

PROGRAM FOR THE INTEGRATION OF IRREGULAR SETTLEMENTS

(UR-0123)

EXECUTIVE SUMMARY

Borrower and guarantor:	The Eastern Republic of Uruguay	
Executing agency:	Office of Planning and Budget (OPP)	
Amount and source:	Borrower:	US\$ 33 million
	IDB:	<u>US\$ 77 million</u>
	Total:	US\$110 million
Financial terms and conditions:	Amortization period:	25 years
	Grace period:	5 years
	Disbursement period:	5 years
	Commitment period	4 years
	Interest rate:	variable
	Inspection and supervision:	1%
	Credit fee:	0.75%
	Currency:	US dollars from the Single Currency Facility
Objectives:	<p>The general objective of the program is to improve the quality of life of the residents of irregular settlements in Uruguay, promoting their physical and social integration into their urban surroundings. In addition, to reduce the growth of this problem in the future, the program seeks to: (i) improve targeting and coordination of government policies aimed at reducing urban poverty; (ii) promote changes in urban development regulations and in institutional policies and mechanisms in the housing sector in order to increase the availability of developable land and low-income housing; and (iii) coordinate actions by the public sector and civil society organizations, encouraging community organization and social integration in the communities which the program benefits.</p> <p>Among various goals, the program will seek to reduce the growth rate of the settlements, and of the families living in them, to less than 5% annually. In addition, neighborhood improvement works</p>	

will directly benefit approximately 100 settlements, with nearly 10,000 families, or 30% of the total population living in such settlements throughout the country.

Description:

To achieve the proposed objectives, comprehensive neighborhood improvement projects and activities to prevent the growth of such settlements will be implemented, including improvements in low-income housing policy. The program will function as a nationwide funding mechanism for neighborhood improvement projects that will be designed and executed by central and departmental government agencies. The program consists of the following components:

1. **Neighborhood improvement** (US\$92.4 million). This component funds comprehensive interventions in selected settlements, including: (a) direct investments in infrastructure, community facilities, and social services, in addition to support for families in regularizing the legal status of their properties in eligible settlements; (b) supplementary works, comprising works and services located outside the settlement areas that are necessary in order to create connections to services outside the settlements and complement the works within them; and (c) community development and preinvestment, which will be an integral part of all of the projects, including preinvestment proposals and studies, community development activities and monitoring and supervision of works. Community development includes: (i) environmental and health education; (ii) establishment of health and other social services for youth and children; (iii) support for families requiring relocation within their settlements; and (iv) vocational and other training.

The types of works and services eligible for funding are: (i) **infrastructure**: water supply, sewerage, storm drainage, roads, electric power, street lighting, environmental protection and public squares and playgrounds; (ii) **community facilities**: daycare centers, schools, health care centers, community centers and sports facilities; (iii) **resettlement**; and (iv) **titling**: technical and legal assistance for titling of properties in the settlements.

2. **Preventive strategies** (US\$2.5 million). This component consists of promoting changes in current policies and practices which contribute to the irregular settlement problem, including: (i) **review of municipal and central government urban development policies**, and a **proposal for a review of the regulatory, financial and institutional framework in the housing** sector, including identifying means of developing this

market, reducing construction costs, increasing private-sector participation in funding for housing, and increasing available land and housing opportunities for low-income populations; (ii) a **rent guarantee fund**, including a feasibility study and potential creation of a rent guarantee mechanism for low-income families; (iii) **institutional strengthening** for organizations participating in the program; and (iv) a **monitoring system** to provide the basis for monitoring the quality of the program activities and overall program impact on the problem.

Role of the project in the Bank's country and sector strategy:

The Bank's strategy for Uruguay focuses on supporting: (i) deepening structural reforms, in particular of the public sector; (ii) initiatives to improve the environment for increased private investment; and (iii) improving the availability and quality of social services, increasing their efficiency and targeting them more precisely, in order to maintain the favorable levels that the country has achieved and succeed in maintaining the human capital needed for sustainable growth.

The proposed program seeks to improve targeting and linkage among the agencies responsible for the government's social policy and to improve the quality and efficiency of the social services either directly provided or funded by them. It will supplement other lines of social action already funded by the Bank, particularly in the areas of health, education and citizen security.

Environmental and social impact review:

The Committee on Environment and Social Impact (CESI) reviewed and approved the program, having determined that: (i) the environmental and social impact of the program will mainly be positive; (ii) any negative impact is minor and will be adequately mitigated; (iii) the program includes appropriate procedures for project approval and environmental monitoring; and (iv) the family relocation procedures are consistent with the respective Bank's policies (see paragraphs 4.21 and 4.22).

Benefits:

The main benefits of the program relate to improvements in the standard of living of the inhabitants of irregular settlements and of the surrounding neighborhoods. Health conditions are expected to improve, as directly reflected in health indicators, due to environmental sanitation works. The social services that are to be implemented in the settlements will: (i) lead to improvements in the educational levels of the children and youth served by the schools; (ii) offer activities for youth in recreation and sports, helping to prevent delinquency and supplement

schooling; (iii) promote improvements in health and development in the children served by child care centers; and (iv) train and prepare youth for work, among other benefits. These improvements will be reflected in increased income for beneficiary families, contributing to reducing their poverty levels. Under the urban approach, the introduction of new housing policy instruments and the use of more modern and flexible forms of control over the occupation and use of land will give the local and national governments the means necessary to systematically address the problem of urban marginalization, which is one of the country's main social priorities.

Risks:

Institutional scheme: The program will be executed in a decentralized manner. In addition, the neighborhood improvement projects will need to be supplemented by social programs operated or funded by various national and departmental institutions. The risks involved relate to the possible lack of coordination among these institutions or a lack of efficiency or promptness in the performance of the coexecuting agencies. These risks have been mitigated by: (i) establishing a linkage system (the program's coordinating unit) as part of the Office of Planning and Budget (OPP), which occupies an appropriate position in the institutional hierarchy to coordinate the activities of institutions in various sectors; (ii) requiring that the institutions involved make a formal commitment to operation and maintenance before the decision can be made on funding the services; and (iii) establishing the alternative that allows the Program Coordinating Unit (PCU) to act directly in project execution, in the event that the coexecuting agencies do not meet the expected level of efficiency for project execution.

Project approval: Urban development activities in the settlements require prior permits from the local authorities in order to carry out works and for regularizing subdivisions. The development standards of the program settlements are, by definition, below the normal standards for subdividing property, which is a particularly critical issue in the case of Montevideo, where the majority of the settlements are located. Thus, possible problems in obtaining municipal permits could slow the execution of the program, especially in the capital. To minimize this risk, two strategies have been adopted: (i) to allow departmental governments to submit proposals for regularizing settlements, especially those that are on municipally-owned land, thereby increasing the interest and involvement of departmental governments in relaxing their regulations; (ii) to require, as a

condition for the departmental governments to receive funding from the program, that they commit to revising their land subdivision regulations and create formal exceptions to current regulations for approval of the projects under the program.

The proximity of elections may make it difficult for the various parties involved at the national and departmental levels to come to an understanding. However, there is a common interest here and a consensus regarding the objectives and content of the program, and a normal implementation process is anticipated, based on the projects that have so far been agreed upon. In addition, annual technical reviews by OPP and the Bank will allow any necessary operational adjustments to be made, without affecting the program objectives agreed upon.

**Special
contractual
clauses:**

Conditions precedent to the first disbursement:

(i) official establishment of the program coordinating unit (PCU) and hiring of its strategic staff (see paragraph 3.7); and (ii) entry into force of the program's operating regulations agreed upon (see paragraph 3.8[d]); (iii) submittal of the Project Preparation Guidebook to be used for the program (paragraph 4.9); and (iv) approval of the annual operating plan for the first year of the program (paragraph 3.26).

Other conditions:

Within six months after signature of the loan contract, the OPP must have hired the essential UCP technical staff indicated in the Organization and Functions Manual.

**Poverty targeting
and social sector
classification:**

This operation qualifies as a project designed to reduce poverty and increase social equality, as described in the key objectives for the Bank's activity set forth in the report on the Eighth Replenishment (document AB-1704).

The program also qualifies as a poverty-targeted investment, since to be eligible for funding, the projects must serve marginal neighborhoods and demonstrate that there are significant basic sanitation problems, a criterion that is consonant with paragraph 2.15 of the above-mentioned document. The country has elected to use the additional 10% funding (see paragraph 4.23).

**Exceptions to
Bank policy:**

None

Procurement:

The Bank's procedures for international public bidding will be followed when estimated contract amounts exceed US\$1.5 million for construction contracts, and US\$250,000 for procurement of related goods and services. Bidding for amounts less than these thresholds will proceed pursuant to local legislation, provided that such legislation does not conflict with the principles of the Bank's procurement policy.

The selection and hiring of consultants will be carried out in accordance with the Bank's procedures, pursuant to Annex C to the loan contract. The international public bidding procedures will be followed when funding resources provided by the Bank are being used and the estimated contract amounts exceed US\$200,000. The selection of consulting firms when the cost is less than US\$30,000 may be carried out through price competition between those firms that meet the technical specifications requested. It is recommended that an ex post review be conducted of procurement under the program (see paragraph 3.22).

