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CHILE

LOW-INCOME URBAN AREA IMPROVEMENT PROGRAM

(CH-0118)

LOAN PROPOSAL

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C H I L E

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LOAN PROPOSAL

C O N T E N T S

Basic Socioeconomic data
Loan proposal

Appendixes:

- I - Proposed resolution**
- II - Recommendations**
- III - Description of the program**
(Annex A to the loan contract)

Basic Socioeconomic Data of Chile

1. General

Total Population Estimated Through June 1988 (Thousands)	12,748.0
Urban Population	83.0
Land Area (Km2) (Thousands)	756,629.0
Population Density by Inhabitant per Km2 (1988)	16.8
Population Growth Rate (1970-88) (%)	
Country Total	1.7
Metropolitan Region of Santiago	2.5
Birth Rate per 1,000 Inhabitants (1980-87)	24.2
General Mortality Rate per 1,000 Inhabitants (1980-85)	6.7
Infant Mortality Rate per 1,000 Live Births (1980-87)	22.8
Life Expectancy at Birth (1980-87)	71.3
Urban Population Provided with Drinking Water (1985)	
(% of the Total Urban Population)	94.31
Number of Persons per Medical Doctor (1982)	1,000.0
Literacy Rate (%) (1987)	92.5
Energy Consumption per Capita in Kwh (1983)	1,065.0
Low Income Level per Inhabitant (December 1987 in pesos)	124,640
(December 1988 in pesos)	141,556

Official Exchange Rate (Pesos per Dollar)

Average 1984	98.5
Average 1985	160.9
Average 1986	192.9
Average 1987	219.4
Average 1988	245.0
May 1989	254.6

Labor Force (Thousands of Inhabitants)

Country Total (October-December 1988)	4,551.6
Metropolitan Santiago (October-December 1988)	1,868.5

Employment Country Total (November 1988, January 1989) (Thousands of Persons)

Employed	4,288.9
Unemployed	271.3
Laid-off	218.8
Seeking Employment for the First Time	52.5

Employed Population by Economic Activity (Country Total)

(Percentage of Total Employment, November/88 - January/89) 100.0

Agriculture and Fishing	20.3
Quarry and Mining	2.0
Manufacturing Industries	15.5
Construction	6.5
Trade	17.4
Government and Financial Services	4.5
Electricity	0.6
Communal and Social Services	26.6
Transportation, Storage and Communications	6.6
Unemployment Rate (National Average, October-December, 1988) (%)	6.3
Metropolitan Santiago Unemployment Rate (October-December, 1988) (%)	7.4

2. National Accounts

	1980	1985	1986	1987	1988
GDP (Millions of Current Pesos)	1,075,269	2,576,638	3,246,106	4,159,762	5,411,421
GDP (Millions of 1977 Pesos)	363,446	356,447	376,627	398,230	421,141

	Composition					Real Annual Growth Rate b/					
	1980	1985	1986	1987	1988	1976-79	1980	1984	1985	1986	1987
Gross Domestic Product (GDP)	100.0	100.0	100.0	100.0	100.0	7.5	7.5	6.3	2.4	5.7	5.7
<u>Expenditure on GDP a/</u>											
Consumption	84.5	83.5	81.6	79.0	75.8	7.3	4.0	1.3	-1.0	3.8	3.8
Private	72.2	69.3	68.9	67.6	65.3	7.7	6.5	1.3	-1.1	4.9	4.8
Public	12.3	14.2	12.7	11.4	10.5	-1.1	-5.9	1.5	-0.3	-2.1	-2.1
Gross Domestic Investment	18.0	13.7	14.6	16.9	17.0	18.2	-0.2	75.5	-6.6	13.1	25.8
Fixed Investment	17.2	14.2	14.6	16.0	16.8	8.7	24.4	9.0	14.8	7.1	16.3
Exports of Goods and Services	21.1	29.1	30.6	33.5	37.4	15.4	12.7	6.8	6.9	9.8	8.8
Imports of Goods and Services	23.6	26.3	26.8	29.4	30.2	19.1	18.7	16.5	-11.0	9.7	17.0
<u>By Origin b/</u>											
Agriculture and Fishing	8.3	9.6	9.9	9.6	9.5	2.7	1.8	7.5	5.6	8.8	3.2
Mining	7.2	8.7	8.4	7.9	7.7	9.0	5.4	4.4	2.2	1.4	0.0
Manufacture	21.5	20.4	20.8	20.8	21.0	7.9	6.2	9.8	1.2	8.0	5.5
Construction	5.3	5.8	5.5	5.8	5.7	1.4	25.7	4.2	16.1	1.3	10.6
Electricity, Gas & Water	2.1	2.6	2.6	2.5	2.6	6.3	5.9	7.0	3.5	6.5	3.8
Transportation, Storage & Communication	5.5	5.6	5.7	6.0	6.2	8.3	11.1	6.0	5.5	8.1	10.1
Trade	18.5	16.7	16.7	17.0	17.4	14.6	10.8	5.0	1.7	5.5	7.5
Others	31.6	30.6	30.4	30.4	29.9	10.3	6.6	5.5	-0.8	5.0	5.8

a/ Current market prices.

b/ Constant prices of 1977.

Source: Central Bank of Chile. Boletín Mensual (several issues) and information provided by the Central Bank and IDB.

3. <u>External Trade</u>	Millions of Dollars					Annual Growth Rate			
	1980	1985	1986	1987	1988	1980	1985	1986	1987
<u>Exports of Goods (FOB)</u>	<u>4,705</u>	<u>3,804</u>	<u>4,199</u>	<u>5,224</u>	<u>7,052</u>	<u>22.7</u>	<u>4.2</u>	<u>10.4</u>	<u>24.4</u>
Agriculture	340	515	683	796	930	28.8	20.3	32.6	16.6
Manufacture	1,751	1,168	1,420	1,824	2,273	25.2	-7.3	21.5	28.5
Mining	2,615	2,121	2,096	2,603	3,849	20.4	8.2	-1.2	24.2
(Copper)	(2,125)	(1,789)	(1,757)	(2,235)	(3,416)	-	11.5	-1.7	27.9
<u>Imports of Goods (CIF)</u>	<u>5,124</u>	<u>3,268</u>	<u>3,436</u>	<u>4,396</u>	<u>5,292</u>	<u>30.5</u>	<u>-6.0</u>	<u>4.3</u>	<u>27.9</u>
Consumption	1,226	751	754	900	935	56.1	44.4	-1.8	19.8
Intermediate	2,913	1,867	1,947	2,395	2,987	15.0	-23.8	3.7	23.0
Capital	985	650	735	1,101	1,370	44.9	27.4	13.2	49.7

4. <u>Balance of Payments</u>	Millions of Dollars			
	1980	1985	1986	1987
<u>Current Account</u>	<u>-1,971</u>	<u>-1,329</u>	<u>-1,137</u>	<u>-811</u>
Trade Balance	-764	849	1,100	1,299
Exports FOB	4,705	3,804	4,199	5,224
Imports FOB	5,469	2,955	3,099	3,994
Net Services	-1,320	-2,239	-2,320	-2,156
Net Transfers	113	61	84	116
<u>Capital Account</u>	<u>1,921</u>	<u>1,332</u>	<u>821</u>	<u>916</u>
Foreign Investment	170	112	319	923
Other Capital Flows	2,995	1,121	502	-7
Errors and Omissions	50	-3	88	-60
Change in Reserves	-1,244	-99	-227	45
Current Account/GDP (%)	6.3	8.3	7.8	4.3
Exchange Rate (Pesos per Dollar Annual Average)	39.0	160.9	192.9	219.4

Source: Central Bank of Chile.

5. <u>Public Finances</u>	General Government (Percentages of GDP) a/					Public Sector (Percentages of GDP)			
	<u>1980</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1980</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Current Revenue	32.9	31.2	32.5	33.6	34.7	51.2	55.3	54.7	n.a.
(Tax Revenue)	(24.1)	(20.0)	(21.5)	(20.8)	(19.8)	(24.1)	(n.a.)	(n.a.)	(n.a.)
Current Expenditure	26.5	28.4	27.5	25.1	22.9	40.6	49.3	48.5	n.a.
Current Account	6.4	2.8	5.0	8.5	11.8	10.6	6.0	6.2	n.a.
Capital Expenditure	4.6	5.0	5.8	6.0	7.8	7.3	10.3	11.5	n.a.
Deficit (-) Superavit (+)									
Total <u>b/</u>	3.5	-1.9	-0.5	2.5	3.9	5.5	-1.9	-1.7	n.a.

