

**REPORT AND RECOMMENDATION  
OF THE  
PRESIDENT  
TO THE  
BOARD OF DIRECTORS  
ON A  
PROPOSED LOAN  
AND TECHNICAL ASSISTANCE GRANT  
TO THE  
DEVELOPMENT BANK OF THE PHILIPPINES  
IN THE  
REPUBLIC OF THE PHILIPPINES  
FOR THE  
DEVELOPMENT OF POOR URBAN COMMUNITIES SECTOR PROJECT**

**November 2003**

## CURRENCY EQUIVALENTS

(as of 31 October 2003)

Currency Unit	–	peso (P)
P1.00	=	\$0.0181
\$1.00	=	P55.21

The foreign exchange rate of the peso is determined by market forces. For the purpose of calculation in this report, a rate of \$1.00 = P52.50 was used. This was the rate generally prevailing at the time of fact-finding.

## ABBREVIATIONS

ADB	–	Asian Development Bank
AusAID	–	Australian Agency for International Development
CAP	–	community action plan
CBO	–	community-based organization
CFI	–	countryside financing institution
CMP	–	community mortgage program
DBP	–	Development Bank of the Philippines
EA	–	executing agency
EIRR	–	economic internal rate of return
FIRR	–	financial internal rate of return
GIS	–	geographic information systems
GTZ	–	Deutsche Gesellschaft für Technische Zusammenarbeit (German Agency for Technical Cooperation)
HDMF	–	Home Development Mutual Fund
HGC	–	Home Guaranty Corporation
HLURB	–	Housing and Land Use Regulatory Board
HUDCC	–	Housing and Urban Development Coordinating Council
IEE	–	initial environmental examination
IRA	–	internal revenue allotment
LAMP	–	land administration and management project
LGC	–	Local Government Code
LGU	–	local government unit
LIBOR	–	London interbank offered rate
LSFF	–	local shelter finance fund
MFI	–	microfinance institution
MWLS	–	multiwindow lending system
NGO	–	nongovernment organization
NHA	–	National Housing Authority
NHMFC	–	National Home Mortgage Finance Corporation
NSP	–	National Shelter Program
OPEC	–	Organization of Petroleum Exporting Countries
PMD	–	program management department
PMO	–	project management office
PMS	–	project management secretariat
PPMS	–	project performance monitoring system
PPTA	–	project preparatory technical assistance
PSC	–	project steering committee
SFF	–	shelter finance fund
SFTA	–	shelter finance trust account

SOE	–	statement of expenditure
SPIU	–	subproject implementation unit
TA	–	technical assistance
TWGC	–	technical working group committee

## NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December.
- (ii) In this report, “\$” refers to US dollars.

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## LOAN AND PROJECT SUMMARY

<b>Borrower</b>	Development Bank of the Philippines (DBP)
<b>Project Description</b>	<p>The proposed Development of Poor Urban Communities Sector Project (the Project) supports the Government's urban poverty reduction strategy by creating sustainable systems for (i) providing loans to local government units (LGUs), in partnership with communities and nongovernment organizations, for site development and distribution of tenure to poor informal settlers; (ii) expanding the access of poor urban informal settlers to microcredit for shelter finance and small enterprise development; and (iii) facilitating participatory community-driven planning by strengthening the role and capacity of participating communities, LGUs, the Housing and Urban Development Coordinating Council (HUDCC), and the National Housing Authority (NHA) to meet their responsibilities under the Local Government Code and the Medium-Term Philippine Development Plan. The Project will also help establish a policy, institutional, and regulatory environment conducive to meeting the housing needs of the urban poor in informal settlements.</p>
<b>Classification</b>	<p>Poverty Intervention Thematic: Human Development</p>
<b>Environmental Assessment</b>	<p>Category B Initial environmental examinations of representative core subprojects indicated that the Project will have mostly beneficial effects, and that adverse effects can be mitigated.</p>
<b>Rationale</b>	<p>The Philippines continues to urbanize rapidly. Over half of the population is in urban areas, and this proportion is expected to reach 60% by 2010 if current trends continue. Housing and land markets have not kept pace with rapid urban growth and, consequently, shelter is not affordable for the poor: more than 40% of urban families live in makeshift dwellings in informal settlements. While official data indicate that only about 20% of the 7.5 million urban households fall below the poverty income line (P13,915 per capita per year as of 2001), the poverty income line alone does not capture the dire situation of informal settlers. The urban poor lack of access to (i) affordable, tenured, serviced land; (ii) appropriate housing; (iii) shelter financing; (iv) targeted and sustainable subsidies; and (v) means to provide their own shelter. All of these problems require sustainable solutions.</p>
<b>Objectives and Scope</b>	<p>The goal of the Project is to reduce income poverty and improve quality-of-life for the urban poor. The purpose of the Project is to put in place systems to provide affordable housing and serviced land for the poor. In order to do this it will (i) improve the access of low-income urban families to tenured, serviced plots and to opportunities for upgraded and new housing; (ii) provide appropriate</p>

finance for shelter and other services; (iii) strengthen low-income communities and LGU support for such communities; and (iv) mobilize communities and LGUs to participate in the shelter provision and finance parts of the Project. This will be achieved through three Project components. In part A, DBP will relend to qualified LGUs for site development. About 20,000 households will gain access to land tenure with basic infrastructure and services. In part B, DBP will establish shelter financing and microcredit facilities for the potential beneficiaries, to support financing for (i) serviced plots and house improvements, (ii) new housing loans, and (iii) microenterprise credit facilities. In part C, DBP and HUDCC will undertake capacity building and project implementation support programs for communities and LGUs to strengthen the decentralized shelter delivery mechanism.

### Cost Estimates

The Project is expected to cost \$48.8 million equivalent, comprising \$34.3 million equivalent (70%) in local currency and \$14.5 million (30%) in foreign currency.

### Financing Plan

Source	(\$ million)			
	Foreign Exchange	Local Currency	Total	Percent
Asian Development Bank	10.2	20.3	30.5	62.5
Grant Cofinancing	0.5	0.8	1.3	2.7
Concessional Cofinancing	3.8	1.2	5.0	10.3
National Government	0.0	3.5	3.5	7.2
Development Bank of the Philippines	0.0	1.1	1.1	2.3
Local Government Units	0.0	6.3	6.3	12.7
Beneficiaries	0.0	1.1	1.1	2.3
<b>Total</b>	<b>14.5</b>	<b>34.3</b>	<b>48.8</b>	<b>100.0</b>

Source: Asian Development Bank estimates.

### Loan Amount and Terms

A loan of ¥3,318,552,500 (equivalent to \$30.5 million) from ADB's ordinary capital resources will be provided under ADB's LIBOR-based lending facility. The loan will have a 25-year term, including a grace period of 6 years, an interest rate determined in accordance with LIBOR-based lending facility of the Asian Development Bank (ADB), a commitment charge of 0.75% per annum, a front-end fee of 0.5%, and such other terms and conditions set forth in the loan agreement. If ADB's Board of Directors does not approve the loan in 2003, the front-end fee will revert to 1.0%, or such other percentage to be determined by the Board.

