where municipalities consider it desirable and feasible, they may recover from beneficiaries up to 25% of the cost of the solution in the form of installments. The funds

recovered from the community will be used to finance improvements in the same barrios.

D. Cost and financing

1. Phased low-cost housing subprogram (US\$100,000,000)

2.28 The total cost of the phased low-cost housing subprogram is estimated at US\$100 million. The table below shows the financing plan by investment category.

COST AND FINANCING OF THE PHASED LOW-COST HOUSING SUBPROGRAM (US\$000)				
Investment category	IDB	Local	Total	%
1.0 Engineering and administration	---	3,000	3,000	3.0
2.0 Direct construction costs	33,165	48,810	81,975	82.0
3.0 Associated costs	---	9,180	9,180	9.2
3.1 Studies	---	70	70	
3.2 Land	---	9,110	9,110	
4.0 Financial costs	335	5,510	5,845	5.8
4.1 Interest IDB loan	---	5,010	5,010	
4.2 Credit fee	---	500	500	
4.3 Inspection and supervision	335	---	335	
TOTAL	33,500	66,500	100,000	100.0

2.29 The above figures were estimated on the basis of the target of 27,000 solutions and using the calculations indicated below.

a. Engineering and administration (US\$3,000,000)

2.30 The calculation was based on the average costs incurred by MINVU to date on design, works supervision, and program administration activities, which amount to approximately 3.5% of the direct construction costs.

b. Direct construction costs (US\$81,975,000)

2.31 These were calculated on the basis of a cost analysis of the projects already contracted by MINVU. A unit cost of US\$2,980 per solution was used, including 10% for contingencies and cost escalation.

c. Associated costs (US\$9,180,000)

- 2.32 These were estimated, based on MINVU's experience, as described below: (i) Land (US\$9,110,000): it can be estimated from data obtained from projects already contracted by MINVU that the cost per solution is on the order of UF 14, i.e., approximately US\$330; (ii) Studies (US\$70,000): includes the costs of the studies which MINVU proposes to carry out on variations in the willingness to pay of prospective beneficiaries according to their geographic location (northern, central and southern areas) and on land availability issues.

d. Financial costs (US\$5,845,000)

- 2.33 These were estimated in accordance with the parameters indicated below.

- (i) Amount of loan: US\$33.5 million
- (ii) Amortization period: 25 years
- (iii) Disbursement period: 5 years
- (iv) Term for physical start of construction: 4 years
- (v) Grace period: 5 years
- (vi) Interest: Variable in accordance with IDB policies
- (vii) Credit fee: 0.75% on undisbursed balances
- (viii) Inspection and supervision: 1% of the loan amount

2. Barrio improvement subprogram (US\$50,000,000)

- 2.34 The total cost of the barrio improvement subprogram is estimated at US\$50 million. The table below presents the tentative financing plan by investment category. The figures quoted were estimated on the basis of the target of 23,000 solutions and in accordance with the calculations indicated in the paragraphs that follow.

COST AND FINANCING OF THE BARRIO IMPROVEMENT SUBPROGRAM (US\$000)				
Investment category	IDB	Local	Total	%
1.0 Engineering and administration	---	1,800	1,800	3.6
1.1 Engineering and architectural designs	---	150	150	
1.2 Administration and supervision	---	1,650	1,650	
2.0 Direct construction costs	16,335	29,934	46,269	92.5
3.0 Associated costs	---	700	700	1.4
3.1 Land	---	60	60	
3.2 Titling	---	590	590	
3.3 Technical assistance	---	50	50	
4.0 Financial costs	165	1,066	1,231	2.5
4.1 Interest IDB loan	---	932	932	
4.2 Credit fee	---	134	134	
4.3 Inspection and supervision	165	---	165	
TOTAL	16,500	33,500	50,000	100.0

a. Engineering and administration (US\$1,800,000)

2.35 This was calculated from the average costs obtained during execution of the third stage of the program (loan 577/OC), in accordance with the detailed breakdown that follows:

- (i) Engineering and architectural designs (US\$150,000). It was estimated that only 20% of the engineering studies for all projects (4,600 solutions), the same as in the third stage of the program, will be carried out through private firms, and that for the remaining 80% use will be made of municipal personnel. The average cost of the contracts signed with private firms worked out at an estimated US\$32.50 per solution.
- (ii) Administration and supervision (US\$1,650,000). This was calculated on the basis of the estimated expenses incurred by the municipalities in administering and supervising the projects, and the administrative expenses of the executing unit. It was estimated that the municipalities spend US\$10,000 a month for each project under execution and that the Regional Development and Administration Bureau (SUBDERE) incurs expenditures of some US\$12,000 a month.

b. Direct construction costs (US\$46,269,000)

2.36 These were calculated on the basis of an analysis of the costs of the earlier stages of the program. A unit cost of US\$1,848 per solution was estimated, including 10% for contingencies and cost escalation.

c. Associated costs (US\$700,000)

2.37 Based on experience with the program, these were estimated as follows:

- (i) Land (US\$60,000). Historical data show that land purchases have been made in only 1.5% of solutions to date, and that their cost averaged US\$155 per lot, including approximately 10% for possible price increases and contingencies.
- (ii) Titling (US\$590,000). It is estimated that the municipalities incur administrative expenses of US\$145 per project for issuing titles of ownership to beneficiaries, and US\$25 per solution in costs for recording the purchase contracts and registering them, among other things, with the Registrar of Deeds.
- (iii) Technical assistance (US\$50,000). This was calculated on the basis of the estimated expenses incurred by the municipalities in implementing the Technical Assistance Plan. This plan includes support material, extension drawings, self-help construction manuals for masonry and/or wood, and

explanatory pamphlets for the use and maintenance of sanitary core units. Its approximate cost is US\$44 per project for administration and US\$1.8 per solution for overheads.

d. Financial costs (US\$1,231,000)

2.38 These were estimated using the following parameters. However, it was assumed that the subprogram would be executed over two years, except for any resources transferred from the phased housing subprogram.

- (i) Amount of loan: US\$16.5 million
- (ii) Amortization period: 25 years
- (iii) Disbursement period: 5 years
- (iv) Term for physical start of construction: 4 years
- (v) Grace period: 5 years
- (vi) Interest: Variable in accordance with IDB policies
- (vii) Credit fee: 0.75% on undisbursed balances
- (viii) Inspection and supervision: 1% of the loan amount

E. Financing

1. IDB financing (US\$50,000,000)

2.39 The Bank's financing would total US\$50 million in foreign exchange from its ordinary capital. This would represent 33% of the total cost of the Bank program, which, as requested by the Government of Chile, is substantially lower than the limit provided for in document AB-1378 for the financing of projects in Group B countries, particularly those benefiting low-income groups (70%).

2. Local contribution (US\$100,000,000)

2.40 Local counterpart funds are estimated at US\$100 million, which would come from the national budget. Chile has not experienced difficulties lately in providing local counterpart funds to finance its projects and currently enjoys a fiscal surplus.

III. EXECUTION OF THE SUBPROGRAMS

A. Phased low-cost housing subprogram (Subprogram A)

1. Execution

- 3.1 The executing agency for the phased low-cost housing subprogram would be MINVU, acting through its Housing and Urban Development Bureau and using the functional structure of its regional offices (Secretarías Regionales Ministeriales - SEREMIs) and its regional operating authorities (Servicios Regionales de Vivienda y Urbanismo - SERVIUs).
- 3.2 The bureau will be supported by a technical secretariat to handle the subprogram, which will coordinate its management, ensure proper compliance with the Operating Regulations, coordinate the preparation of the progress reports on the subprogram, and advise the bureau, as the MINVU counterpart, on all dealings with the Bank. The secretariat must be established and operating with an adequate staff before the first disbursement (see proposed resolution, Special Condition 8(c)(i)(1)).

2. Programming and execution of investments

- 3.3 The annual programming of subprogram investments and the distribution of resources among the regions will be the responsibility of the headquarters divisions of MINVU. Distribution will be based on: (a) regional housing needs; (b) the potential demand for each of the ministry's program offerings as reflected in applications; (c) objectives of interregional equity in public spending; (d) spatial distribution of investments among municipalities; and (e) specific objectives related to natural disasters or regional development incentives.
- 3.4 The allocation of resources within the regions is the responsibility of the SEREMIs, in coordination with the regional government and the municipalities. In addition, the SEREMIs specify the works included in each call for bids in each municipality on the basis of the potential demand for each type of solution and the availability of land and urban services therein. They also schedule each call for bids so as to allow for proper execution of the subprogram.

3. Procedure for letting contracts for housing solutions

- 3.5 The contracts for the housing solutions under the subprogram will be handled by the SERVIUs through calls for bids regulated by uniform bidding conditions and technical specifications that, within the general framework defined by MINVU, allow adjustments to regional conditions and preferences, in full compliance with the relevant Bank policies.

- 3.6 Once the regional investment programs have been defined, the SERVIUs will decide on arrangements for inviting bids, observing the basic parameters established for the subprogram by MINVU and following one of the three procedures laid down in the subprogram's Operating Regulations (see Annex II), which can be summarized as follows: (a) the award is made to the technical and construction solution that offers the greatest built area based on identical cost and technical specifications (allows contracts for solutions with the greatest area); (b) the same as (a) above with respect to cost, but the award is made on the basis of the technical and construction solution that offers the best technical specifications for the same cost and built area (maximizes the quality of the solutions covered by the contracts); and (c) the size and technical specifications of the solution are defined and bids are evaluated on the basis of lowest price (maximizes the number of solutions that can be built with the funds available). On a trial basis, MINVU may use a small portion of program resources (15% taken from counterpart funds) to contract separately for the infrastructure of the housing units. The procedures to be followed in these bidding processes are defined in the subprogram's Operating Regulations.
- 3.7 Before calling for bids, the SEREMI is to survey the situation in the municipalities concerned with respect to basic urban health, education and recreation services and, to the extent possible, will organize the bidding in municipalities where these services are available. Should significant deficiencies be identified, the SEREMI will support the municipality concerned in its application for projects required to enlarge its endowment of such basic services.
- 3.8 The SEREMI will decide on the bid evaluation approach beforehand. MINVU will draw up criteria, acceptable to the Bank, for evaluating the different types of bidding procedures (see Recommendation 2).
- 3.9 The invitations to bid will require bidders to include the land in their bids. In cases where the SEREMI considers that no bidders will be forthcoming and that this is because potential bidders have no land available, MINVU may issue the call for bids contributing land owned by the SERVIU or the municipalities. For this purpose, and given the concern that government subsidies are not to exceed UF 140, MINVU must: (a) request the Bank's authorization to issue the call for bids with public land provided, indicating the reasons for its decision; and (b) lower the amount of the tender by the value of the land, calculated by one of the following methods: (i) the adjusted purchase price of the land (in UF) if it was bought by the SERVIU or the municipality in the 12 months preceding the call for bids; or (ii) the average value as determined in two appraisals performed by independent appraisers using a methodology acceptable to the Bank, in the event that the land was bought more than one year before the call for bids (see proposed resolution, Special Condition 8(c)(i)(4)).

- 3.10 Bidding will be open to contractors registered in MINVU's National Register of Contractors who meet the nationality requirements prescribed by the Bank and who have the required financial capacity based on the amount of each invitation. Contract awards will be made in accordance with the procedures and criteria laid down in the special bidding conditions and general technical specifications prepared for the subprogram by MINVU.

4. Bidding procedure

- 3.11 Invitations to bid will be international when their amount exceeds the equivalent of US\$1 million. Those for smaller amounts will require publicizing only within Chile. The invitation to bid will be the responsibility of the SERVIUs. The bidding process will comply in all respects with the provisions of the program's Operating Regulations (see Annex II), in compliance with the Bank's procurement policies.

5. Supervision and control of the works

- 3.12 The SERVIUs will be responsible for supervising the works, exercising physical, financial and accounting control of the projects carried out within their jurisdictions, maintaining individual control of each project, making progress payments, administering guarantees and bonds, checking and paying advances, and submitting accounts to MINVU. They will also report to it on the physical and financial progress of project execution.
- 3.13 To check on the proper execution of the projects under this subprogram, the SERVIUs should define their capacity to provide their own qualified staff for the technical inspection of the works, bearing in mind the parameters and standards agreed with the Bank by MINVU (see proposed resolution, Special Condition 8(c)(i)(3)). In the event that the SERVIU does not have the necessary staff available to carry out the technical inspection of the works, it is to issue public invitations to hire specialized firms to perform such tasks in accordance with terms of reference to be appended to the subprogram's Operating Regulations.
- 3.14 In addition, the SERVIUs should take delivery of the works at both the provisional and the final acceptance stage and effect settlement of the contracts, in accordance with the terms of the bidding conditions and of S.D. 29 and amendments thereto.
- 3.15 It will be the responsibility of MINVU to administer the National Register of Applicants for Subprogram A. However, administration of the register in each region will be the task of the SERVIUs, which would also be responsible for selecting the beneficiaries to whom the housing solutions are to be offered.

B. Barrio improvement subprogram (Subprogram B)

1. Execution

- 3.16 The executing agency for the barrio improvement subprogram will be MINTER, through the Investment Department of its Regional Development Division (DIDER). In this capacity, DIDER plans, coordinates and supervises the technical and financial conduct of the subprogram; defines the implementation stages; informs the Bank periodically of progress by means of regional reports consolidated at the national level; and acts as representative to the Bank.
- 3.17 The municipalities will act as direct executing agencies for subprogram projects within their jurisdictions and perform technical, financial and administrative functions as required.
- 3.18 The municipalities will be responsible for awarding the contracts for the execution of projects and, subject to authorization by DIDER, for signing contracts for the procurement of goods and services. They will also be required to pay advances to contractors, make payments, take delivery of works and services at the provisional and final acceptance stages, settle contracts, exercise technical and accounting control of the investments made for the purpose of project implementation, and supervise and follow up on their execution. As technical units, they will issue calls for bids and screen and evaluate the bids.
- 3.19 In the event that a municipality does not have the capacity to perform the technical inspection of the works, it must inform MINTER so that the two parties can together arrange appropriate remedial measures.
- 3.20 After obtaining the financial resources under the subprogram, MINTER will take steps to inform the municipalities that they are available and will indicate the general conditions to be met by projects to be eligible for financing by these funds. The municipality is to perform a study to identify sanitation deficits and the need to carry out one or more barrio improvement projects as part of the municipal development plan. Based on analyses of the projects identified, it will select the most suitable project(s) and submit them for consideration to the regional government with a view to obtaining approval from the Regional Council, together with guidance as to their order of priority for execution. Within the country's established institutional investment planning framework (Integrated Project Bank or BIP), the regional government will prioritize the projects and send them on to DIDER for technical and socioeconomic evaluation.

2. Bidding

- 3.21 The municipalities will send DIDER all the information required for scheduling the call for bids, that is, the special administrative conditions, reports, technical specifications, cost estimates and

drawings of the different structures to be built. The engineering designs for the projects will be submitted to DIDER with the approval of the utility or other services concerned.