/ Includes Central Government, municipalities and decentralized institutions.

/ Adjusted with capital revenue.

n.a. Not available.

Source: Ministry of Finance, Budget Office and Controller General Office.

6. Money and Credit Monetary System a/	Millions of Pesos as of December 31st					Annual Growth Rate (%)			
	1980	1985	1986	1987	1988	1980	1985	1986	1987
Private Sector Money (M1)	78,206	128,549	181,724	199,598	364,026	-4.0	11.3	41.4	9.8
Currency	36,082	79,521	108,560	135,698	181,536	20.9	12.6	36.5	25.0
Demand Deposit	42,124	49,028	73,164	63,900	182,490	-25.0	-8.0	49.2	-26.6
Time Deposit	129,311	388,299	462,226	757,603	964,277	75.3	40.1	19.0	63.9
Total Private Sector Plus Time Deposit (M2)	207,517	516,847	643,950	957,201	1,328,303	45.5	31.6	24.6	48.6
Financial System b/									
Loans in Domestic Currency	324,780	1,334,355	1,543,703	1,984,240	-	63.3	31.7	15.7	28.5
Loans in Foreign Currency (Millions of Dollars)	5,614	2,636	2,563	2,633	-	41.6	-29.0	-0.3	2.7

a/ Includes Central Bank of Chile, Banco del Estado and private institutions.

b/ Includes monetary system and other financial institutions.

Source: Central Bank of Chile. Boletín Mensual (several issues).

7. Prices	Annual Rate (Percentage)						December to December (Percentage)				
	1975	1980	1985	1986	1987	1988	1975	1980	1985	1986	1987
Consumer	375.0	35.1	30.7	17.6	19.9	14.8	340.7	31.2	26.4	17.4	21.5
Wholesale	482.0	39.6	43.4	19.8	19.2	5.9	410.9	28.1	30.2	18.2	17.1
GDP Deflator	486.1	28.8	33.0	19.2	28.1	30.1	-	-	-	-	-
Copper a/	55.94	99.17	64.28	62.29	79.28	118.0	-	-	-	-	-

a/ London Metal Exchange. Cents per pound, annual average.

Source: Instituto Nacional de Estadística (INE) and Central Bank of Chile (BCCH).

	Millions of Dollars at the End of Each Period				
	<u>1976</u>	<u>1980</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
8. <u>Total External Debt</u>	<u>5,233</u>	<u>11,207</u>	<u>20,403</u>	<u>20,716</u>	<u>20,551</u>
<u>External Public Debt</u>	<u>4,275</u>	<u>5,186</u>	<u>15,164</u>	<u>17,091</u>	<u>17,832</u>
Short Term	287	343	1,564	1,384	1,655
Medium and Long Term	3,475	4,720	12,515	14,379	14,725
Financial Public Sector	541	1,257	5,269	5,608	5,749
Non Financial Public Sector	2,904	3,391	5,836	5,836	6,302
Private Sector with Publicly Guaranteed	30	72	2,001	2,935	2,674
International Monetary Fund	513	123	1,085	1,328	1,452
Private Debt	958	6,021	5,239	3,625	2,719
Short Term	159	1,328	104	190	253
Medium and Long Term	799	4,693	5,135	3,435	2,466
 Total External Debt Service	 <u>1979</u>	 <u>1980</u>	 <u>1985</u>	 <u>1986</u>	 <u>1987</u>
Service (Amortization + Interest) (Millions of Dollars)	1,914.9	2,360.9	2,525.0	2,413.0	2,800.6
Service/Exports of Goods and Non Factor Services (%)	41.2	40.4	54.3	48.2	44.4

Source: Central Bank of Chile (BCH).

9. <u>IDB Loans Approved from 1961 Through December 31, 1988</u>	<u>Millions of Dollars</u>	<u>Relative Composition</u>	<u>Disbursement (Millions of Dollars)</u>	<u>Percentage of Total Commitments</u>
<u>Total Committed</u>	<u>3,025.8</u>	<u>100.0</u>	<u>2,334.2</u>	<u>77.1</u>
Ordinary Capital	2,778.7	91.9		
Fund for Special Operations (FOE)	203.3	6.7		
Social Progress Trust Fund (FFPS)	34.4	1.1		
Other Funds	9.4	0.3		
<u>By Sector</u>				
Agriculture and Fishing	331.3	10.9		
Industry and Mining	658.7	21.8		
Transportation and Communication	450.9	14.9		
Energy	1,007.2	33.3		
Public Health	216.9	7.2		
Urban Development	288.9	9.5		
Education	28.9	1.0		
Export Financing	3.9	0.1		
Preinvestment	3.4	0.1		
Tourism	35.7	1.2		

Source: Inter-American Development Bank (IDB).

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CHILE

Low-Income Urban Area Improvement Program (CH-0118)

LOAN PROPOSAL

I. BASIC INFORMATION ON THE OPERATION

A. Objectives and description of the program

- 1.01 The purpose of the program is to improve the quality of life of approximately 47,000 families in the lowest income bracket in the country, living in marginal housing and sanitary conditions, and to provide them with the deeds to their homes. This objective would be achieved through formalizing land ownership, financing the costs of completing the basic urban infrastructure (water supply and sanitary sewerage, realignment and basic paving of streets, and electrification) and constructing basic sanitary units with in-house utility connections, consisting of bathroom, kitchen and laundry facilities.
- 1.02 Depending on the existing infrastructure and situation in each locality, the projects carried out would be either improvement projects designed to benefit families on site, or relocation projects for families that cannot remain in that particular locality.

B. The borrower and the executing agency

- 1.03 The borrower would be the Republic of Chile, and the executing agency, the Ministry of the Interior (MINTER), through the local governments which would carry out the projects under the program located in their jurisdiction.

C. Request for financing and priority of the program

- 1.04 By letter of October 10, 1988, the Minister of Housing, on behalf of the Government of Chile, requested the loan and indicated the priority of the program.

D. Cost and financing

- 1.05 The total cost of the program amounts to US\$100 million. The amount of the proposed loan, in foreign currency from the resources of the ordinary capital of the Bank, is US\$70 million equivalent. This represents 70 percent of the total cost of the program, in accordance with the provisions of document GN-1657-1, in respect of projects in which the beneficiaries are mostly low-income groups. For the local counterpart contribution, which covers the remaining 30 percent of the total cost of the program, MINTER has the necessary budgetary allocation.

E. Proposed terms and conditions

- 1.06 The terms and conditions proposed for this loan would be the following: (i) term for disbursement, four years; deadline for physical initiation of works, three years; amortization period, 25 years; grace period, four years; (ii) interest rate, variable during the disbursement period; (iii) credit fee, 0.75 percent on the undisbursed balance; inspection and supervision fee, one percent of the amount of the loan.

II. FRAME OF REFERENCE

A. Recent economic developments

- 2.01 Chile stands out among other Latin American countries for its economic performance in recent years. Between 1984 and 1988, the Chilean economy posted an average annual growth rate of 5.5 percent. External accounts and public finances improved markedly, while inflation and unemployment decreased substantially, and savings and real wages increased. The increase in productive activity led to a drop in the unemployment rate from 7.9 percent in 1987 to 6.3 percent at the end of 1988, a 6.5 percent increase in real wages, surpassing the 1980 level, and a drop in inflation from 21.5 percent in 1987 to 12.7 percent in 1988.
- 2.02 In 1989 its sixth consecutive year of expansion, the economy is expected to be another good year in terms of growth, employment, wages, relative prices and the balance of payments. Furthermore, investment, particularly investment geared towards exports, has not yet suffered the political repercussions of an election year, thanks to favorable conditions in the external sector and continued confidence on the part of foreign investors. Although some deterioration in the terms of trade is foreseen, any adverse effects would be counteracted by the expected increases in the levels of consumption and public spending, as well as in employment and wages.
- 2.03 In the social arena, the government has been carrying out a series of programs designed to eradicate extreme poverty, through which considerable progress has been achieved, as reflected in improved indicators for health, education, employment and income for the poorest groups. Due to the gap that continues to separate the most vulnerable groups from the rest of the population, the government has decided to pursue these programs, and at the same time to increase social spending targeting those groups.
- 2.04 The Low-Income Urban Area Improvement Program discussed herein is one of the programs designed and promoted by the government to continue to improve the living conditions of this segment of the population.