I. FRAME OF REFERENCE

A. The nature of the problem

- 1.1 Uruguay's social indicators are relatively positive, and the housing deficit is relatively small. However, a number of studies show that the deficit increased between 1985 and 1995, a period during which the economy grew at an average annual rate of 3.3% while the population grew at a rate of only 0.52% annually, resulting in an increase of more than 2.5% annually in the per capita GDP. Despite these facts, changes in the economy – in particular, changes caused by increasing openness to foreign trade – have generated pockets of unemployment and have impoverished some groups among the low-income population.
- 1.2 As a result of these economic factors and various distortions in the housing sector, there is a proliferation in the number of irregular settlements, especially in the outlying areas of the Montevideo and other cities in the country. A recent study by the National Institute of Statistics estimated that some 35,000 families, or approximately 115,000 individuals in the country, live in irregular conditions. Of these, close to 30,000 are in and around the capital.
- 1.3 Typical conditions in the settlements include economic and social marginalization, irregular land ownership situations and substandard sanitary and environmental conditions. The population in these settlements comprises low-income families who do not have the means to acquire their own housing or pay rent, young couples and families who are not able to gain access to the government's social housing programs. According to a recent survey among residents of these neighborhoods in Montevideo, the factors accounting for the decision of the families to move to an irregular settlement are:

Table 1-1:
Settlements in Montevideo: Reasons for moving to the settlement (1994)

REASONS	% of total
1. <i>Economic problems</i>	50.7%
1.1 Work and family problems; unable to pay rent	40.4%
1.2 Eviction; demolition of former housing	10.3%
2. <i>Social advancement/Personal reasons</i>	41.5%
2.1 For "independence"	31.2%
2.2 To be in "better" neighborhood or housing	10.3%
3. <i>Other</i>	7.8%
Total	100.0%

1.4 The predominance of economic reasons, such as unemployment and the inability to continue paying rent, shows that the settlements are extreme options for people with financial difficulties. There is also a large number of people who say that they have greater "independence" in the settlements, which is explained by overcrowded conditions (more than one family in a housing unit) among poor families.

1.5 In terms of infrastructure, the elements most commonly lacking in the settlements relate to the lack of proper sewage systems and poor road conditions, which create public transportation and garbage collection problems. The most important social needs identified in these areas are lack of services for children, such as day care facilities, schools, recreational activities, and supplementary education for young adults and children. The irregular nature of the settlements leads, in nearly all cases, to a lack of health care facilities and schools within the settlements.

B. Causes of the problem

1.6 The existence of irregular settlements is associated primarily with economic realities that make it less possible to acquire real estate in the regular market, and make it impossible to pay market-rate rent – factors that have even affected the lower middle class. The insufficient availability of developable lots and housing affordable to middle- and low-income segments of the population is a factor in creating this situation. These limitations are due to institutional factors of a legal, economic and political nature.

1.7 The **juridical framework is obsolete**, as can be seen in the inflexibility of national legislation¹ and municipal ordinances that deal with land use requirements, subdivision of property and housing construction. These restrictions

¹ In particular, the Law of Populated Areas, dealing with general regulations on demarcation of urban areas establishes, among other elements, principles and size restrictions for subdividing property.

generally reduce the amount of land available for development and make development more costly. The principal effects are: (i) increased *unit cost of lots* due to the need to comply with strict requirements for land development (minimum lot size, size of public roads, designation of areas for public use, etc.); (ii) *excessive cost involved in the administrative procedures* that are needed to obtain permits for subdividing and for building on the land once it is subdivided; and (iii) *overvaluation of land* in areas where construction is allowed (as is true in Montevideo, where subdivision permits are only granted in the area covered by the general water and sewer plan).

- 1.8 The **high cost of construction** in the country, in comparison with other countries in the region, is related to costs of local industrial inputs and high taxes (especially the value added tax and social security tax). Limited competition between providers of low-income housing and limited availability of loans for real estate, especially in the private banking sector, are also factors. The high cost of construction is also reflected in rents, which are high in terms of affordability to medium- and low-income groups. This is primarily an issue in areas where infrastructure is better, such as the central area of Montevideo.
- 1.9 With respect to the issue of rents, it should be pointed out that since 1974 a regime of deregulation or freedom to set rents has been prevalent (Decree-law No. 14.219 and Law No. 16.462 of January 11, 1994). This legislation provides, among other things, for readjustment of rents based on official price indices. Though the law does not apply to all existing housing stock, since it maintains restrictions that limit rent readjustments to a specific group of renters, it has resulted in significant adjustments in the levels of rent in the market. However, its impact in stimulating new construction of rental units and increasing rental supply on the market has been limited, affecting primarily middle- and upper-income segments of the population. The availability of rentals for the poor population has remained limited as a result of restrictions still in effect on evicting nonpaying tenants, the relatively high cost of construction in Uruguay, and the opportunities for better returns in the upper-income sector. The lack of guaranteed rental housing for young married couples, the elderly or those with unstable incomes has contributed to the problem of access to existing housing, in particular those in the older part of Montevideo, an area that has been progressively deteriorating.
- 1.10 It is estimated that rents as a percentage of household income for the poorest households moved from an average of 20% to almost 50%. Thus, the new legislation seems to have contributed to driving the poor to settlements, as shown by the survey of settlements in Montevideo.
- 1.11 The failure of public policies designed to solve problems of insufficient housing in the capital have contributed to making the problem of the settlements more acute. The **supply of social housing** through government programs has resulted from a continuing lack of coordination between the national and local governments, creating serious difficulties for carrying out plans to construct basic

family units (NBEs) in the capital, which represent the housing system's main response to the settlement problem.

C. Housing policy

- 1.12 The Uruguayan government, with the support of the Bank, is implementing a housing policy based on the Comprehensive System for Access to Housing (SIAM). The system provides different alternatives for each income segment, as follows:

Table 1-2: The Comprehensive System for Access to Housing (SIAM)

Income bracket in readjustable units (RU) ²	Financing strategy
> 60 RU/month (more than US\$1,080)	Financing (unsubsidized) by private banks and BHU. Loans can be rediscounted at the Central Bank of Uruguay (BCU).
30 to 60 RU/month (US\$540 to \$1,080)	BHU and private bank financing rediscounted at the Central Bank of Uruguay and supplemented by demand subsidies (22% to 55% of the value of the property).
< 30 RU /month (less than US\$540)	<u>Basic family units</u> (subsidies up to 93%), with selection based on socioeconomic status of families applying.

- 1.13 The IDB recently conducted an assessment of the SIAM, which demonstrated that it represented a positive step in redefining roles for the private and public sectors, with a focus on defining sector policy, funding and regulation, with decreased participation in direct construction of housing. The number of low-income units built has, in fact, increased, but supply in the capital is still limited due to problems in the Ministry of Housing, Land Development and Environment (MVOTMA) related to negotiations with the Municipal Office of Montevideo on exceptions to subdivision and other regulations. At the same time, the dominance of Banco Hipotecario de Uruguay (BHU) [Mortgage Bank of Uruguay] in financing housing persists, with the result that the special financing rates and conditions it offers make it difficult for the private banking sector to compete, and prevents a potential diversification of sources and better functioning of the housing market.
- 1.14 Though current housing policy provides appropriate options in response to much of the low-income housing demand, it lacks instruments for dealing with the irregular settlement problem. The basic family units (NBEs) account for only a small portion of the demand from residents of the settlements. Families that have been there for many years and have invested significantly in their houses have no

² A readjustable unit is equivalent to approximately US\$18.

incentive to abandon their property and move to NBEs. Another negative factor is the location of the NBEs, which are often built far from areas of employment. However, they do provide an adequate response for the overcrowding problem, serving young families who wish to establish new homes, and poor people whose shelter is far below standard, as well as residents of towns in the interior of the country, where the problem of location within the city is less critical.

D. Program strategy

- 1.15 The irregular settlements should be treated within the broader context of inadequacies in the social system, with urban housing and infrastructure problems being but one among various issues requiring action. The causes of the phenomenon and the strategies to deal with its effects are summarized in the following table:

Table 1-3: Program objectives and strategies

Objectives	Measures
a. Increased supply of developable urban land	-Review of plans for municipal land-use regulations -Special legislation for low-income subdivisions
b. Cost reduction	-Greater supply of funding for housing -Simplification of municipal procedures -Increase efficiency and competitiveness of construction industry
c. Increase in supply of low-income housing solutions	-Broadening of the housing policy -Increased construction of NBEs in Montevideo
d. Action targeting existing settlements	-Neighborhood improvement program designed for settlements with the greatest socioeconomic needs

- 1.16 Increased supply of developable urban land is a function of municipal legislation on land development (land use, subdivision and construction regulations). The program would encourage review of these regulations, making the participation of departmental governments contingent on the adoption of more flexible definitions of suburban and developable areas, and establishing special social-interest areas where lower development standards would be allowed. This would create the conditions for making land available to low-income populations. In the case of Montevideo, the Municipal Office has approved a new land-use plan which contains various initiatives in this regard (see Table 1-4). Another factor in increasing the supply of developable land in the capital city is the Sanitation Plan III, a project that has funding from the Bank (Loan 948/OC-UR), which will significantly increase the area served by the sewer system and hence is considered appropriate for development.
- 1.17 In relation to the procedural costs and restrictions on areas available for development, due to municipal ordinances, the program will require departmental governments, as a condition for participation, (and with technical assistance from

the program to help meet the conditions), to: (a) propose, create and implement revisions of the regulations that simplify and liberalize standards and procedures for approval of subdivisions; and (b) review their urban development legislation in order to make more area available for urban expansion and respond to special situations in existing settlements.

