Creating Mixed-income Communities in Jordan

The second Bank-financed urban development project in Amman, implemented between 1986 and 1993, provided an innovative approach for financing low-income housing. Based on the approach, the government sold commercial property and prime housing sites at market rates while pricing plots for low-income beneficiaries below market rates, creating economically mixed communities on project sites. A recent OED audit* finds that on-site construction supervision and an innovative financing arrangement promoted good construction practices and spatially sound urban development. By increasing the supply of affordable housing to the poor, the project reduced the squatter population, helping to control expansion onto government lands. Even more important, the project created socially integrated communities with schools, community centers, and health and social service centers. But the audit cautions that the development of mixed-income neighborhoods through this type of subsidy works only in areas where the better off want to locate and, similarly, where the plots and housing reserved for low-income groups adhere to beneficiary aspirations.

Goals

Over the last two decades, war and periodic political upheavals in neighboring countries have resulted in explosive urban growth in Jordan. In the early 1980s, more than 40 percent of city dwellers in Amman were housed at a density of four or more persons per room. A significant segment of the urban population lived in refugee camps or as squatters. Meanwhile, for the people at the other end of the economic spectrum, poorly designed legal provisions and housing policy incentives had created a housing glut.

The $28 million Second Urban Development Project (approved in 1985) sought to improve shelter for low-income people; encourage sound urban spatial patterns; and strengthen the institutional capacity of the housing sector. An important goal was to provide affordable housing for squatters.

The Housing and Urban Development Corporation (HUDC), created when the government merged two agencies—the Urban Development Department and the Jordan Housing Corporation—became responsible for carrying out the operation shortly after project activities began. Project funds were channeled through the Housing Bank, which held the mortgages on serviced sites and upgraded plots, and financed part of the project cost from its own resources. The government, with substantial support from project funds, was to cover the cost of schools and community facilities. A low-income housing revolving fund, created from a 5 percent surcharge on individual loan payments, reduced the Housing Bank's credit risk by temporarily covering arrears when a family fell three months behind on its mortgage payments.

Results

Developing mixed-income neighborhoods

By selling the more desirable housing and commercial plots (primarily those on the broader avenues and vehicle-accessible streets) at market prices and making a profit on them, the government was able to offer other plots at affordable prices to low-income beneficiaries. This approach largely succeeded in reaching the targeted group: 77 percent of the families living in the new communities had monthly incomes below JD 220, the revised income target for beneficiaries. But delays in servicing one site (Mustanda) with water and electricity, and plot and housing sizes that

were too small in another (Ruseifa) left many of the beneficiary plots in those areas unsold. One cause of the problem may have been insufficient consultation with the intended beneficiaries. It was thought that low-income families would want to buy small lots in less desirable sites at lower cost. But experience showed that even low-income groups preferred to pay more to live in the best possible neighborhood. In Jordan, as in many other Middle Eastern countries, a family’s house represents its chief status symbol and main economic investment.

Cost recovery was excellent, due largely to the establishment of the revolving fund. Actual arrears were negligible, amounting to 1.3 percent of outstanding balance.

Good construction

Almost uniformly, beneficiaries followed good construction practices, whether or not they built the house themselves. They left setbacks from roads and neighboring dwellings, and their later additions adhered carefully to the design capacity of the original steel and reinforced concrete structures. These construction practices contrast sharply with those in low-income neighborhoods in many other developing countries. The achievements were largely the product of three factors: proper design, an innovative financing scheme, and close on-site supervision.

Given the country’s vulnerability to earthquakes, HUDC insisted on sound structural designs developed according to strict engineering specifications. HUDC provided three basic designs free to beneficiaries. Those who wanted other options had to invest in expensive professional design services. HUDC maintained an on-site office staffed with construction supervisors who reviewed the plans for approval and monitored construction.

Two rules made supervision more effective and efficient: (1) all beneficiaries had six months to build once the land was purchased, and (2) any addition to a finished and approved core unit had to be completed within six months of start of construction. Inspectors visited building sites at least 5-6 times during construction to ensure that buildings met design specifications.

To foster compliance with the approved design, beneficiaries received funds at three stages during construction: (1) when the substructure was prepared; (2) when the superstructure was complete; and (3) when plastering was finished. Each of these activities, which represented sizable expenditures, was completed with borrowers’ funds. Only after the components were inspected and approved were borrowers reimbursed from the applicable loan proceeds. Since failure to pass inspection meant that no money would be forthcoming to finish the house, beneficiaries tended to consult supervisors voluntarily to ensure close compliance with design specifications.

Creating community social services

Along with the housing units, the project helped establish the infrastructure needed to create communities: schools, health clinics, and neighborhood centers. Four community centers were built under the project. Three were completed between 1988 and 1990 and have been serving surrounding communities since: the fourth, recently completed, is seldom used, perhaps because of its close proximity to one of the other centers.

The centers were staffed and operated by women from the community, who helped tailor services to community needs and kept operating costs manageable. All four centers provided kindergarten/day care at rates 50-65 percent below commercial competitors. Vocational training centers provided unemployed young men and women with job-related skills. And health clinics constructed under the project were fully staffed and well used. The new schools constructed under the project were equipped with well-stocked libraries, music rooms, and a computer lab.

Lessons learned

By cashing in on its capital gains on the sale of some plots and forgoing gains on others, the government made the latter affordable for low-income families. Equally important, the strategy had the added impact of establishing economically mixed but well-integrated neighborhoods, far better for urban development than low-income “ghettos.” But Jordan’s experience also showed that this type of subsidization works only in areas where the better off want to locate and similarly where the plots and housing sizes reserved for target beneficiaries are desirable enough to encourage low-income dwellers to buy them. That requires close consultation with beneficiaries.

Among the lessons learned:

- Establishing on-site offices for construction supervisors gave owners and builders easy access for frequent consultation.
- Disbursing credits to customers on completion of each construction phase led to better compliance with design standards.
- Staffing community facilities with project beneficiaries lowered facilities’ operating costs and led to services better targeted to neighborhood needs.