B. Policies for the eradication of extreme poverty

- 2.05 Under its strategy for economic and social development, the government has drawn up a series of policies and programs aimed at eradicating extreme poverty. These initiatives are designed to help persons who are unable to satisfy their basic needs and cannot overcome this situation on their own.
- 2.06 In order to change the situation of the population concerned, in recent years the Government of Chile has structured and implemented a series of social policies that can be summarized as follows: (i) policies for investment in human capital, designed to break the vicious circle of extreme poverty to provide opportunities for people to get out of this situation on their own; (ii) policies designed to increase the wealth or assets of low-income groups, through the transfer of physical assets (physical capital), such as housing and basic sanitation (water supply and sewerage); (iii) aid policies designed to guarantee minimal monetary income to satisfy the basic needs of poor persons who are incapable of earning the income necessary for dignified subsistence on their own because of age, unemployment or other reasons.
- 2.07 The objectives pursued by the above-described policies are being achieved through the execution of a series of programs specially designed to eliminate the causes of absolute poverty, which affects a sizeable portion of the population in the country. According to figures obtained from the censuses conducted by the Instituto Nacional de Estadística [National Institute of Statistics], in 1970, 21 percent of the country's inhabitants considered that they lived in extreme poverty. This percentage dropped to 14.2 percent in 1982. According to more recent estimates by the Government of Chile, based on the results achieved in the execution of various programs aimed at this sector of the population and on the upturn in employment, real wages and economic growth in general, approximately 10 percent of the population continues to live in extreme poverty, with marginal housing conditions.
- 2.08 The program described in this proposal fits into the policy designed to increase wealth or assets in low-income sectors, summarized in point (ii) of paragraph 2.06, through activities aimed at contributing towards remedying the problems of basic sanitation in housing areas in which low-income groups are living.

C. Basic sanitation needs

- 2.09 The lack of basic sanitation is part of the marginal housing problem in Chile, which has resulted from the following main factors: (i) accelerated growth of urban centers; (ii) the presence of shantytowns rising from the illegal occupation of lands surrounding the urban areas of the country; (iii) the lack of infrastructure services in low-income urban areas; and (iv) the inability to attract resources from the private sector to finance housing for low-income sectors.

2.10 Housing needs can be divided into two main groups, according to the institutions in charge of addressing them:

- (i) The need for a greater number of dwellings to resolve the accumulated housing deficit, satisfy growing demand resulting from the growth of the population and for replacement of nonviable dwellings. These needs are being addressed by the government through programs carried out by the Ministry of Housing and Urban Development (MINVU); and
- (ii) The lack of basic infrastructure and sanitation in housing among the population classified as the poorest. This component is being addressed through the Low-Income Urban Area Improvement Program being executed by the Ministry of the Interior (MINTER).

2.11 At the end of 1985 the country had a stock of close to 2,380,000 dwellings, of which 410,000 were lacking in sanitary infrastructure. Of these, approximately 135,000 units housed people in the lowest income bracket in Chile, that is, people living in extreme poverty.

2.12 According to MINTER estimates, the needs for basic sanitation in the households referred to in the previous paragraph increase annually by 2.1 percent, representing close to 3,000 dwellings per year. Assuming stable growth for the period 1985 to 1989, the number of dwellings with inadequate sanitation will have increased to 147,000. However, during this period the Low-Income Urban Area Improvement Program has remedied the sanitation problems of approximately 49,000 homes. From these figures, it can be deduced that in 1989 the number of dwellings with sanitation problems occupied by families in the lowest income bracket of the country is approximately 90,000 to 100,000 units.

2.13 The shortage described is reflected basically in the following three groups: (i) unregulated settlements, which arise as an informal solution to the lack of available housing for the poorest sectors of the population, are characterized by a serious lack of basic services (water supply, sewerage, electrification and paving), irregular urban street layouts, a lack of deeds to the land, and very basic shelters precariously built by the occupants themselves; (ii) low-income urban areas with variable levels of external basic infrastructure networks generally lack individual in-house connections to utilities. This group includes, in particular, the areas created in large cities by the Site Operations Program, a government program under which in the second half of the 1960s some 110,000 sites with partial services were built; and (iii) households whose lack of basic services cannot be resolved in the locality in which they are located currently because the land on which the areas are located is either subject to flooding or too hilly, or cannot be serviced by the primary utility systems.

D. Programs designed to remedy the problem of marginal housing

- 2.14 Below is a summary of the main programs carried out by the government to try to remedy the problem of marginal housing among the poorest population groups described above.

1. The Low-Income Urban Area Improvement Program

- 2.15 The main objective of this program is to improve the standard of living of poor families whose dwellings lack basic sanitary infrastructure. Under this program, land ownership is formalized through the delivery of deeds, and the cost of completing the basic infrastructure and constructing sanitary units is financed, thus initiating a process of consolidation of housing with the technical support of local governments.
- 2.16 Through the program, the government transfers resources to the poor families targeted, through subsidies of up to 75 percent of the cost of the housing arrangement. It should be noted that the government recognizes as a contribution to the program the value assigned to land ownership and any improvements made on site by the beneficiaries. Once these contributions are deducted, the government requires the beneficiaries to pay the outstanding balance in installments, with maintenance of value in real terms.
- 2.17 This program, which is an important instrument in the government's strategy to improve the living conditions of the population in the lowest income bracket, has been partially financed by the Bank with the proceeds of loan 115/IC-CH, Subprogram C, and loan 223/IC-CH. It is hoped that through the execution of a new stage, the dwellings of families that have not been able to overcome their situation of extreme poverty will continue to become more liveable. It should be noted that this program does not seek to increase the housing stock, and supplements the other programs carried out by the Ministry of Housing.

2. Ministry of Housing and Urban Development (MINVU) Programs

- 2.18 In its efforts to increase and improve the stock of basic homes for low-income families, MINVU carries out the following programs, inter alia, aimed at people living in extreme poverty: (i) the basic housing program allows poor families to purchase their completed homes directly from MINVU with a direct housing subsidy equal to up to 75 percent of the value of the home; (ii) the rural-housing subsidy program allows the rural population to purchase or build homes with a subsidy of up to 75 percent of the value of the home; and (iii) the unified subsidy program, under which negotiable certificates in amounts varying according to the price of the home are distributed, allows the beneficiaries either to gain access to housing built by the private sector or build their own homes, either directly or through cooperatives. These programs are just one

component of the housing-sector investment plan of Chile for the period 1989-1991. The housing-sector plan is financed partially by the World Bank through sectoral loans 2492-CH and 3030-CH.

3. The Fondo Nacional de Desarrollo Regional [National Fund for Regional Development] (FNDR)

- 2.19 The FNDR channels financial resources throughout the country. Its purpose is to support investment initiatives for local development conceived at the community, provincial and regional level to remedy shortages or to rationalize services, mainly in the areas of education, health, water supply, sewerage, paving of city streets and rural roads, river protection works, rainwater collection and rural electrification. In general, the investments are geared towards the poorest socioeconomic groups of the population. The Bank participates in the financing of this fund through the Multi-investment Program for Local Development, which is in its final phase of execution (loan 141/IC-CH), the term for use of the proceeds expiring on March 8, 1990. The Bank is currently examining the possibility of financing a second phase of this program (project CH-0151).