- 3.22 Following approval by DIDER, the municipalities, in accordance with the timetable of activities, are to issue the public calls for bids for the procurement of project goods and services, in conformity with the Bidding Regulations. Upon receipt of the bids, they will proceed to award the contracts subject to authorization by DIDER and the Bank, if applicable.

3. Monitoring of the works

- 3.23 The municipalities will provide DIDER with the periodic information needed to keep track of the physical progress of the projects and the status of expenditures incurred for their execution. They will also submit to DIDER all vouchers documenting such expenditures.
- 3.24 The technical units of the municipalities will take both provisional and final acceptance of the works, in accordance with the terms of the general administrative conditions and the Building Code.
- 3.25 The municipalities will pledge to DIDER that, before initiating execution of the works, meetings will be organized with the beneficiaries to explain key aspects of the project and that, when the sanitation solutions are transferred or, where applicable, the land ownership titles are delivered, beneficiaries will be provided with a pamphlet explaining the use of the infrastructure and the standard drawings for improving their houses and possible extensions.
- 3.26 The municipality will make available a technical assistance service, either directly or by agreement with another agency, in order, if the beneficiary so requests, to provide advice on procedures for obtaining municipal permits and on-site technical assistance during the construction process, and to handle any queries beneficiaries may have.

C. Operating Regulations of the program

- 3.27 With a view to execution of the phased low-cost housing subprogram, the analysis mission held detailed discussions on the Operating Regulations appended as Annex II. MINVU is not expected to experience difficulties in putting them into operation before financing of the prospective loan. For execution of the barrio improvement subprogram, use will be made of the same Operating Regulations as for the earlier program (557/OC-CH), updated to take account of experience in executing the three previous operations (see Annex III). MINTER is not expected to have any difficulty in putting them into operation before the first disbursement of the prospective Bank loan (see proposed resolution, Special Conditions 8(c)(1)(2) and 8(c)(11)).

D. Operation and maintenance

- 3.28 Once the urban infrastructure works of the projects have been completed, the corresponding public services are to be provided by the existing public or private agencies in the municipalities responsible for delivering them. In pursuance of current legal provisions, these agencies will accept the finished works and will take over their operation and maintenance (see Recommendation 5). The Bank has not had problems with the operation and maintenance of infrastructure investments in Chile.

E. Advance of funds

- 3.29 Execution of the program will call for several component projects to be carried out simultaneously by different municipalities (Subprogram A) in each of the bidding processes that are organized. This will require the executing agencies to deposit in the SERVIUS and in the municipalities sufficient funds to cover the required payments. In order to facilitate execution of projects under the program and to back up the country's efforts to allocate the necessary resources, it is recommended that the Bank, in accordance with its policies, authorize advances of funds to executing agencies to cover expenditures they are to incur within a period of 120 days from receipt of the advance and up to an amount not to exceed 20% of the amount financed for each of the subprograms (see Recommendation 3).

F. Financial administration

- 3.30 Receipts and expenditures of the program would be administered through two public sector budget accounts in the revenue and expenditure budgets of MINVU and MINTER, respectively. Each year the Congress would approve, in the Budget Law, the allocations authorized for the two subprograms and the ceiling on external financing for the fiscal year. Once the law has been approved and promulgated, the Budget Directorate of the Ministry of Finance would be authorized to make the transfers in accordance with the rules and directives of the law.
- 3.31 Preparation of the outline budgets to be submitted to the Budget Directorate of the Ministry of Finance each year, as inputs to construction of the public sector budget, would be the responsibility of MINVU and MINTER. The executing agencies would incorporate the funds in their budgets and keep separate accounts using two charts of accounts approved by the Bank. The administrative services of each entity would be responsible for administering and utilizing the resources and rendering accounts to the Bank.

G. Recognition of expenditures and retroactive financing

- 3.32 The borrower has asked the Bank to recognize expenditures incurred and anticipated up to consideration of the proposed loan by the Board of Executive Directors. The project team has reviewed the

amounts committed and the regulations and procedures governing the use of these funds and has found them appropriate.

- 3.33 On the strength of this documentation, the project team considers that the Bank could recognize up to US\$10 million against the local contribution, corresponding to expenditures of US\$3.35 million and US\$6.65 million by MINTER and MINVU, respectively, in respect of engineering and administration, direct construction costs, and associated costs incurred during a period of 18 months prior to the resolution (Recommendation 7), as well as retroactive financing of US\$1.65 million and US\$3.35 million, respectively, for direct construction costs incurred within a period of 12 months prior to adoption of the resolution (Special Condition 8(d)).

H. Accounting and auditing

- 3.34 The charts of accounts would comprise those of MINVU and MINTER. The executing agencies will keep separate accounts by subprogram. The accounts and financial statements of the subprograms would be prepared by MINVU and MINTER and, after auditing, submitted to the Bank each year. Auditing would be performed by the Office of the Comptroller General of the Republic in accordance with the procedures and rules of existing Chilean legislation for such cases (see Recommendation 8).

I. Execution period and timetable of investments. Physical initiation of the projects

- 3.35 The proposed program would be carried out over five years, and the physical initiation of works would be spread over four years. During execution, loan resources could be transferred between the subprograms according to their implementation needs. Since there may be problems with availability of land for Subprogram A, some flexibility has been built into the program for such funding transfers between the two subprograms. The transfers would be effected in accordance with the Bank's operational policies.
- 3.36 The following tentative investment schedules, stated in thousands of U.S. dollars, have been drawn up on the basis of the execution plans of each subprogram.

SCHEDULE OF INVESTMENT APPROVALS, PHASED LOW-COST HOUSING SUBPROGRAM					
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
IDB	5,025	11,725	11,725	5,025	33,500
LOCAL	9,975	23,275	23,275	9,975	66,500
TOTALS	15,000	35,000	35,000	15,000	100,000
%	15.0	35.0	35.0	15.0	100.0

SCHEDULE OF INVESTMENT APPROVALS, BARRIO IMPROVEMENT SUBPROGRAM			
	YEAR 1	YEAR 2	TOTALS
IDB	8,250	8,250	16,500
LOCAL	16,750	16,750	33,500
TOTALS	25,000	25,000	50,000
%	50.0	50.0	100.0

J. Recognition of the value-added tax (VAT)

- 3.37 As far as recognition of VAT is concerned, Bank policy OA-503 provides that this tax may be computed as part of the total cost of projects (against the local contribution) in three cases, one of which is defined as fulfillment of the following conditions: (a) that the executing agency is neither exempt from payment of the tax nor entitled to seek such exemption; and (b) that the executing agency is a municipality or other public sector entity independent of the central government and is a juridical person with its own assets, provided that, at the time of project appraisal, it is neither in receipt of subsidies or grants from the central government nor expected to receive them during the period of execution of the project.
- 3.38 In the case of the barrio improvement subprogram, cost calculations in the two earlier stages included VAT, which, under the provisions of a special law, is levied at only 35% of the going rate, that is, at 6.3% instead of 18%. This was done on the grounds that the direct executing agencies were municipalities and that in the respective project reports it was stated that the central government's contribution to the municipalities made up 4% of their resources in 1983 and only 1% in 1986, as a consequence of the government's attempts to make the municipalities self-financing through a policy of administrative decentralization. A review of budgets since 1986 reveals that the item "Capital Transfers to Municipalities" was dropped with effect from 1992, thereby fully satisfying the condition that allows VAT paid to contractors to be treated as a project cost.

K. Inspection and supervision by the IDB

- 3.39 The Bank's Country Office in Chile will be responsible for program inspection and supervision on the Bank's part.

L. Ex post evaluation

- 3.40 It was agreed by the project team with the Chilean authorities that there would be no ex post evaluation requirement in the contract. In the case of the barrio improvement subprogram, the Bank has extensive experience in its evaluation of the three previous stages, and in the case of the phased housing subprogram, MINVU

intends to monitor this component very closely and perform assessments on an ongoing basis, so as to be able to better serve beneficiaries in the future.

IV. THE BORROWER AND THE EXECUTING AGENCIES

A. The borrower

- 4.1 The borrower would be the Republic of Chile, which would service the debt.

B. Executing institutions and program participants

- 4.2 Chile's housing and urban development policy is carried through under the institutional framework of the National Public Investment System (SNI). The Ministry of Planning and Coordination (MIDEPLAN) regulates and administers the system, which governs all public sector services, agencies, and corporations that make capital investments. The government's activities in this sphere are decentralized to the regions, with a functional organization, in which a large number of agencies work together.
- 4.3 The Ministry of Finance would contribute the national counterpart funding needed for the phased housing and barrio improvement subprograms. Its general mandate includes administering State finances, drawing up government budgets, managing the public debt, playing a part in international financial accords and treaties, and coordinating the work done in the financial sphere by the various ministries and their reporting agencies.
- 4.4 The Ministry of Housing and Urban Development (MINVU) would be the executing agency for the phased housing subprogram, working through its divisions at headquarters, its regional offices (SEREMIs), which would develop regional subprograms, and its regional operating authorities (SERVIUs), which would implement the subprogram projects. A technical secretary, attached to the ministry's Housing and Urban Development Bureau, would be appointed to oversee coordination of the subprogram activities with the Bank.
- 4.5 The Ministry of the Interior (MINTER) would be the executing agency for the barrio improvement subprogram, acting through its Regional Development and Administration Bureau (SUBDERE) and the regional, provincial, and municipal governments. National coordination, administration, and supervision of the subprogram would be the responsibility of the Regional Development Division (DIDER) of SUBDERE.
- 4.6 The technical and financial aspects of the program would be audited by the Office of the Comptroller General of the Republic, a constitutional body charged with ensuring the validity of acts of the administration and the auditing of government revenues and expenditures.

1. Phased low-cost housing subprogram

a. Structure and functions of MINVU

- 4.7 MINVU was created in 1965, and took on its present structure in 1976 by virtue of Decree-Law 1305, which merged the Housing Corporation, Urban Renewal Corporation, Housing Services Corporation, and Urban Works Corporation into a single MINVU operating authority in each region (the SERVIUs). The 13 SEREMIs (regional MINVU offices) were established at that time as well. The organization mode used is a decentralized one, both from the geographical standpoint (with ministry officers in each region) and the functional standpoint (regional decision-making authority). MINVU and its reporting agencies have long experience and expertise in running programs involving housing, city street systems and paving, and city plant and facilities, and in managing urban planning and housing schemes.
- 4.8 MINVU has a staff of 513 at headquarters, whose principal duties are to: (i) develop and oversee implementation of national policies, plans, and programs in the area of housing, urban development, and city plant and facilities, and produce rules and standards in this area; (ii) promote housing construction by encouraging savings and lending initiatives; and (iii) coordinate housing activities in the public and private sectors to ensure that the resources allocated for this purpose in the country are put to the best possible use.
- 4.9 Operations in the housing sector are coordinated by MINVU through its Housing and Urban Development Bureau, which consists of the Housing Policy Division, Urban Development Division, Technical Studies and Housing Promotion Division, Legal Division, Finance Division, Administration Division, and Information Resources Division, along with a Communications Department and Audit Department.
- 4.10 The Housing Policy Division puts forward and helps develop housing policies, participates in drawing up housing investment plans and programs and in putting together programs with external financing, assesses progress and performance in ongoing programs, proposes and develops general systems and procedures for calls for bids and awarding of works contracts, pursues various housing subsidy schemes, and proposes amendments to legislation.
- 4.11 The Urban Development Division puts forward proposals for national urban development policies, devises and oversees implementation of plans and programs for urban development and plant, sanitation infrastructure, city streets and paving, in the areas which fall under its purview, assesses city planning tools, and conducts technical studies for the drafting and updating of legislation regulating subdivision of urban land, installation of public utilities, and land use.

- 4.12 The Finance Division, in concert with MINVU's other divisions, coordinates housing finance activities, and draws up, coordinates, and oversees execution of the ministry's budget. It establishes and publicizes rules and instructions pertaining to the accounting and budget systems of the housing sector, pursuant to directives of the Ministry of Finance and the Office of the Comptroller General, and puts the sector's mortgage loan portfolio into operation and coordinates and oversees activity in that area. The External Finance Coordination Unit in this division oversees accounting and financial matters related to all external loans and grants received by MINVU, produces reports, and arranges with the Central Bank for transfers of funds from the aforesaid loans.
- 4.13 The Technical Studies and Housing Promotion Division conducts studies on national and regional technical and administrative requirements for designs, estimates, construction, standards and other areas pertaining to building and plant and facilities in urban areas.
- 4.14 The Information Resources Division designs, implements, manages, and maintains MINVU's computer-assisted information systems and those of its reporting units. Working with the Housing Policy Division and the SERVIUs, it organizes and administers the ministry's national contractors registry and coordinates activity in this connection across the country.
- 4.15 The primary function of the Internal Audit Department is to check the ministry's operations to ensure that they are accurate, reliable, and timely, and that all pertinent rules and requirements are observed, so as to safeguard the assets of the nation. The Chief of the Internal Audit Department reports to the Director of the Housing and Urban Development Bureau.
- 4.16 The technical secretary to be appointed by MINVU for this subprogram would work directly with the Housing and Urban Development Bureau. The secretary's duties will be to coordinate the subprogram generally; ensure that targets are met and that the Operating Regulations are observed; produce on schedule the progress reports required for the subprogram, and advise the bureau as MINVU's representative for dealings with the Bank.
- 4.17 It was concluded from the institutional analysis that MINVU's structure is adequate for the effective and efficient completion of the work it is to perform for this subprogram. It has a fair amount of experience in carrying out phased low-cost housing programs, and considerable experience in other ventures like the basic housing program, some of which entailed financing from international organizations.

b. Structure and functions of the SEREMIs

- 4.18 MINVU has 13 regional offices, one for each of the country's regions. These units work directly with the regional governments

on housing, urban development, and community plant and facilities, to examine urban growth potential, assess existing sanitation infrastructure, and so on. Each office is headed up by a director, who represents the Minister of Housing in the region in question.

- 4.19 Within each SEREMI are units dealing with housing plans and programs, urban development and infrastructure, legal affairs, public information, and administrative support. The total staff complement in the regional offices is 353.

c. Structure and functions of the SERVIUs

- 4.20 The regional authorities that implement MINVU policy and plans and operate its programs, the SERVIUs, were established by Decree-Law 1305 of February 19, 1976, as autonomous State public-law entities of indefinite duration which are linked with the government via MINVU. They have legal personality and their own assets. There are SERVIUs in each of the country's 13 regions, with a total staff of 2,507.
- 4.21 The organization of the SERVIUs differs from one part of the country to another, but as a general rule each office has: (i) a director with executive and decision-making powers to perform the SERVIU's functions; (ii) a technical unit to oversee and inspect works for the subprogram described herein; (iii) a housing operations unit, which handles applications for and allotment of SERVIU housing facilities and subsidies; (iv) a finance unit that handles the office's finances (and would submit this subprogram's accounts to MINVU); (v) a legal unit; (vi) a programming unit which oversees and assesses SERVIU policies and guidelines, tracks progress on works projects from a physical and financial standpoint, and keeps current information on projects; and (vii) an administration unit.
- 4.22 The SERVIUs have the capabilities needed to carry out the activities that would fall to them under this subprogram.