### Period of Utilization

Until 31 December 2009

### Executing Agencies

DBP will be the executing agency (EA) for parts A and B. For part C, HUDCC will be the EA for the shelter sector strengthening activities, while DBP will be the EA for activities related to project implementation support.

<b>Implementation Arrangements</b>	The Project will be implemented over a 6-year period from 2003 to 2009. HUDCC and DBP will form a project steering committee. HUDCC will chair the committee and will have prime responsibility for overall sector policy actions and coordination. Each participating LGU or other qualified proponent will organize a subproject implementation unit (SPIU) to ensure the project is executed efficiently and that local communities' priorities are incorporated in design and implementation. The SPIU will include community representatives to ensure the proper implementation of community action plans and resettlement guidelines. Involuntary resettlement will be minimal as existing sites will be upgraded or new vacant sites will be developed.
<b>Procurement</b>	ADB's <i>Guidelines for Procurement</i> under ADB loans applicable to development finance institutions will be followed.
<b>Consulting Services</b>	Consultants will be selected and engaged in accordance with ADB's <i>Guidelines on the Use of Consultants</i> and other arrangements satisfactory to ADB for the engagement of domestic consultants. A team of international and domestic project management consultants will help the project management offices (PMOs) implement, manage, and monitor project activities. Consultants will help review community action plans and contract documents, and train LGUs, microfinance institutions, and the PMOs in project implementation, monitoring, evaluation, financial aspects, and community participation. The consultants will also assist HUDCC in sector strengthening activities in a manner consistent with the decentralized shelter delivery framework of the Project. Counterpart funds of participating LGUs and other qualified proponents will finance the SPIUs. Domestic consultants are required for these units, and they will be recruited through procedures acceptable to ADB.
<b>Estimated Project Completion Date</b>	30 June 2009
<b>Period of Utilization</b>	31 December 2009
<b>Project Benefits and Beneficiaries</b>	The Project will support the poverty reduction goals of the Philippine Government and ADB, and will improve the quality of life of urban informal settlers. In the envisaged site and services development subprojects, land ownership issues will be resolved and individual titles or other forms of secure tenure will be distributed, directly benefiting 20,000 poor urban households. About 60 poor urban communities, largely informal settlement areas, are expected to directly benefit from the sites and services development subprojects, and at least another 60 nearby communities will indirectly benefit from offsite infrastructure, including flood protection, roads, and drainage. Similar cases of site improvement have increased land values by 200–700%. Significant gains will accrue to implementing agencies in the form of increased revenues



from property taxes, and to beneficiaries through better social, financial, and economic status.

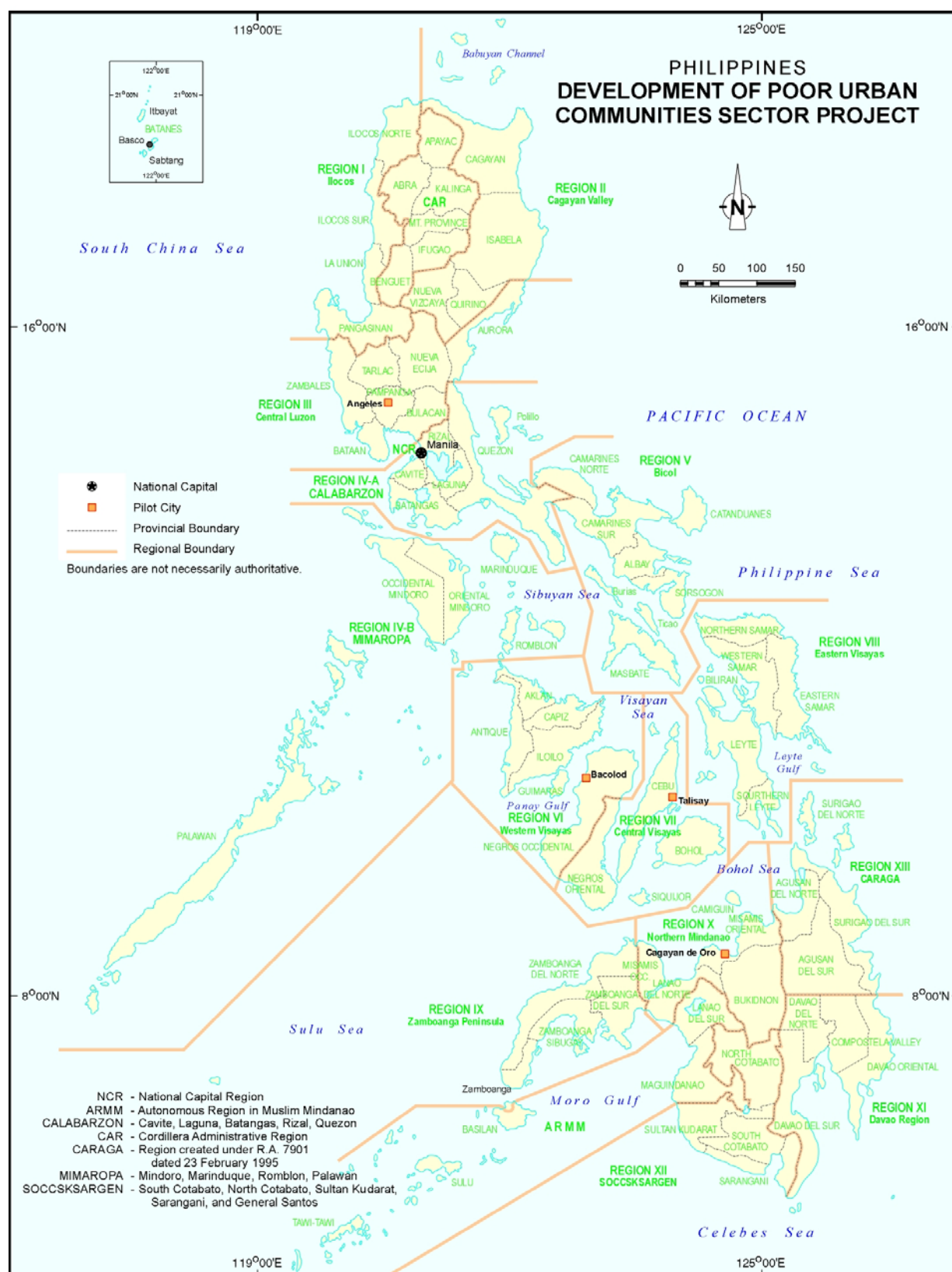
The microfinance shelter provision component will benefit over 20,000 poor urban households. Microfinance for small enterprises will augment the income of beneficiaries who will receive the estimated 10,000 loans, and will generate employment for 40,000 households and benefit as many as 100,000 poor urban residents. Overall, the Project is expected to have a poverty impact ratio of more than 0.66.