E. IDB participation in the sector

- 2.20 The Bank has approved two loans, loan 115/IC-CH (Subprogram C) and loan 223/IC-CH, which are designed to support two stages of the Low-Income Urban Area Improvement Program being carried out by the Government of Chile.
- 2.21 Loan 115/IC-CH: Approved on December 2, 1982. Subprogram C of this operation, totaling US\$90 million, with financing from the Bank in the amount of US\$40.5 million, has been carried out efficiently and schedule. The subprogram far surpassed the physical goal originally set out, with the construction of 41,335 housing units located throughout the country. Disbursement of the loan was completed on May 9, 1988.
- 2.22 Loan 223/IC-CH: Approved on December 10, 1986. The project, which has the same cost and financing arrangement as the above operation, is the second loan for the Low-Income Urban Area Improvement Program. This second stage, which is in its final phase of execution (the term for final disbursement expires on March 20, 1991) has not been modified in any way, and has been executed expeditiously as a result of the experience acquired. This stage of the program, the physical goal of which is to construct or provide 45,000 housing arrangements, shows a physical advance of 87 percent as of September 30, 1989, with only 63 percent of the time period having elapsed.
- 2.23 The executing agency of the program has been MINTER, an institution which has proven highly efficient in its execution and administration of the above two stages, and in its coordination and supervision of the local governments involved in these projects. The experience

acquired by MINTER and the local governments has allowed for efficient, speedy execution of the two projects under the program, through refinement of the various procedures for identification, design, bidding, awarding of the bids, entering into contracts and administration of the projects.

- 2.24 Once the stages of the program are completed, close to 87,000 families will have directly benefited from it. They will have acquired the basic services of water supply, sewerage, electricity and access roads. Of the total number of housing solutions delivered and to be delivered, 92 percent are improvement projects consisting of the execution of works for on-site improvement of existing localities, and the remaining eight percent are relocation projects for cases in which it is not possible to improve the localities or shantytowns in which the program beneficiaries lived.
- 2.25 As the Low-Income Urban Area Improvement Program has been executed, it has been confirmed that it does reach the targeted population. This was the conclusion of the study conducted by the Universidad de Chile on the income and expenses of program beneficiaries, which was submitted by MINTER in fulfillment of a contract obligation under loan 223/IC-CH. The study showed that 85 percent of the program beneficiaries earned a household income below the threshold for low-income groups defined by the Bank and the Chilean authorities.
- 2.26 At this writing, for both the execution of the urban infrastructure program (115/IC-CH) and the improvement and sites and services program (223/IC-CH), all of the clauses in both loan contracts had been fully performed. The work has been executed in a highly satisfactory manner without any critical problems having occurred.

F. World Bank participation in the sector

- 2.27 The World Bank has participated in the housing sector in Chile through housing sector loans 2482-CH and 3030-CH, totaling US\$280 million. These loans have supported the basic housing program and the housing subsidy program carried out by MINVU, designed mainly to increase and upgrade the housing stock in the country. Under loan 2482-CH, approximately 80,000 units were built under the basic housing program, and certificates for 58,000 subsidies were allocated and distributed. Loan 3030-CH, in the amount of US\$150 million, a recently approved loan which contributes towards financing a program worth a total of US\$1,014,300,000, is expected to increase the housing stock by 165,000 units and to improve another 38,000 units through the formalization of ownership and housing rehabilitation and expansion works, over a three-year period.

III. THE PROGRAM

A. Objectives

- 3.01 The purpose of the program is to improve the quality of life of approximately 47,000 families in the lowest income bracket in the country, living in marginal housing and sanitary conditions, and to help them become part of the private ownership system. This objective would be achieved by providing each family with a basic housing arrangement consisting of: (i) installation of complete residential water supply, sewerage, electricity and occasionally gas systems; (ii) realignment of streets and alleys and basic paving; (iii) installation of a sanitary unit with in-house connections and fixtures, consisting of bath, kitchen and laundry facilities for each household, in order to ensure effective use of the outside basic utility systems and to foster gradual consolidation of permanent housing in connection with each unit; and (iv) parcellation of land and delivery of deeds to each beneficiary.

B. Description

- 3.02 The program calls for the execution of various types of projects depending on the existing infrastructure and housing in each locality and the type of terrain. The projects vary from construction of new urban infrastructures in localities which are completely lacking therein to the simple construction of sanitary units and their respective hookups in the localities which already have the necessary infrastructure. Depending on the existing infrastructure and conditions in each locality, the projects can be divided into two main categories: (i) improvement projects, so called because they involve on-site improvement works in existing residential areas, including, as needed, the provision of water supply, household sewerage and storm drainage systems, paving works and sanitary unit construction; and (ii) relocation projects, which are new urban developments with sites and services for families living on land that cannot be improved due to its location (areas subject to flooding or too hilly).

C. Size of the program

- 3.03 The decision as to the size of the program was reached on the basis of the following elements:
- (i) Estimated demand for housing sanitation by the program beneficiaries is between 90,000 and 100,000 units;
 - (ii) The pool of projects for basic sanitation is over 36,500 housing solutions (78 percent of those estimated for the program), of which over 13,200 now have engineering studies completed and are ready for calls for bid to be held; and

(iii) MINTER's proven capacity for execution enabled it, at the previous stage of the program, which was similar in type and scope to the one proposed herein, to issue calls for bids for the execution of projects at a pace of over 16,000 housing arrangements per year.

3.04 Taking into account the above factors and the housing investments scheduled in the public investment plan of the government for the four-year period from 1990 to 1993, a program estimated at US\$100 million is being proposed to provide approximately 47,000 housing solutions over a four-year period.

D. Cost and financing of the program

1. Cost

3.05 The cost and financing plan proposed is shown in the following table broken down into categories of investment:

Table III-1

Cost and Financing Table
(in thousands of US\$ equivalent)

<u>Category</u>	<u>IDB</u>	<u>Local con- tribution</u>	<u>Total</u>	<u>%</u>
1. <u>Engineering and administration</u>	<u>-</u>	<u>3.200</u>	<u>3.200</u>	<u>3.2</u>
1.1 Engineering and architectural design	-	150	150	
1.2 Administration and supervision	-	3,050	3,050	
2. <u>Direct costs</u>	<u>58.800</u>	<u>24.200</u>	<u>83.000</u>	<u>83.0</u>
3. <u>Associated costs</u>	<u>-</u>	<u>1.600</u>	<u>1.600</u>	<u>1.6</u>
4. <u>Finance charges</u>	<u>11.200</u>	<u>1.000</u>	<u>12.200</u>	<u>12.2</u>
4.1 Interest	10,500	-	10,500	
4.2 Credit fee		1,000	1,000	
4.3 Inspection and supervision	<u>700</u>	<u>-</u>	<u>700</u>	
Total	<u>70,000</u>	<u>30,000</u>	<u>100,000</u>	<u>100.0</u>
Percentage	70.0	30.0	100.0	

3.06 The above table of program costs broken down according to investment category was based on the real costs recorded for similar works carried out recently by MINTER.

2. Financing

- 3.07 The Bank's financing would cover 70 percent of the cost of the program, in accordance with the regulations of the Seventh Replenishment of Resources for Group B countries in projects benefiting mostly low-income populations.
- 3.08 The local contribution would be equivalent to US\$30 million, that is, 30 percent of the total cost of the program. These funds would be provided by the Government of Chile through budgetary allocations to the Ministry of the Interior. The scope of the proposed program falls within the budgetary ceilings indicated by the Ministry of Finance: the resources are therefore expected to be made available on schedule.

IV. EXECUTION OF THE PROGRAM

A. Executing unit

- 4.01 The executing agency of the program would be the Ministry of the Interior (MINTER), which is in charge of monitoring the regionalization process in the country, and coordinating and supervising regional and local investment programs. The executing unit would be the Office of the Deputy Secretary for Regional and Administrative Development [Subsecretaría de Desarrollo Regional y Administrativo] of the ministry through its Regional Development Division (DIDER), and specifically through the Program Monitoring Unit (UNICONTROL), which has the professional and administrative staff required for full performance of its duties.
- 4.02 The local governments would carry out the project or projects for improvement of low-income urban areas in the localities under their jurisdiction. To do so, they have the authority to draw up, or hire consultants to draw up, project studies and designs, to issue public calls for bids and to enter into contracts for the execution and supervision of such projects.