- 1.18 In relation to housing policy, the program would promote, as a supplementary measure, incorporating the strategy of serving the irregular settlements, which would receive funds from the National Housing Fund to finance neighborhood improvement projects. The program will be an instrument of institutional articulation between the Ministry of Housing, Land Development and Environment (MVOTMA) and the Municipal Office of Montevideo, facilitating construction of NBEs in the capital, where the demand is greatest. These alternatives would complement the government's low-income housing policy, allowing SIAV to carry out actions to address the needs of families in irregular settlement situations, for which current policy offers no appropriate option.

Table I-4
MONTEVIDEO LAND-USE PLAN

The department of Montevideo includes the greatest concentration of irregular settlements in the country. One of the reasons for this has been the inflexibility of local regulation on urban expansion and subdivisions. The new Montevideo land-use plan opens the possibility for regularizing the situation that has already been created preventing it from growing. The process that has been established is as follows:

Suburban or potentially developable land: Included in this category are areas which, because of their geographic characteristics and their potential for accessing sanitation services, could be incorporated within the city's urban zone. These areas are specifically indicated in the plan and a process allowing them to be converted to urban land will be permitted for these areas.

Urban action plan: In order to carry out this process, the municipality is preparing or requiring the approval of an urban action plan which establishes the particular urban and social interventions for an entire area. In the case of settlements, this includes the surrounding developed area, and defines an integrated intervention strategy, including the provision of infrastructure, services and social management for the *action unit* that has been specifically designated.

- 1.19 The most important investments by the program, however, will be directed to funding highly-targeted infrastructure projects and increasing social services in the settlements, in addition to support for regularizing the legal status of the properties. This combination of actions is indispensable if a sustainable solution is to be found to the social emergency faced by the majority of these communities. The emphasis in the social area would be on efficient delivery of services by public and private institutions, and strengthening of actions by civil society by inviting non-governmental and neighborhood organizations to participate in the program.

E. The Bank's experience in the sector

- 1.20 The Bank has played an important role in the urban sector and in designing national housing policy. The most important projects are: (i) the Program of Strengthening of Social Areas (811/OC-UR), which carried out pioneering

experiments in investing in social projects and in community participation, supported the creation of full-time schools and funded studies on poverty and unfulfilled basic needs; (ii) the Program of Support to the Housing Sector (735/OC-UR and 736/OC-UR), which has contributed to the establishment of SIAV, which represented the reorganization of the sector, (iii) the Program for Municipal Development III (993/OC-UR), which funds development projects in municipalities in the interior of the country; and (iv) the third phase of the Sanitation Program for Montevideo and the Metropolitan Areas (948/OC-UR), which provides for increasing supply of developable land in the capital.

- 1.21 In designing the present operation, various lessons learned in similar operations have been applied, including: (i) the need to ensure beforehand that social infrastructure and construction activities will be accompanied by operational and maintenance activities; (ii) the advantages and viability of decentralizing the execution of works and services to the departmental governments; (iii) the importance of treating housing issues in an integrated way, giving attention to institutional and regulatory factors; and (iv) the need to coordinate with national and municipal authorities in order to ensure the harmonious execution of urban projects.

F. Bank strategy in the country

- 1.22 The focus of the Bank's strategy is to promote expansion of investment as the engine for growth, with particular emphasis on improving the economy's ability to take advantage of opportunities offered by MERCOSUR and other external markets. To this end, the Bank's assistance will focus on three principal objectives in order to: (i) streamline public spending and achieve fiscal equilibrium by furthering structural reform in the public sector, in particular, the areas of Social Security and Public Administration; (ii) regain competitiveness and promote increased investment through initiatives directed at improving conditions for private investment, including financing of basic infrastructure and implementation of an entrepreneurial development strategy; and (iii) maintain and improve levels reached, to date, in social services, improving the training of human capital in order to compete in the MERCOSUR and in the global environment. This involves improving the quality, efficiency and targeting of social services, especially in education and health, and developing urban and sanitation infrastructure.
- 1.23 The proposed program primarily addresses the strategy of maintaining the pattern of social development, since it seeks to improve the targeting, quality and efficiency of social services for the poorest neighborhoods and those in the country with the greatest needs. The program will complement services offered by the health, education and sanitation sectors, among others, by expanding facilities and funding direct services. It also serves to articulate the government's social policy and its intersector coordination, establishing priorities for services to specific groups and areas, and monitoring performance.

II. THE PROGRAM

A. Objectives and goals

- 2.1 The general objective of the program is to improve the quality of life of the residents of irregular settlements in Uruguay, promoting their physical and social integration with their urban surroundings. As a means of reducing the growth of the problem in the future, the program also seeks to: (i) improve targeting and coordination of government policies directed at reducing urban poverty; (ii) promote changes in urban development regulations, as well as in funding policies and institutional mechanisms in the housing sector, so as to foster increased supply of low-cost land and housing; and (iii) create links between the public sector and civil society, stimulating community organizing and social integration in the communities benefited by the program.
- 2.2 Among other goals (see the Logical Framework in Annex II-1), the program will seek to reduce the growth rate of the settlements and of families living in them to less than 5% annually. In addition, neighborhood improvement works will directly serve close to 100 settlements with approximately 10,000 families, or 30% of the total number of residents living in such settlements in the country.

B. Description of the program

- 2.3 To achieve the proposed objectives, integrated neighborhood improvement projects and actions to prevent the growth of these settlements will be undertaken, including improvements in low-income housing policies. The program will function as a nationwide funding mechanism for neighborhood improvement projects that will be developed and executed throughout the country by the central government and departmental governments.
- 2.4 The components of the program are:
- 1. Neighborhood improvement (US\$92.4 million)**
- 2.5 This funds urban improvement activities and social services in irregular settlements, as well as activities needed to regularize properties and provide titles for the lots occupied by residents. This includes identifying eligible settlements, with investment directed at improving conditions and quality of life for the resident population, as well as the resettling of families in nearby areas in cases where this is necessary for urban development or environmental reasons. The projects will be accompanied by social services and facilities, environmental education activities and support for social organizing in the settlements. The component is divided into:

- a. **Direct investment** (US\$70 million): Works and services to be carried out within the settlements, directly benefiting resident families. The sectors eligible for funding are:
- (i) **Infrastructure:** water supply systems; sanitation (sewer systems, home connections, disposal or treatment); rainwater drainage; roads; electrical energy networks; public lighting; parks; environmental protection; etc.
 - (ii) **Community facilities:** daycare centers; schools; health centers; community centers; sports facilities.
 - (iii) **Resettlement:** this includes the solution of housing problems by construction of housing units, preferably situated in the same area as the settlements, for families that have to be resettled as a result of upgrading of roads or their location in environmentally hazardous areas.
 - (iv) **Regularization of property:** technical and legal assistance for regularization of land in the settlements, including preparation of plans for subdivisions and individual parcels, costs of recording titles or other documents on municipal land rolls and real estate registries as well as other such procedures associated with transfer of title to the occupants of the property.
- b. **Supplementary works** (US\$11.2 million). This relates to works and services, outside the area of the settlements, that are required in order to make the neighborhood improvement projects viable, primarily by establishing connections with sanitation services and roads, water and sewer mains, pumping stations and reservoirs, local treatment plants and drainage works. The total investment in supplementary works will not exceed 12% of the direct costs of the program.
- c. **Community development and preinvestment** (US\$11.2 million). All of the projects will be preceded by preinvestment studies and will include community development activities, as well as providing for supervision of execution of the works and services. The strategy adopted has been to hire a single consulting firm to carry out these three activities for each of the projects, thus ensuring the continuity and technical soundness of the actions. Community development includes follow-up of program implementation in the social sphere in connection with: (i) environmental and health education; (ii) implementation of services for young adults and children and other social services (construction and maintenance of facilities); (iii) support for families that must be resettled within the settlement; and (iv) job training; etc. (see paragraph 2.11).

2. Preventive strategies (US\$2.5 million)

2.6 This involves promoting changes in current policies and practices that are instrumental in either aggravating or helping to solve the irregular settlement problem. This includes the development of instruments and standards aimed at revising and adjusting national and municipal urban policy as well as the institutional framework of the housing sector, in order to implement measures that more effectively address the housing demand of low-income groups. The activities of this component are:

- a. **Review of urban policy** (US\$1.1 million). This includes: (i) technical support for departmental governments participating in the program for **review of urban development regulations and procedures** (development plans, construction regulations governing land use, subdivisions, etc.) in order to bring them up to date and establish strategies to facilitate regularization and prevent the proliferation of irregular settlements (US\$900,000); and (ii) preparation of a **proposal for review of the regulatory, financial and institutional framework** of the housing sector, seeking to identify measures that can energize this market, reduce construction costs, increase participation by the private sector in financing housing, and increase the availability of land and housing solutions for low-income populations (US\$200,000).
- b. **Rent guarantee fund** (US\$500,000). To address the lack of rent guarantees, a problem that brings many people to the settlements, there will be a feasibility study on creating a fund that would provide rent guarantees for low-income families. The fund would be operated by a nongovernmental organization (NGO), and the seed capital would be funded by resources from the local counterpart. The priority area of action would be the old center of Montevideo, where supply exceeds demand and where there is an interest in revitalizing the area.
- c. **Institutional strengthening** (US\$520,000). The institutional strengthening activities will be directed to the organizations and coexecuting agencies participating in the program, such as municipal offices, MVOTMA, etc. They will include training courses and workshops for the technical teams, and short-term technical assistance in specific areas, strengthening of management, procurement of computer equipment and systems, etc. A workshop will be organized for training and publicity purposes at the beginning of the program in order to promote the program and make it more widely known.
- d. **Monitoring system** (US\$380,000). This includes the design and implementation of a system to assess the program's impact through surveys of the beneficiaries. It will seek to do a comparative analysis of the situation of the families before and after the projects are implemented and to assess their effect, particularly in relation to the indicators identified in the logical

framework (US\$200,000). A computer system to carry out program follow-up will also be funded (US\$30,000), as well as a study on the growth rate and other aspects of the settlements (US\$150,000).

