

PID-AAX-676
RUSH

~~Bob Craig~~
D.H.F.

MEMORANDUM

March 14, 1988

TO : See Distribution
FROM : LAC/DR, Terrence Brown *TMB*
SUBJECT : JAMAICA - Housing Sector Loan and Grant NPDs

Action: An issues review will take place on Friday, March 18, 1988, at 10:30 a.m., in the LAC Conference Room for the attached New Project Descriptions (NPDs).

Background: The attached NPDs are the first cuts at Project Descriptions for the new sectoral HG and related TA programs in Jamaica. These, or some modified versions of them are to be included in the Jamaica Action Plan that is due for review the third week in April. The Mission would like our reactions and comments before they develop this approach and strategy in significantly more detail for the CDSS and Action Plan.

The size of the program and its innovative nature argue for this separate review before submission of the Action Plan. Your comments and identification of issues the Mission should address are critical at this time.

Please provide any issues to include in a review agenda no later than noon, Thursday, March 17, 1988. (P. Buckles, X 75246)

Distribution:

- LAC/DR : Jeff Evans
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Drafted: LAC/DR/CP/PKBuckles/14MAR88/DOC.2675N

NEW PROJECT DESCRIPTION

GOAL: Wider Sharing of the Benefits of Growth

OBJECTIVE: To produce a self-sustaining delivery system for shelter, water and sewerage which will meet the needs of the urban poor. This will be achieved through a sectoral lending program (and a concurrent TA project) which will alleviate policy, procedural and institutional constraints across the sector.

PROJECT TITLE : Shelter and Urban Services Policy Program
PROJECT NUMBER : 532-HG-012 Amended, and 532-HG-013
PROJECT FUNDING : (\$000) FY 88: \$10,000(L) LOP: \$50,000(L)
FUNCTIONAL ACCOUNT : Housing Guaranty (HG)

A. Relationship to A.I.D. Country Strategy/Objectives: The program will engage the GOJ in a dialogue to effect policy and institutional reforms which support AID's country development strategy priorities of: (1) market-led economic growth (2) wider sharing of the benefits of economic growth to the poor and (3) development of human capital as a resource for economic development and growth.

Jamaica's rigorous macroeconomic development policy has done much to improve the economy and create opportunities for growth. However, this policy has imposed interim social costs, especially for the urban poor. AID now sees an opportunity to direct the benefits of economic growth to a broader range of the low income population through a policy lending dialogue leading to comprehensive shelter and urban services delivery system (including sites and services, neighborhood upgrading - drainage systems, on-site access roads, potable water and sewers - and credit). Investments of this kind also promote the private sector strategy of AID through their contribution to human resource development, critical to the sustainability of Jamaica's urban-based economic growth.

B. Relationship to Host Country and Other Donors. The Housing Guaranty (HG) Program to date has been successful in introducing neighborhood upgrading, minimal sites and services and home improvement lending as means of improving living conditions of the urban poor. Although these interventions have made substantial impact, the GOJ recognized in its national shelter strategy of 1987 the need to access more resources from individuals and the formal and informal private sectors if it is to develop a self-sustaining shelter and urban services delivery system. This is absolutely essential in current times of dwindling public resources. The strategy also articulates the public sector role of facilitating access to land serviced with water and sanitary infrastructure, although the actual production is best left to the private sector.

This Program will also build upon related activities of other donors, specifically: the World Bank's efforts to increase efficiencies of line ministries through administrative reform and to enhance the financial solvency of the National Water Commission (NWC); and the IDB's assistance to the Urban Development Corporation (UDC) in urban planning and to the Ministry of Agriculture in improving the land titling and registration process.

C. Conformance with Agency and Bureau Policies: Previous HG projects have achieved significant production but have had limited policy effects due to their specific project orientation. This sectoral lending approach is proposed as a means of implementing the necessary policy and institutional reforms. The Program is consistent with LAC and FRE/H guidance in sectoral lending (State 386936).

D. Project Description. The Program's purpose is to work with the GOJ to identify and alleviate existing policy, regulatory and institutional constraints to the development of a self-sustaining system for the delivery of serviced land, potable water, sewerage and construction credit. A USAID DA-financed project will support the GOJ with appropriate technical assistance, training, specialized studies and equipment. A fundamental feature of the Program is an on-going examination of the major constraints on the shelter and urban services sector. As additional constraints are identified, appropriate policy and institutional changes necessary to alleviate them will be supported by Program resources. The five-year Program will focus on the following categories of policy and institutional reform.

(i) Targeting current public sector resources and mobilizing additional private sector resources to serve the urban poor:

The objective is to use program resources to direct an increased amount of public sector shelter and urban service investments towards the urban poor; currently much of the GOJ investment in the sector serves those above the median income. This will involve a dialogue with the GOJ on such issues as: targeting GOJ and National Housing Trust (NHT) resources for sites and services schemes; expanding the capital investment portfolios of the NHT and the UDC for low cost solutions; quantifying and redirecting, if not eliminating, subsidies within the sector; directing urban growth in a pro-active and cost recoverable manner; and, leaving the shelter needs of the higher income groups entirely up to the private sector.

