ADB UrbanInnovations

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Development of Poor Urban Communities

The ownership of development

In 2003, the Philippine Government began implementing the Development of Poor Urban Communities Sector Project (DPUCSP), a pro-poor set of investments in secure tenure, housing, and livelihood support. Though local government units (LGUs) are the appropriate agencies for making such investments, most have a fairly limited capacity for investing in settlement upgrading and development of low-cost housing. However, all LGUs agree that additional investment in housing is necessary. Most LGUs thus prefer that the local communities themselves, nongovernment organizations (NGOs), and private sector investors assume the lead role in site development, upgrading of infrastructure, construction of housing, and financing.

Supported by a $30.5 million Asian Development Bank (ADB) loan to the Development Bank of the Philippines (DBP), the DPUCSP aims at reducing poverty, providing housing, and improving the income and quality of life of the urban poor. More specifically, its purpose is to put in place systems for providing affordable housing, serviced building sites, and microcredit facilities to the poor. These goals are to be achieved through the project's three components, each of which is described in turn below.

Building the capability to own development

The first component supports re-lending for site development and secure tenure to qualified LGUs, NGOs, private sector developers, and similar project proponents. The second component provides financing for the acquisition of serviced plots, construction of new housing units, improvements to existing housing, and microenterprise credit facilities. The third component provides capacity building and project implementation support to beneficiary local communities, LGUs, and other project proponents. Overall, the intent of the third component is to strengthen decentralization of shelter delivery mechanisms. It should be noted that while DUCSP is a nationwide project, its coverage excludes the Metro Manila area.

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Socialized housing in Angeles City

Finance mechanisms for sustainable capability

The DPUCSP provides a number of mechanisms for financing subprojects. These are as follows:

Site and infrastructure development, and investment in construction of new housing or upgrading of existing housing units:

- DBP provides loans to LGUs. The LGUs then recover the funds which they have on-lent to beneficiaries over a period of 20–25 years. Beneficiaries obtain freehold or usufruct title to the land purchased with the proceeds of their respective loans, with the LGUs themselves assuming the prime credit risk for the loans they make. An estimated total of 13,328 housing units are to be made available to beneficiaries under this lending mechanism.
- DBP provides loans to private sector developers. The private sector developers recover the funds which they have on-lent to beneficiaries for 20–25 years. Beneficiaries obtain freehold or usufruct title to the land purchased with

the proceeds of their respective loans, and the private sector developers assume the prime credit risk in making loans to beneficiaries.

- DBP provides loans to homeowners' associations (HOAs). The HOAs then recover the funds which they have on-lent to beneficiaries over the relevant amortization period (20–25 years in the case of new construction, and 10–15 years in the case of settlement upgrading). Beneficiaries may obtain freehold title to their lands through earlier participation in the Community Mortgage Program, or they can obtain freehold or usufruct title to their lands as provided under the project. LGUs may be required to provide guarantees or collateral for the loans made by the HOAs.

Microfinance for supporting means of livelihood or housing (for the latter, either home improvement or construction of new housing units)

DBP provides loans to microfinance institutions (MFIs), and the MFIs act as wholesalers or retailers of microcredit. The MFIs then establish client relationships with beneficiaries and make loans as appropriate. The MFIs recover the funds on-lent to beneficiaries over relatively short periods (several months in the case of livelihood support loans, 1–3 years in the case of loans in support of construction or upgrading of housing). The total number of housing units to be built or improved using this financing mechanism is estimated at 7,500.

Lending to LGUs has some shortcomings, perhaps the most important of which is the long-term nature of the financial obligations that tie up LGU financial capital for relatively long periods. Alternative mechanisms have been suggested for reducing the role of LGUs through an additional takeout mechanism by which beneficiaries obtain individual housing loans through another source, and amortize their debt to the LGU over a much-reduced period of time.

The Housing and Urban Development Coordinating Council and DBP have created an HOA lending modality that, in effect, makes HOAs bankable—for example, by allowing them to become borrowers under DPUCSP, and thus to avail of financing for site development and housing. Despite some exaggerated optimism in 2007 when DBP introduced this HOA lending modality, it has yet to be proved that its large-scale implementation can be successful. While DBP has remained upbeat about the prospects for this lending modality, concern remains about the capacity of HOAs to recover the funds disbursed under the loans they make. The ADB-supported the Strategic Private Sector Partnerships for Urban Poverty Reduction (STEP-UP) project implemented in 23 poor communities in Metro Manila confirms that HOAs are capable of recovering up to 96% of funds disbursed under loans

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An estimated 7,000 housing units can be built through microfinance

made to low-income households for new housing construction and upgrading of existing housing units. However, on a national scale, DBP and the Cities Alliance–supported IMPACT project[1] have found it difficult to identify many HOAs with such an impressive record in loan management.

Achievements as lessons learned

The latter notwithstanding, the loan management results achieved under the STEP-UP Project are impressive, and the Government is committed to pursuing through DPUCSP a policy and institutional reform agenda that

- promotes wider application of market-based housing finance mechanisms and policies,
- establishes responsive social housing finance institutions capable of implementing sustainable pro-poor programs,
- provides incentives for LGUs to invest in housing,
- introduces measures for making secure tenure widespread, and
- mobilizes participation by both the private sector and NGOs in upgrading urban infrastructure and providing socialized housing.

The Government is well aware of the multiplier effect of investment in housing via which every $1 of direct investment in housing stimulates an estimated $16 in related supply industries. This is why the Government puts high priority on the acceleration of reform in support of socialized housing. Further, the Government is aware that collaboration between the public and private sectors as well as NGOs is key in providing appropriate housing for low-income households.

[1] Integrated Approaches to Poverty Reduction at the Neighborhood Level - A Cities Without Slums Initiative (alternatively called the IMPACT project).