C. Resource allocation and selection of projects

- 2.7 The program will be open to all of the settlements proposed by the departmental governments and state institutions, provided that they meet the program's qualification and eligibility criteria. The program consists of a project with multiple works designed to serve the greatest possible number of poor families. Hence, prioritization of the settlements will take the following indicators into account: (i) percentage of children under 10 years old (a needs indicator); (ii) percentage of single parent homes with women heads of household (poverty indicator); (iii) smaller average area of lots (need and efficiency); and (iv) smaller number of resettlement necessary (efficiency).
- 2.8 Based on the distribution of the settlements, it has been established that **70% of the program's resources should be allocated to projects in the metropolitan Montevideo region**. This figure corresponds approximately to the geographic distribution of the country's settlements.

1. Prequalification and eligibility criteria

- 2.9 The program settlements will be selected through a two-phase process: (i) prequalifying the settlements, which is to be done for the purpose of funding preinvestment, and (ii) technical analysis, carried out for the purpose of funding the investment projects, based on the execution proposals and studies carried out in the preceding phase. The criteria used in both phases are set forth in the operating regulations and are summarized in Table II-1.

Table II-1: Criteria for selection of projects

PRESELECTION OF SETTLEMENTS
<ul style="list-style-type: none"> – More than 50% of housing units have no sanitation service; – Settlement began (half of the families settled) before January 1996; – At least 40 families settled there and lots are 75% occupied; – Situated in an urban center of more than 10,000 population; – Ownership of the property is not under litigation; and – Settlement is not in an ecological reserve area.
ELIGIBILITY OF PROJECTS
<ul style="list-style-type: none"> – Direct cost (excluding supplementary works) per lot benefited is less than US\$7,000 a/. – Settlement should be near water supply, sewer and road networks, or it should be possible to provide such services within the investment-per-lot limit. – Scaling of the components to correspond to demand for the services; solutions must involve minimal cost, based on an analysis of alternatives. – The neighborhood subdivision project must be accepted by the departmental government, and public service arrangements must be accepted by their operating entities before a project's works are begun. – Submission of environmental impact report, and incorporation within the project of environmental protection measures. – Not located in areas of natural risk (landslides, floods, etc.), or if risks exist, their mitigation is to be included in the project. – If families are required to relocate, there must be resettlement plans in accordance with Bank policy. – Approval by 70% of families in the neighborhood. – Includes community development activities and a scheme for funding and operating social services.

a/ If costs exceed this amount, a project could be included if its internal rate of return, according to a complete cost-benefit analysis, is at least 12%.

D. Strategy and methodology for community development

- 2.10 The objective of the community development component is to stimulate the process of social integration of the beneficiaries and guarantee the sustainability of the investments that have been made in the settlements. A participatory methodology will be used, in which the population of the settlement is informed and consulted on the implementation of the program in the neighborhood, and in which the population participates in making decisions on priorities for community facilities and other investments. To support the process of community organizing, neighborhood organizations will be encouraged to form or will be supported as a strategy to ensure the sustainability of the works.
- 2.11 Among the most significant activities planned are **environmental and health education**, including education for the maintenance and conservation of the works and services provided. Community agents will be trained, and committees will be established that will be responsible for: (i) overseeing the execution of infrastructure works; (ii) enforcing measures to reduce crime and violence; (iii) keeping the settlement clean; and (iv) promoting recreational activities. A **community fund** will also be established in each settlement in order to finance activities that benefit the population and to maintain the works.

- 2.12 In the case of families that must be **relocated** within the settlement, the social team (which will include the consulting firm responsible for preparing the project studies and design) will be responsible for examining the situation and identifying the effects that the relocation will have on the families involved, as well as providing housing during the period in which a housing unit is being built on the new lot and support for the move.
- 2.13 In terms of **social services**, the program will promote a coordinated effort, so that sector institutions and social programs at the national and local levels will offer or expand their services in the program's settlements. In some cases, the program will fund the physical infrastructure necessary for such services to function, or will finance the expansion of existing facilities. Thus, many of the problems identified, such as addiction, physical and sexual abuse, domestic violence, early pregnancy, lack of health services, education, child care, etc. will be addressed by the appropriate institutions in each sector. However, it will be a condition that these institutions make a commitment to the operation and maintenance of the services before the physical investments are made.
- 2.14 Supplementary social services, intended to increase employability and the quality of life of the residents, will be carried out in the community centers built or expanded by the program in response to the demand for: (i) preparation and counseling for work and for management of productive activities; (ii) development of basic job skills; (iii) educational enrichment and support; (iv) promotion of health and preventive measures; (v) social educational and recreational activities; (vi) counseling and support for victims of domestic violence; and (vii) legal aid. The operators of these services will be civil society organizations, and may be hired to operate the services or to provide counseling so that the beneficiaries can receive services from government agencies and participate in existing social programs.

E. Cost and plan for funding

1. Cost of the program

- 2.15 The total cost of the program is US\$110 million, of which US\$77 million would be funded by the Bank with ordinary capital funds. The breakdown by investment categories and funding sources is shown in Table II-2.

TABLE II-2: Total program cost and its funding
(US\$ million)

CATEGORIES	IDB/CO	LOCAL	TOTAL	%
1. Engineering and administration	2.25	1.65	3.90	3.5
1.1 Program coordinating unit	2.25	1.65	3.90	
2. Direct costs	66.55	28.35	94.90	86.3
2.1 Neighborhood improvement	65.30	27.10	92.40	84.0
2.1.1 Direct investment	56.20	13.80	70.00	
2.1.2 Complementary works	3.00	8.20	11.20	
2.1.3 Community development and preinvestment	6.10	5.10	11.20	
2.2 Preventive strategies	1.25	1.25	2.50	2.3
2.2.1 Review of urban policies	0.40	0.70	1.10	
2.2.2 Rent guarantee fund	0.20	0.30	0.50	
2.2.3 Institutional strengthening	0.27	0.25	0.52	
2.2.4 Monitoring system	0.38	-	0.38	
Subtotal	68.80	30.00	98.80	89.8
3. Financing costs	7.70	3.00	10.70	9.7
3.1 Interest	7.00	-	7.00	
3.2 Credit fee		3.00	3.00	
3.3 FIV	0.70	-	0.70	
4. Replacement of the PPF	0.50	-	0.50	0.5
TOTAL	77.0	33.0	110.0	100.0
percentages	70.0	30.0	100.0	

- 2.16 Local counterpart funds will be contributed by the national government. Some of these are already in the five-year budget that is in effect. In addition to this counterpart, the government has mobilized resources from other operations (735/OC and 736/OC-UR) and from the National Housing Fund in order to finance NBEs for families living in irregular settlements, supplementing the actions of this program.

III. PROGRAM EXECUTION

A. Strategy and responsibility for implementation

- 3.1 The procedures for execution of the program will be flexible, based on plans of action agreed upon in annual reviews carried out by the government and the Bank. These reviews will be based on experience from other programs, as expressed in follow-up and assessment reports produced yearly. The annual operating plans (AOPs) allow for adjustments in program execution in order to ensure consistency with its overall objectives and provide for any corrections that may be indicated.

1. Responsibility for execution

- 3.2 The **borrower** is the Eastern Republic of Uruguay, which has designated the Office of Planning and Budget (OPP) as the entity responsible for execution. For this purpose, the OPP will establish a **coordinating unit for the program**, which will function as a window for funding and technical support in project execution.
- 3.3 The program's **coexecuting agencies** are the public entities representing projects and receiving program funds to carry them out. Eligible coexecuting agencies include the Ministry of Housing, Land Development and Environment (MVOTMA), the Ministry of Transportation and Public Works (MTOP) and the departmental governments. Each will work in the settlements that are within its jurisdiction or area of action, or that have been set up on property it owns. Coexecuting agencies' responsibilities are (i) promoting the program in the communities of those living in irregular settlements; (ii) formulating (through consulting firms hired for the purpose) and submitting to the program's coordinating unit feasibility studies and final project designs; (iii) selecting and contracting for works, goods and services for the execution of projects; (iv) supervising the implementation of projects; and (v) overseeing post-works activities that involve community management and regularization of property, with support from the coordinating unit.
- 3.4 For the purposes of inter-institutional coordination and technical and strategic supervision, the program will have an Executive Committee (EC) composed of the Director of the OPP, who will serve as the chair, the program's general coordinator and one representative each from MVOTMA, MTOP and the National Congress of Local Government Heads (CNI). The EC's principal functions will be to: (i) carry out intersector coordination; (ii) designate and approve the program's policies and regulations; (iii) assess the performance efficiency of each of the components; (iv) coordinate the use of financial resources used for supplementary purposes; (v) approve the annual operating program; and (vi) formulate proposals and regulations in connection with preventing new settlements.