2. Barrio improvement subprogram

a. General considerations

- 4.23 This is the fourth stage of the low-income barrio improvement initiative for which the Bank has been supplying funding (loan 115/IC for stage I, loan 223/IC for stage II, and loan 577/OC for stage III). In this phase, operations would continue to be decentralized to the municipalities, which would identify and develop the projects, as owners of the works and the bodies in charge of allotting housing and site-servicing solutions, and would offer the beneficiaries the technical assistance they need to use those facilities properly and eventually upgrade or expand them.

b. Structure and functions of MINTER

- 4.24 The Ministry of the Interior (MINTER) is the government department charged with piloting and administering the nation's internal affairs. Under a decentralized organization structure it runs the social programs falling under its jurisdiction through the regional governments and municipalities. It also coordinates, under the social resource assignment scheme known as the "social stratification system", the allocation of government social-program funding and subsidies to the poorest population groups.
- 4.25 MINTER has nationwide jurisdiction, and its subdivision into headquarters and regional offices corresponds to the political and administrative divisions of the country. It has 335 staff members at headquarters, 54% of whom hold executive, professional, and technical positions.
- 4.26 In the regions, MINTER is represented by 13 regional and 50 provincial governments. In charge of each region is a regional governor (*intendente*), who with the support of the Regional Council for that area formulates the region's development policy in conformity with national plans, and coordinates and oversees public services in the region. Each province in a region is headed by a provincial governor, who reports to the regional governor. The role of the provincial governments is to promote development plans and programs and oversee public services in the province. By law, MINTER's operations are required to be audited by the Office of the Comptroller General.
- 4.27 MINTER's current organization structure dates from 1984, when it was provided under Law 18,359 that its operations would be channeled through its Regional Development and Administration Bureau and the Bureau of the Interior.
- 4.28 The Bureau of the Interior advises the ministry in matters relating to the internal direction and administration of the State in the areas of: (i) application of internal policies to preserve order, peace, and public safety; (ii) official authorization of community organizations; (iii) enforcement of policies governing migration and non-nationals; and (iv) such other functions as may be entrusted to it by law or by the Director of the Interior.
- 4.29 The Economic Division of the Bureau of the Interior has technical responsibility for the financial management of MINTER. Its accounting systems identify current and capital expenditures nationally and by region. Because its data are computerized at headquarters and in most municipalities in the regions, the ministry's accounting can be done quickly and statements can be produced as needed.
- 4.30 Internal control within the ministry is the responsibility of its Internal Audit Unit, which is part of the bureau's Controller's Department. The primary function of this unit is to inspect or

audit the various agencies and sectors, including regional and provincial government operations.

- 4.31 The chief functions of MINTER's Regional Development and Administration Bureau are as follows: (i) implement plans for administrative modernization and reform at the regional, provincial, and local level; (ii) coordinate development programs; (iii) verify compliance with laws, regulations, and technical standards, and directives governing civil administration of the State in the areas of regional development, modernization, and administrative reform; (iv) assess and oversee municipal operations, including direct administration of services handed over to the municipalities; and (v) design, formulate, and oversee directives pertaining to municipal budgets, including allocation of resources of the Shared Municipal Fund.
- 4.32 Within the bureau are the director's office; the Administrative Modernization Division, which develops policies for modernizing the State apparatus; the Regional Development Division (DIDER), which provides support for decentralized regional development and administers, at the national level, regional and local infrastructure investment programs (the Chilean Regional Development Fund or FNDR, the barrio improvement program, and the urban renewal and community infrastructure program), and the Community Development Division (DIDESCO), which offers help to local (municipal) governments in the areas of administration and finance.
- 4.33 The Regional Development Division is divided into a Regional Development Department and an Investment Department; the latter will be the executing unit for the subprogram. The Regional Development Department explores means of bolstering the decentralization process as well as the country's political and administrative limits. The Investment Department administers the FNDR, the barrio improvement program, and the urban renewal and community infrastructure program, consolidates data nationally so the progress of these programs can be tracked, and coordinates work plans with the Bank for the operation of the barrio improvement program and the local development multiple investment program associated with the FNDR.
- 4.34 In light of the Bank's satisfactory experience with MINTER in the implementation of previous stages of the barrio improvement program, and the findings of the institutional analysis, MINTER is judged to have the structure needed to execute the subprogram under consideration here effectively and efficiently.

c. The regional governments

- 4.35 By virtue of the Regional Administration Act (Law 19,175) on the government and administration of the regions, the supreme administrative authority of each region is a regional government, which is to seek the region's social, cultural, and economic advancement. At the head of each regional government is a governor (*intendente*), who represents the President of the Republic in the region.

Regions are divided into provinces, each of which also has a government, decentralized geographically from the regional government, and headed by a provincial governor. Both regional and provincial governors are appointed by the President of the Republic.

d. The municipalities

- 4.36 The provinces are divided into municipalities, which pursuant to the Municipalities Act (Law 18,695 of March 31, 1988) are autonomous public-law corporations with legal personality and their own assets. They are charged with administering municipal affairs to meet the needs of the local community and ensure that its residents are full partners in economic, social, and cultural progress.
- 4.37 The municipal government structure comprises the mayor, who as its supreme authority directs and oversees government operations, and the Town Council, whose members are elected directly by local residents. The council has regulatory, decision-making, and oversight powers, and its mandate includes the community participation requirements set out in the law mentioned in the previous paragraph.
- 4.38 Specific functions of the municipalities are as follows: (a) administration and enforcement of local transportation and public transit laws and regulations; (b) administration and enforcement of construction and site-servicing codes; and (c) city planning and land-use regulation, cleaning and refuse collection, landscaping and beautification, and community development.
- 4.39 The municipalities, directly or in concert with other government agencies, may also work on initiatives in the areas of public health and welfare, environmental protection, education and culture, sports and recreation, transportation and public transit, city and rural roads, public utilities projects, construction of low-cost housing, and emergency sanitation infrastructure, and any other activity of interest to the community.
- 4.40 The municipalities set up their own organizational configuration depending on their specific needs and characteristics. Most include the office of the town clerk and departments or units dealing with planning and coordination, municipal works, sanitation and landscaping, administration and finance, transportation and public transit, legal affairs, and internal audit.
- 4.41 Each municipality also has a city administrator whose tasks include coordinating all municipal units and services, on instructions from the mayor's office, and performing such other duties as the mayor may delegate. The administrator also is charged with oversight of the development and technical implementation of municipal policies, plans, and programs.
- 4.42 With this organizational structure, the municipalities encountered no problems in discharging their project-related responsibilities in the first three stages of the barrio improvement program.

C. Financial analysis

1. MINVU

4.43 The following table shows MINVU budget performance from 1988 to 1992, and the ministry's 1993 budget.

MINVU ANNUAL BUDGET PERFORMANCE, 1988-1993 (in millions of dollars)						
	1988	1989	1990	1991	1992	1993*
REVENUES	370.2	365.2	385.1	447.8	497.0	546.0
Direct **	85.8	106.8	80.0	70.8	70.8	76.9
Borrowings	20.5	87.9	89.9	92.7	42.7	30.9
IDB	1.2	0.3	4.7	3.0	3.0	9.8
IBRD	19.3	87.6	85.2	89.7	39.7	21.1
Treasury	262.3	167.7	213.4	277.5	376.2	430.2
Other	1.6	2.8	1.8	6.8	7.3	8.0
EXPENSES	367.0	362.8	376.7	447.8	497.0	546.0
Current	34.7	36.9	34.9	37.8	52.5	47.2
Personnel	23.5	23.9	22.1	23.2	26.3	20.8
Other	11.2	13.1	12.8	14.6	26.2	26.4
Capital	259.7	276.6	281.1	343.1	369.1	425.1
Housing	79.3	78.8	85.2	159.7	153.6	189.2
Subsidies	139.8	151.4	130.3	118.8	138.4	129.3
Other	40.5	46.3	65.6	64.6	77.0	106.6
Financing	39.5	13.3	18.8	16.4	19.4	23.1
Debt service	30.7	35.3	41.1	49.4	46.1	49.4
Other	2.5	0.7	0.8	1.1	10.0	1.1
Surplus (deficit)	3.1	2.4	8.4	0.0	0.0	0.0
* Budgeted						
** Includes investment income, loan interest, proceeds of asset sales, transfers, etc.						

4.44 MINVU's capital outlays in 1992 were US\$369 million; the average from 1988 through 1992 was US\$306 million. US\$425 million is budgeted for 1993 (39% higher than the 1988-1992 average). In the period under review, housing outlays and subsidies accounted for 74%, on average, of total ministry expenditure. The fact that they will represent 78% of the 1993 expenditure budget demonstrates that the ministry is committing more funds to capital expenditure.

4.45 The government has been able to increase capital spending thanks to climbing tax revenues in the wake of the tax reform approved by Congress in 1990. This has been particularly evident since 1991 in the social sectors, such as housing. Contributions in this area have grown considerably over the past three years: the figure budgeted for 1993 is 55% higher than its 1991 counterpart.

- 4.50 The bureau's current expenditure from 1988 through 1992 accounted for a mere 1.3% of total expenditure; in other words, 98.7% of its funds were used to finance investment programs. The US\$2.3 million budgeted for 1993 is comparable to outlays in recent years.
- 4.51 Capital expenditure in the period under review averaged US\$174 million annually. The 1993 estimate is US\$198 million, of which US\$42 million will be allocated to the barrio improvement subprogram. An average of US\$46 million was spent each year on such investments from 1988 to 1992.
- 4.52 MINTER programs are a priority for the Chilean government, and the ministry's investment spending has remained virtually unchanged for five years. The subprogram under consideration here would entail US\$25 million in expenditures annually (54% of actual outlays in the past five years). For these reasons, and in light of the Bank's very positive experience with the same executing agency in the three previous stages of the subprogram, it is anticipated that MINTER will be able to supply the local counterpart funds on schedule and have the works projects completed as planned.

V. JUSTIFICATION FOR THE PROGRAM

A. Technical viability of the phased low-cost housing subprogram

1. Housing solutions

a. Focus of the subprogram

- 5.1 The phased low-cost housing program (PVP) has been designed to provide a form of housing for very low-income families who are in dire need of shelter, which will take into account: (a) the families' ability to pay and to consolidate their housing unit, and (b) the limited government funding available to subsidize more complete housing facilities. The government has elected to add the PVP to its public housing programs rather than expand the Basic Housing Program because the target population cannot meet the financing terms and conditions of the basic housing scheme. The PVP broadens the range of options open to low-income families who require adequate housing.
- 5.2 With its various approaches to housing assistance, the program can take into account the preferences of the low-income population situated between the third and fifth income deciles, and their ability to save. Families who have funds in term home savings accounts can apply individually to the subprogram via the SERVIU module; those who have saved and purchased land can apply as a group to the program, in which case the PVP will fund site servicing and consolidation of the housing unit on the lot. The group approach can also attend to the needs of organized communities who wish to maintain their identity in the final housing solution devised.
- b. Assistance to the target population to resolve its housing problems
- 5.3 Families starting with the third income decile will be eligible for housing assistance under the PVP. Accordingly, this subprogram can help resolve the housing problems of a large percentage of families now living under the roof of others (270,000 family groups, according to 1988 estimates). While the 27,000 housing solutions to be built under the PVP are only a start, because the housing problems of this sector of the population are considerable and the funds programmed are limited, they will clearly ease the pressure being brought to bear on the State to provide adequate shelter for this sector of the population. The PVP will help provide core housing for very low-income groups that can be expanded in time to ultimately catch up with the backlog of housing needs and meet the yearly demand for housing solutions of this nature.

c. Impact on women

- 5.4 Assistance under the subprogram will be equally available, without distinction, to women heads of household and two-parent families. In providing safe, sound shelter with running water, sewerage, and electricity, the PVP will improve the quality of life of families and therefore of women heads of household, whose work in the home will be facilitated.

d. Subsequent consolidation of housing units

- 5.5 In the first years following acquisition of first-stage housing units, the beneficiaries generally focus on enlarging the unit, and leave other types of improvements until later. Case studies of phased housing units show that in a relatively short space of time their standards of living area per capita are comparable with, and at times superior to, those of finished homes made available under government programs. In terms of construction quality, however, State-financed "final" housing units achieve adequate quality standards more quickly than those made available under phased housing schemes.
- 5.6 The housing solution being proposed assumes that beneficiaries will be capable of putting together a complete home in the space of about five years. To this end, the PVP envisages a second stage of support (not financed by the Bank) in which beneficiaries will be expected to contribute UF 30 (US\$720) to receive a subsidy of UF 18 (US\$440). Funding for this additional subsidy is programmed in the PVP allocation in MINVU's budget. According to information provided by construction companies that took part in the first calls for bids under the PVP, these funds would be sufficient to add at least 22 square meters to the first-stage housing units, thereby achieving the PVP's goal of having this population provided with housing, over time, that would be equivalent to basic housing.

2. Impact of the projects in cities (availability of land)

- 5.7 The viability of phased housing sites-and-services projects is very sensitive to the availability of land that can be serviced at low cost. Arrangements for execution of the subprogram require bidders to include land owned by them in their offer prices. The success of this contracting strategy thus will hinge upon the contractors' ability to obtain serviceable lots at costs that are in line with those of the subprogram.
- 5.8 The availability of land varies considerably from one locality to another. It depends, among other factors, on the particular features of areas of urban spread, the infrastructure available for installing essential public services, the concentration of land ownership, and land use laws and regulations. These elements could affect the contractors' ability to respond to calls for bids that require that land be included in the offers, and there is therefore a risk that land may not be available to build projects in some

localities. The risk is particularly high in the Santiago Metropolitan Area and, to a lesser degree, in the cities of Valparaíso and Concepción.

- 5.9 Under the terms of the subprogram, in areas where the private sector is not expected to have land available, MINVU will be able, when calling for tenders, to offer land to the bidders, in the form of lots owned by the ministry itself or by the municipality, and subtract the market value of the lots from the cost of the project. In this way MINVU can get around the constraint of a contractor not having access to land but at the same time ensure that the contribution of that land will not constitute a hidden subsidy over and above the subsidy received by beneficiaries from the financing provided for their housing solutions.
- 5.10 To sum up, it is possible that the availability of land will influence the geographical distribution of the housing solutions financed under the subprogram, which may not match MINVU's plan. However, it poses no risk as far as the use of all of the funding is concerned, because regions in which there appear to be no land constraints have housing needs far in excess of the physical targets of the subprogram. Furthermore, there would be flexibility to transfer funds from Subprogram A to Subprogram B.