### **Risks and Assumptions**

The key risks to the Project are the possibilities of faltering commitment of national and local governments in providing shelter for the poor in a sustainable manner. In particular, at the national level, the key assumption is that the Government will not undercut the provision of market-based finance by subsidizing interest rates. At the local level, the Project assumes that political commitment to market-based, low-income housing will continue across administrations. This assumption is well justified in the present difficult budgetary assessment, as it is unlikely that the Government can afford subsidies required for other approaches. A proposed technical assistance (TA) will address risks associated with timely implementation and subproject approval through effective capacity building for the PMO. Risks associated with financial capacities of LGUs are addressed by careful screening of applicants and by eliciting a pipeline of more subprojects than the Project is likely to process, allowing for dropouts. The risks associated with subsidies and titling will also be addressed by capacity-building support to both HUDCC and DBP.

### **Technical Assistance**

ADB will provide a \$1.5 million TA on a grant basis from ADB's TA funding program. The TA will provide capacity building for DBP, HUDCC, LGUs, community-based organizations, and microfinance institutions.



## **I. THE PROPOSAL**

1. I submit for your approval the following report and recommendation on (i) a proposed loan to the Development Bank of the Philippines (DBP), to be guaranteed by the Republic of the Philippines, for the Development of Poor Urban Communities Sector Project; and (ii) proposed technical assistance (TA) for Capacity Building for Housing Microfinance.

## **II. RATIONALE: SECTOR PERFORMANCE, PROBLEMS, AND OPPORTUNITIES**

2. In November 1999, the Asian Development Bank (ADB) approved a project preparatory technical assistance (PPTA) to prepare the Development of Poor Urban Communities Sector Project (the Project). The PPTA was carried out from June 2000 to May 2001.<sup>1</sup> With the help of the PPTA, the Housing and Urban Development Coordinating Council (HUDCC) designed a decentralized investment project in line with the poverty reduction and shelter strategies of the Philippine Government, and prepared a feasibility study on shelter improvement for informal settlers in urban areas, which was approved by the Investment Coordination Committee (Cabinet Committee) on 24 February 2003. The Project incorporates lessons learned from ongoing Japan Fund for Poverty Reduction projects in Payatas and Muntinlupa. The proposed Project was formulated using a sample of eight pilot communities. Its design incorporates feedback from consultations with the Government and target beneficiaries. This report is based on the findings of the appraisal mission conducted intermittently in March and April 2003; the reports of PPTA consultants; and discussions with national and local governments, international assistance agencies, nongovernment organizations (NGOs), and beneficiaries. During the discussions, the proposed executing agencies (EAs), the Government, DBP, and ADB agreed on the goals, objectives, scope, scale, cost estimates, and financing plans. The project framework is presented in Appendix 1.

### **A. Performance Indicators and Analysis**

3. The urban population of the Philippines grew from 8 million in 1960 to 39 million in 2000. By 2010, about 54 million—over 60% of the population, from the present 52%—will be living in urban areas. Although the official data on poverty indicate that only about 21% of the 7.5 million urban households fall below the poverty income line of \$265.04 (P13,915) per capita per year, at least 47% of urban households live in informal settlements<sup>2</sup> and over 60% of urban households consider themselves poor, according to an independent survey.

4. The housing and land markets have not kept pace with rapid urban growth. Each year in the last decade, the private sector supplied only about 50,000 housing units—largely for nonpoor families—while the Government-led shelter program provided only about 120,000 “units of housing assistance.”<sup>3</sup> Unmet housing demand as of the year 2000 was about 2.4 million units. The shortfall is concentrated in low-income housing where (i) the population is least able to match rising land and house construction costs; and (ii) the market has not been

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<sup>1</sup> ADB. 1999. *Technical Assistance to the Republic of the Philippines for the Development of Poor Urban Communities Project*. Manila. (TA 3291-PHI, for \$850,000, approved on 10 November 1999, with supplementary TA, for \$150,000 approved on 2 April 2002).

<sup>2</sup> Typically, households have built on land they occupy illegally, with minimal access to basic services such as water supply and drainage.

<sup>3</sup> Housing accomplishment under the National Shelter Program includes, as indicators of performance, the provision of housing assistance, i.e., various services performed toward the completion of a housing unit. Hence, a housing unit in the process of completion could receive several financing, loan guarantee, and technical services, all counted as different units of housing assistance. These performance indicators, together with a detailed analysis of the sector, are included in ADB. 2001. *Philippine Housing Sector Profile*. Manila.

able to provide affordable, conveniently located housing. As a consequence, informal housing areas and squatter settlements have proliferated in urban areas.

5. More than one third of urban families live in makeshift dwellings. Rental housing markets are almost nonexistent because of strict rent-control laws. Access to land is a key constraint on housing for the urban poor. Market-based approaches must be found to close the gap between demand and supply, and to enable the sector to provide low-cost housing, financing, sites, and services.

6. An investment of P432 billion will be required to meet the housing shortage, assuming a ceiling of P180,000 per unit as defined by Government for housing for low-income families.<sup>4</sup> The Government cannot bear this financial burden alone. Resolution 012 of the HUDCC created the multiwindow lending system in 1996 to (i) improve the efficiency of shelter finance by making it more market-based, (ii) introduce mandatory fund allocation from participating institutions, and (iii) transfer the credit risk from the Government to participating financial institutions. However, the housing finance system benefits mostly formal sector employees, especially active members of the Social Security System, the Government Service Insurance System, and the Home Development Mutual Fund.<sup>5</sup> The only program that addresses the need for shelter financing for the poor is the Community Mortgage Program (CMP), which finances the acquisition of lots and low-cost shelter. However, it suffers from several structural weaknesses, such as highly centralized management, delays in processing, lack of funds, and lack of trained personnel and resources to handle the time-consuming collection of small loans. Only a few local government units (LGUs) have used the CMP to help poor urban communities, and many others have stopped originating projects altogether.

7. External assistance has been provided to sector institutions (Appendix 2), but the majority of recent assistance has supported decentralization by strengthening LGUs, particularly through citywide infrastructure projects. The Project does not duplicate any ongoing assistance.

## **B. Analysis of Key Problems and Opportunities**

8. In the past, slum-upgrading projects tended to emphasize physical improvement and direct provision of housing. The impact of such approaches was usually limited to specific localities, which in many cases reverted to slum conditions after the projects because of poor maintenance and lack of ownership. Access to affordable land, with title, remains essential to meeting the shelter needs of urban poor families. Better infrastructure also needs to be provided. Appropriate finance would enable the poor to pay for their land, services, and housing improvements. The current Japan Fund for Poverty Reduction projects in Payatas and Muntinlupa are providing valuable lessons in community mobilization, in shelter and infrastructure provision and financing, and in livelihood support, which have been applied to the design of this Project.

