Background: Venezuela has a total population of approximately 21.4 million (1994), of which an estimated 92% are urban dwellers, making it the most urbanized country in Latin America. High levels of urbanization have corresponded with high levels of urban poverty with approximately 75% of the poor in Venezuela being urban dwellers.

Urban growth has coincided with an expansion of unplanned urban settlements known as barrios, which dominate the urban landscape of the Metropolitan Area of Caracas (MAC). The barrios are characterized by a lack of basic urban infrastructure and services such as electricity, water and sanitation and are often built in environmentally fragile or geologically unstable areas. Residents of the barrios rarely have legal tenure to the land they occupy, and neighborhoods are often very densely populated. The scale of unplanned settlements in Venezuela is almost without parallel in Latin America, with approximately 1.2 million people living in the barrios of Caracas alone - roughly 41% of the MAC’s total population.

The GOV’s current response to the problem of the barrios has been to pursue a policy of upgrading basic infrastructure and improving services in the settlements. This strategy was first outlined in the 1989 Plan to Confront Poverty, which proposes the upgrading of barrio infrastructure and improving service provision, by devolving much of this responsibility to sub-national governments. The Bank financed PROMUEBA (Ln. VE-34950) and the IDB financed PROINSOL projects best exemplify this strategy by providing credit and matching funds to municipalities and states for infrastructure upgrading projects, while also providing them with technical assistance in public management and administration. By and large, the GOV has focused these efforts on the country’s secondary cities, outside of the MAC.

More recently, however, the Ministry of Urban Development unveiled a new urban poverty strategy specifically for the City of Caracas. This strategy is
detailed in the Plan Sectorial de Incorporación a la Estructura Urbana de las Zonas de Barrios del Area Metropolitana de Caracas. The Plan outlines a strategy for physically upgrading the squatter settlements and incorporating them into the formal sector. The strategy calls for urbanizing at three levels - larger scale works (including geotechnical risk mitigation), smaller barrio-scale works and replacement housing for resettlement to due required civil works execution or geotechnical instability. The Plan has an estimated cost of US$2.45 billion with implementation projected at 20 years. The Bank Project will target two sectors of barrios, La Vega and Petare Norte in the MAC over a period of 5 years, with investments totaling approximately US$150.0 million equivalent, including a US$60.7 million loan from the Bank.

Project Objectives: The objective of the project is to improve the quality of life of those living in the informal settlements (barrios) of the Metropolitan Area of Caracas (MAC) through the development and implementation of a long-term, community driven and sustainable barrio improvement program.

Project Description: The project will finance the provision of basic urban services and infrastructure in two groupings of marginal settlements in the MAC - Petare Norte in the municipality of Sucre and La Vega in the municipality of Libertador. Civil works will include water, sanitation, access, drainage, community centers, public lighting, electricity and resettlement housing, as well as risk mitigation of geologically unstable areas. The Project will be demand driven, with communities taking the lead in defining and determining the individual neighborhood improvement plans. Also included in the project is capacity building at the local and municipal level, and the financing of a pilot micro-credit for housing upgrade pilot program.

Project Components

Urban Upgrading: This component will finance the design and execution of the integrated development plans generated by the communities in the Project’s targeted areas of La Vega and Petare Norte. Direct costs will include the design and execution of pedestrian and vehicular access; water distribution; sewerage and sanitation; drainage, electricity distribution and public lighting; community centers; and construction of new housing for resettlement. It will also cover the costs of community outreach and social accompaniment programs associated with the development of improvement plans, environmental education, and will include the legal and administrative costs associated with land titling.

Institutional Development: In addition to financing the start-up and operational costs of the Project Management Unit including public dissemination, monitoring and evaluation, this component will also finance technical assistance and capacity building in several areas including cost recovery, municipal cadastre actualization, cost recovery, development of technical norms and standards for urban projects in the informal sector, and design of Caracas Metropolitan Barrio Improvement Agency.