3. Environmental impact of building and site-servicing projects

- 5.11 The PVP will improve the environmental conditions in which the target population lives, by giving them household water connections and sewage disposal facilities. There will be better provision for solid household waste disposal, and streets will be paved in metropolitan Santiago, which will keep dust levels down.
- 5.12 The Environmental Management Committee (CMA) classified this as a Category III project, pursuant to the Bank's procedures for assessing and rating the environmental impact of its operations. To alleviate any possible negative effects, the CMA recommended to the project team that during preparation of the operation, technical environmental eligibility criteria be devised for investment projects to be funded under the subprogram, in order to ensure that none that might have an unacceptable impact on the environment would be accepted.
- 5.13 Chile's body of laws, regulations, and codes regulating the subdivision of land, building, and public utilities installation provide for the prevention or mitigation of damage to the physical environment. These provisions are deemed to adequately address the areas of concern to the CMA. Building codes cover the eventuality of natural disasters that could befall the beneficiaries (earthquakes), as do community master plans. Social impacts of the projects can be alleviated through municipal action and MINVU outlays.

4. Contracting of projects

a. Calls for bids completed

- 5.14 MINVU has issued four national calls for tenders for phased housing projects, and has awarded contracts for a total of 18,400 units of the 30,300 planned. The analysis mission reviewed the outcome of these calls for bids as a representative sample of the projects to be funded by the subprogram. In the first two tender calls, the ceiling cost per "housing solution" was UF 120. When the ministry found that it was unable to contract out all of the planned projects, it raised the ceiling to UF 140. In 1993 MINVU expects to consolidate its achievements under the second 1992 call for bids in which all of the units planned were contracted out. If this objective is not attained, commitment of the subprogram funds would take longer than scheduled. The term for physical initiation of works is four years, to accommodate possible contracting delays.
- 5.15 It is evident from the regional breakdown of the phased housing contracts awarded under the calls for bids examined that MINVU is finding it difficult to achieve its contract targets in regions that are home to metropolitan areas. This bears out the prediction that the bulk of the housing solutions financed under the subprogram would likely be contracted out in regions containing predominantly medium-sized and small towns.

b. Quality of the housing solutions contracted out

- 5.16 The analysis of projects put out to tender shows that, on average, the bids matched the official price of UF 140 per solution (except in the far south), and that the product quality and size were superior to the specifications (16.8 square meters construction per solution, on average). According to the analysis of solutions put in place by the successful bidders, the proposals differed widely, but all offered more than the standard minimum required, adding walls, pavement, doors, or extra finishings for the basic sanitary core.

c. Supply of serviced land

- 5.17 On average, 68% of the housing projects awarded were on SERVIU or municipally-owned lots. Bidders supplied land for 31% of the projects, and applicants only 1%. The share of projects built on land provided by bidders declined from 36% in 1991 to 27% in 1992. This points up the trend toward MINVU's active participation in supplying land for the subprogram.
- 5.18 Bidders have included land in their offers for phased housing projects in eight of the country's 13 regions. Their participation is most in evidence, and most constant, in Region IX, with 35% bidder-supplied land for such projects. In the Metropolitan Region, 23% of housing solutions are built on private land, but since that region did not let any phased-housing contracts in 1992, it is

unlikely to account for any significant share of the program in terms of supplying privately owned building lots.

d. Tendering and contract award procedures

- 5.19 According to the analysis conducted of tendering and contracting procedures, MINVU has the capacity to carry out the operation in accordance with the procedures agreed upon.

5. Risks and safeguards

- 5.20 The main factor that could hamper the execution of works is the potential lack of serviced private lots at a cost that would be in line with the housing solutions envisaged in the subprogram. Accordingly, provision would be made, for regions in which little private land was offered as part of bidders' proposals, for MINVU to call for tenders on SERVIU or municipally owned land. Adequate safeguards have been adopted to ensure that the value placed on such land will approximate as closely as possible its market value.

B. Technical viability of the barrio improvement subprogram

1. The proposed approach

- 5.21 Thirty-four projects representing nearly 6,800 site-servicing solutions were examined.
- 5.22 The site-servicing approach proposed in this subprogram would meet the needs of groups now living in unacceptable sanitary conditions. It would focus on supplying households with safe water, waste disposal, and electricity service and improving sanitary conditions, and would therefore have a considerable impact on the quality of life in the city areas benefiting from the subprogram.
- 5.23 The subprogram has been designed with enough flexibility to address the problems of barrios with phased housing units at different stages of consolidation. Municipalities thus can put together projects that answer specific needs of their communities, thereby saving money and ensuring community involvement in the projects. The operational advantages of such flexibility, and the efficiency of DIDER's work, are evident from the previous stages of the program.

2. Focus of the subprogram

- 5.24 The MIDEPLAN Social Report for 1987-1989 states that the beneficiaries of most (66%) of the funds spent for the earlier stages of the program are families in the bottom two income quintiles. This was the result of having rigorously applied the barrio selection rules, which require that at least 80% of the prospective beneficiary families be living in extreme poverty. This subprogram is one of the government's most directly targeted efforts to alleviate extreme poverty.

3. Assistance in improving sanitation conditions

- 5.25 The 23,000 projects to be contracted out under this program will help meet 23% of the estimated total need (100,000 families lacking adequate basic sanitation facilities).

4. Impact on women

- 5.26 Assistance under Subprogram B will be equally available, without distinction, to women heads of household and two-parent families. The subprogram will improve the quality of life of families and therefore of women heads of household, whose work in the home will be facilitated when they have basic shelter with safe water, waste disposal, electricity service and a basic housing environment.

5. Awarding of contracts

- 5.27 Works contracts will be let through calls for bids to contractors listed in a special register, a system which has proved to be efficient in the three previous stages and meets the Bank's policy requirements in this regard. Factors determining the awarding of individual projects are the specific project mix needed in each barrio, the distance between projects being promoted by different municipalities, and the need to concentrate companies in one barrio so as to build good relations with the community, which is essential to the success of projects of this type.

6. Risks and safeguards

- 5.28 As the barrio improvement program has moved forward, resolving the basic sanitation problems of low-income residents of unregulated settlements in urban areas, the average size of the projects has decreased (the largest such barrios having been dealt with in the early stages), and projects are more scattered. This trend could make it more difficult to contract works out efficiently, and raise costs. However, it was found in the previous stages that there is little scope for economies of scale in such projects, given the different types of projects required in each barrio and the labor-intensive work required for same, since there are buildings on the land. Accordingly, the tendering procedure now being used is deemed adequate to deal with the possible occurrence of such problems.

C. Institutional and financial viability

1. Phased low-cost housing subprogram

- 5.29 This subprogram is institutionally and financially viable. Its implementation structure and mechanisms are suitable, and MINVU, the SEREMIs, and the SERVIUS have successfully carried out housing programs for the low-income population for many years. Given the history of government contributions to this sector and the high priority the government is according to the social sectors, there

should be no difficulty in the supply of counterpart funding for the subprogram.

2. Barrio improvement subprogram

- 5.30 This subprogram too is considered to be viable from an institutional and financial standpoint, in light of the Bank's successful experience with the executing agency in the three previous stages of the barrio improvement initiative (loans 115/IC, 223/IC, and 577/OC), the proposed implementation arrangements, which are identical to those used for the earlier stage, and some fine-tuning discussed and agreed upon with the Bank. The structure of MINTER and the municipalities also is adequate for effective execution of the subprogram. Given the government's counterpart contributions in the past and the fact that it is affording high priority to social-sector investments targeted toward low-income groups, there should be no problems with the timely supply of local counterpart funding for this subprogram.

3. Responsibility for water and sewerage, electricity, and gas services, and rates

- 5.31 Water, sewer services, electricity, and gas will be supplied by public and private utilities, and the beneficiaries of the MINVU and MINTER subprograms will be charged the standard rates in effect in the country. According to the information available, the public utility companies meet the Bank's eligibility criteria.

4. Street maintenance

- 5.32 Pavement maintenance in urban areas is the responsibility of the SERVIUs, using funding allocations from the national budget. Given the minimum standards envisaged for road paving in the two subprograms, the SERVIUs will not only ensure their upkeep but also add them to their program for definitive paving, using MINVU funds and the FNDR, the latter with financial support from the Bank under loan 578/OC. Accordingly, there should be no problems in the timely maintenance of streets in the subprogram areas, to keep them in a good state of repair.

D. Socioeconomic feasibility of the phased low-cost housing subprogram

1. Economic efficiency in the use of resources for proposed housing solutions

- 5.33 Since the phased housing will be highly subsidized and granted directly, it is not subject to direct market valuation. Accordingly, it must be established that its value on the market would exceed the cost of the inputs required to produce it. Otherwise, it would mean converting something of greater value (inputs) into something of lesser value (phased housing).

- 5.34 A hedonic price study was conducted in order to determine the estimated market value of the housing solutions. The study's methodology, based on household surveys, makes it possible to come up with an implicit value for the various features of a housing unit. Preliminary study findings indicate that the estimated market value of the phased housing units exceeds their construction cost. The estimated market value per unit would be on the order of UF 147 (US\$3,528), compared with a cost of approximately UF 140 (US\$3,360).
- 5.35 In addition, construction systems and construction costs were studied to ensure that the proposed solution represents a least-cost alternative. Finally, the efficiency of the solutions is reinforced by the contractor selection procedures, which ensure ongoing cost competitiveness among the various construction firms.

2. Willingness to pay for proposed housing solutions

- 5.36 As a rule, not more than a 12% economic rate of return is expected to be obtained in programs requiring subsidies where benefits are measured on the basis of the beneficiaries' willingness to pay. Considering the redistributive nature of such programs, however, where subsidized housing is granted to families with a meager ability to pay, it is important to determine the willingness to pay for such housing on the part of the groups concerned, to determine the desirability of the "product" offered and measure the impact of various changes in features such as housing size or location. The program was designed on the basis of the foregoing.
- 5.37 Also, a study of willingness to pay makes it possible to estimate overall demand for the "product" based on the price that is set. In this case, the "price" was set at about 6% of the cost of the housing, taking into account the prior savings required to take part in the program.
- 5.38 A contingent valuation study was conducted in order to assess the WTP for phased housing, explore alternative configurations that might influence WTP, and gauge the demand. For practical reasons, and above all for budgetary reasons, the surveys were limited at this stage to 18 municipalities in Greater Santiago. MINVU plans to conduct additional studies this year in northern and southern Chile, to perfect estimates of demand for housing solutions on the part of low-income groups, and modify products or create new products that would give the beneficiaries greater satisfaction at the same cost. The chief findings of the study are outlined below.
- 5.39 Chief findings of the study:
- a. The WTP for the solution of a serviced lot with a sanitary core unit plus a multipurpose space was higher than the cost of producing the solution. This was not the case for the other

types of solutions proposed in the study: (i) serviced site; and (ii) serviced site with sanitary core unit only.

- b. The demand strictly on the part of families between the third and fifth income deciles who currently share accommodation with others is about 120,000 units.

5.40 ~~There are some inconsistencies in the above-mentioned findings and those of other contingent valuation assessments conducted for the housing sector, notably in terms of the relation between WPT and income. Nevertheless, it can clearly be deduced from the study that:~~ (i) phased low-cost housing is an acceptable "product" which is highly appreciated in relation to its cost; (ii) from an economic standpoint, the solution that provides a multipurpose space is preferable to more simple options; and (iii) the pent-up demand in the lower socioeconomic strata is on the order of 120,000 units at a minimum. To increase the likelihood that a person selected will agree to the location of the housing and thereby ensure that it will be used to the maximum, the Regulations for Subprogram A allow applicants to turn down a solution, with no penalty, and to continue to be eligible to be chosen in future.

3. Targeting of housing subsidies, and ability to pay

- 5.41 As was noted in chapter I, the various government housing programs that comprise the unified subsidy system encourage very needy families who do nevertheless have some means, to apply for the phased low-cost housing program. The selection criteria for program beneficiaries, through a system of public notices for registration and a point system based on applicants' needs and socioeconomic level, chiefly favor families in the lowest social strata. It is estimated that the floor monthly income of applicants would be US\$60; most would fall within the second income quintile.

4. Conclusions

- 5.42 The phased low-cost housing subprogram has been designed and sized in light of: (i) the findings of economic efficiency studies of the housing sector; (ii) the findings of housing demand studies in Chile; (iii) the structure of other Chilean housing programs and the country's general housing subsidy system; and (iv) the intention to target low-income groups in Chile.
- 5.43 For the reasons outlined, the program is considered to be economically viable.

E. Economic viability of the barrio improvement subprogram

1. Methodological approach

- 5.44 Efforts to upgrade low-income barrios entail supplying their residents with safe water, and sanitary sewers (including a sanitary

core unit), electric power, and paved streets or other passageways. The methodological approach used in the economic analysis of this subprogram was to estimate the economic return of the water and sewerage components, on the one hand, and the electricity component on the other. Cost-efficiency parameters have been applied for the street and passageway paving components.

2. Water and sewerage components

- 5.45 To assess the economic benefits ensuing from the water and electricity components, volumes consumed and prices paid by prospective users in "with project" and "without project" scenarios were contrasted. The standard demand curves and opportunity costs of alternative sources of water and power that were used in appraising similar projects at previous stages were used for this purpose, with adjustments as required to reflect changes in prices. The resulting values are reasonable and fall within the ranges recommended by MIDEPLAN for the various regions in the country. Utility rates used in the analysis are the going rates for such services now in Chile.
- 5.46 The beneficiaries' willingness to pay for sanitary sewers was set at UF 6.1 per family per year (US\$146). MIDEPLAN and MINTER have set this as the figure to use in appraising similar sanitation projects under the FNDR, part of which is being financed with the Bank's loan 578/OC-CH. It was arrived at through a contingent-valuation assessment conducted early in 1992 in 16 localities throughout the country.
- 5.47 One cost-benefit analysis was performed for the electricity component and another for the water and sewer components taken together, since it is difficult to separate out the cost of the two services in the sanitary core unit. Indeed, such core units are built to optimize the use of the two services together. The findings of the evaluation are shown in Table V-1 which follows. The economic return of the projects generally is sound, since the calculations are conservative. The subprojects are therefore considered to be viable.

Table V-1
Evaluation findings

REGION	NUMBER OF PROJECTS EVALUATED	TOTAL NUMBER OF HOUSING SOLUTIONS	RANGE OF ECONOMIC RATES OF RETURN	
			ELECTRICITY	WATER AND SEWERAGE
M.Reg.	10	1,338	25% to 211%	15% to 22%
01	3	418	39% to 212%	21% to 23%
05, 06, 07	5	371	88% to 450%	14% to 24%
08	7	1,558	28% to 125%	14% to 22%
09	11	1,272	14% to 350%	14% to 74%

3. Paving of streets and passageways

- 5.48 A cost-efficiency study also was done of the paving component (streets and other passageways) to establish cost ceilings per square meter and per person for the program. These limits differ from one area of the country to another. Calculations were based on MINTER standard project costs plus up to 20% to accommodate cost variations associated with accessibility and more problematic terrains. Table V-2 shows the cost-efficiency limit values, the application of which will ensure adequate control of program resources.