9. The key opportunities for support to the sector are as follows:

- (i) **Extend access to shelter finance system and enhance sustainability of this system.** This requires action with microfinance institutions (MFIs) on interest rates and on the subsidy mechanism. To institutionalize accessible financing mechanisms through

<sup>4</sup> This estimate will increase with upward adjustments in the Government's ceiling for socialized housing.

<sup>5</sup> The fund is a provident savings system funded by voluntary contributions from Government and private employees, and mandatory counterpart contributions from employers.

MFIs, better mechanisms are required for the poor to finance their shelter and livelihood needs. Whatever microcredit is available is generally unsuitable for housing finance as it is short-term and comes at high interest rates. Policy dialogue has focused on the need to develop mechanisms through MFIs to encourage savings and make Government-run funds more accessible to the urban poor. The Government has been indirectly subsidizing the socialized housing program through regulated interest rates. This causes market distortions and discourages the private sector from providing funds for socialized housing. The Government is committed to introducing market-based interest rates for shelter finance in the longer term, but mechanisms must first be found to do this while maintaining affordability for the poor and protecting the poorest. Interest-rate subsidies are costly to the community, poorly targeted, and unsustainable for subsidizing socialized housing. The Project focused on introducing market-rate finance, decentralizing subsidy programs, and targeting subsidies to the poor.

- (ii) **Facilitate land tenure.** The provision of land tenure could be facilitated through the subdivision of surplus government land or through the purchase of private land. The urban poor who purchase lots through the CMP—the Government’s flagship pro-poor housing program—can take up to 25 years to obtain a clear land title since the process entails 168 steps involving 53 public and private agencies. For the capital value of a house and lot to be useful to its low-income occupants, there must be some interim form of tenure that financial institutions would recognize. Land development regulations, including land titling, permit issuance, and licensing procedures, need to be streamlined.
- (iii) **Increase private-sector participation.** The private sector is not involved in socialized housing, apart from applying 20% of housing development costs to socialized housing, a policy that is poorly enforced and ineffective. Private sector involvement in this market segment is constrained by low profits and interest-rate distortions. The Government agrees to review the 20% rule and explore alternative, more transparent mechanisms such as development impact fees.
- (iv) **Enhance the effectiveness of sector institutions.** The project design focuses on the need to clarify institutional responsibilities, rationalize the functions of national sector institutions, and strengthen their capacity to carry out their mandated roles effectively. Shelter is a mandated local government activity that many LGUs have neglected. The strategic development planning and fiscal and management capacities of LGUs must be strengthened to enable them to tackle this issue effectively.

10. These challenges provide the basis for the central objectives in the Government’s housing policy and have been key considerations in preparing the project design. The project framework set out in Appendix 1 shows how the Project will find serviced, tenured plots; provide appropriate shelter finance; and strengthen the capacity of sector institutions. Parallel Government policy action is set out in a time-bound action plan in Appendix 3.

### III. THE PROPOSED PROJECT

#### A. Objectives

11. The Project focuses on making a direct and significant contribution to the overall reduction of both income- and asset-based poverty. The objectives of the Project are to (i) improve the access of poor urban households to secure land tenure, affordable shelter, basic municipal infrastructure, services, and community facilities; (ii) improve access to financial

services for housing improvement and livelihood; and (iii) help decentralize shelter activities and strengthen the capacity of LGUs to meet their sector mandates as set out in the Local Government Code. The Project is a sector project and will be available to all cities and first-class municipalities outside Metro Manila. The Project will address the underlying weaknesses in the present subsidy policy and institutional environment that contribute to widespread urban poverty, to the vulnerability of the poor, and to their exclusion from mainstream society.

## **B. Components and Outputs**

12. The proposed Project comprises three parts. In part A, new and existing sites will be developed to provide affordable secure tenure<sup>6</sup> and infrastructure services for urban families in the lowest five income deciles. The Project will target poor communities where the majority is below the poverty line. In part B, shelter financing mechanisms will be established, using MFIs and other qualifying intermediaries to support (i) purchase of serviced plot and house improvements, and (ii) microenterprise credit facilities. Participating MFIs will be prequalified by DBP using agreed criteria and may include thrift banks, rural banks, microfinance NGOs, credit cooperatives, and savings and loan institutions. In part C, capacity building and project implementation support programs will be implemented to improve decentralized shelter delivery. The programs will include (i) project implementation support to assist in overall project planning, coordination, management, advocacy, and subproject appraisal; (ii) support for community-driven planning for sustainable development of sites under part A; (ii) capacity building for LGUs to enable them to plan, initiate development of, and finance their role in appropriate, inclusive shelter projects; and (iii) strengthening the capacity of MFIs to provide finance under part B.

### **1. Part A: Site Development and Tenure Distribution**

13. In part A, DBP will relend to qualified LGUs, or other project proponents with the support of LGUs, to enable the detailed design and provision of secure, serviced plots in existing low-income neighborhoods and at new sites. Project proponents will include private socialized housing developers, NGOs, and cooperatives approved by DBP. About 20,000 households will gain access to land tenure, basic infrastructure, and services. Subprojects will include appropriate and affordable offsite infrastructure. Priority infrastructure and service requirements are likely to comprise access roads, alleys, footpaths, water supply and drainage, sanitation and solid waste management, and basic community facilities. Community services important to an improved quality of life in the subproject area may also be included, as agreed between the community and the LGU. This prioritization and agreement is undertaken through a participatory planning process in the community referred to as the community action plan (CAP). The sites may be (i) areas already occupied by informal settlers, where the agency responsible has agreed that secure tenure will be provided and existing infrastructure and services upgraded (about 30 sites with over 8,000 households); or (ii) vacant lots acquired specifically for poor and low-income housing (about 30 sites for over 10,000 households). LGUs will provide necessary onsite and offsite infrastructure and services, according to physical requirements and based on community needs and preferences. LGU assistance can expedite the processes of subdividing a title on a government-owned site and subdividing LGU-owned land. The Project has also identified land-lease forms that can be used to access shelter finance when freehold title is inappropriate or impossible. The typical design of the sites is in Appendix 4, and the affordability analysis, taking into account the financing arrangements set out on the following paragraphs, in Appendix 5.

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<sup>6</sup> Secure tenure, as defined by the Project, includes the provision of lots, houses, or house and lot packages.

## 2. Part B: Shelter Finance for Low-Income Communities

14. In part B, DBP will relend to locally identified intermediaries, which will onlend to poor and low-income households. The intermediaries will mainly be qualifying MFIs, but other qualified financial institutions with an established track record in mortgage and/or microfinance lending may be approved for participation as appropriate. Families in the informal sector often do not have access to the formal financial system, which requires borrowers to have regular, predictable incomes and collateral. They are thus denied the credit needed to achieve formal tenure and upgrade their housing. Government is unable to provide the required subsidies to encourage formal financial institutions to lend to this group, and centralized shelter agencies lack capacity to manage such a program. Shelter finance using microfinance strategies presents an alternative for decentralized financing. The proposed loans are described below.