B. Project identification and formulation

- 4.03 As a result of the experience they have acquired in carrying out previous stages of the Low-Income Urban Area Improvement Program, MINTER and the local governments are now efficient at identifying, formulating and selecting projects.
- 4.04 The local government conducts a diagnostic study on the shortage of housing and identifies the need to carry out one or more low-income urban area improvement projects conforming to the Local Development Plan. Based on the analysis of the projects identified, it selects the most appropriate projects and submits them to the Regional Administration [Intendencia Regional] for their priority to be determined.

- 4.05 The Regional Administration, through the Regional Planning and Coordination Office [Secretaría Regional de Planificación y Coordinación] (SERPLAC) reviews or conducts the studies required, determines project priority according to regional development plans, and advises the local government and UNICONTROL of its decision. The Regional Administration also periodically informs UNICONTROL of the decisions that have been made in the ranking of projects in the region in light of possible regional investments. Through this system, projects are added to MINTER's Low-Income Urban Area Improvement Program pipeline.
- 4.06 The National Planning Office [Oficina de Planificación Nacional] (ODEPLAN) and UNICONTROL check to see whether the project meets the eligibility and selection criteria for projects under the program. If it does, and the Bank indicates its agreement, ODEPLAN informs the local government that the project may be executed with the financial resources of the program.
- 4.07 Once the projects are found to be eligible and their priority has been determined by the respective regional authorities, as advised by the SERPLAC office for that region, MINTER selects those projects for which complete engineering studies are available and which are ready for bidding. If the cost of the projects so selected exceeds the amounts planned for a given call for bids, the available resources are distributed, by region, directly proportionately to the amount of the projects with complete studies and designs submitted by each region.

C. Project eligibility and selection

- 4.08 The eligibility criteria according to which the projects that may be financed with resources from the program are selected are one of the main features of the program. These criteria include both the requirements for local governments, to ensure that the latter meet the conditions necessary for proper execution of the projects to be carried out under their authority, and the requirements for the projects themselves. The criteria have been updated on the basis of the experience obtained in previous operations, and are part of the operating regulations which would be submitted to the Bank as a condition precedent to the first disbursement. ^{1/} Among the eligibility criteria for the projects, which are extensively discussed in Chapter IV of the Project Report, the following should be noted:
- Projects must be located in urban areas with more than 3,000 inhabitants.
 - No less than 80 percent of the families to benefit from the project must belong to low-income groups, and more than 80 percent of the families to benefit from the project must express agreement therewith.

^{1/} See proposed resolution.

- There must be clear title to the land on which the works would be executed.
- The projects must meet local priorities, according to local development plans.
- In cases of relocation projects, the location selected must be the option most favored by the beneficiaries.
- The same methodology used for the economic analysis of the sample projects will be used for the socioeconomic evaluation. In the representative sample, the sanitary unit and electricity, water and sewer connections component must show an internal economic rate of return equal to or greater than 12 percent, and the cost of the street and alley paving component must not exceed the ceilings indicated in the operating regulations.

D. Project execution and contract administration

- 4.09 Under the budget law, the government transfers the program resources to MINTER. MINTER, through DIDER, distributes the resources among the projects submitted by the local governments of each region, as described in paragraph 4.07. The local governments then execute the project or projects through public calls for bids, in accordance with the bidding regulations approved by the Bank and included as Appendix IV-1 to the Project Report. The regulations state that in those cases in which the amount of the contract for works and services financed totally or partially by the Bank exceeds US\$200,000 equivalent, the bidding system established by the Bank is to be used. The local government, after learning that the proposed project may obtain financial resources from the program for its execution, would either draw up, or hire consultants to prepare, the bidding documents required for execution of the project, if the documents are not already prepared. The documents, which are sent to DIDER for consideration, include reports, engineering designs, specifications and construction budgets approved by the entities providing the services included in each project: water supply, sewerage, electricity and street paving.
- 4.10 In order to expedite execution of the program as whole, DIDER authorizes calls for bids to be held, if possible, for packages of projects under different local governments, for the purpose of identifying and accelerating the procedures for bidding and awarding contracts for construction work.
- 4.11 It is the responsibility of the local governments to examine the proposals submitted and to award and enter into the contract or contracts necessary, subject to prior authorization by DIDER. The local governments make advance payments for the construction of works or payment for works completed to their satisfaction, as well as upon final acceptance of all the works of the project.

- 4.12 The local governments will report monthly to UNICONTROL on the physical advance of the projects and on the investments made, on which basis DIDER will plan and deliver the financial resources to the local governments and draw up consolidated reports on program execution.
- 4.13 The local governments are responsible for technical supervision of project execution, under which authority they issue final acceptance of the works contracted when the latter have been completed to their satisfaction. In justified cases, local governments may solicit the assistance of enterprises providing utilities or regional housing and urban development services [Servicios Regionales de Vivienda y Urbanismo] (SERVIU) for acceptance of the works or in resolving specific problems.

E. Activities associated with project execution

- 4.14 Immediately after the sanitary unit has been constructed or equivalent services have been installed in cases in which construction is not required, the local government, either with its own staff or through contracts entered into with professionals, delivers the deeds to the land to the beneficiaries if the latter do not already have them. Additionally, when the beneficiaries receive the works the local governments provide them with a brochure explaining how the sanitary unit works, model plans for expansion of the dwelling and a do-it-yourself manual on masonry and woodwork. Meetings are held to provide information on proper use and care of the facilities and on consolidation of the dwelling.
- 4.15 Once the urban infrastructure works of the projects are completed, the corresponding public utilities would be provided by the public or private enterprises operating in the localities. These enterprises would accept the works constructed and would carry out the operation and maintenance required by the Bank. For this purpose, the local government, once the urban infrastructure works of the projects are accepted, would transfer them to the enterprises responsible through an agreement which would include a commitment to maintain and operate the works in accordance with the generally accepted technical standards adopted by the Bank. A draft agreement should be submitted to the Bank for approval prior to the first disbursement of the loan. 1/

F. Cost recovery

1. Subsidies

- 4.16 The current system for sales of the housing arrangements provided under the program was established by a Decree-Law of 1982 providing for the units to be transferred by the local governments to the beneficiaries through a sales contract.

1/ See proposed resolution.

- 4.17 The cost of the housing arrangement to be delivered to the beneficiary consists of: the cost of the land, the cost of construction of the sanitary infrastructure, the cost of installing the in-house connections, including the connections to the different systems, the relevant proportion of the cost of designing the project, titling expenses and, in cases of relocation projects, the expenses incurred in relocating the beneficiary family. The cost is payable in part through a subsidy granted by the government to the beneficiary, which may amount to up to 75 percent of the total. The government requires the beneficiaries to pay the local governments the remaining 25 percent in monthly installments, with maintenance of value in real terms over a period of 12 years without any interest charges.
- 4.18 The government recognizes the efforts of the beneficiaries to meet their needs as part of their contribution towards payment of the sanitary units to be provided. The contribution to be recognized consists of the value of the land when the beneficiary owns it and the value ascribed to any on-site improvements made. When a contribution is recognized, the net amount to be paid by the beneficiary would therefore be the difference between the 25 percent of the total cost of the housing arrangement provided and the value of the contribution.
- 4.19 During analysis of the previous operation (loan 223/IC-CH), because of the lack of conclusive information on the income and payment capacity of the beneficiaries, it was agreed to conduct a study to verify the need for a subsidy for the beneficiaries, and the amount thereof. This agreement was written into a clause in the loan contract.
- 4.20 The study was conducted by the Universidad de Chile, submitted by MINTER and approved by the Bank. The main conclusions drawn by the study were the following: (i) the program benefited low-income groups; (ii) 67 percent of the beneficiaries did not have enough resources left, once their basic needs were paid for, to enable them to pay a monthly installment for the housing arrangement provided by the program, and 13 percent could only pay it if it were subsidized (only 20 percent could pay an unsubsidized installment); and (iii) the need for the subsidy envisioned under the program was confirmed.
- 4.21 The subsidy policy set forth in the program is defined as one instrument for the redistribution of income used by the government and, as discussed under the "Frame of Reference" section, it is part of the efforts to eradicate extreme poverty. The subsidies are strictly proportioned to the needs of the beneficiaries, according to basic standards compatible with the realities of the country. Allocation of these subsidies directly to the population applying for them depends on both the priorities set by the local authorities, according to objective procedures for the gauging of needs, and on the prior savings requirement rewarding the individual family efforts.