Table V-2
Cost-efficiency parameters
Paving

AREA	STREETS		OTHER PASSAGEWAYS	
	UF/m ²	UF/person	UF/m ²	UF/person
NORTH (Regions I-IV)	1.06	6.59	0.78	1.95
CENTER (Regions V-VII and M.R.)	1.35	8.45	0.78	1.95
SOUTH (Regions VIII-XII)	1.48	9.24	1.97	4.93

4. Conclusions

The economic analysis of the barrio improvement program shows it to be economically viable. The rates of return for the water and sewerage components, including construction of the sanitary core unit, are relatively high. The use of cost-efficiency parameters to assess the street and passageway paving components ensures that efficient use would be made of the resources employed therein.

F. Distributional impact of the program

- 5.49 The low-income threshold defined by the Bank as of December 1992 is 318,431 pesos per capita annually. The distributional impact of the program was estimated as the proportion of the net benefits accruing to the private sector that would be received by groups having incomes below the aforementioned threshold. The main groups that would be affected by the project are as follows:
- The public sector would have a negative benefit stream corresponding to the present value of cost streams of solutions provided by MINTER and MINVU net of amassed savings and additional tax revenues for the Chilean treasury. This amount would be the subsidy passed on to the program beneficiaries.
 - The stream of benefits to the program beneficiaries would be positive, equivalent to their willingness-to-pay figure for the various program components less amassed savings and rates

charged for water, sewerage and electricity. At least 80% of those standing to benefit from the barrio improvement component are low-income persons in the private sector; and the entire beneficiary population of the phased low-cost housing subprogram would fall under that category.

- c. The net benefit to the unskilled workers who would build the housing solutions and barrio improvement works and would operate and maintain the new services would consist of the wages budgeted for this category of manpower and its opportunity cost. All of the benefits to this group were ascribed to the low-income private sector.
- d. Other categories of workers would receive the net benefit between the wages budgeted for this workforce and its opportunity cost. All of the benefits were ascribed to other private-sector groups.

5.50 As shown in Table V-3, the analysis indicates that close to 96% of the net benefits accruing to the private sector would go to low-income groups. Accordingly, the program overall would have a strong redistributational impact.

Table V-3
Distributional impact of the program

Breakdown	Groups affected by the program			Net
	Public sector	Low-income population	Other	
Phased low-cost housing				
• Benefit		<u>93,526.0</u>	-	93,526.0
• Payment-amassed savings	5,185.0	-5,185.0	-	
• Willingness to pay		98,511.0	-	
Costs	-77,770.0	3,173.0		74,597.0
NET	-72,585.0	96,500.0	-	18,729.0
Barrio improvement				
• Benefit	3,010.0	<u>16,110.4</u>	<u>4,027.6</u>	23,148.0
• W. to pay + savings		18,214.1	4,553.5	
• Utility rates		-2,103.7	-525.9	
Costs	-14,000.0	477.0	292.0	-13,231.0
NET	-10,990.0	16,587.4	4,319.6	9,917.0
TOTAL	-83,575.0	113,087.4	4,319.6	28,646.0

Distributional impact coefficient:

$$\frac{113,087.4}{113,087.4 + 4,319.6} = \frac{113,087.4}{117,407.0} = 96.3\%$$

PHASED LOW-COST HOUSING SITES-AND-SERVICES PROGRAM

TECHNICAL SPECIFICATIONS

I. PHASED HOUSING

- 1.1 The minimum technical specifications to be met by phased low-cost housing projects financed by the Bank were agreed with the Ministry of Housing and Urban Development (MINVU) and incorporated into the technical bidding conditions. The specifications comply with the current legal provisions in the country and are consistent with internationally accepted standards on the subject.
- 1.2 Subdivisions. Minimum specifications:
 - a. Lots must have an area of at least 100 square meters and be provided with (i) pedestrian and vehicular access routes in accordance with standards prescribed in the current legislation [Special Regulations on Low-cost Housing (Reglamento Especial de Viviendas Económicas), Supreme Decree 168 (Housing and Urban Development) of 1984]; (ii) individual drinking water supply and sewer connections; (iii) individual metered electricity connection, and (iv) where justified, connection to the gas network.
 - b. A housing project shall be accessible from the existing thoroughfares and shall include a community center and areas for rest and recreation designed to standards framed by MINVU.
 - c. MINVU will encourage municipalities to participate in the Local Development Program of the Ministry of the Interior (MINTER), which with IDB resources is financing community facilities to ensure to the beneficiary population the availability within a reasonable time of primary health care and primary and secondary education which satisfy the current standards for those services.
- 1.3 Structures. Each lot shall be provided with, at least:
 - a. A habitable structure enclosing an area of at least 13 square meters consisting of (i) a bathroom with a toilet, washstand and shower, with their respective connections to the water supply system, electric wiring, a door and a window, and (ii) a completely enclosed multipurpose room fitted with doors and windows.
 - b. The minimum essential materials specifications vary from region to region of the country with the local climatic and physical

conditions. In any case, the specifications standardize the quality of the structures and the protection they afford.

II. BARRIO IMPROVEMENT

- 2.1 The components of specific projects under the barrio improvement program vary with the initial conditions of each substandard barrio. Following is a description of the types of work that may be involved in each project assuming the lack of any infrastructure whatever.
- 2.2 Land: Lots of at least 100 square meters each, if the beneficiary has none of his own.
- 2.3 Sanitary infrastructure: A sanitary core unit with an area of at least 6 square meters consisting of a bathroom, a kitchen space and connections to a sink, with household connections to the drinking water supply, sewer and electricity systems. It may not be built on any plot smaller than 100 square meters. The materials used in its construction must be of a quality to make it a permanent structure. 1/
- 2.4 Urban improvements: Each project must have an essential minimum of urban improvements, which consist of the services described hereafter. For all aspects not dealt with in these minimum standards, the provisions of the General Ordinance on Urban Development and Construction (Ordenanza General de Construcciones y Urbanización) and local ordinances will apply.
 - a. Drinking water: Connections to individual households, which may serve two core units so long as each has its own meter. The water distribution mains and the lot service connections can be laid in hydraulic PVC pipe.

1/ It should be noted that, as a result of the experience acquired in execution of the three previous stages and in projects executed independently by several municipalities, there are several different sanitary unit designs suited to the conditions of each region. This flexibility in the choice of a sanitary infrastructure allows the municipality to select the project that best meets each particular case, which makes for ongoing progress in the search for an infrastructure of ever better quality, which is functional, durable, and of least possible cost. The sample selected for the ex post evaluation of the first stage of the program included core units of several types, some of which proved to fit better into a final housing unit of good habitational quality (particularly as to natural lighting and ventilation of the rooms, and to the form and fitting of the kitchen into the dwelling).

- b. Sanitary sewerage: Sewage will be removed by sewers, which may be laid in sanitary PVC. Each house connection may serve two core units. Where the installation of collectors would make the construction cost excessive, septic tanks and cesspools, or other appropriate sanitary arrangements, must be provided.
 - c. Stormwater removal: To the extent possible, every effort must be made to ensure that stormwater runs off on the surface, along streets and alleys, except where this would produce heavy ponding.
 - d. Electricity: The service lines to two or more core units may be spliced for one connection to the street power line provided that each service line has its own meter and the service wire does not pass over either housing unit. In the streets within the housing cluster treated wood poles may be used, which must be at least 8 meters high. Public lighting may be provided by incandescent lamps under protective shields on ordinary brackets.
 - e. Streets and paving: In each of the clusters of lots in which a project is laid out, at least one street will be provided for vehicular traffic. The other internal thoroughfares will be pedestrian alleys 3 meters wide. The minimum essential surfacing of streets and alleys depends on the region of the country, and ranges from curbs without berms and coatings of asphalt concrete in the north of the country to curbs with berms and articulated pavement in the south.
 - f. Signage, tree planting, and masonry structures: Minimal signage will be provided, defined as those affixed to corner houses, with the street or alley name inscribed inside the traffic arrow for one-way streets.
 - g. Fencing: The lot will be surrounded by a wood or wire mesh fence 0.4 meters high.
- 2.5 Community facilities: In groups of more than 100 core units, the following essential minimum community facilities will be required:
- a. A plot of 500 square meters for a kindergarten, drop-in center or similar facility.
 - b. A plot of 250 square meters for shops, for which public bids will be invited within six months after the finished structures have been accepted.
 - c. Construction of a multi-field sports area.
 - d. Construction of a social center.

ANNEX I

Page 4 of 4

- 2.6 These minimum facilities will not be required when facilities that can meet these needs exist in the immediate vicinity. For smaller groups of units the standard of the municipality will be applied.

**OPERATING REGULATIONS
PHASED HOUSING SUBPROGRAM**

I. INTRODUCTION

- 1.1 These Regulations establish the rules and define the responsibilities of the agency that will execute the phased housing subprogram partly financed by the Inter-American Development Bank (IDB), the principal purpose of which is to help alleviate the shortage of housing for the lowest income earners in the country.
- 1.2 This purpose will be accomplished by providing to each beneficiary family a basic housing unit capable of phased enlargement and consisting of the minimum sanitary infrastructure defined in title 7 of the General Ordinance on Urban Development and Construction of the Ministry of Housing and Urban Development (MINVU), and a habitable space as defined in these Regulations.
- 1.3 The subprogram has been designed to benefit about 27,000 families.

II. THE PROJECTS

A. Programming of the projects

- 2.1 The works to be financed by the subprogram will be contracted out by MINVU through its regional operating authorities (the Servicios Regionales de Vivienda y Urbanismo, or SERVIUs) in biddings in which domestic and foreign enterprises may compete which are listed on MINVU's National Register of Contractors, which will be permanently open.
- 2.2 The enterprises will be invited to offer complete housing units (including land, designs and execution) which possess the characteristics spelled out in these Regulations. When, after examining a project, the local SERVIU and the MINVU regional office (SEREMI) conclude that there are restrictions on the availability to potential bidders of land in the locality or on their possibility of acquiring it on the market, the invitation to bid may be based on the provision of land owned by the SERVIU or the municipality. In such cases:
 1. The authorization of the IDB must be requested, and the reasons for that decision explained.
 2. The cost of the land must be determined by the following procedure and deducted from the official estimate for the bidding:

- a. If the land was purchased within the 12 months preceding the invitation to bid, the price paid for it. This figure will be converted into UFs at their value at the time the price was paid.
 - b. If the purchase was made more than 12 months previously, the average of the values obtained in two valuations by independent appraisers following a methodology agreed with the IDB.
- 2.3 The terms of paragraph 2.2 notwithstanding, MINVU may schedule the contracting of up to 15% of the program's resources against the local counterpart contribution in separate biddings for the infrastructure and the standing structures. The administrative and technical conditions for these calls for bids will conform to the Bank's procedures and guarantee that the final technical specifications for the phased housing units are the same as those for the biddings referred to in paragraph 2.2. The Bank will recognize the use of these resources as part of the local contribution when the phased units built with them have been completed. Before the first bidding MINVU will present for the Bank's approval the administrative and technical conditions that will govern the calls for bids and the procedure for their evaluation and the analysis of their results.
- 2.4 Invitations to bid will be scheduled in accordance with the procedures for the programming of national and regional investment. The number of biddings conducted will be those needed to attain the execution targets set in each region.
- B. Project eligibility requirements
- 2.5 The projects included in the subprogram must satisfy the conditions spelled out in the paragraphs that follow.
- C. Housing developments
- 2.6 A housing cluster must be located in an urban area or area of urban expansion as defined by the local master development plan or, if there is none, by the provisions of the local SEREMI, and will be endowed with complete urban improvements, including drinking water, sewage disposal facilities, electricity, access routes, and areas of recreational greenery. It must have direct access to existing vehicular thoroughfares and be not more than 500 meters away from established urban settlements along the roads in place or under construction; streets will be extended into the new development at the same levels and with the same widths and configurations.
- 2.7 A housing cluster must comply with the provisions of the local master development plan in all aspects regulated by it and especially in regard to areas subject to restrictions because of

environmental protection concerns, exposure to natural risks, or the need to protect infrastructure. When a master plan is out of date or the SEREMI judges that it does not adequately cover these aspects, the SEREMI must specify in the invitation to bid the areas of the municipal land for which no bids for subdivision will be accepted because they are subject to one or another of those restrictions. The SEREMI will make available to bidders for subdivisions a compilation of the rules governing the subdivision of urban lands and the current provisions of D.F.L. 458 (H. and U.D.) of 1975 and Supreme Decree 47 (H. and U.D.) of 1992 for protection of the environmental quality of housing projects.

- 2.8 Both housing clusters and standing structures must have obtained the approval of the public utilities and the municipal government. Urban improvements must conform to the standards of the respective utilities. The SERVIU must take steps to ensure that when works are completed they are formally accepted and that all legal provisions and regulations for the transfer of the responsibilities for operation and maintenance to the utilities and the municipal government, as appropriate, are complied with.
- 2.9 Every lot to be financed by the subprogram must be of at least 100 square meters, as prescribed by MINVU's General Ordinance on Urban Development and Construction. Each lot must have its own service connections for drinking water, sewage disposal, and electrical power.

D. Health, education and recreational facilities

- 2.10 Whenever necessary, the SEREMI will determine the area of land to be set aside for the facilities required in S.D. 47 (H. and U.D.) of 1992, and a subdivision must set aside lands for recreational areas, at least 70% of which must be in one continuous tract.
- 2.11 Before the invitations to bid are sent out, the SEREMI must make an analysis of the probable impact that settlement of the families that will receive the housing units to be bid for will have on the basic urban utilities of the municipality. If deficiencies are detected, the SEREMI will support the municipality concerned in presenting to the appropriate regional authorities proposals for the works required to expand the envisaged basic health and education services and capabilities for solid waste collection and street maintenance so that they will meet the new demand.

E. Standing structures

- 2.12 The housing unit must have a closed-in bathroom area with a door and window, and fitted with a toilet, a shower with a shower well, and a washbasin, all connected to the water supply and sewage disposal systems, and appropriate electric lighting. In addition, there will be an enclosed multipurpose room with a door and one

window opening to the outside, with space at least for a kitchen with an all-purpose sink, two beds, and a table.

- 2.13 The sizing of the rooms must be based on the standard table of furniture and fixtures to be incorporated into the technical conditions of the bidding.
- 2.14 The minimum essential characteristics of the materials used to build the structures will be determined by the SERVIU in accordance with regional needs. However, the materials used in the housing units must always be such as to ensure the minimum requirements of privacy and safety of the dwellers.
- 2.15 The use of materials containing asbestos will be restricted as much as possible.
- 2.16 The housing units selected must be of least economic cost or those yielding the highest economic benefit. The total cost of the unit will be UF 140. This cost includes the incremental expenses for the bidding and the register of real property. By way of exception, and with the prior agreement of the Bank, projects may be considered whose cost per housing unit is up to 15% higher.