- (i) **B1: microfinance for home improvement.** About 2,300<sup>7</sup> subloans of up to \$1,430 (P75,000 or \$380 [P20,000] on average), repayable in up to 5 years by the beneficiaries, will be made available through accredited MFIs for plot improvements.
- (ii) **B2: microfinance for small enterprises.** About 10,000<sup>8</sup> subloans of up to \$2,800 (P150,000 or \$475 [P25,000] on average), and repayable in up to 5 years, will be made available to enterprises typically engaged in noncrop agriculture, trading, food and agroprocessing, manufacturing, transport, and other income-generating enterprises.
- (iii) **B3: housing loans.** Loans will be available for serviced lots and structures on new sites being developed under the site development component, or elsewhere, provided the prospective borrower can present legal proof of land tenure. The loans, of terms up to 15 years long, will range from \$380 (P20,000) for a core unit to \$4,285 (P225,000)<sup>9</sup> for a basic house, and will average \$1,528 (P80,000). MFIs would onlend about 12,000 subloans for housing. These loans will be eligible for guarantee coverage from the Home Guaranty Corporation (HGC). As part of their loan repayments, beneficiaries will pay a small fee for the guarantee through the MFI to the HGC. The guaranty mechanism is financially sustainable.

## 3. Part C: Capacity Building and Implementation Support

15. In part C, HUDCC will take the lead in strengthening the decentralized shelter delivery framework and DBP will lead project implementation support. The capacity-building and project implementation support programs, to be financed through cofinancing grants and/or concessional credit, will comprise two components. ADB will also provide TA for capacity building described in Section IV.

- (i) **C1: sector strengthening and project implementation support.** Additional consulting services to those procured under parts A and B will be provided to the project management office (PMO) at HUDCC for sector strengthening, and the PMO at DBP for project implementation support. Consulting services will (i) assist the EAs in project planning, coordination, management, evaluation,

<sup>7</sup> Based on surveys made in the pilot communities during the PPTA.

<sup>8</sup> Based on the estimates of the PPTA consultants.

<sup>9</sup> This amount may be revised to conform with the Government's ceiling for socialized housing.

supervision, and monitoring; (ii) assist the LGUs and communities in subproject preparation, appraisal, design, supervision, and monitoring; and (iii) support technical tasks. Specific technical tasks will include (i) establishing and implementing a transparent and directly targeted subsidy scheme, (ii) supporting MFIs in enhancing systems for operating and monitoring appropriate lending products, (iii) developing a public land inventory for the Project, (iv) promoting the Project among target communities, and (v) helping coordinate capacity building and community-driven planning. Various aspects of these services will be financed from Cities Alliance and German grant funds.

- (ii) **C2: LGU financial strengthening for shelter provision.** This component will entail developing capability in geographic information system (GIS) mapping for property and other tax enhancement, as well as for use in strategic planning and poverty mapping. The component will be funded by concessional finance from the Government of Finland.

### C. Special Features

16. The Project addresses the key constraints to providing affordable shelter to low-income groups. It provides mechanisms for enhancing security of tenure in a context where previous initiatives have had very limited success. The CMP requires interest rate subsidies, which discourage participation of private-sector financial institutions. Owing to government fiscal constraints, topping up funds for disbursement under the program is very slow. The use of group titles weakens collateral. Almost no infrastructure upgrading is undertaken under the CMP, even though this is theoretically possible, as CMP schemes are stalled at land acquisition. The proposed Project addresses these structural difficulties. Part A facilitates physical improvements in slum areas, and new site development affordable to the poor, where previous policies have failed to provide supply at pace with demand. Part B provides incremental financing for shelter on appropriate terms and through financing mechanisms linked to the formal financial system, thus bridging the gap between these institutions and the poor. Because repayment records for government housing schemes are unsatisfactory, the Project uses targeted subsidies to achieve affordability, but retains an incentive for the poor to pay and for financial institutions to be proactive in ensuring repayment. The Project avoids the past practice of distorting interest rates, relying instead on targeted capital subsidies to achieve affordability. Part C ensures the sustainability of the Project.

### D. Cost Estimates and Financing Plan

17. The total project cost is estimated at \$48.8 million equivalent, comprising \$14.5 million in foreign exchange costs (including about \$1.8 million in interest during construction), and \$34.3 million equivalent in local currency costs.

18. The total cost is based on estimates prepared for eight pilot subprojects in four LGUs in Luzon, the Visayas, and Mindanao.<sup>10</sup> These estimates indicate an average base cost of \$191,390 (P10.048 million) per site for basic urban services and land acquisition costs at 32 existing sites, and \$301,900 (P15.848 million) per site for 34 new sites. Project cost estimates are summarized in Table 1 and detailed in Appendix 6.

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<sup>10</sup> The LGUs are Angeles City, Bacolod City, Cagayan de Oro City, and Talisay (a first-class municipality recently reclassified into a city).



19. A summary of the proposed financing plan is shown in Table 2. ADB will finance about \$30.5 million equivalent, or 62.5%, of the estimated project cost. The proposed ADB loan will cover \$10.2 million in foreign exchange costs, including interest and other charges during construction, and \$20.3 million equivalent of the local currency costs. The proceeds will be used to finance parts A and B. DBP and the lending intermediaries will provide counterpart contributions of up to \$1.1 million equivalent for project management and as equity contributions for part B. The Government and LGUs will provide local currency financing of \$9.8 million equivalent, or about 19.9% of the estimated project cost. Cofinancing from bilateral agencies is proposed to fund part C. Grant cofinancing of about \$1.3 million equivalent, or 2.7% of the estimated project cost, will be required. Concessional credit cofinancing of about \$5 million equivalent, or 10.3% of the estimated Project cost, will also be required.<sup>11</sup> The beneficiaries will contribute \$1.1 million equivalent in local currency costs in the form of equity participation.

20. DBP has requested a loan of ¥3,318,552,500 (\$30.5 million equivalent) from ADB's ordinary capital resources. The loan will have a 25-year term, including a grace period of 6 years, an interest rate determined in accordance with ADB's lending facility based on the London interbank offered rate (LIBOR), a commitment charge of 0.75% per annum, and a front-end fee of 0.5%. The fee will be capitalized in the loan. If ADB's Board of Directors does not approve the loan in 2003, the front-end fee will revert to 1.0%, or a rate determined by the Board of Directors. DBP has provided ADB with (i) the reasons for its decision to borrow under ADB's LIBOR-based lending facility on the basis of these terms and conditions, and (ii) an undertaking that these choices were its own decision and not made in reliance on any communication or advice from ADB. The Government will guaranty the proposed loan to DBP for an annual fee of 1%, and will cover the foreign exchange risk for a fee to be agreed with the Department of Finance.