a. Program coordinating unit (PCU)

- 3.5 The main functions of the PCU are: (i) selection and analysis of projects; (ii) managing the prevention component (proposal writing, contracting for studies, etc.); (iii) technical support for coexecuting agencies in carrying out projects; (iv) operational and financial administration of the program (handling payments, documenting the use of funds, and ensuring that they are used properly); (v) horizontal coordination for community development activities; (vi) processing and approval of contracts for construction works, advisory activities, training and consulting services; and (vii) preparation of financial statements and reports, program follow-up and assessment, etc.
- 3.6 The PCU will be headed by a general coordinator, assisted by a technical manager, and will be organized into three subdivisions: (i) Prevention, Programming and Studies; (ii) Programming, Preinvestment, Operations and Regularization; and (iii) Administration and Finance. If the services of a purchasing agency are needed to administer only the PCU's expenditures and consulting costs, this cost will be charged against the local contribution.
- 3.7 The Organization and Functions Manual, based on the program's operating regulations, will set forth the functions of the PCU in detail as well as the terms of reference for its staff. **The launching of the PCU, the hiring of PCU managerial staff, and approval of the Organization and Functions Manual constitute conditions precedent to the first disbursement of program funds.**

B. Execution instruments

- 3.8 For the purposes of standardizing funds transfers and the commitments which the coexecuting institutions must observe, three types of agreements with the OPP will be implemented.
- a. **Participation agreements.** These establish the obligations of the OPP and the coexecuting agencies (the latter being the departmental governments and the ministries) to participate in the program. These include: (i) adopting simplified and rapid approval procedures for subdivisions and for regularizing of settlements that fall within the program's area of action; (ii) submitting a plan to revise municipal urban legislation (urban development and land use plan and subdivision regulations) aimed at facilitating urban expansion, preventing irregular settlements and regularizing existing irregular settlements; (iii) properly serving the beneficiary neighborhoods with city cleaning services and maintenance of roads and drainage (in the case of ministries, agreements for transference of these works to the appropriate departmental governments must be submitted). The agreement will make it possible to provide tax exemptions on informal buildings, an important factor in the effort to regularize them.

- b. **Preinvestment agreement.** These agreements will be signed for the funding of preinvestment and follow-up. The program's strategy is to use a bidding process and hire a single firm for each settlement, which will be responsible for project preparation, community development activities and supervision of works (see paragraph 3.11).
- c. **Funding agreements.** These instruments serve to transfer funds for specific projects. They will be signed once the coexecuting agency has met all of the technical conditions for project approval.
- d. **Operating regulations.** The execution of the program will be governed by the operating regulations. This document contains, among other things: (i) the organization of the program, the mechanism for allocating funds; (ii) requirements for entry to the program and for funding of preinvestment and investment projects; (iii) technical, socioeconomic, legal and environmental eligibility criteria; (iv) execution, disbursement, follow-up and assessment mechanisms; and (v) the social development and management methodology for each program, as well as other relevant factors. **The establishment of the operating regulations and its effectiveness constitute a prior condition for the program's first disbursement.**

C. **Execution process of the projects**

1. **Project cycle**

a. **Promotion**

- 3.9 The PCU will be the entity responsible for the general promotion of the program. It will develop, among other things: guides for the formulation and submission of projects (profiles, preliminary proposals and final design); procurement regulations, including a model form for bidding on construction works and procurements, and for the competitive process for selecting consulting firms; and manuals and guides for project monitoring and follow-up. The PCU will also organize a workshop to publicize the program before it begins, targeting the participants and principals involved in execution.

b. **Consultative letter**

- 3.10 At the same time, participation agreements with the coexecuting agencies will be signed, on the basis of which the coexecuting agencies will begin activities to promote the project in the designated settlements. Once the draft projects have been discussed and approved by the beneficiary communities, the coexecuting agency will prepare an consultative letter to the PCU with a proposal for regularization of the settlement involved, including proof that the eligibility criteria and resource requirements for the preinvestment phase have been met.

c. Selection of settlements.

- 3.11 The program will be open to all settlements submitted by coexecuting agencies meeting the program's prequalification criteria. Priority will be given to projects with the greatest socioeconomic needs and that have the best cost-efficiency ratios (see paragraph 2.7). Applications will be analyzed and prioritized by the PCU, and these decisions will be ratified by the EC in view of the program's available resources. Each year, the PCU will set and publicly release the timetable for preinvestment and execution of projects.

d. Preinvestment

- 3.12 Once the project has been preselected, the coexecuting agency, after signing the preinvestment agreement with the OPP, will proceed to announce a competition for consulting services. These contracts will cover the following activities: (i) social promotion, approval of joint projects by the community and execution of community development activities; (ii) formulation of preliminary proposals and execution proposals (and their preliminary approval by the relevant operational entities); and (iii) supervision of neighborhood works. The execution proposal will be produced once the PCU approves the corresponding preliminary proposal.

e. Project Execution

- 3.13 Once the execution proposal has been approved by the PCU, the funding agreement will be signed, establishing the amount to be funded, the timetable for execution and disbursements, etc. Based on these agreements, the coexecuting agencies will proceed to contract for works and services. On an exceptional basis, the PCU may take responsibility for contracting and follow-up of projects if it is found that the coexecuting agencies do not promote or implement them appropriately, compromising the program's technical requirements and deadlines.
- 3.14 Inspection of the execution of works will be handled by professionals contracted by the coexecuting agencies or, when the PCU considers it technically acceptable, by officials of those entities. The operating entities of water, sanitation and electrical energy services, in addition to giving technical approval for the designs, will designate a supervisor for monitoring execution of the works.

f. Operation and maintenance

- 3.15 Once project execution is finalized, the networks that have been built will be handed over to the control of the enterprises that provide these public services (to Obras Sanitarias del Estado, in the case of water and sewer systems, to Usinas y Transmisiones Electricas, in the case of electrical power), to social sector entities (to the Ministry of Health and the Ministry of Education, in the case of schools and medical facilities, respectively) and to the municipal offices (in the case of urban roadways, drainage, lighting and community facilities).

- 3.16 The operation and maintenance of **public services** funded by the program, subject to fees or other direct charges to users, will be the responsibility of the enterprises providing the services, whether public, mixed, private or autonomous municipal entities. The departmental governments will be responsible for the maintenance of services not subject to direct charges (such as drainage and urban roadways). The operation and maintenance of the **facilities used by the community** will be overseen by the neighborhood associations or NGOs responsible for post-construction follow-up in the neighborhood in question. In the case of services maintained by other governmental entities (education, health, child care), a contract will be drawn up between the PCU and the relevant ministry or public agency. When the services are operated by agreement with NGOs, the PCU will participate in the supervision.
- 3.17 In each settlement, a community **social fund** will be set up to finance social services and activities that are of common interest to the neighborhood group. Funds will come from monthly fees charged to beneficiary families and from other sources from which funds can be raised. These fees represent compensation for transfer of land, on a nonpayment basis, to the beneficiaries, in exchange for their participation in maintenance and in community activities in the neighborhood. The fees will be agreed upon among the beneficiaries and are expected to range from an estimated US\$10 to US\$15 per month. The neighborhood associations will be responsible for the administration of the fund, along with the NGOs contracted to serve the neighborhood. The NGOs will utilize transparent mechanisms for the collection and use of, and accounting for these funds.

g. Follow-up and assessment

- 3.18 The PCU is responsible for the follow-up of the program's physical/financial execution. This will be supplemented by assessments of the results achieved, in terms of impact on the quality of life of the beneficiaries, efficiency and effectiveness of the investments, and other elements included in the logical framework. One or more research institutions will be commissioned to do these assessments, and they will be carried out as the projects conclude. The results will be included in the program's semi-annual progress reports.

D. Terms for execution and procurement

1. Execution timetable

- 3.19 It is anticipated that the execution of the program will cover a five-year period, as reflected in the disbursement timetable for the program, which includes the plan for the schedule of works and procurements. The annual works plan will include availability of land and rights of way.

TABLE III-1: Timetable of disbursements

COMPONENTS	CATEGORIES	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Engineering and administration	3,900	780	780	780	780	780
Direct Investment	92,900	6,370	13,370	20,720	29,720	22,750
Prevention	2,500	500	500	500	500	500
Financing costs	10,700	350	2,350	2,500	2,500	3,000
Totals	110,000	8,000	17,000	24,500	33,500	27,000
Percentage	100	7.2	15.5	22.3	30.5	24.5

2. Works, related goods and services

- 3.20 In accordance with the Bank's policy, international public bidding will be employed when funding resources in currency are used and when the estimated contract amounts are more than the equivalent of \$US1.5 million for works or US\$250,000 for procurement of related goods or services. Bidding for lesser amounts will proceed in accordance with local laws, provided such laws do not contravene the principles of the Bank regarding procurement. In all cases where funding resources in currency from the Bank are used, there are to be no restrictions on participation of providers from the Bank's member countries.