III. EXECUTION OF THE PROJECT

A. Functional organization

- 3.1 The executing agency for the phased low-cost housing subprogram will be MINVU, acting through the Housing and Urban Development Bureau (Subsecretaría de Vivienda y Urbanismo), which will be the ministry's official representative in its dealings with the IDB. For this purpose the bureau will have a technical secretariat with a full-time staff and will be supported by the divisions of MINVU and, at the regional level, by the SEREMIs and SERVIUs.
- 3.2 The technical and financial conduct of the subprogram will be supervised and monitored through the formal structure of the ministry. General coordination of the subprogram will be provided by the technical secretariat, which will see to proper attainment of the goals and compliance with the Operating Regulations, coordinate the preparation of reports for both the local authorities and the Bank, remind the bureau of the requirements and measures for those purposes, and keep in constant touch with the IDB's Country Office in Chile.
- 3.3 The SERVIUs must monitor the quality of the execution of projects and perform their assigned technical, financial, administrative and legal functions.

- 3.4 The technical and financial management of the subprogram will be audited by the Office of the Comptroller General of the Republic, supported by MINVU's Audit Department.
- B. Design of the subprogram at the national level and allocation of resources to regions
- 3.5 MINVU's Housing Policy Division (DPH) and Finance Division (DIFIN) will participate in the design of the subprogram at the national level and coordinate the allocation of resources to the regions in accordance with the socioeconomic criteria established and agreed with the IDB.
- C. Design of the subprogram at the regional level
- 3.6 When the resources for each region have been determined, the relative priorities of the projects in it will be decided by the SEREMIs in coordination with the SERVIUs in light of the criteria of the regional governments, the municipal governments, and other regional and local authorities.
- D. Register of Contractors for the subprogram
- 3.7 The technical secretariat will instruct the Office of the Coordinator of the Register of Contractors on the additional requirements to impose on the firms already registered to verify their nationality, and on the advertising required by the IDB to encourage the enrollment of new firms, whether domestic or foreign, that are interested in participating in the subprogram. The register must be updated once a year by procedures acceptable to the Bank.
- E. Definition of projects and the bidding schedule
- 3.8 The biddings in each region will be scheduled by the local SEREMI, which in so doing will respond as closely as possible to the preferences stated by applicants when they register. Before an invitation to bid is issued, the SEREMI will make an analysis of the status of the basic urban health, education and recreation services in the municipality concerned. To the extent possible, biddings will be scheduled in the municipalities that possess capabilities for the provision of those services. When significant deficiencies are detected, the procedure set forth in paragraph 2.10, above, will be followed.
- 3.9 When the cost of the works covered by a bidding exceeds the equivalent of US\$1 million, the bidding will be conducted internationally. Biddings involving smaller amounts will be confined to the country.

F. Preparation and sale of the general and special bidding conditions

3.10 The general bidding conditions for this subprogram will be those approved by S.D. 29 (H. and U.D.) of 1984 and amendments, in the version attached to these Regulations. The standard special conditions will be drawn up by MINVU and submitted to the IDB for approval. For international biddings the latter conditions must include the following amendments to articles 3(a), 4, 7 and 14 of the aforementioned supreme decree to bring the procedures into line with IDB policy:

1. If a bidding is voided and there is still interest in contracting out the works under the same conditions, a second invitation to bid must be issued subject to the same conditions; only if this second bidding operation fails may another procedure be agreed with the Bank for accomplishing the purpose.
2. The enterprises listed on the National Register of Contractors may participate in a bidding on the basis of their financial capacity on the date of their tender. Accordingly, under no circumstances may an enterprise be authorized to participate in a bidding addressed to contractors of higher category.
3. It is up to the SERVIUs to bring all clarifications of and changes made in the bidding conditions to the attention of the firms that have purchased bid sets.
4. The invitation to bid must be issued in the form of a letter to all the enterprises on the National Register of Contractors in the requisite category.
5. An award must always be made to the lowest evaluated bid.

Amendments 1, 3 and 5 also apply in domestic biddings.

For each bidding, the responsible SERVIU must complement the standard special conditions with elements specific to that bidding.

- 3.11 The final documents for each domestic bidding must be made known to the IDB. Moreover, the final documents of each international bidding must have been previously approved by the IDB.
- 3.12 Bid sets outlining the general conditions will be sold by the SERVIUs to the firms listed on the MINVU's National Register of Contractors. If in the course of execution of the subprogram it becomes necessary to make changes in those conditions, the existence of the new version will be made clear in the invitations to bid.
- 3.13 The special conditions and all background material relating to the bidding will be sold by the SERVIUs.

- 3.14 It will also be a responsibility of the SERVIUs to reply to inquiries from prospective bidders. Inquiries must be received and replies to them sent within the time limits specified in the conditions.
- 3.15 The conditions of a bidding may not be amended without the prior agreement of MINVU and the IDB. Moreover, any change in the time limit for the receipt of tenders must be communicated to all purchasers of bid sets with sufficient notice (to be stated in the standard special conditions) in advance of the date on which the tenders are to be opened. In international biddings, any change in this time limit must be previously agreed to by the IDB.

G. International and domestic invitations to bid

- 3.16 As from the commencement of the subprogram, MINVU will deliver every year to the IDB the information for publication in the United Nations periodical *Development Business* of an invitation to enroll on MINVU's National Register of Contractors, which will include the tentative schedule of biddings for the year and how each is to be advertised. The invitation must also be published at the same times in a periodical of wide international circulation to be agreed on with the IDB. Moreover, the text of the invitation must be provided to the diplomatic missions of IDB member countries accredited in Chile and to other entities indicated to the IDB by those countries.
- 3.17 Invitations to international biddings will be issued by the SERVIUs with the support of the technical secretariat of the program. Invitations to domestic biddings will be issued by the SERVIUs.

H. Opening of tenders and award of contracts

- 3.18 The tenders of contractors will be opened by the SERVIUs, which in doing so will adhere rigorously to the procedures stated in the general administrative conditions.
- 3.19 The SERVIUs must verify in full detail that the projects proposed by contractors have been approved by the utility companies providing the services included in those projects (drinking water, sewerage, electricity and gas), and by the municipal authorities concerned. Moreover, when the land is to be provided by the bidder, it must be verified that he actually owns it and has complied with all the legal requirements and the specific requirements imposed by MINVU and the SERVIU concerned.
- 3.20 While it is a function and responsibility of the director of the SERVIU to award contracts to successful bidders and to ensure that all applicable rules are complied with, in all international biddings and the first two domestic biddings carried out in each

region, the director must send to MINVU the following documents before making the award:

1. The report and background material specified in the administrative conditions of the bidding.
 2. The minutes of the opening of tenders received.
 3. The form updating the financial capacity of the bidders.
 4. Certification of their enrollment on the Register and of the categories to which they are assigned.
 5. Analysis of the prices of the accepted projects ranked first, second and third.
 6. The form proposing the award to be made.
 7. The draft contract order.
- 3.21 The foregoing material must reach the technical secretariat within the time limit stated on the agreed activities timetable so that it may be transmitted to the IDB and agreement reached on the award proposed in good time.
- 3.22 Within five business days of receipt of notification of the IDB's agreement, the director of the SERVIU must issue the notice of award in the manner prescribed in S.D. 29 and amendments.
- 3.23 The SERVIU must inform the losing bidders of the award within five business days after the date on which it was made.
- 3.24 The successful bidder must sign the contract within 10 consecutive days from the date of review by the Office of the Comptroller General of the Republic of the contract order or from the date of the order if it is exempt from that review. Before signing the contract the contractor must present a bank performance bond for 3% of the amount of the contract, stated in UFs, as security for its full execution on schedule, which will be returned to the contractor upon final acceptance of the completed works. The term of the performance bond must be at least 30 days longer than the term for complete execution of the contract.
- 3.25 The SERVIU will have five business days from the date of formalization of the contract with the successful bidder in which to send a set of copies of the final documents to MINVU.
- 3.26 In cases in which the proposed award requires the Bank's agreement as indicated in paragraph 3.21, above, if the director of a SERVIU decides not to make the award in the form originally proposed, he must so advise MINVU within three business days of so deciding, and

explain the reasons for his decision so that the IDB may be informed and its concurrence secured.

- 3.27 When the technical committee appointed by the SERVIU concerned to evaluate the proposals decides it must reject all the tenders presented, it must so advise MINVU within three consecutive days of so deciding and, when the agreement of the IDB has been obtained, transmit the decision to all bidders. Its communication to this effect must be accompanied by all documentation in support of the reasoning that led to the decision, and refer to the relevant basic conditions of the bidding. When it is agreed that a bidding is to be declared void, a new invitation will be issued in compliance with the current rules and regulations.

I. Physical and financial-accounting supervision of projects

- 3.28 Each SERVIU must monitor the physical execution, financial management and the accounts of the projects executed in its jurisdiction, and track each project separately, in addition to identifying the individual items of income and expenditure, and the amounts payable and receivable, in keeping with the rules of the government accounting system as defined in the Organic Law on the Financial Administration of the State and the specific instructions issued by the Office of the Comptroller General of the Republic.

J. Transfer of land ownership to the SERVIU

- 3.29 When the land is provided by the bidder, its transfer to the SERVIU must be completed before presentation of the first progress statement for payment, in compliance with all legal requirements and with those specifically imposed by MINVU and the SERVIU concerned.

K. Preparation of the compensated budget

- 3.30 For purposes of contracting the works and making progress payments, the SERVIU must prepare the compensated budgets for them. These budgets must be constructed following the procedures to be agreed with the IDB. When a project is provided by the bidder there is no compensated budget.

L. Administration of guarantees

- 3.31 Bonds or guarantees to cover advance payments, faithful fulfillment of the contract and correct execution of works are to be administered by the SERVIU, which must return them upon fulfillment of obligations by the bidders and/or contractors.

M. Advances to contractors

- 3.32 The SERVIU may make to a contractor an advance of funds of up to the percentage of the amount of the works contract authorized by

the current annual budget law; the advance may be paid when the contract has been formalized, upon delivery of the respective guarantees.

N. Inspection of the works

- 3.33 The SERVIU must verify correct execution of the projects subject to its inspection under this subprogram. To this end, the SERVIU must determine what qualified personnel of its own it can assign to conduct technical inspections of works. The parameters for definition of the technical inspection standards must be presented to the IDB and its agreement to them secured. If the SERVIU does not have the staff needed to conduct technical inspections of works, it will hire, in public biddings, specialized enterprises to perform those technical inspections in accordance with the terms of reference attached to these regulations.
- 3.34 IDB officers may view works at any time and ask the inspection personnel for any records and documents they deem necessary to see. This authority extends to the places of supply of materials and equipment for the works. For the proper discharge of their mission, the standard special conditions will establish that the IDB officers are to receive the fullest cooperation of the personnel concerned and of the contractors, who will not thereby be exonerated from any obligation or responsibility spelled out in their contract.

O. Progress payments

- 3.35 The SERVIU must present to MINVU the financial schedules for projects in execution, and pay the advances and progress claims that emerge out of the contractual relationship pursuant to the provisions of S.D. 29 and amendments.
- 3.36 Within five business days following the date of each payment to a contractor for any purpose, the SERVIU must send MINVU all the documentation in support of that payment and photocopies of the guarantee documents supplied by the contractor in compliance with the bidding conditions. It is absolutely indispensable that each payment order be inscribed at the bottom with the phrase "Payment received" (*Recibí conforme*) by the contractor or his authorized representative over his name and identity document number, written legibly, and showing the date on which the payment was received.

P. Provisional and final acceptance of works

- 3.37 The SERVIU must take provisional and final receipt of works and make final settlement of contracts.
- 3.38 The SERVIU will take provisional and final receipt of project works in accordance with the provisions of the bidding conditions and of

S.D. 29 and amendments. The SERVIU will have 15 business days from the date of a provisional or final acceptance to transmit to MINVU a copy of the document of that acceptance.

Q. Progress reports on projects

- 3.39 Each SERVIU must report to MINVU on the physical and financial progress of the execution of its projects under this subprogram, and, at MINVU's request, on all other relevant aspects thereof. Those reports must be complete and clearly written, and be presented in good time for normal processing and therewith correct execution of the project in accordance with the activities timetable agreed for it.
- 3.40 Each SERVIU will prepare every month a report on the state of physical and financial advancement of the projects in its charge, with end-of-month closing balances, and ensure that it reaches MINVU within the first eight business days of the following month. These deadlines are mandatory owing to the time limits for the provision of information to the IDB.
- 3.41 The reports to be presented to MINVU are as follows:
1. Forms on the technical advancement of works.
 2. Forms on progress payments.
 3. Curve of physical advancement of works and comparison with the contractor's original projections.
 4. Curve of financial advancement of works and comparison with the contractor's original projections.
 5. When applicable, certificates of provisional acceptance of works, with the associated reports.
 6. When applicable, certificates of final acceptance of works, with the associated reports.
- 3.42 These reports do not exempt the SERVIUs from the obligation to present others required under the current rules of MINVU or the Office of the Comptroller General, or any that the IDB may request.

R. Standard subprogram documents

- 3.43 The following standard documents are to be used in the conduct of the subprogram:
1. General administrative conditions.
 2. Special administrative conditions.

3. Technical conditions.
4. Model notice for publication of an invitation to bid.
5. Form for record of opening of tenders.
6. Form for minutes on award selection.
7. Model contract order.
8. Forms for reports on physical and financial advancement of works.
9. System for accounting control of projects.

IV. ALLOCATIONS AND SUBSIDIES

A. Administration of the Register of Applicants

- 4.1 The National Register of Applicants for the phased low-cost housing subprogram is administered by MINVU. In each region, however, the register is maintained and administered by the local SERVIU.
- 4.2 An individual may register to apply for a phased housing unit who (i) does not own a home and is not married to someone who does; (ii) satisfies the requirements stated in these Regulations; (iii) is of age, unmarried or married, or unmarried or widowed over 18 years of age with dependent children who qualify as members of his or her family; and (iv) has been surveyed in the social stratification system known as the CAS (Comité de Asistencia Social) fiche and has a current fiche on file.
- 4.3 A person wishing to request enrollment under this program must also:
 1. State, for reference, the municipality or group of municipalities he/she wishes the housing unit to be in, and the specific location chosen within it.
 2. State the preferred application option and the operating arrangement.
 3. If he/she applies for the private program, and has a site of his/her own available at the time of application, documentation in proof of fulfillment of the requirements stated in S.D. 140 must be enclosed.

B. Selection of beneficiaries

- 4.4 The SERVIU will select the beneficiaries to whom housing units are to be assigned.

C. Criteria for assignment of housing units

- 4.5 Lots will be assigned in strict order of precedence of the eligible applicants listed on the register who apply in a municipality or group of municipalities in which phased housing units are available. A beneficiary will be entitled to reject MINVU's offer if it is not in his/her preferred location. The factors to consider in determining the order of precedence and point scores of applicants are stated in Appendix I to these Regulations.

- 4.6 When the selection is made, proof must be shown of savings of at least 3 development units (UF 3). To be assigned a housing unit, the applicant must show proof of the additional savings needed to complete UF 8.

D. Criteria for assignment of housing units

- 4.7 The SERVIU assigns housing units to beneficiaries in accordance with the rules established in Supreme Decree 140 and amendments, and must deliver the deeds of ownership of those units.