**Table 1: Project Cost Estimates**  
(\$ million)

Component/Subcomponent	Foreign Exchange	Local Currency	Total Cost
<b>A. Site Development and Tenure Distribution</b>			
Site Upgrading	1.3	6.0	7.3
New Sites	3.3	7.9	11.2
<b>Subtotal (Part A)</b>	<b>4.6</b>	<b>13.9</b>	<b>18.5</b>
<b>B. Shelter Finance for Low Income Communities</b>			
Microfinance for Home Improvements	0.1	1.0	1.1
Microfinance for Small Enterprises	0.3	5.8	6.1
Housing Loans for Shelter	3.5	11.6	15.1
<b>Subtotal (Part B)</b>	<b>3.9</b>	<b>18.4</b>	<b>22.3</b>
<b>C. Capacity Building and Implementation Support</b>			
Sector Strengthening and Implementation Support	0.5	0.8	1.3
LGU Financial Strengthening for Shelter Provision	3.8	1.2	5.0
<b>Subtotal (Part C)</b>	<b>4.3</b>	<b>2.0</b>	<b>6.3</b>
<b>Total (Parts A + B + C)</b>	<b>12.7</b>	<b>34.3</b>	<b>47.0</b>
Interest During Construction <sup>a</sup>	1.8	0.0	1.8
<b>Total Project Cost</b>	<b>14.5</b>	<b>34.3</b>	<b>48.8</b>

LGU = local government unit.

<sup>a</sup> Includes interest during implementation, commitment charges, and front-end fees.

Note: Figures may not add up to total because of rounding.

Source: Asian Development Bank estimates.

<sup>11</sup> The Finnish government is currently processing the required funding.

**Table 2: Financing Plan**  
(\$ million)

Source	Foreign Exchange	Local Currency	Total Cost	Percent
ADB	10.2	20.3	30.5	62.5
Grant Cofinancing	0.5	0.8	1.3	2.7
Finnish Concessional Cofinancing	3.8	1.2	5.0	10.3
Government	0.0	3.5	3.5	7.2
DBP/MFIs, etc.	0.0	1.1	1.1	2.3
LGUs	0.0	6.3	6.3	12.7
Beneficiaries	0.0	1.1	1.1	2.3
<b>Total</b>	<b>14.5</b>	<b>34.3</b>	<b>48.8</b>	<b>100.0</b>

ADB = Asian Development Bank, DBP = Development Bank of the Philippines, LGU = local government unit, MFI = microfinance institution.

Source: Asian Development Bank estimates.

## **E. Financing Mix: Relending and Onlending and Government Subsidy**

### **1. Financing Mix**

21. The financing mix for part A is based on the use of ADB loan proceeds and contributions from LGUs and other counterparts. The Government will partially subsidize land acquisition costs for eligible beneficiaries. Once a subloan for site development is approved, the participating LGU or other proponent will first mobilize counterpart contributions for activities such as land acquisition and detailed engineering design. For part B, the financing mix is based on (i) proceeds of the ADB loan, (ii) contributions from DBP and lending intermediaries, and (iii) equity contributions of beneficiaries. Financing-sharing mechanisms are summarized in Table 3. The ADB loan will fund about 90% of total relending for part B. Appendix 7 presents the financing arrangements and fund flow for parts A and B.

### **2. Relending and Onlending**

22. Under part A, ADB loan proceeds will be re-lent to participating LGUs or private-sector groups in association with LGUs. The subloan to a selected LGU will be for a term of 10 years, including a 3-year grace period, at a market-determined interest rate currently estimated at 9%.

23. Under part B, loan proceeds will be re-lent to qualified financial intermediaries through subsidiary loans. For the housing loan component, DBP subloans will have a term of up to 15 years, including a grace period of 3 years and an interest rate determined by the market (currently approximately 9%). Beneficiaries will contribute at least 5% equity. Onlending to eligible beneficiaries will be at the prevailing market interest rate for a term of up to 15 years. For home improvement and microfinance for small enterprises, DBP will also channel the funds through financial intermediaries at appropriate market interest rates. These intermediaries will onlend at the appropriate market rate for each financial product concerned. DBP subloans to the participating financial intermediaries will also be repayable in up to 15 years, including a 3-year grace period. For the microenterprise loans, DBP intermediary financial institutions will onlend to beneficiaries according to the implementing rules for microfinance of the Bangko Sentral ng Pilipinas<sup>12</sup> (Circular 272, Series of 2001), and subsequent modifications.

<sup>12</sup> Central Bank of the Philippines.

**Table 3: Financing-Sharing Arrangements**

Component/Subcomponent	Relending		Gov't Equity <sup>a</sup> (%)	LGU Equity <sup>a</sup> (%)	Beneficiaries' Equity (%)	Total Cost (%)
	ADB (%)	DBP/MFI (%)				
<b>1. Part A: Site Development and Tenure Distribution</b>						
Upgrading	36.0	0.0	22.6	41.4	0.0	100.0
New Sites	54.7	0.0	16.7	28.6	0.0	100.0
<b>2. Part B: Shelter Finance for Low-Income Communities</b>						
Microfinance for Home Improvements	90.0	5.0	0.0	0.0	5.0	100.0
Microfinance for Small Enterprises	90.0	5.0	0.0	0.0	5.0	100.0
Housing Loans	90.0	5.0	0.0	0.0	5.0	100.0

ADB = Asian Development Bank, DBP = Development Bank of the Philippines, LGU = local government unit, MFI = microfinance institution.

<sup>a</sup> Mostly in the form of land contributions which will also be the main source of the targeted subsidies for eligible poor beneficiaries under the Project.

Source: Asian Development Bank estimates.

### **3. Targeted Government Subsidy Scheme**

24. The subsidy scheme entails a capital subsidy to the purchase price to be paid by the beneficiary. The subsidy is in most cases provided through a reduction in land prices. This scheme avoids distorting interest rate subsidies as required under the Medium-Term Philippine Development Plan. Subsidies are targeted, as they will be provided to residents in slums. The subsidy is graduated: destitute households will get the full benefit of upgrading investments but will pay only nominal land rent. Other households will obtain title and may still receive a land price subsidy, particularly in cases where land costs have become prohibitive because of inefficiencies in the urban land market.

25. HUDCC has pledged to contribute at least 220 hectares of public land for the Project. The net sales proceeds from national land contribution (estimated at about \$2.8 million) will be deposited in a shelter finance trust account (SFTA), to be established and administered by the National Housing Authority (NHA) in accordance with a directive to be issued by HUDCC. At the LGU level, a parallel local shelter finance fund (LSFF) for the proceeds of LGU land sold under the Project will be established, as needed, before DBP releases the subloan. The LSFF will be established in accordance with the Local Government Code to recycle the proceeds of the sale of LGU-owned lands. These proceeds will be used in subsequent projects as a mechanism for additional capital subsidy. The funds will enable a more flexible approach to ensuring affordability than in previous projects, where participating landowners usually provided a substantial price subsidy. The project steering committee or its successor agency will approve the use of an SFTA subsidy for purchase of private land (voluntarily sold at market value) for a qualifying project. The local housing board will approve the use of LSFFs for the same purpose at the LGU level.