2. Collecting installment payments from the beneficiaries

- 4.22 Considering that the program is not designed to be a credit program, the government justifies the collection of installment payments from the beneficiaries by the local governments as a means of formalizing the obligation on the part of the beneficiaries to make an effort to save money to contribute towards the housing arrangement provided. This approach is based on the government policy principle of not giving out something of value without an effort on the part of the recipient.
- 4.23 As part of the collection procedure, the debt incurred by the beneficiary is guaranteed through the establishment of a mortgage in favor of the local government. The document establishing the mortgage also legally prohibits the transfer of the building for a period of five years, in order to avoid speculation on the part of the beneficiary on the appreciation in the value of the property.
- 4.24 The matter of the financial impact of the collection of the installment payments would fall outside the financial structure of the program, since, as mentioned above, it is only intended to promote social discipline. In this context, the local government would be in charge of making every possible effort to collect the installments and to invest the amount collected in supplementary works in the same physical area in which the payments are made. Income from the payment of such installments represents only a very small proportion of local government income. In the hypothetical case of no arrears in payments, the income received would be no greater than two percent of the total income of a small local government participating in the program. Furthermore, these resources do not replace any other municipal resource.
- 4.25 As of January 30, 1989, collection of the installment payments under the two previous programs financed through loans 115/IC-CH and 223/IC-CH showed the following status:

Table IV-1

Payment of installments by beneficiaries with
provisional acceptance of the sanitary unit as of January 30, 1989

	<u>115/IC-CH</u>	<u>223/IC-CH</u>
Units with provisional acceptance	40,632	10,135
Mortgages established	34,204	5,375
Mortgages cancelled	12,602	4,740
Current mortgages	21,602	635
Beneficiaries with up-to-date payments	8,267	519
Beneficiaries with payments in arrears	13,335	116

- 4.26 Once the findings of the income-expense study became available (see paragraph 4.20), the reason for the arrears in installment payments by the beneficiaries was found to be the extreme poverty of the population targeted. This confirmed the government's position regarding partial recovery of the costs of the housing solutions by the local governments as more an effort to build social discipline than a real attempt at financial recovery.

3. Rates

- 4.27 The beneficiaries of the Low-Income Urban Area Improvement Program projects must pay the prevailing rates for water supply, sewerage and electricity services in the country. According to the Bank's analyses with other projects financed through the respective sectoral institutions, since the rates are based on marginal cost, they fulfill the requirements of the Bank in this respect.

G. Operating regulations of the program

- 4.28 For execution of the program, the operating regulations reviewed by the Bank and attached as Appendix IV-3 to the Project Report will be used. They have been adjusted on the basis of the experience acquired in the execution of the two previous operations (see proposed resolution).

H. Plan of execution of the program

- 4.29 The program would be executed in a period of four years starting from the date of the contract. The program execution plan calls for bidding to be held by MINTER in packages of projects. Based on the availability of the projects and the procedures for project studies and designs established by MINTER, the program bidding plan would be carried out in stages over the first three years of execution so that all the projects could be physically initiated during that period.

I. Schedule of investment and use of resources

- 4.30 The proceeds of the loan would be disbursed over a four-year period starting from the effective date of the loan. According to the preliminary execution plan and the experience obtained in the previous loans, the schedule of investment for the program could be the following:

Schedule for use of resources
(in thousands of US\$ equivalent)

	Prior to approval	Years				Total
		<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	
IDB		12,800	20,000	21,100	16,100	70,000
Local						
contribution	<u>1.700</u>	<u>5.200</u>	<u>8.500</u>	<u>8.600</u>	<u>6.000</u>	<u>30.000</u>
Total	<u>1,700</u>	<u>18,000</u>	<u>28,500</u>	<u>29,700</u>	<u>22,100</u>	<u>100,000</u>

J. Recognition of expenses

- 4.31 MINTER has requested the Bank to recognize a series of expenses that have been incurred and are expected to be incurred before this operation is considered by the Board of Executive Directors of the Bank. The expenses from the local contribution would amount to US\$1,700,000 equivalent for the execution of housing improvement projects.
- 4.32 It is recommended that the Bank recognize the amounts indicated above as part of the local contribution, subject to evidence that: (i) the expenses were incurred during the 18 months prior to approval of the resolution but after submittal of the loan application (October 10, 1988); and (ii) requirements substantially similar to those established in the loan contract for the procurement of goods and services have been fulfilled. 1/

K. Environmental concerns

- 4.33 Since this program is a sanitation program, it would have a positive impact on the environment and the ecology of the areas of influence of the projects. Execution of the previous stages of the program has resulted in an improved environment due to the elimination of sources of pollution from the use of pit latrines for the disposal of excrement and the lack of in-house water supply. Furthermore, with the improved urban infrastructure in these areas through the duly realigned and paved streets, alleys and sidewalks, flooding is avoided, as well as mud during the rainy season and dust during the dry season.
- 4.34 In accordance with the operating regulations attached as Appendix IV-3 to the Project Report, which are to enter into force prior to the first disbursement, 2/ the design and specifications of the projects are to be reviewed and approved by the Office of Municipal Works [Dirección de Obras Municipales], in accordance with the provisions of the applicable local plans, special standards for land

1/ See Recommendations.

2/ See proposed resolution.

use and construction, the provisions of the Building Code and the regulations of the enterprises in charge of operation and maintenance of essential public services (water supply, sewerage, electricity and paving). These regulatory instruments govern the protection of the environment, preventing the use of areas not suitable for urban development (i.e, subject to flooding or unstable) and protecting natural resources (i.e, woodlands, watersheds) and infrastructure works (i.e, proximity to airports).

L. Ex post evaluation

- 4.35 In order to ascertain the impact of the program and the extent to which the proposed goals have been achieved, it is recommended that the normative documents include the obligation on the part of the borrower to submit to the Bank three years after the last disbursement an ex post evaluation report on the results of the program, according to a methodology previously agreed upon with the Bank. 1/

M. Financial statements

- 4.36 The borrower, through the executing agency, will present to the Bank, during execution of the project, within the first three months of each calendar year, the financial statements of the program audited by the Office of the Comptroller General of Chile [Contraloría General de la República]. 2/

V. JUSTIFICATION

A. Introduction

- 5.01 The detailed analysis of the third stage of the Low-Income Urban Area Improvement Program discussed herein, the way it has been identified and designed by the Chilean authorities according to the country's social-investment policy objectives, one of the main goals of which is to contribute towards resolving the problem of marginal housing affecting those living in absolute poverty in the country, and the Bank's positive experience from the execution of the previous stages, together show that the proposed program is technically, financially and economically feasible, as discussed below.

B. Technical justification

- 5.02 The Program is technically feasible on the basis of the following considerations:
- (a) All the projects in the representative sample were designed using parameters consistent with the standards currently applied in

1/ See Annex A to the loan contract (Appendix III).

2/ See Recommendations.

Chile by the enterprises responsible for providing utility services. The studies and designs of the projects now in preparation were drawn up using the same parameters and characteristics as the projects in the representative sample of the program. These parameters are considered appropriate for the needs of the program. All the projects in the representative sample of the program are technically feasible.

- (b) The estimated cost of the Program is reasonable and was determined on the basis of the costs of construction, which were based in turn on the unit prices of typical housing arrangements throughout the country, taken from recent construction contracts for similar projects under the two previous operations financed by the Bank.
- (c) Experience in the previous loans shows that a sufficient number of qualified public and private enterprises have been participating in the construction of works and provision of the goods and services, and that both MINTER and the local governments have been improving the procedures for design, coordination and execution of this type of project.
- (d) The projects under the program are of the same nature as the previous programs, in which a high proportion of unskilled and semi-skilled labor was used. Construction equipment would be used only for the paving works, and, in part, for digging the ditches for the pipe to be laid. The technology to be used is considered appropriate, since the projects are simple and allow for a considerable number of people to be employed and locally produced materials to be used. None of the projects require sophisticated methods of construction or operation.