- 4.8 The first-stage housing unit will be financed with the subsidy granted by MINVU and the applicant's savings, and no provision is made for the granting of any loan.

- 4.9 The cost of the first-stage unit is UF 140, which is financed as follows:

- (1) Beneficiary's savings: UF 8, or 5.7%, and
- (2) The government subsidy: UF 132, or 94.3%

If the value of the contract for a housing unit exceeds UF 140, the difference will be financed by a subsidy.

- 4.10 The deed of ownership must prohibit liens (except in security for a mortgage loan to finance the second phase of the housing unit) on, or the transfer of ownership, lease or any use other than for residence of, the housing unit received, for a term of five years. Any violation of these prohibitions will be punished by restitution of the subsidy received at the value of the UF on the date restitution is made, without prejudice to the imposition of any criminal penalty that may apply.

- 4.11 The installation of a small artisanal workshop or business will not be considered as a change in the use of a housing unit so long as it continues to be used primarily as a residence.

V. ELIGIBILITY OF SERVIUs

- 5.1 A SERVIU whose statement of revenue and expenditure raises objections on the part of the Office of the Comptroller General of the Republic may not participate in this subprogram until the problems noted have been resolved.

VI. AMENDMENTS TO THE OPERATING REGULATIONS

- 6.1 Any amendment to these Operating Regulations or to the documents referred to herein must be previously agreed upon with the IDB.

CHILE

PHASED LOW-COST HOUSING AND BARRIO IMPROVEMENT PROGRAM

SUBPROGRAM A:
PHASED HOUSING SUBPROGRAM

APPENDIX I

CRITERIA AND POINT SYSTEM FOR ASSIGNMENT OF HOUSING UNITS

The selection and order of precedence among applicants will be determined on the basis of the highest point scores obtained for the factors described hereafter in accordance with the following rules:

- a. Social stratification and doubling up: The CAS fiche factor will be assigned the difference between 780 points and the score produced by the CAS fiche survey for the applicant, to which result is added points for doubling up (accommodation sharing) and the need for housing, which will be taken from the CAS fiche using a computer program devised for the purpose by MINVU. The result obtained from this operation will be divided by 6 and the resulting figure will be the sole point score awarded to the applicant for the factors of social stratification, doubling up and need for housing combined.
- b. Family group: Ten points will be given for each person claimed by the applicant as a member of his/her family group. If the applicant is a single or widowed father or mother with dependent children who qualify as members of his/her family group, or a woman head of household because her husband is physically or mentally incapacitated, he/she is given an additional 10 points.
- c. Seniority of registry: The applicant is awarded 0.5 points for each month elapsed since he/she was registered, including the months in which he/she was listed on the register governed by Supreme Decree 62 (H. and U.D.) of 1984 before opting for the system governed by the present Regulations.
- d. Cash savings: Points will only be awarded when the application is for a first-stage housing unit under the SERVIU program modality; 1.5 points will be given for each UF of accredited savings up to a maximum point score corresponding to the number of UFs required for the award of a housing unit or of a subsidy certificate.

ANNEX II

[Appendix I]

Page 16 of 16

- e. Availability of applicant's own site: Points will be awarded only for application to the first phase under the private program under either an individual or a group application, in which case the applicant will receive 10 points.
- f. Group application: One point will be awarded for each qualified applicant who is a member of an organized group, and a maximum of 50 points will be awarded for each group. This score will be awarded to a group comprising 10 qualifying applicants, and, under SERVIU programs, not more than 50 qualifying applicants; in the latter case, when a group has more than 50 applicants one point will be deducted for every applicant above that number.

The total score of each applicant will be obtained by adding up the scores for factors a, b, c, d and e. For group applications the scores of factors a, b, c, d, e and f of all the members of the group will be added up and the sum divided by the number of members of the group. The resulting score will be taken as the individual score of each applicant member of the group.

**OPERATING REGULATIONS
BARRIO IMPROVEMENT SUBPROGRAM**

I. INTRODUCTION

- 1.1 The purpose of the present Regulations is to establish rules and assign responsibilities at the central, regional and local level for execution of the fourth stage of the barrio improvement program.
- 1.2 The subprogram is partly financed by the Inter-American Development Bank (IDB) and its main purpose is to help improve the poor sanitary conditions of low-income families in the country, with preferential attention to the improvement of low-income barrios in towns in which the basic services (water supply, sewerage and electricity, and street alignment and paving) are deficient.
- 1.3 The subprogram will provide for each family a minimum essential sanitary unit consisting of (a) a sanitary infrastructure to ensure effective use of the outside basic services and to encourage the phased enlargement of a permanent residence around that infrastructure; (b) clearing and transfer of title to each beneficiary; (c) execution of urban development works such as drinking water supply and sewer mains, electric power lines and, in qualifying cases, gas distribution pipes; and (d) alignment of streets and alleys, with essential minimum surfacing.
- 1.4 The subprogram is to provide complete or partial sanitary infrastructure units to about 23,000 families.

II. FUNCTIONAL ORGANIZATION

- 2.1 The Ministry of the Interior (MINTER), acting through the Regional Development Division (DIDER), Investment Department, Regional Development and Administration Bureau, will be the executing unit for the subprogram, with the principal functions of planning, coordinating and overseeing its technical and financial progress. To this end DIDER will be authorized to request any information or background on the subprogram from the enterprise concerned.
- 2.2 The regional governments will take cognizance of the projects applied for under the subprogram and the governors will propose priorities for the execution of those projects to the Regional Council for approval.
- 2.3 DIDER must consolidate the information at the national level, and act as representative vis-à-vis the IDB for execution of the

subprogram. In this work it will be responsible for the following activities:

- a. Management of the stock of projects, from the application process to their final execution.
- b. Administration of the National Register of Contractors, that is, its compilation followed by its ongoing update and pre-qualification of the listed firms.
- c. Sale of general bidding conditions to contractors, which will hold good for all public biddings. In addition, DIDER will sell the contractor prequalification conditions for international public biddings.
- d. Issuance of invitations to all international public biddings for projects under the subprogram, and authorization of local invitations to bid.
- e. Authorization of proposed awards by the respective technical units.
- f. Ensuring that all the rules in the Operating Regulations and bidding conditions of the subprogram are complied with.

2.4 The municipal governments have the dual role of direct executors or principals and of technical units in the development of the projects under the subprogram.

2.5 As principals and technical units, the municipal governments have the following leading obligations: to apply for, conduct biddings for, and award and contract works; to make payments of advances and progress statements; to oversee the material execution, the financial management and the accounting of the projects, and to effect final settlement of contracts. In addition, as principals the municipal governments must negotiate the regional priority of their projects, clear the titles to the lands thereof, administer guarantees or bonds (advance payment, faithful fulfillment of contract, correct execution of works), document the expenditures under the project, lend complementary support to beneficiaries in the eventual enlargement of their housing units, and hand over titles of ownership. As technical units, the municipal governments will be responsible for:

- a. Preparing the background material for the projects under the subprogram.
- b. Adhering to the bidding timetable established by DIDER.
- c. Issuing invitations to local public biddings when this procedure is called for.

- d. Selling information sets on the project or projects to be bid for.
 - e. Replying to inquiries by contractors on the project or projects to be bid for.
 - f. Conducting the procedure for the opening of tenders in accordance with the general bidding conditions.
 - g. Returning the bid security.
 - h. Drawing up the requisite contracts on receipt of notice of DIDER's official authorization of an award.
 - i. Verifying the correct execution of subprogram projects subject to their inspection.
 - j. Taking provisional and final receipt of the works.
- 2.6 A municipal government that shows proof of satisfaction of the following requirements may execute projects with resources of the subprogram:
- a. Possession of a capability for the technical inspection of works, or of appropriate mechanisms for their proper supervision and verification.
 - b. Possession of a mechanism for granting titles of ownership of their plots to beneficiaries lacking such titles upon the conclusion of a project.
 - c. Possession of an office for assistance to beneficiaries in enlarging their housing units, or the possibility of providing such assistance under an agreement with an entity competent to do so.
 - d. If the municipal government has executed one or more projects with resources of Subprogram C, Sites and Services (loan 115/IC-CH) and/or the low-income barrio improvement programs (loans 223/IC-CH and 577/OC-CH), to execute a project under the present subprogram it must demonstrate that it has presented deeds of ownership to at least 75% of their beneficiaries and propose a plan for presentation of the remaining deeds within not longer than eight months. Otherwise, full justification will have to be shown for admitting them to the subprogram, and the concurrence of the IDB will be required.

III. THE PROJECTS

- 3.1 The objective of the subprogram is to provide for each family a sanitary core unit, which will entail:
- a. Provision of a site and its title deed to each beneficiary.
 - b. Construction of a sanitary infrastructure, or the equivalent in in-house connections, services and fixtures for each home, so as to ensure effective use of the external basic utility systems and encourage the progressive enlargement of a permanent housing unit around that infrastructure.
 - c. Urban improvement works such as drinking water supply and sewer mains, electric power lines and, in certain cases, gas mains.
 - d. Alignment of streets and alleys, with essential minimum paving, in accordance with Law 18,138.
- 3.2 Execution of the subprogram will include one or more of the following works for sanitation at the sites:
- a. Sanitary infrastructure
- 3.3 With an area of at least 6 square meters, or as much thereof as is needed to complete the beneficiary's existing infrastructure. The infrastructure will have a bathroom and a space for a stove and sink with connections for drinking water and sanitary sewer mains, and electric wiring, with the appropriate indoor plumbing and fixtures.
- b. Minimum site servicing:
 - (i) drinking water mains;
 - (ii) sanitary sewers;
 - (iii) storm sewers;
 - (iv) electric wiring and lighting;
 - (v) basic paving, and
 - (vi) gas supply, only in Region XII.
- 3.4 In addition, regarding urban land use in the subdivisions, the subprogram will be subject to the following standards:
- a. At least one permanent vehicular thoroughfare will be built in each subdivision. The other internal thoroughfares will be pedestrian walkways 3 meters wide.
 - b. In groups of more than 100 housing units at least the following areas must be set aside for community facilities: 500 square meters for a kindergarten, drop-in center or similar facility, and 250 square meters for commercial premises, for the

construction of which invitations to bid will be issued within one year following the acceptance of the works.

- c. When a beneficiary has no lot of his/her own, the lot provided must have an area of at least 100 square meters.

- 3.5 The foregoing essential minimum facilities will not be required when establishments that can meet those needs exist in the immediate vicinity of the housing cluster. MINTER will take the necessary steps to provide working primary education, health and day-care services where these are unavailable.

IV. ASSIGNMENTS AND SUBSIDIES

- 4.1 Core housing units will be assigned by municipal governments to persons living in marginal sanitary and housing conditions. To qualify for a core unit neither the applicant nor his/her spouse or cohabitant may own or have already been assigned any core housing unit.
- 4.2 If it becomes necessary to relocate some inhabitants in a similar nearby area, they must be those occupying areas of public interest or use and which are technically unusable. Recipients in relocation areas will be those of areas that have to be evacuated, such as floodprone land adjacent to rivers, hill slopes at elevations above the reach of drinking water supply and sewer systems, and land subject to erosion or waterlogging.
- 4.3 Title to a core unit will be transferred under a contract of sale. The selling price must be the same as the cost, and will be determined by the municipal government concerned. Part of the price will be paid with a subsidy of up to 75% of the cost of the sanitary core unit, and the difference under an agreement between the municipal government and the beneficiary; the land and usable infrastructure may be credited as prior savings.
- 4.4 The resources taken in by municipalities under their agreements with beneficiaries will be used mainly to finance improvements in the quality of life in the barrio.

V. PROJECT ELIGIBILITY REQUIREMENTS

- 5.1 To qualify for inclusion in the subprogram, a project must meet the following principal requirements:
 - a. It must be located in a municipality of at least 3,000 inhabitants.

- b. At least 80% of the prospective beneficiary families must have low incomes, with scores of less than 600 points on the indexes of the Social Welfare Committees (CAS) according to the latest social stratification study done by the individual municipality.
- c. It must have been designed in accordance with the guidelines of the local development plan and municipal master plan.
- d. Its feasibility must have been demonstrated by the entities that would provide the public utilities for it.
- e. The total cost of the core unit provided must not exceed UF 110 save in justified cases duly authorized by MINTER resolution, for which an additional cost of 30% will be allowed.
- f. The area in which a project is to be executed must have day-care services, primary education, health care and access roads suitable for the beneficiaries. In relocation projects, MINTER must demonstrate that it has taken appropriate action to provide the services that are not available for a reasonable period of time, which may not exceed one year running from the date of completion of the project.
- g. The internal rate of return on the investments (the sanitary core unit and the water supply, sewage disposal and electricity installations) must be 12% or higher, calculated by the same method used to analyze the projects of the sample.
- h. The cost of the street and alley paving component must not exceed the following limits except in justified cases in which the IDB has given its agreement in advance.

Region	Investment cost per beneficiary (US\$)	Investment cost per m ² (US\$)
(a) Streets		
I to IV	6.59	1.06
V to VII and M.R.	8.45	1.35
VIII to XII	9.24	1.48
(b) Alleys		
I to IV	1.95	0.78
V to VII and M.R.	1.95	0.78
VIII to XII	4.93	1.97

VI. EXECUTION OF THE SUBPROGRAM

- 6.1 The executing unit for the subprogram will be the Regional Development Division (DIDER) of MINTER's Regional Development and Administration Bureau. The principal functions of DIDER are the planning, coordination and monitoring of social development programs.
- 6.2 DIDER will coordinate the subdivision of the subprogram into such stages as are thought necessary, will supervise the technical and financial aspects of the execution of each stage of the subprogram, and inform the IDB periodically on the progress made in the consolidated regional reports requested.
- 6.3 Each municipal government will execute directly the projects under the subprogram that are in its jurisdiction, and will perform the required technical, financial and administrative functions.
- 6.4 The municipal government will make the awards in the biddings required for execution of the projects, sign contracts for the provision of goods and services as previously authorized by DIDER, make advances of funds to contractors and payments for works, goods and materials received to its satisfaction, take provisional and final receipt of works and services, and close out contracts, supervise the technical and accounting aspects of investment outlays for the execution of projects, oversee and monitor their execution and, as the technical unit, invite, study and evaluate tenders. If a municipal government does not have the capability for the technical inspection of works, it must so advise MINTER so that they may take appropriate joint steps to remedy the deficiency.
- 6.5 When the financial resources for the subprogram have been obtained, MINTER will advise the municipal governments of their availability and state the general requirements that projects must satisfy for financing from them. The municipal government will make a diagnostic study of the sanitary core units needed and determine whether one or more barrio improvement projects are called for under the local development plan. On the basis of the analyses of the identified projects, it will select the best project or projects and present them to the regional government for consideration with a description of their salient features for assignment of priority rankings for execution.
- 6.6 The municipal government must periodically send to the regional government and DIDER complete information on the projects that, in its judgement, possess the features and meet the conditions and requirements stated in chapter V of these Regulations.
- 6.7 Projects will be selected primarily on the basis of a study of the needed basic services that could be provided through the project

and of a determination of their priorities at the municipal, provincial, regional and national levels.