3. Consulting services

- 3.21 The selection and contracting of consulting services will be in accordance with procedures envisaged in the Bank's rules for consulting contracts, as illustrated in Annex C of the loan contract. International public bidding will be used when funding resources in currency are used and when the estimated contract amounts are more than US\$200,000. Price will be allowed as a criterion with a maximum weight of 30% in the selection of consulting firms. Likewise, in consulting contracts of less than US\$30,000, price competition between firms meeting the specified technical requirements will be used. See the procurement schedule in Annex III-1.

4. Thresholds for use of the ex post method

- 3.22 Given the large number of goods, works and consulting services that the program will need to contract for in small amounts in order to streamline execution, it is recommended that the nonobjection of the Bank be required only for construction contracts of more than US\$750,000, procurement of goods and services in amounts above US\$100,000, and consulting contracts for individual consultants or consulting firms in amounts above US\$50,000 and US\$100,000, respectively. Except in special cases established beforehand, the Bank's representative in Uruguay will review on an ex ante basis the contracting process for the first five contracts of each type, and will then conduct an ex post review on a semi-annual

and sample basis. If substantial procedural discrepancies are found, the Bank will not recognize such expenditures within the program costs, and the previous review will be used.

5. Revolving fund

- 3.23 Given the nature of the program and the diversity of activities that are expected to be funded, it is recommended that a revolving fund of 5% of the loan amount be formed.

E. Program follow-up

1. Follow-up by the Bank

- 3.24 The program will be supervised by the Bank's Country Office in Uruguay, which will review all technical and financial aspects of 10 of the initial projects during execution. Special attention will be given to meeting conditions established in the operating regulations governing preparation and implementation of projects. It is anticipated that there will be periodic inspection visits and annual assessments to detect and, if necessary, correct problems in execution.

2. Semi-annual progress reports

- 3.25 The borrower, through the PCU, will submit to the Bank within the first 60 days of each half year, a progress report on program execution, indicating actions and activities carried out, use of funds and goods, and goals achieved. The semi-annual report will include the results of the monitoring activities contracted for by the PCU.

3. Operating plans and annual reviews

- 3.26 Prior to the first disbursement, and in the third month of each calendar year, the OPP will submit for the Bank's approval the program's overall and annual operating plans, which are to include: (i) the plan of activities and their respective costs; (ii) the timetable for execution, categorized by activity, and the disbursement plan; (iii) the terms of reference for the anticipated consulting services; and (iv) the procurement plan and schedule with its various phases of implementation. The AOPs will also indicate the anticipated achievement of goals set forth in the logical framework. **The Bank's approval of the AOP for the first year of execution is a prior condition for the program's first disbursement.**
- 3.27 Based on the progress reports and outside audits, the AOP for the given fiscal year will be submitted for the Bank's approval. The management of the previous year as well as the current AOP will be reviewed by the Bank in annual review meetings, to be carried out in the first quarter of each year. In these meetings, consideration will also be given to the possible revision of the percentages of funds distributed in the metropolitan region versus the interior of the country.

F. Accounting and outside audits

- 3.28 The PCU will keep records in which the program expenditures are recorded in accordance with the accounting plan approved by the Bank. The program's financial statements are to be audited on an annual basis by a firm of independent auditors and submitted 120 days after the close of the fiscal year during the execution of the program. After two years, at the request of the borrower, the Bank may review responsibility for auditing.

G. Final assessment

- 3.29 The program's final assessment will have two elements: (a) an assessment upon conclusion of activities, carried out with the resources from the program's funding, in order to assess the results attained and the achievement of objectives established for the period of execution. This assessment will be part of the monitoring subcomponent; and (b) a study of the growth of the settlements and the program's impact, by means of a sampling survey. The survey will be carried out after the disbursement period of the program is concluded and will be funded with national resources.

H. Program preparation status

- 3.30 In preparing the program, the OPP used the services of internal and outside consultants paid for with funds from PPF 1139/OC-UR for US\$500,000. Nearly the entirety of this facility has been used, making it possible to sample 13 projects representing approximately 14% of the program's direct investment. The AOP for the first year is in an advanced stage of preparation. The operating regulations are also in place, as are the model agreements on funding and participation and the project preparation guide.

IV. FEASIBILITY, BENEFITS AND RISKS

A. Project sampling

- 4.1 As part of the viability analysis of this operation, an examination was conducted of 13 projects totaling US\$12.6 million (see Table IV-1). The preparation and analysis of the sample assessed the program's viability, in addition to describing more precisely the type of investment envisaged, the problems and the solutions adopted, and the amount and structure of costs. Maximum cost parameters were developed based on the latter of these factors, and the program's projects are to stay within those limits.
- 4.2 The number of families directly benefited by these projects, living inside the settlements, is 1,442. In addition, the investments from the sample show benefits to families on the immediate outer perimeter of the settlements. In the sample's area of influence, it is estimated that these externalities reach some 550 families.³
- 4.3 The designs of the projects represent minimum-cost solutions to resolve problems of access, sanitation and other issues faced by the beneficiary communities. The estimated costs of investment are reasonable based on recent experience in executing similar works.

B. Economic viability

- 4.4 The economic analysis focused on verifying (i) the profitability of the projects; (ii) the developing of cost-efficiency criteria; (iii) appropriate targeting of low-income groups; and (iv) sustainability of the investments.

1. Cost-efficiency parameters

- 4.5 The development of cost-efficiency criteria was based on the sample, establishing the profitability of the projects and the cost levels associated with profitable projects. The program team developed an evaluation model that can easily be handled with computer spreadsheets by participants in the program, at both the national and local level.

³ The complementary works included in the sample serve and benefit, to a lesser degree, some 3,500 additional families located in the vicinity of the settlements.

TABLE IV-1: INVESTMENT COSTS AND AVERAGES FOR SAMPLE PROJECTS
(US\$ thousands)

Settlements	No. of Lots	Roads	Water supply	Sewage (system)	Rain-water drainage	Electrical energy (system)	Social facilities	Settlements		Env. prot.	Total	Total/Lot	NPV	IRR %	Works completed
								No.	\$						
V. Esperanza CANELONES	126	216.6	0	180.9	0	37.1	92.0	1	16.0	2.50	541.0	4.2	-66.7	10.1	389.4
El Dorado/V. Linda CANELONES	47	50.0	25.1	70.2	0	54.1	12.1	5	80.0	9.7	301.2	4.9	151.7	18.7	255.8
S. Francisco CANELONES	55	79.5	19.4	80.7	0	59.6	97.3	16	256.0	7.0	602.2	6.7	363.1	31.4	338.5
Villa Crespo CANELONES	70	109.8	24.1	176.7	229.7	79.4	121.3	10	160	15.0	916.0	11.0	319.6	18.0	402.3
V. Guadalupe DURAZNO	108	32.6	36.4	97.7	9.6	36.1	33.1	23	230.0	0	613.5	2.6	288.5	23.2	0
Sonia Sacrificio RIVERA	118	257.5	69.3	127.1	0	123.7	102.6	0	0	17.3	697.5	5.9	102.5	15.4	50.8
Mandubí RIVERA	90	87.4	0	144.3	20.5	30.5	68.5	16	294.4	22.0	667.6	4.5	229.2	19.9	35.2
Fátima SALTO	69	144.6	0	119.3	135.1	40.3	30.6	4	64.0	12.1	546.1	7.1	567.5	35.9	0
Lazareto SALTO	40	71.4	16.1	75.7	18.0	62.7	39.8	4	64.0	16.1	363.7	7.6	413.1	38.0	0
La Boyada MONTEVIDEO	173	217.1	26.1	157.8	52.1	92.9	0	25	400.0	43.8	989.7	3.6	-104.7	9.3	56.47
Esperanza MONTEVIDEO	247	210.1	74.6	109.6	16.8	495.8	85.0	61	1,122	0	1,981.7	3.9	2,409	37.7	34.4
N. Amanecer MONTEVIDEO	77	168.2	0	0	71.8	7.1	341.9	1	16.0	0	605.1	7.7	-67.7	9.3	62.6
Nueva España MONTEVIDEO	222	177.3	21.8	229.3	2.1	170.5	86.7	44	809.6	0	1,546.7	3.7	1,945	34.4	506.2
Total	1,442	1,818.0	312.9	1,569.3	555.7	1,289.8	1,110.9	210	3,650.4	145.5	10,371.8	5.6	6,551.0	23.0	2,132.0

- 4.6 The anticipated benefits of the proposed investments were measured by real estate valuations (as a proxy for the economic benefits generated by the projects), comparing the situation with and without the project in the neighborhoods that would be improved as well as in the immediate surrounding areas. The technical teams responsible for the analysis provided information from direct observation in the subproject areas. Real estate agents were also consulted and newspaper information was taken into account in determining prices of urban parcels in similar areas, both in the capital and in the interior of the country.
- 4.7 The cost data for economic evaluation were taken directly from the preliminary proposals prepared by the technical teams. For the purposes of this assessment, taxes were excluded from the costs, 60% of salary and only one third of social taxes were considered as a shadow price of work, and the prices of materials were adjusted to their MERCOSUR equivalents, assuming that they would be 90% of the MERCOSUR figures, in order to reflect the overvaluation effect of the common tariff adopted by the MERCOSUR countries. The result of this exercise was that the sample, on average, showed an internal rate of return (IRR) above 20%, and an investment cost (excluding the supplementary works, and limiting the settlements to 10%) of US\$5,600 per beneficiary family.
- 4.8 Bearing in mind that to be eligible a project must have a minimum IRR of 12%, it was estimated that the appropriate maximum cost per family (cost-efficiency) would be US\$7,000 (excluding the cost of supplementary works). Furthermore, in order to encourage mobilization of additional resources as well as for reasons of horizontal equity, the upper limit on resettlements funded by the program is set at 10% of the families benefited. If the subprojects fail to meet one or more of the foregoing conditions, this will have to be justified on an individual basis by a cost-benefit analysis showing an IRR of at least 12%. If this level is not met, then costs and design must be adjusted. To ensure proper compliance with these standards, the presence of an economist on the PCU staff will be one of the conditions for the first disbursement of program funds.