C. Administrative and financial justification

- 5.03 The structure and mechanisms for execution of the program have proven efficient in the previous two stages financed by the Bank. The different institutions participating and the executing unit of MINTER have highly qualified staff with experience in the execution of operations of similar magnitude and having the same features.
- 5.04 The proposed program is financially feasible. The government would use resources from the national budget as the local counterpart, and the program has been designed as a program of transfers that will not result in any problems from the point of view of financial feasibility. The sizing of the program has been determined according to the fiscal funding limitations indicated by the Ministry of Finance, and the funds are scheduled to become available under the government's four-year investment plan for 1990-1993.

D. Socioeconomic analysis

- 5.05 The socioeconomic analysis of the program was divided into the following three parts: (i) the economic feasibility of the project, analyzing a representative sample of 22 projects representing eight percent of the direct cost of the program, with, on the one hand, a cost-benefit analysis for the sanitary unit and basic infrastructure component, and, on the other hand, a cost-efficiency analysis for the residential street and alley paving component; (ii) a cost-efficiency analysis of a representative sample of 16 projects executed under loan 223/IC-CH, representing 11 percent of the 19,515 units completed as of April 30, 1989, selected because they are identical to those proposed in this program; and (iii) analysis of the potential beneficiaries of the program.
- 5.06 The economic feasibility analysis of the program showed that: (i) for the sanitary unit and basic infrastructure component, all the projects in the sample generated an economic rate of return greater than 12 percent; and (ii) for the residential street and alley paving component, all the projects in the sample were found to have unit costs lower than those established in the eligibility criteria.
- 5.07 Regarding the ex post evaluation of the projects financed under the above operation, the following was observed: (i) the actual investment cost of all the projects was lower than the ex ante estimate; (ii) as for the period of execution, all the projects were executed in less than a year, 38 percent of the projects in the sample were completed in less time than scheduled and the remaining 62 percent were executed in a period of time similar to the original estimate; and (iii) the rate of return for all the projects was greater than the ex ante analysis estimates.
- 5.08 Finally, in the analysis of the potential beneficiaries of the program, 85 percent were found to receive an annual household income below the low-income threshold agreed upon by the Bank and the Chilean authorities in April 1989.

VI. RECOMMENDATIONS

- 6.01 The detailed study of the third stage of the Low-Income Urban Area Improvement Program shows that the program discussed herein is technically, legally, financially and economically feasible. It is therefore recommended that the loan be approved, for which purpose the following normative documents are being submitted to the Board of Executive Directors for consideration:
- Proposed resolution
 - Recommendations
 - Description of the program (Annex A to the loan contract)

PROPOSED RESOLUTION ^{1/}

CHILE. LOAN /OC- TO THE REPUBLICA DE CHILE
(LOW-INCOME URBAN AREA IMPROVEMENT PROGRAM)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the República de Chile, as borrower, for the purpose of granting it a loan to cooperate in the execution of a low-income urban area improvement program. This financing shall be subject substantially to the following conditions:

1. Amount and currencies: Up to US\$70,000,000, or the equivalent in other currencies (except that of Chile) which are part of the ordinary capital resources of the Bank, to pay for goods and services acquired through international competition in the member countries of the Bank and for such other purposes as may be specified in the loan contract. Payments of amortization and interest shall be made in the currency or currencies specified by the Bank, in a quantity equivalent to the corresponding amount owed, calculated in units of account in terms of dollars of the United States of America, in accordance with provisions to be included in the loan contract.
2. Source of funds: The ordinary capital resources of the Bank.
3. Guarantee: The general responsibility of the borrower.
4. Credit fee: 0.75 percent per annum on the undisbursed portion of the financing, commencing to accrue 60 days after the date of the contract and payable in dollars of the United States of America on the same dates as the interest.

^{1/} The provisions contained in this Appendix and in Appendices 2 and 3 which follow shall only become final when the Board of Executive Directors has approved the loan proposal.

5. Amortization: The borrower shall amortize the loan in a period of 25 years from the date of the contract, by means of semiannual, consecutive and, insofar as possible, equal installments. The first installment shall be paid six months after the date scheduled for the last disbursement of the financing. The Bank may credit the amortization installments proportionally to the outstanding balance of each of the portions of the loan which accrue different rates of interest.
6. Interest: The borrower shall pay interest semiannually on the outstanding balances of the loan. The first payment shall be made six months after the date of the loan contract. During the disbursement period, the Bank: (a) shall determine the rate of interest to be applied as of the first day of January of each year and for the life of the loan to any amount disbursed during the ensuing year; and (b) may modify the interest rate, in accordance with the policy of the Bank, to be applied to disbursements of the loan made during the second half of the year. At the request of the borrower, resources of the financing may be used to pay interest during the period of disbursement thereof.
7. Physical initiation and disbursement: The term for physical initiation of all the projects shall expire three years after the effective date of the contract, and the term for disbursement of the financing shall expire four years after the same date.
8. Special conditions:
 - (a) The resources of the loan shall be utilized in their entirety by the borrower, through the Ministerio del Interior, hereinafter referred to as "MINTER" or "executing agency", through the local governments. If modifications in the legal provisions or the basic regulations concerning MINTER are approved which, in the opinion of the Bank, may substantially affect the program, the Bank shall have the right to require the borrower and the executing agency to provide explanatory and detailed information in order to determine whether such modification or modifications may have an adverse impact on the execution of the program. Only after hearing the borrower or executing agency and assessing its information and clarifications, may the Bank take such measures as it deems appropriate, in accordance with provisions to be set forth in the loan contract.
 - (b) The resources of the loan shall be used to participate in the execution of a program with a cost estimated at the equivalent of US\$100,000,000. Consequently, the loan contract shall contain appropriate provisions to ensure that such resources as may be necessary, in addition to the loan, for the complete execution of the program shall be duly provided, in an amount estimated at the equivalent of US\$30,000,000, in accordance with a schedule of investments satisfactory to the Bank.

- (c) Prior to the first disbursement of the financing, the borrower shall, through the executing agency: (i) demonstrate to the satisfaction of the Bank that the operating regulations of the program previously agreed upon with the Bank, which shall contain, inter alia, the criteria for project selection, have entered into force; and (ii) submit to the Bank for approval the model or models of the agreement the local governments will use for the transfer of ownership of the urban infrastructure works, and for operation, administration and maintenance of the works.
 - (d) In the acquisition of machinery, equipment and other materials for the program, and in the awarding of construction contracts, the system of public bidding shall be followed in each case in which the value of such acquisitions or contracts exceeds the equivalent of US\$200,000. The bidding shall be subject to the procedures to be appended as an annex to the loan contract.
 - (e) The Bank shall establish such inspection procedures as it deems necessary to assure the satisfactory execution of the program, and the borrower shall extend all cooperation which is required for the most effective accomplishment of this purpose. From the amount of the financing the sum of US\$700,000 shall be allocated for credit to the general accounts of the Bank to meet expenses of general inspection and supervision.
9. Conditional Provision: This resolution shall enter into effect provided the matrix flexibilization measures, referred to in Document GN-1657, as amended, have been approved by the Board of Governors.

RECOMMENDATIONS

- A. It is recommended that the following conditions, to be met to the Bank's satisfaction, be included in the loan contract in addition to the conditions set forth in the proposed resolution:
1. Unless the Bank agrees otherwise, the borrower shall, through MINTER, submit the following to the Bank for each construction project under the program before initiating each public call for bids or, if a call for bids is not to be issued, before the initiation of the works:
 - (a) the general plans, specifications, budgets, specific bidding conditions and other documents necessary for the call for bids; and
 - (b) evidence of the legal possession of the land on which construction for the program is to take place or of the necessary rights thereto.
 2. The borrower, through the executing agency, shall submit to the Bank:
 - (a) within two years after the effective date of the loan contract, a description of the system to be followed to compile and process the data required for preparation of the ex post evaluation report on the program, and of the way in which the representative sample of the program is to be selected; and
 - (b) within three months following the end of the third year after the date of the last disbursement of the financing, an ex post evaluation report on the results of the program, based on the methodology and guidelines set out in Section VI of Appendix III.
 3. The borrower through the executing agency shall undertake to ensure that the local governments have available resources in addition to those of the program and the necessary mechanisms to provide the beneficiaries of the relocation projects with an acceptable housing arrangement at least equal to the one they had previously.
 4. The borrower shall undertake to ensure that the agreement referred to in paragraph 8(c)(ii) Appendix 1, shall contain a commitment on the part of the public institutions or private concerns responsible for operation, administration and maintenance of the urban infrastructure works to (a) maintain and operate the works in accordance with generally accepted technical standards; (b) allow the Bank to conduct inspection visits; and (c) submit to MINTER for consideration, during the first quarter of each calendar year for 10 years after the completion of the first of the program works, the annual maintenance plan for the program works and equipment for that year. Both the

plans and the reports mentioned above may be requested by the Bank for review. If the inspections or reviews conducted by the Bank should indicate that maintenance is being carried out to a lesser standard than that agreed upon, the borrower shall take the necessary steps so that the deficiencies are fully corrected.