- 6.8 The information to be provided by the municipal government to DIDER must be accompanied by, at least:
- a. The project's identification card and Integrated Project Bank code.
 - b. Certificates of feasibility from each utility service: (i) drinking water supply and sewerage, and (ii) electricity.
 - c. A certificate that the municipality holds title to the land on which the project is to be executed.
 - d. A certificate of the financing that the municipal government will contribute to the direct construction cost, showing the budget year in which the contribution is to be made.
 - e. A sheet summarizing the cost of the project.
- 6.9 Later the municipality must assemble and send to DIDER all the information needed to schedule the invitation to bid, that is, the special administrative conditions, reports, technical specifications, budgets and plans for the different works to be constructed.
- 6.10 The engineering designs of the project must be presented to DIDER with the approval of the basic utility companies concerned.
- 6.11 The municipal government must present the foregoing documentation to DIDER complete, clearly set out, and in good time so that the project may be executed smoothly in accordance with the activities timetable it will be given for the purpose.
- 6.12 When DIDER has approved the foregoing documents, at the time scheduled on the activities timetable the municipal government will issue the invitations to public biddings for the provision of goods and services for the project in compliance with the bidding regulations agreed with the IDB.
- 6.13 When the tenders have been received, the municipal government will award the contracts involved when it has been authorized by DIDER to do so. For international biddings DIDER will obtain a declaration of eligibility of the project from the IDB.
- 6.14 If a municipal government does not sign a contract whose award has been authorized by DIDER, it must so advise the latter immediately and explain its reasons for not doing so, so that appropriate action may be taken.

- 6.15 The municipal government must provide to DIDER in good time the periodic information needed to monitor the physical progress of execution of the project and of the state of the investments carried out for its execution. This information will serve as a basis for the measures required for execution of the project in accordance with the activities timetable provided by DIDER.
- 6.16 The municipalities will send DIDER full supporting documentation for payments made in the course of project execution.
- 6.17 The technical units will take provisional and final receipt of works in accordance with the general administrative conditions.

VII. COMPLEMENTARY SUPPORT TO THE EXECUTION OF A PROJECT

- 7.1 A municipal government must give DIDER its commitment to take the following measures of complementary support for the execution of a project:
 - a. Prior to commencement of the works, it will hold a meeting with the beneficiaries to explain the following aspects: (i) a description of the project, (ii) the benefits that will accrue from the project, (iii) the modality of assignment, (iv) the part the beneficiaries are expected to play in the enlargement of their housing units, and (v) the services that the municipality will provide for the enlargement of their units.
 - b. With delivery of the title of ownership of the land, the beneficiaries will also be provided with, at least, the following instructional material: (i) a brochure explaining the use of the infrastructure, and (ii) standard enlargement plans.
 - c. After the works have been delivered, another meeting will be held with the beneficiaries to review the material covered in the meeting before the project was begun and to provide instructions on the care and maintenance of the infrastructure, community services, and areas of greenery.
- 7.2 The municipal government must have a technical assistance mechanism, set up either directly or under an agreement with some other entity, to perform the following services:
 - a. An on-site survey of existing structures.
 - b. A study of housing unit enlargement projects.
 - c. Preparation of plans and technical specifications.
 - d. Advisory services in the processing of municipal permits.

- e. On-site technical assistance during construction.
- f. Replying to specific inquiries by beneficiaries.

VIII. AMENDMENTS TO THE REGULATIONS

- 8.1 All amendments to the Regulations must be previously approved by the IDB.

PROPOSED RESOLUTION^{1/}

CHILE. LOAN TO THE REPUBLICA DE CHILE
Phased low-cost housing and barrio improvement 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 Republica de Chile, as Borrower, for the purpose of granting it financing to contribute to the execution of a program to improve health conditions for low-income population groups, hereinafter referred to as "the program". This program will be implemented in the form of two subprograms, one covering serviced sites for low-cost housing, (hereinafter referred to as "Subprogram A") and the other covering the upgrading of existing barrios (hereinafter referred to as "Subprogram B"). This financing shall be subject substantially to the following conditions:

1. Amount and currencies: Up to US\$50,000,000 or its equivalent in other currencies, except that of Chile, which are part of the ordinary capital resources of the Bank, to pay for goods and services acquired by international competitive bidding in the member countries of the Bank and for such other purposes as may be specified in the loan contract. Payments of amortization and interest shall be made in the currency or currencies specified by the Bank, in a quantity equivalent to the corresponding amount owed, calculated in units of account in terms of dollars of the United States of America, in accordance with provisions to be included in the loan contract.
2. Source of funds: The ordinary capital of the Bank.
3. Guarantee: The general responsibility of the Borrower.
4. Credit fee: 0.75% per annum on the undisbursed portion of the financing, which fee shall commence to accrue 60 days after the date of

^{1/} The provisions contained in this Appendix I and in Appendices II and III will become final only when the Board of Executive Directors has approved the loan proposal.

the loan contract and shall be payable in dollars of the United States of America on the same dates as the interest.

5. Amortization: The Borrower shall amortize the loan in a period of 25 years from the date of the loan contract, by means of semiannual, consecutive and, insofar as possible, equal installments. The first installment shall be paid on the first interest payment date, six months after the date scheduled for the last disbursement of the financing.
6. Interest: The Borrower shall pay interest semiannually on the daily outstanding balances of the loan. The first payment shall be made six months after the date of the loan contract. The Bank shall determine the rates of interest to be applied during the life of the loan, in accordance with the lending rate policy of the Bank.
7. Physical initiation and disbursement: The term for physical initiation of all the projects shall expire four years after the effective date of the loan contract and the term for disbursement of the financing shall expire five years after that same date.
8. Special conditions:
 - (a) The program shall be executed and the loan proceeds utilized in their entirety by the Borrower through the Ministerio de Vivienda y Urbanismo for Subprogram A and the Ministerio del Interior for Subprogram B (hereinafter referred to collectively as the "executing agencies").
 - (b) The proceeds of the loan shall be used to participate in the execution of a program, the total cost of which is estimated at the equivalent of US\$150,000,000. Consequently, the loan contract shall contain the appropriate provisions to ensure that such additional resources as may be necessary, in addition to the loan, for the complete execution of the program shall be duly provided, in an amount estimated at the equivalent of US\$100,000,000, in accordance with a schedule of investments satisfactory to the Bank.
 - (c) (i) Prior to the first disbursement of the financing for Subprogram A, the Borrower, through the Ministerio de Vivienda y Urbanismo, shall: (1) demonstrate to the satisfaction of the Bank that the technical secretariat that is to supervise subprogram execution has been set up and is adequately staffed and operating; (2) demonstrate to the satisfaction of the Bank that it has placed into effect the operating regulations for the subprogram previously agreed upon with the Bank, which shall contain, *inter alia*, the project selection criteria; (3) present to the Bank for consideration the works supervision program, including resource allocation criteria and supervision procedures; and (4) present to

the Bank for consideration the methodology to be used to assess the value of land contributed by the public sector where works under this subprogram are to take place.

- (ii) Prior to the first disbursement of the financing for Subprogram B, the Borrower, through the Ministerio del Interior, shall demonstrate that it has placed into effect the operating regulations of the subprogram previously agreed upon with the Bank, which are to include, *inter alia*, the project selection criteria.
- (d) Subject to approval by the Bank, the financing proceeds may be drawn on in the amount of up to the equivalent of US\$3,350,000 for Subprogram A and US\$1,650,000 for Subprogram B to cover expenses incurred in respect of direct construction costs carried out within the twelve-month period prior to the date of this resolution.
- (e) In the acquisition of machinery, equipment, and other goods for the program, and in the awarding of construction contracts, the system of public bidding shall be followed in each case in which the value of such acquisitions exceeds the equivalent of US\$250,000 or the value of such contracts for the execution of works exceeds the equivalent of US\$1,000,000. The bidding shall be subject to the procedures to be appended as an annex to the loan contract.
- (f) The Bank shall establish such inspection procedures as it deems necessary to assure the satisfactory execution of the program and the Borrower shall extend all cooperation which is required for the most effective accomplishment of this purpose. From the amount of the financing the sum of US\$500,000 shall be allocated for credit to the income accounts of the Bank to meet expenses of general inspection and supervision.

RECOMMENDATIONS

- A. It is recommended that the following conditions, to be met to the Bank's satisfaction, be included in the loan contract, in addition to those set forth in the proposed resolution:
1. Unless the Bank agrees otherwise, prior to issuing each call for public bids for works construction under the program, or, if there is no need for public bids, prior to the initiation of the works, the Borrower, through the executing agency, shall submit to the Bank for each works project:
 - (a) the general plans, specifications, budgets, and specific requirements and other documents needed for the call for bids; and
 - (b) evidence that it has the legal possession or the necessary rights to the land required for construction.
 2. Prior to the first call for bids under Subprogram A, the executing agency shall present to the Bank the bidding documents to be used for competitive bidding processes under this subprogram, including the criteria for the evaluation of bids.
 3. The Bank may authorize for each of the subprograms an advance of up to 20% of the amount of the financing.
 4. The Borrower undertakes to make available such funds as may be required in addition to the local counterpart funds, and to have the necessary mechanisms in place to give the beneficiaries of the relocation projects under Subprogram B access to acceptable housing at least equivalent to what they had previously. Both the funds and the mechanisms are to be in place at the time when each relocation project is carried out.
 5. The Borrower shall undertake to adopt the appropriate legal measures to ensure that the public or private organizations in charge of the operation, administration and maintenance of the urban infrastructure works: (a) maintain and operate such works in accordance with generally accepted technical standards; and (b) permit the Bank to carry out inspection visits. If the inspections or reviews conducted by the Bank should indicate that the maintenance referred to in subsection (a) above is being carried out to a lesser standard than that agreed upon, the Borrower shall take the necessary steps to see that the deficiencies are fully corrected.

6. The respective executing agencies of the subprograms shall present annually, within the first two months of each calendar year, once the first year of execution has elapsed under each of the subprograms and until the year following the year of the final disbursement, detailed reports on: (a) Subprogram A: (i) the delivery of titles to the beneficiaries; and (ii) the provision of community facilities, public utilities and infrastructure to complement the projects; and (b) Subprogram B: (i) the delivery of titles in cases where land is untitled or the beneficiaries are rehoused; and (ii) the provision of public utilities and infrastructure to complement the projects.
 7. The local counterpart funding may be drawn on in the amount of up to the equivalent of US\$6,650,000 for Subprogram A and up to the equivalent of US\$3,350,000 for Subprogram B, to finance expenses incurred under the subprograms before the date of the resolution but after January 16, 1992, in respect of engineering and administration, direct construction and concurrent costs, provided that requirements substantially similar to those set forth in the resolution and in the loan contract have been fulfilled.
 8. Within the first 120 days of each year, for each one of the subprograms during execution thereof, the Borrower shall present to the Bank financial statements audited by the Office of the Contraloría General de la República. The first financial statements presented are to cover the first year of execution of each subprogram.
- B. The loan contract shall include an annex substantially similar to Appendix III of this document.

THE PROGRAM

Annex A to the loan contract

I. Purpose

- 1.01 The main purpose of the Program is to support the Borrower's efforts to reduce the housing deficit and improve health standards in existing housing inhabited by low-income families now living in unhygienic or overcrowded conditions. The Program is intended to benefit approximately 50,000 families, 27,000 of them under Subprogram A and 23,000 under Subprogram B.

II. Description

- 2.01 Subprogram A calls for providing eligible families with a basic housing environment consisting of a serviced site with roads and walkways, infrastructure for drinking water, sewerage and electrical connections; basic community facilities and a living space of approximately 13 m², including a bathroom, a multipurpose room and in-house connections to infrastructure. This subprogram represents the first stage of the Borrower's low-cost housing Program. Prospective beneficiaries are to have access to a second stage, to be financed with national funds, whereby additional financing would be made available to complete the housing units.
- 2.02 Subprogram B calls for improvements in the quality of life of extremely poor population groups living in unhygienic conditions. It also calls for several projects to be executed, taking into account existing infrastructure in each barrio and the features of land tenure. All housing is to meet basic health standards, with a sanitary core unit covering an area of at least 6 m², consisting of a space for a bathroom, a space for a kitchen with sink connections, and in-house connections to water, sewer and electricity utilities. Each project is to include basic services including, in addition to those already noted, storm sewers, roads and walkways, and basic signalization and fencing.

III. Program cost and financing plan

- 3.01 The total cost of Subprograms A and B is estimated at the equivalent of US\$100 million and US\$50 million respectively. Below is a tentative financing plan by investment category.

**Cost and Financing of the Phased Low-cost Housing Subprogram
(US\$000s)**

Investment Category	Bank	Local	Total	%
1.0 Engineering and Administration	---	3,000	3,000	3.0
2.0 Direct Construction Costs	33,165	48,810	81,975	82.0
3.0 Concurrent Costs	---	9,180	9,180	9.2
3.1 Studies	---	70	70	
3.2 Land	---	9,110	9,110	
4.0 Financial Costs	335	5,510	5,845	5.8
4.1 Bank Interest	---	5,010	5,010	
4.2 Credit Fee	---	500	500	
4.3 Inspection and Supervision	335	---	335	
TOTAL	33,500	66,500	100,000	100.0

**Cost and Financing of the Barrio Improvement Subprogram
(US\$000s)**

Investment Category	Bank	Local	Total	%
1.0 Engineering and Administration	---	1,800	1,800	3.6
1.1 Engineering and Architectural Designs	---	150	150	
1.2 Administration and Supervision	---	1,650	1,650	
2.0 Direct Construction Costs	16,335	29,934	46,269	92.5
3.0 Concurrent Costs	---	700	700	1.4
3.1 Land	---	60	60	
3.2 Titling	---	590	590	
3.3 Technical Assistance	---	50	50	
4.0 Financial Costs	165	1,066	1,231	2.5
4.1 Bank Interest	---	932	932	
4.2 Credit Fee	---	134	134	
4.3 Inspection and Supervision	165	---	165	
TOTAL	16,500	33,500	50,000	100.0

IV. Calls for bids

- 4.01 When the goods or services which are to be purchased or contracted for which contracts are financed in whole or in part using foreign exchange from the financing, the procedures and the specific bidding conditions for the call for bids or other forms of purchase or contracting must permit the free competition of goods and services originating in the Bank's member countries, including those relating to transport and insurance. Accordingly, no conditions may be imposed in such procedures or specific bidding conditions that might limit or restrict the offering of goods or the participation of contractors from those countries.

V. Selection and hiring of consultants

- 5.01 With respect to consulting services financed with the local counterpart funds, the Bank reserves the right to review the names and backgrounds of the firms or individual consultants selected, the terms of reference and the agreed upon fees. As a result of the review, the Bank may object to certain consulting services being considered part of the local counterpart. If this is the case, the Borrower may opt to reduce the loan from the Bank in order to maintain the percentage of financing in relation to the total cost of the Program in line with that which is indicated in section 3.01 of this annex.