Micro-Credit Pilot Project for Housing Upgrade: This component will finance the development and operation of a market-based housing improvement loan fund which will provide consumer credit to low-income individuals residing in the informal barrios so that they may make improvements to their housing unit, working through a partnership between private banks and a non-governmental organization (NGO).
Project Financing: The project will be financed by the following entities:

Government (FUNDACOMUN) 50.0
Hidrocapital (Caracas Water Company) 10.0
INAVI/IVI (National and State Housing Agencies) 12.2
Municipalities 10.0
IBRD 60.7
Total 152.2

Project Implementation: The project will be implemented over a period of five years through a semi-autonomous Project Management Unit to be created within FUNDACOMUN. Co-management will be provided at the local neighborhood level through a Local Co-management Groups comprised on community leaders with assistance from technical advisors. Technical assistance in the design of neighborhood upgrading sub-projects will be provided by teams of architects, engineers and urban planners. Teams of social advisors will also be engaged to ensure that the community is fully involved in the process of designing and implementing the neighborhood upgrading plans.

Project Sustainability: Sustainability is derived from two key factors. First, the project relies heavily on the participation of the community in the decision making process, and in the management and/or execution of sub-project works. This has been identified as a necessary condition for the sustainability of upgrading projects. Without active community participation, the long-term sustainability of the project would not be possible. In addition, the community ownership of the Project is key to implementing a cost-recovery strategy which is another essential ingredient to sustainability.

Second, sustainability is derived from creating a Metropolitan agency especially to coordinate and manage investment and research in the informal settlements of Caracas. Given the overlapping jurisdictions and responsibilities for the provision of urban infrastructure and services, it is essential to have this coordinated at a local level, and at once at a level which allows for the ability to coordinate with a view of the entire metro region, and not just at the municipal level.

Lessons learned and reflected in proposed project design: The Project design reflects lessons learned in several areas which are discussed briefly below:
- Integrated Geographic Approach: The geographic approach to integrated urban development is typified by many of the Bank shelter projects of the early to mid-1970s. These projects, which generally aimed to improve basic infrastructure in already settled low-income neighborhoods, were by and large successful in meeting their objectives. However, these projects tended to remain at a small-scale and highly centralized. Moreover, they were rarely expanded to a national level. Lessons from these early efforts suggest that to make these projects sustainable, governments must pursue supportive policies, such as the regularization of land tenure, improvement of housing finance systems, decentralization of service provision and the institutionalization of urban and land development regulations which
facilitate, rather than restrict investment. The Project takes this lesson into account, taking it one step further by suggesting that such an approach must also be scaled-up to a level that will have a significant impact on the quality of life on the residents in the targeted barrios, and also have a demonstrable positive impact on the urban city-scape.

- Decentralization: Bank experience has shown that the decentralization of basic infrastructure and service provision to municipalities, or to local associations of governments, significantly increases accountability to all segments of the population, and consequently improves service quality. Decentralization of basic urban services and infrastructure provision poses several important challenges, the most urgent being the need to increase the capacity of local governments and agencies to manage these activities. In some cases, human and physical shortfalls necessitate the building of capacity at the local and community level, or may require management through associations of municipalities, or private sector participation. This is reflected in the Project design through the creation of a metropolitan agency focused on coordinating investment in the barrios, and on the package of technical assistance which will be provided to the participating municipalities.

- Community Participation and Cost Recovery: Community participation is another essential component for sustainability and cost recovery in upgrading programs. Bank experience suggests that the financial viability of upgraded works and improved services is enhanced when beneficiaries are allowed to indicate their effective demand for these improvements, and can participate in the decision making process. The involvement of the community in the decision making process provides them with a voice and a sense of ownership over the project, which leads to a higher likelihood of cost recovery. Lessons learned point out that NGOs and CBOs can be effective intermediaries for the community and can assist it in articulating needs and preferences and sort through the trade-offs when choosing among various alternatives. Likewise, NGOs and CBOs can be effective vehicles for promoting cost recovery, given their unique relationship with the community. The Project puts great emphasis on community participation, which will have control over all aspects of decision making, including sub-project design and the execution of the works.

- Appropriate Technologies and Standards: Experience has shown that appropriate technologies and design standards in low-income areas can greatly reduce upgrading costs and promote greater access by the poor to basic infrastructure and services. A recent Bank review of urban service provision to the poor indicates that flexible design standards are key to keeping costs low, and increasing access to these services. Brazil has shown great success in the use of appropriate technologies and standards for urban infrastructure and services, and several cities, including Rio and Sao Paulo, have incorporated the use of these technologies (such as in water and sanitation) and standards (such as higher maximum densities and reduced road sizes) into formal building, planning and engineering codes. Sub-projects will incorporate these technologies whenever appropriate and feasible, and funds will be allocated to develop a set of parallel development norms and standards for the barrios, recognizing that their conformity to existing norms and standards is impossible.