## **F. Implementation Arrangements**

### **1. Coordination**

26. DBP will be the EA for parts A and B. For part C, HUDCC will be the EA for the sector strengthening activities, while DBP will be the EA for activities related to project implementation support. HUDCC will establish a PMO with a designated full-time project manager to undertake

the technical and administrative aspects of strengthening the decentralized shelter delivery framework. DBP will also establish a PMO to (i) promote the Project to the targeted end-beneficiaries, (ii) assist LGUs, MFIs, and other proponents in subproject development and implementation, (iii) evaluate the technical, financial and economic, social, and environmental viability of proposed subprojects, (iv) conduct project supervision and monitoring, and (v) establish the project performance monitoring system (PPMS).

27. An interagency project steering committee (PSC), chaired by HUDCC, will be formed to provide policy guidance, implement policy reforms (Appendix 3), and give overall direction. Its members will include representatives of DOF, DBP, HGC, National Economic and Development Authority (NEDA), and other appropriate agencies and stakeholders. The PSC will (i) oversee project implementation in conformity with the Project's development objectives and scope; and (ii) assist in coordination among government agencies involved in project implementation and policy reforms. A project management secretariat (PMS), comprising personnel of HUDCC and DBP, will constitute the technical working group of the PSC to ensure coordinated and efficient project and project implementation activities. An organization chart for project implementation is in Appendix 8.

28. A team of consultants will assist the PMO in project implementation and capacity building. DBP and HUDCC have agreed to provide office space for these consultants.

29. Each participating LGU or other project proponents will set up an SPIU. For LGUs, the SPIU will be attached to the city or municipal planning and development office, or its housing board, if one exists. The SPIU will be headed by a representative of the local housing board, who will be supported by leaders of the local community organizations or NGOs. It will be responsible for implementing the subproject components in coordination with DBP's PMO. The SPIU will be assisted by a team of local consultants, if necessary, in (i) preparing community action plans, detailed engineering drawings, community contracting or local bidding arrangements, and bid documents; (ii) evaluating bids; (iii) awarding and supervising construction contracts; and (iv) exercising quality control strategies and schemes. In the case of other proponents, the SPIU will be staffed with experienced professionals from its organization. DBP's PMO will approve the key positions and staff to be assigned by the proponent to the SPIU. A qualified representative from a local housing board is eligible to become a member of the proponent's SPIU. For its sector strengthening activities, HUDCC's PMO will work and coordinate with the SPIUs.

## **2. Development Bank of the Philippines**

30. DBP is a wholly Government-owned development finance institution. It was established as the Rehabilitation Finance Corporation in 1947 and has gained relevant capacity for LGU financing by implementing four ADB-supported projects. Its mission is to provide medium- and long-term financing to Philippine financial institutions, enterprises, and LGUs. This mandate has been broadened to include universal banking. DBP is exempt from the Government's public service compensation system.

31. DBP's total assets grew at an average annual rate of 12.6% from 1995 to 2002. In 2002, its total assets reached \$2.95 billion (P148.64 billion), up 7.0% from the previous year. Total liabilities also rose during 1995–2002, growing by an annual average of 14.0% and outpacing total asset growth. Total liabilities increased by 6.6% from \$2.59 billion (P129.5 billion) in 2002. Deposit mobilization has demonstrated encouraging results. Capital adequacy, asset quality, management, earnings, and liquidity ratios are all satisfactory.

32. To ensure the financial viability of the DBP loan and sound financial management, DBP will maintain a capital adequacy ratio of at least 10%—in keeping with the requirement of the Bangko Sentral ng Pilipinas—and provide solid provisioning for asset quality. The financial status of DBP is in Appendix 9.

### **3. Capacity Building and Project Implementation**

33. HUDCC and DBP will be joint EAs for the grant-funded implementation support and capacity building component (part C). HUDCC will have primary responsibility for capacity building of the shelter sector, while DBP will have primary responsibility for components directly related to implementation support. Both DBP and HUDCC will deal with common issues related to LGUs, CAP preparation, and strengthening MFIs and community-based organizations (CBOs). These activities must be coordinated between DBP and HUDCC for efficient subproject identification and preparation. Project implementation support consultants will ensure that this coordination occurs.

### **4. Selection and Preparation of Subprojects**

34. Eligibility criteria, selection mechanisms, subproject preparation, and appraisal procedures have been agreed upon with HUDCC and DBP. The first three subloans for parts A and B will be submitted to ADB for review and approval. Subloans for parts A and B submitted for review, may be from the same subproject. Subsequent subprojects will not require ADB review and approval unless the subloan is more than \$2 million.

#### **a. Part A: Eligibility and Selection Criteria for LGUs**

35. The PMS will determine the eligibility of an LGU or other project proponent in accordance with the following criteria: (i) be located, or have a project, in a city or a first-class municipality outside Metro Manila; (ii) demonstrate financial capacity to borrow, based on borrowing capacity certified by DOF, or other collateral acceptable to DBP and ADB; (iii) demonstrate that it can generate surplus income for the next 3 years, including project expenses, by providing revenue and expenditure projections endorsed by the LGU treasurer or a qualified accountant acceptable to DBP; and (iv) have no adverse reports from its banks and suppliers.

36. To be selected, an eligible LGU must have (i) inadequate housing and services, as evidenced by the existence of slum or squatter communities in its area of jurisdiction and supported by an endorsement letter from the Regional Development Council and a resolution of the Local Development Council; (ii) nationally- or locally-owned government land with potential for inclusion in the subproject, or privately owned land where the proponent has confirmed in writing the intent to provide housing at a price affordable by the fifth income decile or lower; (iii) interest in and commitment to the Project, expressed in a letter of intent from the mayor confirming that the LGU will participate, modify, and adjust its local land-use planning and property tax management system, if recommended in capacity building; (iv) the technical and administrative capacity to undertake institutional capacity building and subproject management; (v) the capacity and willingness to contribute equity; and (vi) willingness to establish a housing board, and an LSFF where local government land is used, serviced by a secretariat that specializes in housing and the urban poor, or at least a written commitment to create such a board. Other project proponents must also demonstrate that they have (i) clear title to the project land, and (ii) the capacity and willingness to manage the subproject.

## **b. Part B: Qualification and Selection of MFIs**

37. The PMS will determine the eligibility of participating MFIs and other lending intermediaries based on institutional, financial, and lending performance criteria summarized in Appendix 9. MFIs with relevant capabilities in implementing microcredit programs for the informal sector conforming to ADB's microfinance development strategy will be preferred. The DBP project loan officer will assess compliance with DBP accreditation requirements based on audited financial statements and other information.