A concurrent objective is to mobilize private sector resources, both formal and informal, for investment in shelter and services for the target population. This will require the GOJ to remove policy and regulatory bottlenecks that discourage private banks and cooperatives from making more significant investments in the sector.

(ii) Improving the efficiencies of the land and urban services delivery systems:

One must streamline the regulatory system for land development by rationalizing the various laws and procedures that currently inhibit private developers if one is to expand the private sector production role in shelter and services delivery.. Zoning codes and other inappropriate standards, land registry and titling inefficiencies and high transfer fees are barriers that inhibit private producers from directly serving our target population. On the infrastructure delivery side, institutional capacity to maintain and rehabilitate existing systems must be given priority.

(iii) Increasing access of the poor to shelter and urban services:

This objective seeks to increase the access of our target population by lowering the costs of solutions through appropriate technology; establishing cost-recovery mechanisms to regenerate capital for system expansion; and, developing appropriate financing mechanisms. Procedural reforms would target such areas as; standpiped water as a lower cost alternative to individual hook-ups; servicing of land with only minimal drainage and access road infrastructure; and, access to credit for home improvement and land purchase.

Public sector shelter construction is inherently inefficient and results in costs substantially higher than those obtainable by individuals working through the private formal or informal sectors. The Program will accelerate the shift in public sector role to that of facilitators of private sector production, particularly the informal sector which is responsible for most shelter production for low-income households.

AID proposes to use the first FY 88 tranche of \$10 million to address a serious constraint to the delivery of serviced land - the lack of access to potable water and sanitary infrastructure. In developing its policy agenda with the National Water commission, AID will address the following four categories of reforms:

1. Expansion of secondary water systems through public standpipes.

Standpipes are a low cost solution which provides access to water and removes an incentive to pirating and the added maintenance costs.

2. Relaxation of requirements for land titles for individual lot hook-ups to water and sewerage systems.

Since only one half of Jamaicans have proper land titles, this policy provokes pirating of water (even by those who would willingly pay for hookups) and excludes the vast majority of urban poor.

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3. Improvement in maintenance, leak detection and rehabilitation of existing infrastructure through NWC sub-contracting with private firms.

NWC currently does not have the resources to manage, monitor leaks and rehabilitate the island-wide water and sewerage system for which it has responsibility. Sub-contracting with private firms will be pursued as an institutional reform.

4. Elaboration of a nation-wide water and sewerage investment plan.

There is a need for the GOJ to coordinate its assessments of needs in water and sewerage infrastructure island-wide and to develop an investment plan to guide use of its own resources and to attract financing by other donors, including AID.

The specific policy agenda for remaining \$40 million under this sectoral program will be based upon the general policy areas described in i., ii. and iii above and will be developed as part of the PID and PP design process

E. Implementing Agencies. Initially, the Program will be implemented primarily through the Ministry of Construction (Housing) and the NWC. As specific constraints are identified, other institutions with policy responsibility will become involved, including most probably the NHT, UDC, Ministry of Finance, the Town Planning Department and Bank of Jamaica.

F. Method of Obligation. USAID will propose a program of \$50 million to be funded incrementally under the HGP. USAID believes this upfront commitment is necessary in order to obtain the necessary policy and institutional reforms. This will result in far more resources from both public and private sources flowing into shelter development than would have been obtainable through a projectized approach using the same amount of funds. A first obligation of \$10 million will be made through an amendment to the existing 532-HG-012 Jamaica Shelter Sector Support Project. The additional \$40 million will be authorized through a new project 532-HG-013 in early FY 89 with HG funding obligated incrementally over a 5 year period. The USAID-funded TA project to support institutions involved in policy and regulatory reforms will be financed for the first two years of the Program through an amendment to the existing 532-0067 Low Cost Shelter Development Project. A new technical assistance project 532-0149 will be designed concurrently with the \$40 million HG Program in early FY 89 for a total authorization of \$3 million.

G. Mission Management. Overall responsibility for management will lie with the Regional Housing and Urban Development Office for the Caribbean. A USAID/Jamaica project committee will be formed and represent other interested offices, including Private Enterprise Development and Engineering.

NEW PROJECT DESCRIPTION

GOAL: Wider Sharing of Benefits of Economic Growth

OBJECTIVE: To provide technical support services to monitor and implement the sectoral lending agenda as defined under the \$50 million 532-HG-012/013.

PROJECT TITLE: Technical Support for Shelter and Urban Services Policy Program

PROJECT NUMBER: 532-0067 Amended and 532-0149

PROJECT FUNDING: (\$000) FY 88: \$500 (G) LOP: \$3000(G)

FUNCTIONAL ACCOUNT: Health and Selected Development Activities

A. Relationship to A.I.D. Country Strategy/Objectives: AID's strategy for the next five years assigns priority to providing broader access of the urban poor to adequate shelter, water, sewerage and other urban services. The Shelter and Urban Services Policy Program seeks to identify key sectoral constraints to achieving these objectives and to support necessary policy, institutional and regulatory reforms. The Program will need constant monitoring, to assess the extent to which policy objectives are being implemented; continuing analyses carried out in collaboration with Jamaican institutions to permit implementation of agreed upon policy changes and to identify the principal remaining sectoral constraints at each step of Program development; and technical assistance, training and equipment support to help local institutions put into practice the changed policies.