C. Technical viability

- 4.9 The analysis of the projects in the sample makes it clear that they satisfy the eligibility criteria at the preliminary proposal level. For the development and execution of subsequent projects in the program, the same criteria and standards were applied as those contained in the operating regulations and the project preparation guide **(the final version of which must be submitted as a condition precedent to the first disbursement)**. Prior analysis of these projects by the PCU, and their review by the Bank, which will be carried out for all of the projects during program execution, will ensure that the eligibility criteria are met.
- 4.10 All of the settlements in the sample already had water supply services installed by Obras Sanitarias del Estado, with distribution through a local system or from public taps. The deficiencies in infrastructure are primarily in the lack of sanitary sewers, inadequate rainwater drainage, lack of pavement, and streets that are in a

severe state of deterioration, inadequate street width to accommodate access by garbage trucks and ambulances, poor separation between private lots and public areas, lack of public lighting, green areas, and recreational areas, and a lack of street cleaning. The analysis of the sample clearly shows that the proposed investments target these realities. The principal works are roads, sewer systems, lighting and electrical networks, community facilities and a combination of environmental protection and rainwater drainage. The supplementary sanitation works scarcely amount to 16.9%, since the settlements are for the most part quite close to existing networks and treatment plants (in two cases, the use of pumping trucks is under consideration to clean the septic systems once or twice a year).

- 4.11 The sample projects are generally well designed and meet national technical standards established for public service networks, buildings and infrastructure. Proper parameters have been applied, and minimum standards have been adopted as long as the safety of the users is assured, and taking into account the stability and functionality of the works. However, to minimize resettlement costs and also maintain the existing structure of the neighborhood, the size of lots and the width of streets in many cases are less than what is required by municipal regulations. From a technical point of view this creates no problem, since in each settlement, within the established road structure, the width of the main streets allows access by service and emergency vehicles.
- 4.12 Several alternatives were evaluated to arrive at designs that represent minimum-cost solutions to the problem facing the community and families. To ensure the health benefits of the sewerage service, the projects envisage funding household connections to the network where required.
- 4.13 In relation to resettlement of families, alternatives have been studied that would minimize costs and comply with the Bank's policy in this regard. Thus in some cases costs would be minimized by people building their own houses and/or by direct administration,⁴ provided this does not affect the project execution timetables.

D. Institutional viability

- 4.14 The institutional mechanism used for executing the program is similar to others that are in execution in the country under the management of the OPP. The scheme is based on a division of functions in which the technical unit established to coordinate the program oversees macro duties, such as administration of funding, monitoring of execution, and monitoring of the program, while the coexecuting entities deal with execution of projects, conducting of bidding and procurement procedures, and physical monitoring of works and services, etc.

⁴ The program will recognize expenditures of up to 5% of the cost of each project to be covered by the local counterpart funding, used by the executing agencies to procure materials, services, and other inputs under this arrangement for the construction of housing for resettlement purposes.

- 4.15 The operational capability of all of the participating entities has been evaluated in a study especially commissioned for the preparation of this program. The capability is adequate in most of the ways required for the efficient execution of the program, which involves functions not very different from those the entities normally carry out. For those functions and entities in which weaknesses were found, technical assistance funded by the program is envisaged. Emphasis will be placed on organizing project follow-up systems, strengthening in the areas of contracting and supervision of works, management of social programs and community organizing. It is also anticipated that in exceptional cases when it is necessary to speed up operations to meet execution deadlines and timetables, the PCU may carry out or directly contract for some activities that would ordinarily be done by the coexecuting agencies, such as preinvestment studies, community development and neighborhood improvement works.
- 4.16 In relation to the participation of NGOs, previous experience with the Bank's projects in the country has shown the existence of a sufficient number of organizations working in housing, and has demonstrated that they have the technical capability to provide the services required by the program.

E. Sustainability of the program

- 4.17 The water, sewer and electrical energy services will be operated and maintained by the national entities responsible for such services. In all cases, their approval will be required for technical projects, as well as their commitment to operating the networks once they are instituted. The departmental governments are responsible for road maintenance services, public lighting and cleaning of public streets and areas. They, too, will commit to the operation and maintenance of the services. Since the majority of the settlements are on the edges of the current urban areas, problems are not anticipated in extending these services and charging rates and fees usually charged to people in neighboring areas for the same services.
- 4.18 To analyze the sustainability of the projects, the impact of regularization was considered. In integrating and regularizing the settlements, the settlements become part of the existing mechanisms for cost recovery, funding and operation of services. In the projects analyzed, only 20% of the families would be required to spend more than 20% of their declared income for paying the minimum charges associated with the improved parcel, in the form of land and municipal taxes and fees for water, sewer and electrical service.
- 4.19 In terms of social services, the existence of an entity responsible for maintaining them has been a basic consideration for inclusion in the program. Agreements will be signed with national education, health and vocational institutions for operating the facilities created by the program. In the case of childcare and community centers, which national government agencies, departmental governments, and private institutions (NGOs) are responsible for operating, the commitment to

maintaining the services will be ensured prior to approval of requests for their financing.

- 4.20 The sustainability of the projects and their success will ultimately depend on the involvement of the communities in the activities carried out in each settlement. Therefore, the program defines as its explicit methodology the participation of neighborhood residents in the process of defining projects, design of sanitation, resettlement and other solutions, selection and location of community facilities, operation of social services, and the supervision of the community fund. Thus, the explicit effort to ensure a feeling of "ownership" of the project by the community has been the most important strategy for ensuring its sustainability.

F. Environmental factors

- 4.21 The program's environmental and social impacts will be primarily positive. The proposals and changes in regulations that come about as a consequence of the program will include the elements of environmental impact needed to ensure that the process of urban development is carried out with consideration for the environment, and that possible risks to human populations will be minimized. However, the executing entity of the subprogram, in compliance with the recommendations of the Committee on Environment and Social Impact (CESI) produced an environmental impact assessment (EIA) in accordance with the CESI recommendations. In the study, made public on January 10, 1999, possible negative impacts were identified in connection with the construction and operation phases of the envisaged works. The impacts will be small, local, and for the most part temporary (works phase). The EIA specifies measures for prevention, supervision and monitoring needed to eliminate or mitigate these factors. The neighborhoods approved for funding have access to the sewer system and are already served by water supply supplies. The environmental eligibility requirements included in the program's operating regulations stipulate monitoring of the environmental protection provisions contained in the EIA.
- 4.22 CESI approved the program's environmental and social impact report (ESIR) at its February 22, 1999, meeting, having found that (i) the program will have primarily positive environmental and social impacts; (ii) the negative impacts are small and adequately mitigated; (iii) the program includes an appropriate system of approval of projects and environmental monitoring; and (iv) the resettlement actions comply with the Bank's policy in this area.

1. Targeting of poor beneficiaries

- 4.23 With respect to targeting of direct investment carried out by the program, it should be pointed out that in the sample, 53% of the benefited families had

incomes under US\$300,⁵ which corresponds to the country's current poverty line. Furthermore, to be eligible for funding, the projects must target marginal neighborhoods that are shown to have significant basic sanitation problems; thus, the program may be classified as targeting low-income groups, as defined in paragraph 2.15 of document AB-1704 of the Eighth Replenishment.

- 4.24 The program may be classified as contributing to social equity and poverty reduction, as established in paragraph 2.13 of the above-mentioned document, since it provides sanitation services, housing solutions, and needed educational and health facilities for populations in informal urban areas.

G. Gender considerations

- 4.25 According to census data, women in Uruguay comprise 51% of the total population and 52% of the urban population. Twenty-seven percent of Montevideo's households have female heads of household, and the percentage of poor and indigent families with female heads of household is almost three times as great as for households headed by males. At the same time, the percentage of women who work in the informal sector is practically double the rate for men. It is therefore anticipated that a large number of the program's beneficiaries will be women.
- 4.26 Uruguayan women have shown a high rate of participation in neighborhood organizations, which permits them to participate in decisions as to which services are most vital to improve the conditions of poverty in their neighborhoods. Since there are no legal obstacles to women owning land, property titles provided as part of the neighborhood improvement project to homes with male heads of household will be made in the name of both spouses.

H. Benefits

- 4.27 The main benefits of the program relate to improving the standard of living of the inhabitants of irregular settlements and the surrounding neighborhoods. On the one hand, improvements in health conditions are expected, along with direct reflections in health indicators, deriving from the environmental sanitation works, and on the other, there will be an increase in personal assets. Social services to be established in the settlements will offer (i) improvements in the educational levels of children and youth served by the schools; (ii) opportunities for them to engage in recreation and sports, helping to prevent problems of delinquency and supplementing school education; (iii) health improvements and better development for children served by the childcare centers; and (iv) education and training of young people for work, among other benefits. These improvements

⁵ Up to July of 1998, the income level that defined the poverty line was US\$75 per month. The average number of individuals per family is four. US\$300 per month is equivalent to approximately three minimum wages.

will result in a net increase of assets for beneficiary families and will contribute to reducing poverty levels.

