

Peru
Supplemental Task Description for: Reimbursable Advisory Services (RAS) to the Ministry of Housing, Construction and Sanitation (MVCS)

Urban Housing and Land TA (P153779)

I. Introduction

1. **The Government of Peru (GoP) has requested Reimbursable Advisory Services (RAS) to support the development of a more inclusive and effective housing and land framework with a focus on urban areas.** This programmatic RAS has been designed to support the MVCS through technical assistance in 3-4 cities, as identified by the Client, with respect to: reviewing and improving the existing framework for urban planning policies in these cities; proposing support mechanisms regarding how cities can engage in sustainable land redevelopment; and recommending a framework to enable private sector participation in expanding supply of affordable housing. This Programmatic RAS will support the MVCS through an integrated approach combining urban planning, land use and housing provision.

2. This document describes the context of the program and the scope of each of the three RASs that form the program, including the key deliverables, team composition and timeframe. The estimated cost of the three RAS contracts is US\$330,000, before taxes and will each be considered as “just in time” RAS contracts that will be carried out within a period of six months from signing of the legal agreement between the World Bank and the MVCS. In addition, there is potential that if the first series of RASs are well received by the Ministry, additional RASs could be prepared in the future under this umbrella program.

II. Sector Context

3. **Peru’s urban population has reached 77.3% of the total population (corresponding to more than 23.3 million people estimated as of 2014) and is growing at an annual rate of 1.55%.** Lima itself is home to 9.13 million people, while it had less than 1 million in 1940. From 1940 to 2007: (a) next to Lima considered as a metropolis, 3 cities over 500,000 inhabitants emerged, and those 4 are home to 5.06% of the Peruvian citizens; (b) the number of secondary cities (50,000-500,000 inhabitants) grew from 1 to 20, home to 37.97% of the citizens; (c) the number of small cities (20,000-50,000 inhabitants) grew from 8 to 45, home to 56.96% of the citizens (figures of 2007).¹

¹ Perú: Migración interna reciente y el sistema de ciudades, 2002-2007. Dirección Técnica de Demografía e Indicadores Sociales del Instituto Nacional de Estadística e Informática (INEI). Link: http://www.inei.gob.pe/media/MenuRecursivo/publicaciones_digitales/Est/Lib1025/libro.pdf

4. **Peru has a high housing deficit, and is ranked third in the LAC region, at 72%² after Nicaragua and Bolivia, with a deficit of 2 million units.** Despite substantial investments in demand-side housing programs, which have mostly been implemented through up-front subsidies and credit programs operated by Fondo Mi Vivienda, Peru faces a significant housing shortage. The programs have had only a limited ability to promote affordable housing construction. This deficit mainly affects the poor and contributes to the significant informal sector in Peru (for example, lack of homeownership title, lack of regularization, proliferation of illegal settlements and lack of serviced urban land for development). In addition, the quality of existing dwellings is poor and many have limited access to basic services and are situated in unplanned neighborhoods. A more in-depth analysis of the constraints faced to increase affordable housing is needed to define policies and programs in order to address the exiting shortage. Constraints typically include cumbersome and/or inefficient and/or outdated regulation, access to infrastructure (for new housing), infrastructure and construction finance. Other countries have applied innovative solutions to promote the development of sustainable housing markets, and Peru is seeking to learn from these global experiences.

5. **Peruvian cities urgently need a framework and tools to integrate into urban planning the (re)development of residential districts, public infrastructure, transport assets, and access to lower cost public service delivery.** The current legal and institutional framework was designed to support the decentralization policy of the early 1990s, with the first efforts on land administration. The framework established the distribution and hierarchy of roles and responsibilities between the national, regional and municipal levels, with planning instruments designed to align municipal and regional actions with national directives. However, in practice, when the competences related to land administration were officially transferred to the regions and local governments (between 2009 and 2013), the change was made without mechanisms in place to ensure the regions and local governments were technically and financially ready to take on these new competencies. In addition, monitoring and evaluation mechanisms were not established prior to the transition.

6. **Additional challenges to urban planning and land use included limited capacity at the local level and the ineffective use of planning instruments and ad-hoc urban development, primarily due to economic and political pressure.** Very few district-level municipalities have the capacity to develop and implement urban plans, and the existing ones are often obsolete or inconsistent.³ There are overlapping spheres of authority amongst local and national government agencies regarding critical components of urban land development especially for land use planning (or legal approvals, regulatory oversight, and timing and amount of capital funds), dispersed decision-making, opaque approval processes, etc. As a result, cities grow in an uncontrolled and unplanned way with difficulties to provide services and housing

² Banco Interamericano de Desarrollo. (2012). *Un Espacio Para El Desarrollo: Los Mercados de Vivienda en América Latina y el Caribe*. Washington, D.C.