5. Within the first two months of each calendar year, from the first year of program execution to the year following the year the final disbursement is made, the borrower, through the executing agency, shall submit detailed annual reports on (a) the delivery of deeds to the beneficiaries; and (b) the provision of community facilities, public services and supplementary infrastructure of the projects.
 6. Up to the equivalent of US\$1,700,000 from the local contribution to the program may be used for expenses incurred for program works completed before the date of the resolution but after October 10, 1988, provided that requirements substantially similar to those of the resolution and the loan contract have been fulfilled.
 7. During the period of execution of the program, the borrower, through the executing agency, shall submit to the Bank the financial statements for the program within the first 120 days of each year. The statements shall be audited by the Contraloría General de la República. The first financial statements shall cover the year in which execution of the program begins.
- B. The loan contract shall include an annex substantially of the tenor of Appendix 3 of this document.

THE PROGRAM
(Annex A to the Loan Contract)

I. Purpose

- 1.01 The purpose of the Program is to contribute towards improving the quality of life of approximately 47,000 families in the lowest income bracket in the country, living in marginal conditions.
- 1.02 In order to achieve the above objective, the families will be provided with basic living facilities, for which purpose the following works will be executed, as required:
- (a) installation of complete residential systems of water, sewerage, electricity and occasionally gas;
 - (b) realignment of streets and alleys, and basic paving;
 - (c) division of lots and delivery of deeds to the beneficiaries; and
 - (d) construction of duly equipped sanitary units to ensure effective use of the outside basic utility systems and to foster gradual consolidation of permanent housing in connection with each unit.

II. Description

- 2.01 Depending on the existing infrastructure and situation in each area, the projects under the Program will be divided into two categories:
- (a) improvement projects, consisting of construction works to improve existing neighborhoods, including, as needed, the installation of water supply, household sewerage and/or storm drainage systems, street paving works and the construction of sanitary units; and
 - (b) relocation projects, consisting of the construction of new housing developments with sites and services for families with dwellings on land that cannot be improved due to location and nature.

III. Cost and financing

- 3.01 The total cost of the Program is estimated at US\$100,000,000, as shown in the following table by category of investment and source of financing:

Cost and Financing Table
(in thousands of U.S. dollars or equivalent)

<u>Category</u>	<u>IDB</u>	<u>LOCAL</u>	<u>TOTAL</u>	<u>%</u>
1. <u>Engineering and administration</u>	-	3,200	3,200	3.2
1.1 Engineering and architectural design	-	150	150	-
1.2 Administration and supervision	-	3,050	3,050	-
2. <u>Direct costs</u>	58,800	24,200	83,000	83.0
3. <u>Associated costs</u>	-	1,600	1,600	1.6
4. <u>Finance charges</u>	11,200	1,000	12,200	12.2
4.1 Interest	10,500	-	10,500	-
4.2 Credit fee	-	1,000	1,000	-
4.3 Inspection and supervision	700	-	700	-
Totals	70,000	30,000	100,000	100.0
Percentage	70.0	30.0	100.0	

IV. Calls for bids

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

V. Selection and hiring of consultants

- 5.01 (a) In the selection and hiring of consultants whose services are to be financed in whole or in part using the resources of the loan: (i) the procedures agreed upon with the Bank must be followed, and (ii) no provisions or stipulations may be established that would preclude or restrict the participation of consultants from the Bank's member countries.
- (b) When consulting services are to be financed using the local counterpart resources, the borrower shall submit to the Bank for approval, before finalizing any consulting contract, the names of

the individual consultants or consulting firms selected, the terms of reference for their appointment, and the fees agreed upon.

VI. Ex post evaluation

6.01 The ex post evaluation report referred to in paragraph A.2(b) of Appendix 2 will include the baseline data referred to below and an analysis thereof, following the methodology provided for in paragraph 6.05 of this Annex.

6.02 Baseline data

For a representative sample of projects comprising a total of 5 percent of the number of families benefiting from the Program, the following information relating to the situation prior to the initiation of the project will be required:

- (a) type of project;
- (b) total number of households included in the project;
- (c) sanitary conditions of the dwellings:
 - (i) for households without in-house water connections:
(1) number of households; (2) how they obtain water;
(3) monthly household consumption; and (4) cost per cubic meter (must include opportunity cost of haulage time, operation and maintenance of alternative systems, etc.);
 - (ii) for households without in-house sewerage connections: (1) number of households; (2) alternate system used; and (3) frequency of replacement, cost of investment and maintenance of the system;
 - (iii) for households without in-house electricity connections:
(1) number of households; (2) energy sources used;
(3) monthly household consumption in kWh equivalent; and (4) cost per kWh equivalent;
 - (iv) for households with in-house water connections but no sewerage connections: (1) monthly household consumption; and (2) rate per cubic meter;
 - (v) for households with in-house electricity connections:
(1) monthly household consumption; and (2) rate per kWh.
- (d) number of households without a sanitary unit;
- (e) number of households with a sanitary unit and condition of the unit;
- (f) predominant building material, number of rooms and bedrooms, and condition of the dwelling;
- (g) monthly household income and expenses by category;

- (h) existence of primary and secondary schools, health clinics and child-care centers serving the families targeted by the project; and
- (i) estimated average value of the land and dwellings occupied by the beneficiaries.

6.03 Yearly data

The following yearly data is to be compiled during execution of the Program:

- (a) number of projects submitted to MINTER by the local governments, by type of project, locality and cost;
- (b) number of projects, units completed and costs of the projects.

6.04 Additional data

Within two years after the date of the last disbursement, the following information will be obtained in the sample projects used for obtaining the baseline data:

- (a) number of households that obtained in-house water, sewerage and electricity connections under the project;
- (b) number of sanitary units built;
- (c) monthly household consumption of water and electricity by those households which:
 - (i) obtained an in-house water connection under the project;
 - (ii) were connected to the water system before the project but obtained an in-house sewerage connection through the Program;
 - (iii) obtained an electricity connection under the project;
 - (iv) had in-house electricity connections prior to the project;
- (d) number of housing units joined to sanitary units;
- (e) number of households which expanded or improved their dwelling, and information on: (i) the total amount spent on expansion or improvement; (ii) how the funding and materials required were obtained; (iii) how much time it took to complete the expansion or improvement once the sanitary unit was built;
- (f) in cases in which dwellings belonging to Program beneficiaries were rented or sold, the sales or rental price;

- (g) for localities which did not have primary or secondary schools, health clinics or child-care centers before the project: (i) whether such services had been set in place; and (ii) the time elapsed between completion of the project and the provision of the services lacking;
- (h) monthly household income and expenses by category;
- (i) total cost of the investment by project, and by type of investment in each project;
- (j) for each project: (i) square meters of streets and alleys paved; and (ii) investment cost per square meter and per beneficiary.

6.05 Methodology

The methodology to be used in evaluating the sanitary unit and in-house connections component and the paving component in each project will be the same as that used in the ex ante economic analysis. With respect to the data referred to in subparagraphs 6.02(d) to 6.02(i) and 6.04(d) to 6.04(i), an evaluation will be made of the situation with and without the Program with regard to: (a) improvement and expansion of housing in physical and monetary terms (constant value); (b) family income; and (c) the provision of health care and education services.