B. Relationship to Host Country and Other Donors: The technical assistance program will build on a 6-year experience of AID technical assistance to the Ministry of Construction (Housing) and will help implement the country's Shelter Sector Strategy prepared in 1987. The Program will build on a three-year World Bank project to upgrade management capacity within the National Water Commission, and Inter-American Development Bank support for increasing the urban planning and urban service delivery capacity of the Urban Development Corporation and its support to the Land Registry Office to improve the land titling and registration process.

C. Conformance with Agency and Bureau Policies: The Shelter and Urban Services Delivery Program will directly pursue Agency priorities, including: increased role for the private sector in infrastructure service maintenance and delivery, tariff reforms to increase cost recovery for basic urban services, and re-allocation of investment budgets to directly support service provision for the urban poor. All of these policy changes will require technical assistance to help design new policies as well as collaborative support in policy implementation.

D. Project Description: The Project purpose is to help ensure that the policy changes critical to the Shelter and Urban Services Delivery Program are adopted and implemented, and that emerging constraints on the shelter and urban services sector are identified swiftly and dealt with in GOJ policy. The five-year project has several components.

(i) Overall Policy Monitoring and Policy Dialog: The Program will start out with several specific policy objectives for the Ministry of Construction (Housing) and National Water Commission (see project description). Technical support will be used to monitor progress in implementing the agreed-upon policy changes, to help establish priorities in policy reform, and to assess shifts in sectoral strategy that may be necessitated as circumstances change.

(ii) Studies of Principal Sectoral Constraints: Throughout the lifetime of the project AID and the collaborating GOJ institutions will seek to identify and analyze the principal constraints on the shelter and basic services sector that prevent delivery of housing and service solutions to the urban poor. Technical support will be used in these analyses and in the design of policies, new procedures and institutional/administrative reforms to overcome the constraints identified.

(iii) Technical Assistance to Implementing Agencies: A wide range of specialized technical assistance, training and equipment support will be provided. In the initial period, this will be focused on the National Water Commission and Ministry of Construction (Housing). It may include assistance in structuring tariff reforms to enhance cost recovery for water and sewerage connections, and introduction of credit arrangements to make connections affordable to the poor; assistance in overall budgeting and capital investment priority setting to increase the portion of capital spending in shelter, water and sewerage that benefits the poor; design and implementation of leakage studies and maintenance schedules to improve water service delivery; design of programs for sub-contracting with private for-profit, non-governmental and community-based organizations for infrastructure maintenance responsibilities; design of new ways to work with the informal sector in shelter and infrastructure financing and construction; and addressing issues related to land titling procedures. The cost and service implications of alternative water and sewer technologies (e.g. standpipe service) also will be examined.

(iv) Management Assistance to AID: The monitoring and technical support services contractor will design, in collaboration with AID and GOJ institutions, criteria to measure progress in policy implementation, and will assist in regular reporting on such implementation.

(v) Implementing Agencies: The Project initially will work principally with the Ministry of Construction (Housing) and the National Water Commission. Technical assistance and policy

collaboration will be extended to other institutions, as these are identified as playing critical roles in policy implementation. Other institutional beneficiaries could include the Urban Development Corporation, Ministry of Finance, National Housing Trust, Town Planning Department and possibly Bank of Jamaica.

E. Method of Obligation: In order to move expeditiously on a policy agenda during FY 88, this project will be supported through an amendment to the existing 532-0067 Low Cost Shelter Development Project for a two-year period for the amount of \$500,000. A new technical assistance project 532-0149 for LOP funding of \$3 million will be designed concurrently with the \$40 million 532-HG-013 Program in early FY 89.

F. Mission Management: Overall management responsibility will lie with the Regional Housing and Urban Development Office for the Caribbean. A USAID/Jamaica project committee with representatives from other Mission offices will provide policy guidance. The monitoring and technical services support contractor will have responsibility for managing the technical assistance provided, which will include both U.S. and Jamaican personnel.

G. PID and PP Approval: Discussed in item E: Method of Obligation

A \$500,000 amendment and PACD extension to 532-0067 are expected by August, 1988 along with a \$10 million amendment to the 532-HG-012 Jamaica Shelter Sector Support Project.

PID approval by AID/W for new projects 532-0149 and the \$40 million 532-HG-013 are expected during October, 1988. USAID will request field approval of the PP during January, 1989.

H. Potential Issues: None

I. AID/W TDY Support for Project Development: None needed.

H. PID and PP Approval. A \$10 million amendment to 532-HG-012 Implementation Agreement and \$500,000 Proag amendment and PACD extension to 532-0067 are expected by August, 1988.

PID approval by AID/W for new projects 532-HG-013 and 532-0149 are expected during October 1988. USAID will request field approval of the PP during January, 1989.

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