- 4.28 Under this approach to urban issues, the introduction of new housing policy instruments and the implementation of more modern and flexible methods of control over land occupation and use will give local and national government the means to deal in a systematic way with the problem of urban marginalization, which is one of the country's most important social priorities.

I. Program risks

1. Institutional scheme

- 4.29 The execution of the program will be decentralized. In addition, the neighborhood improvement projects will require supplementary social programs operated and funded by various national and departmental institutions. The possibility of inefficient or substandard performance by coexecuting agencies and lack of coordination among them constitute specific risks and have been mitigated by: (i) creating liaison between the PCU and the Office of Planning and Budget, which has a place in the institutional hierarchy that allows it to coordinate the actions of institutions from different sectors; (ii) the requirement for formal commitments to operation and maintenance by the various institutions prior to decisions to fund services; and (iii) the alternative of giving the PCU power to act directly in executing projects if the coexecuting agencies do not meet expectations as to promotion and efficient execution of their projects.

2. Approval of projects

- 4.30 Urban development activities in the settlements require prior permits from local authorities for execution of works and regularizing of subdivisions. The urban development regulations of the program's settlements, by definition, are substandard in terms of the usual regulations for subdivision of property and, in some cases, for development in areas not served by the sanitary sewer system. This point is particularly critical in Montevideo, where most of the settlements are located. Thus, possible difficulties in obtaining municipal permits could considerably delay execution of the program. To minimize this risk, two strategies have been adopted: (1) allow the departmental governments to identify and submit regularization projects for settlements, especially settlements on municipally owned land. This means that the departmental governments themselves will be interested and committed to providing flexibility with respect to their regulations; and (2) require, as a condition for the municipalities to receive program funds, that they commit themselves to revising their regulations on subdivision of property, establishing exceptions to current regulations for the approval of program projects.

- 4.31 The proximity of upcoming elections could make it difficult to reach agreement among the various institutions involved at the national and departmental levels. However, there is a common interest and a consensus among them as to the program's objectives and contents, and implementation is expected to begin normally, based on the projects that have already been agreed upon. Furthermore, annual technical reviews by the OPP and the Bank will facilitate any necessary operational adjustments, without affecting the program objectives that have been agreed upon.

LOGICAL FRAMEWORK

PROGRAM FOR INTEGRATION OF IRREGULAR SETTLEMENTS¹

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>improve the quality of life of the population of the settlements, particularly to sanitation health services, and social services.</p>	<p>Population of settlements is benefited by the program, with access to basic sanitation services and other urban development and social support services.</p> <p>Beneficiaries shown high degree of satisfaction with the urban development works, regularization of ownership and provision of social services (3/2002).</p>	<p>Opinion survey commissioned by the program.</p> <p>Monitoring and assessment system.</p> <p>Semi-annual reports by the Program Coordinating Unit.</p>	<p>Political priority for the program maintained, and support from municipal and departmental entities is assured.</p> <p>Regulatory legislation affecting the supply of housing and urban land analyzed and possibly modified.</p>
<p>improve the urban integration of irregular settlements, reduce the rate of growth and stimulate the integration of their</p>	<p>The number of irregular settlements and the number of families living in them grows at less than 5% annually (1999-2004 period).</p> <p>A minimum of 10,000 families nationally benefit from the neighborhood improvement and social services projects.</p>	<p>Interviews with beneficiaries.</p> <p>Semi-annual reports by the PCU, following the list of indicators to assess execution.</p> <p>Official certification of approval of subdivision.</p> <p>Certification of the entry of the subdivision plan in the land registry.</p> <p>Registry of beneficiaries (PCU).</p>	<p>No new factors, external to the program, that affect the expansion of the settlements come to light.</p> <p>Institutional mechanisms are established to ensure that social institutions support the settlements.</p> <p>Public institutions dealing with land issues fulfill their commitment to provide and maintain their social services.</p>

¹ Unless otherwise indicated, all the goals refer to program completion.

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Objective 1: Neighborhood improvement</p> <p>Settlements improved, sanitation, health and social services of the families.</p> <p>Infrastructure</p> <p>Social services</p> <p>Community development</p>	<p>A minimum of 100 urban improvement projects, social services, social development and regularizing of land ownership (03/2004). Forty percent of families eligible for the program nation-wide are benefited.²</p> <p>One hundred percent of the families in the settlements benefited have access to water, sanitation, rainwater drainage and electrical services. Road accessibility in the settlements has improved, allowing for collective transportation and street cleaning vehicles to operate on at least one main street.</p> <p>At the conclusion of the program, community and childcare centers, schools, and/or health centers have been built or improved in 100% of the settlements where a lack of or the need for such services has been demonstrated (at least one service in each settlement).</p> <p>Ninety percent of the settlements benefited have a functioning community organization.</p> <p>At least 70% of the beneficiaries have participated in environmental and health education activities.</p> <p>Ninety percent of the settlements have a community social fund in place that is managed by the community.</p> <p>Two years from the beginning of the program, 20% of the beneficiaries have obtained title to lots, 40% at the three-year point and 90% within 4 years.</p>	<p>Quarterly reports from the UCP.</p> <p>Reports from the program's accounting office.</p> <p>Certification of the status of legalizing land ownership for the parcels of land covered by the projects.</p> <p>Articles of incorporation of the community fund.</p> <p>Interviews with beneficiaries.</p> <p>System for registry of beneficiaries.</p> <p>Program monitoring system.</p>	<p>The great majority of beneficiaries express interest in becoming part of the program.</p> <p>The NGOs or teams have the technical capabilities to carry out organizational and community development activities.</p> <p>The relevant entities have the technical ability to provide social services that are most needed.</p> <p>The local authorities and other coexecuting agencies do an adequate job of promoting and executing neighborhood improvement projects.</p>

estimated that a total of 37,000 families live in settlements throughout the country. Of these, close to 27,000 live in conditions that make them eligible for the program.

OBJECTIVES	INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Phase 2: Prevention</p> <p><i>Urban development</i></p> <p><i>Rent guarantee fund</i></p> <p><i>Community strengthening</i></p> <p><i>Monitoring and evaluation</i></p>	<p>One hundred percent of the departmental governments participating in the program revise and modernize their urban development regulations and procedures, establishing prevention strategies for irregular settlements and for regularization of existing settlements.</p> <p>A proposal for revising of the regulatory, financial and institutional framework of the housing sector is prepared before the end of the second year of the program. An evaluation and discussion seminar is conducted.</p> <p>An in-depth feasibility study is carried out on rent guarantees for housing for lower-income families (2000).</p> <p>The government implements the pilot project for a Rent Guarantee Fund.</p> <p>Representatives of all of the organizations participating in the program attend a dissemination and training workshop when this activity begins.</p> <p>The coexecuting agencies and respective institutions participating in the program benefit from activities to strengthen management.</p> <p>One hundred percent of the program settlements have been evaluated at the conclusion of the execution of the works and of the community development activities.</p>	<p>Legislative bills, decrees and ordinances are submitted to the respective national and/or departmental executive agencies.</p> <p>Quarterly report from the PCU.</p> <p>Baseline, surveys and proposal from the monitoring and evaluation system.</p>	<p>There is continuity to the social housing policies even after program completion.</p> <p>There is a high level of commitment and participation on the part of departmental governments, and cooperation on the part of legislative bodies.</p> <p>The findings of the feasibility study on the fund are positive.</p>

PROGRAM FOR THE INTEGRATION OF IRREGULAR SETTLEMENTS (UR-0123)

**PROCUREMENT SCHEDULE
(US\$ thousands)**

METHODS	Total amounts	Year 1		Year 2		Year 3		Year 4		Year 5
		IPB	LPB	IPB	LPB	IPB	LPB	IPB	LPB	IPB
WORKS AND SERVICES										
Construction of integrated urban sanitation works ¹	81,200	2,000	4,000	4,000	5,600	12,000	10,400	16,000	12,000	12,000
Number of contracts	72	1	5	2	7	6	13	8	15	6
Average value		2,000	800	2,000	800	2,000	800	2,000	800	2,000
CONSULTING SERVICES										
Preparation of projects, supervision of works and community development	11,200		1,000	800	1,500	1,200	2,200	1,600	2,200	200
1 Number of contracts	89		15	4	17	6	18	8	15	1
2 Average value of contract			67	200	88	200	122	200	147	200
Studies and training (individual consultants)	650		50	150		150		100		200
Technical assistance (consulting firms) ²	1,100		450		250		200		200	
	94,150	2000	5,500	4,950	7,350	13,350	12,800	17,700	14,400	12,400

water, sewer, drainage, community facilities, housing for resettled persons.

sector study of housing and assistance to departmental governments in urban development legislation.

PROPOSED RESOLUTION

URUGUAY. LOAN /OC-UR TO THE REPUBLIC OF URUGUAY
(Informal Settlement Integration Program)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Uruguay, as Borrower for the purpose of granting it a financing to cooperate in the execution of an informal settlement integration program. Such financing will be for the amount of up to seventy-seven million dollars of the United States of America (US\$77,000,000), which are part of the Single Currency Facility of the Ordinary Capital resources of the Bank, and will be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" of the Executive Summary of the Loan Proposal.