³ Conclusions from the Land Governance Assessment Framework (LGAF) 2013 report.

adequately and proportionately to the different segments of the population. The current framework is insufficient for cities to advance local economic development initiatives effectively. Furthermore there is a lack of alignment of incentives between the sectors, the municipalities and developers (and investors), and therefore missed opportunities of leveraging this type of alliance for mixed land use.

7. **With a more integrated and flexible framework (taking into account regional differences), and better adapted regulation of the construction sector, redevelopment of underutilized land and generation of new land in urban centers can be facilitated.** While private sector-led development projects are driven by market demand and strive to maximize return and minimize risk, complex regulation of the construction sector combined with little appetite for investments in social housing, has concentrated investments mainly in upper-income sectors, doing little to facilitate broader social integration and promote livability. In Lima, for instance, two of the most serious problems that limit increases in formal (low-income) housing supply are: (i) the lack of adequately zoned land, and (ii) the difficulty in obtaining water supply for new developments.⁴ Hence, large tracts of land that could be available for urban expansion often exist but are not properly zoned and thus, not available for formal construction.

III. Development Objective and link to the Bank's Strategy

8. The development objective of overall Programmatic RAS is to provide technical assistance to the Ministry of Housing, Construction and Sanitation in the areas of urban housing, land policy and access to finance, to support the sustainable development of real estate and urban infrastructure.

9. **This programmatic RAS will directly contribute to Objectives 2 and 3 of the Peru Country Partnership Strategy (CPS FY12-16, Report No. 66187-PE): Connecting the poor to services and markets, and Sustainable growth and productivity.** The content of the Programmatic RAS addresses the Bank's twin goals by making housing more affordable to the poor through the development and implementation of mechanisms that support the lower income segment of the population, and by highlighting the focus on the poorest populations living in underserved urban areas. At the regional level, the Programmatic RAS contributes to three drivers of urban operations: (i) Promoting urban management, in particular supporting urban policy and analytical work, (ii) Facilitating urban access, in particular supporting access to housing, and (iii) Reshaping cities, particularly through urban renewal. The RAS falls under the core regional business line of affordable housing, which includes strengthening housing policies, and developing innovative instruments to promote both the supply and the demand of low-income housing (e.g., ongoing activities in Mexico, Argentina, and Colombia).

⁴ Palomino Bonilla, M., & Wong Barrantes, R. (2011). *Housing Finance in Peru: What is Holding it Back?* Washington, D.C.: Inter-American Development Bank.

10. **The program of activities covered by the RAS builds on the World Bank’s extensive experience in the integration of the housing, land and urban sectors from the Social, Urban, Rural and Resilience Global Practice (GP), as well as the Finance and Markets GP.** It builds on previous technical assistance (TA) on medium cities in Peru (Arequipa, Huancayo and Piura). The earlier TA included a comparative analysis of other Latin American countries’ national urban policies as well as a focus on key opportunities and constraints at the city level in terms of land use, financing for infrastructure investment, planning and capacity. In addition, the work is being coordinated with the land team that has an ongoing RAS program in Peru related to cadaster management (P149782 for the “Diagnostic and baseline of local capacities to help modernize and consolidate Peru's National Cadaster System (SNC)”, and P153845 for the national “Capacity strengthening for the management of the urban cadaster system) and land formalization (upcoming study).

11. **This proposed work is fully aligned with the Bank’s Urban and Local Government Strategy, which helps governments at all levels make cities more equitable, efficient, sustainable, and environmentally friendly.** The strategy draws on two principles. First, that density, agglomeration and proximity are fundamental to human advancement, economic productivity and social equity, and second, that cities need to be well managed and sustainable. One of the five pillars of the strategy is city planning, land, and housing, which is directly related to the scope of this RAS program. Given the importance of the housing and urban sectors in Peru, the Bank is working to enhance its engagement with the MVCS and this Programmatic RAS is a key element in advancing the Bank’s engagement in the sector at the national level.

12. **The proposed work will be carried out in consistency with the World Bank safeguard policies and key principles,** in particular with respect to Policy 4.12 Involuntary resettlement.

IV. Task Description, Activities, Deliverables, Team Composition, Timeline and Budget

13. This proposed Programmatic RAS takes an integrated approach to support the MVCS in tackling the thematic areas of urban planning, land use and housing provision. The team members will be composed of World Bank staff members from both the urban development and land teams, as well as international, regional and local consultants. A detailed description for each RAS, including objectives, outputs and timelines can be reviewed below.