- Enabling Markets To Work: The Bank’s policy paper on housing indicates that the poor suffer most when housing markets fail. The research suggests
that failures in the housing market often restrict the supply of housing thus raising the costs of access beyond the reach of the poor. The result can be a growth in squatter settlements, as in the case of Venezuela. Failure to address problems of the housing market exerts pressure on the poor to continue to seek housing alternatives outside the formal sector, hindering the long-term sustainability of slum-upgrading programs. Developing a strategy which enables the housing markets to work for all segments of society is essential to easing these pressures and to providing the poor with formal sector housing options. Although this project will not explicitly confront the issue of housing markets in Venezuela, it will include a pilot component aimed at providing a market based housing improvement loan fund, which will provide access to credit to a large segment of the population currently excluded from formal credit markets and often from government housing subsidies. That notwithstanding, the GOV has recognized the need to address its housing finance and housing subsidy policies, and wishes to do so in a separate loan, or as part of the Second National Low-Income Barrios Improvement Project which is to begin preparation in FY 99.

Program Objective Categories: Poverty Reduction and Human Resource Development (PA); Environmentally Sustainable Development (EN)

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Note: This is information on an evolving project. Certain activities and/or components may not be included in the final project.

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Environmental Aspects: Although the project will generate substantial benefits to the urban and surrounding natural environment, the proposed urban upgrading activities could cause certain alterations to the environment which would minimize these benefits if not handled in a proper manner. This pertains directly to the management of the construction process (nuisances such as dust and noise from construction activities; disposal of construction wastes; excessive traffic; timing of construction, and pedestrian safety, particularly during peak to-and-from school hours) and the steps taken to minimize the impact this will have on the surrounding community, as well as the long-term management of solid waste collection and the control of urban growth towards green protection areas. Importantly, the project creates opportunities to develop new methodologies for environmental management of urban construction, which could be extended to other areas of the metropolitan region.

The following steps are being taken to minimize potentially negative environmental impacts:

- Development of a manual of environmental specifications for all small-scale infrastructure construction projects to be executed in the barrios (i.e. to minimize impacts on traffic, work schedules, etc.);
- Preparation of guidelines for the treatment and disposition of solid waste generated during the construction process;
- Execution of a management plan using community groups and participation to protect and manage any adjacent environmentally protected areas to the project site(s);
- Development of general guidelines for the organization of community-based, and managed solid waste collection programs (household solid waste);
- Design of a community environmental education program; and
- Identification of additional studies to be undertaken during project implementation which will assist in improving the integration of environmental aspects into the urban development process.

Resettlement: It will be necessary to resettle an estimated 1,900 families (5.6 percent of the total number). Population displacement is required for two reasons: (i) to undertake infrastructure improvements (mostly road widening and construction, and drainage canals), entailing in some cases the opening up of space and reordering of existing layouts; and (ii) to remove housing structures that are either located in high geotechnical risk areas or that are structurally unsound.

During project preparation, a systematic effort was made to reduce the need to remove existing structures, resulting in a significant reduction of affected housing units to about half the number originally envisaged. To address the cases where resettlement is unavoidable, a reference Resettlement Action Plan (RAP) has been prepared by the Borrower in accordance with OD 4.30. Its general approach is to:

- Involve the community in all aspects of the neighborhood upgrading process, ensuring that households that will require resettlement are well informed and active participants in the decision making process.
- Undertake full socio-economic studies of each of the families and housing units to be displaced, and establish the tenure, occupation and use patterns that will determine the specific menu of resettlement options and support...
mechanisms to be offered.
- Provide fair compensation for lost assets.
- Offer a menu of options for relocation within the same neighborhood, comprising equivalent or better housing than displaced occupants previously had.
- Formulate appropriate designs and construct new replacement housing before displacement takes place, avoiding the use of temporary housing wherever possible.
- Provide legal, organizational, social, and economic assistance to the families requiring resettlement.

Kessides, Christine. World Bank Experience with the Provision of Infrastructure Services for the Urban Poor, January 1997