RAS 3 – Developing Strategies to Increase the Supply of Affordable Housing

14. The objective of this RAS is to recommend a framework aimed at increasing private investments to expand supply of affordable housing across the different city typologies (Lima and primary cities, secondary cities and tertiary cities) based on limited field work in a sample of 3-4 cities to be selected with input from the Client. The main areas of focus of the analysis will include:







- (a) An assessment of existing bottlenecks that limit supply of low income housing. The review will take into account relevant urban and land use policies and availability of financing mechanisms to attract private sector investors;
- (b) A review of existing programs/instruments (local and national) that support affordable housing development, and recommendations of reforms or development of new ones that can be used to leverage private sector investments;
- (c) A presentation of an international benchmarking with the current experience of Peru's cities vs. other international experiences to provide lessons learned to expand the supply of affordable housing.

15. The scope of work for RAS 3 will address and respond to, among others, the following questions, as defined with the Client:

- 1. What are key bottlenecks that discourage supply of affordable housing?*
- 2. How can the public sector promote capital investments in the affordable housing market?*
- 3. What incentives can the government offer the private sector to promote the supply of affordable housing?*

16. Please refer to Table 3 below for a detailed description of the deliverables, timelines, costs and consultants needed to carry out the work for RAS 3.

Table 3

Activity (a)	<i>Identify and analyze key urban and land policies as well as financing mechanisms available to private sector investors (if any) to determine existing bottlenecks that limit supply</i>
Output 3.1 Assessment of the challenges	<u>Steps and deadlines:</u> <ul style="list-style-type: none">  <u>Draft sent to Client:</u> <u>7 weeks after RAS agreement signature</u>  <u>Client feedback meeting:</u> <u>1 week after draft submission</u>  <u>Final deliverable:</u> <u>2 weeks after receipt of Client feedback</u>
Activity (b)	<i>Identify and analyze existing programs, local and national, that support affordable housing development or that can be used to leverage private sector investments</i>
Output 3.2 Local and International Best Practices	<u>Steps and deadlines:</u> <ul style="list-style-type: none">  <u>Draft sent to Client:</u> <u>4 weeks after validation of output draft 3.1</u>  <u>Client feedback meeting:</u> <u>1 week after draft submission</u>  <u>Final deliverable:</u> <u>2 weeks after receipt of Client feedback</u>
<u>Joint Dissemination Workshop – 15 weeks after contract signature</u>	

Team composition:

- Team leader (Senior Urban Development Specialist)
- Senior Urban Development Specialist
- Senior Housing Finance Specialist
- Finance Specialist
- Urban Planner
- Junior Consultant(s) for Data Collection and Analysis

17. The implementation period for the activities proposed under RAS 3 will be 15 weeks, effective on the date of the signature of the agreement. The estimated cost of this RAS is **US\$125,000** before taxes, with the proposed timeline:

[illegible]

V. Dissemination Strategy

18. Following validation by the Client of the outputs, a joint workshop for the three RASs will be held in Lima in June 2015 to present and share the findings with staff from the Ministry of Housing, Construction and Sanitation core team and other staff as deemed relevant by the Minister. The primary audience would specifically be the units of Fondo Mi Vivienda, COFOPRI, the Urban Planning and Policy Unit and the Urban Land Unit. The secondary audience would be the municipalities that the Ministry may target for pilot programs as a result of the findings and recommendations from the Programmatic RAS.

19. Given the short timeframe and budget constraints, the outputs will not be translated to English. However, the team will share the findings more broadly in the form of BBLs or other mechanisms across the GPSURR, the Finance and Markets GP, as well as others to support the sharing of experiences and best practices related to urban, land and housing programs.

VI. Risks

Risk	Rating	Mitigation measure(s)
<i>Risks to Achieve Program Objective</i>	Substantial	<ul style="list-style-type: none">• The short timeframe to deliver this RAS is a significant risk, which is related to the political cycle in Peru. This timeframe affects availability of local and international experts to carry out the work by the required deadline. While the Minister of Housing has strongly expressed his interest in a long-term engagement with the Bank, he has also conveyed the urgency to receive, in a short timeframe, technical input that would allow him to make policy-level decisions during the last year of the current administration. There is a risk that the Government may shift priorities given recent changes in Cabinet members and the upcoming elections in 2016.• Other risks are related to the potential lack of follow through in terms of policy changes and investments based on the outputs and results of the program.• To mitigate these risks, the team has tapped expertise from different Global Practices and has formed a cross-cutting team of staff and consultants. In addition, the MVCS has designated focal points from the four key agencies to participate in this program: COFOPRI, Fondo Mi Vivienda, the Urban Policy and Planning Unit, and the Urban Land Unit.

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