## **5. Implementation Schedule**

38. The Project will be implemented from 2003 to 2009. Each subproject will take about 2 years to complete. Parts A and B will be complemented by (i) a nationwide advocacy program, a component of part C; and (ii) organizational arrangements among the EAs, LGUs, NGOs, and communities. Part C has two components, the first of which will engage consultants for sector strengthening and project implementation support. The consultants will then assist the EAs. Capacity building will be implemented throughout the Project, although most will be concentrated in the early stages. The implementation schedule is shown in Appendix 10.

## **6. Consulting Services**

39. For parts A and B, ADB loan proceeds will be used to finance the consulting services engaged according to ADB's *Guidelines on the Use of Consultants*. Other arrangements satisfactory to ADB will be made to engage domestic consultants using the quality- and cost-based selection method. Domestic consulting services are estimated to require 175 person-months. The consultants will be experts in urban development, municipal engineering, community organizing, environmental services, economic and financial analysis, housing microfinance, design and supervision of the project monitoring systems, and microenterprise development.

40. For part C, consulting services will be financed on a grant basis by the Cities Alliance and the German Agency for Technical Cooperation (GTZ). GTZ will contribute \$0.4 million for project preparation activities under component C1. The Cities Alliance will provide \$0.9 million to develop pro-poor shelter strategies. In total, approximately 22 person-months of international and 108 person-months of domestic consulting services for shelter planning and community mobilization will be financed. Consultants will be selected and engaged according to the procedures of the relevant agencies.

## **7. Advance Action on Recruitment**

41. ADB has approved advance action in recruiting consultants and preparing detailed engineering designs and contract documents, starting with pilot subprojects in Angeles, Bacolod, Cagayan de Oro, and Talisay. DBP has been advised that advance action does not commit ADB to finance the Project.

## **8. Procurement**

42. DBP will require subborrowers to follow ADB procurement guidelines applicable to development finance institution loans, which include the obligation to (i) demonstrate that subborrowers' procurement procedures are appropriate; (ii) ensure that goods and services are purchased cheaply, are delivered quickly, and are efficient, reliable, and suitable, with

maintenance and spare parts readily available; and (iii) in the case of services, ensure the quality and competence of providers. All goods and services financed under the ADB loan will be procured from ADB member countries. To promote compliance with ADB's *Guidelines for Procurement*, DBP, HUDCC, and NHA project managers and staff of other agencies engaged in procurement will be trained and briefed on procurement as appropriate. International competitive bidding will be used on all civil works contracts over \$2 million and for supply contracts over \$500,000. In other cases, local competitive bidding will be used. Goods and services financed by concessional and grant cofinanciers will be procured according to the general procurement guidelines of those cofinanciers.

## **9. Disbursement Arrangements**

43. Loan proceeds will be disbursed according to procedures in ADB's *Loan Disbursement Handbook*, January 2001. To facilitate the disbursement of small expenditures under the loan, DBP will set up an imprest account exclusively for the Project. The initial payment and ceiling of the imprest account will be equivalent to DBP's anticipated disbursements of approved subloans to subborrowers over a 6-month period, or 10% of the loan proceeds (\$3 million). The account will be replenished and liquidated on the basis of the statement of expenditures (SOE) prepared by DBP lending centers and consolidated at the DBP head office. The ceiling on SOE withdrawals will be \$200,000. DBP's accounting systems and internal control procedures have been assessed and are adequate for the imprest account and SOE procedures.

## **10. Project Supervision and Reporting Requirements**

44. HUDCC and DBP will separately submit to ADB semiannual progress reports on project implementation. The reports will cover physical performance, summary profiles of feasibility studies, summary appraisals of applicant NGOs and CAPs, progress made in each component of part B, and progress made in the HUDCC- and NHA-executed capacity-building programs. Within 3 months of subproject completion, DBP will prepare and submit a report, summarizing subproject implementation, operational performance, and an overview of project progress. HUDCC and DBP will prepare and submit to ADB a completion report 6 months after the Project is finished, summarizing the overall status of project implementation, operational performance, the project performance monitoring system (PPMS), and targets achieved.

## **11. Accounting, Auditing, and Reporting**

45. DBP, HUDCC, NHA, and participating LGUs and MFIs will maintain separate project records and accounts in accordance with sound accounting principles. The records and accounts must be sufficiently detailed to identify subloans and subprojects financed by the loan and to disclose the sources and expenditure of funds, including counterpart contributions provided in cash or in kind. DBP will submit the consolidated project accounts provided by LGUs and MFIs to ADB within 3 months of the end of the fiscal year. DBP and HUDCC will (i) have the project accounts and their financial statements audited annually, according to generally accepted auditing standards, by the Commission on Audit; and (ii) submit to ADB, within 9 months of the end of each fiscal year, a copy of the auditor's report on the project accounts and DBP's audited financial statements. The auditor's report on project accounts should include a separate audit opinion on the use of the imprest account and the SOE procedure. The Government and EAs have been informed of ADB's new policy on submitting audited financial statements and the penalties for noncompliance.

## **12. Anticorruption Policy**

46. The proposed Project will comply with ADB's anticorruption policy and guidelines. The EAs will ensure timely submission of project accounts. Subprojects will be selected, components approved, and goods and services procured according to the agreed guidelines and criteria. ADB's anticorruption policy was explained to the central and local governments, DBP, and participating MFIs during project processing. The anticorruption provisions added to ADB's *Guidelines on the Use of Consultants* were also discussed, and the section on fraud and corruption in ADB's *Guidelines for Procurement* were emphasized.

## **13. Project Reviews**

47. A midterm review will take place about 2 years after the loan takes effect, to enable the Government, DBP, and HUDCC to make adjustments in project design and implementation. The review will cover the status of subproject preparation and implementation, the performance of consultants, subprojects in the pipeline, assistance to LGUs and their poor urban communities, microfinance and institutional capacity building, and the possible reallocation of loan proceeds.

## **14. Project Performance Monitoring and Evaluation**

48. The PPMS will be established on the basis of the targets and measurable monitoring indicators set up in the project framework. The system will enable the Government and the EAs to monitor expected objectives and outputs, and will assist them in planning remedial action if they are not achieved. Monitoring and evaluation will be carried out at all levels of project activity and for all subprojects, and will include participatory and community-based monitoring techniques. HUDCC—the agency responsible for the policy agenda—and DBP will be responsible for all aspects of project monitoring and evaluation. A PPMS will need to be devised to minimize information collection while complying with both Government and ADB requirements. It must be established early in the Project with the assistance of the project implementation support consultants, and then used in project monitoring and post-project evaluation. Each participating SPIU will implement the PPMS for each completed subproject to evaluate the delivery of the planned facilities and the benefits accrued.

49. With the help of consultants, the PMOs will develop comprehensive PPMS procedures and plans according to ADB guidelines. The project LGUs will undertake PPMS activities such as setting benchmarks, collecting information, monitoring benefits, and evaluating social impact. The PMOs will consolidate data and prepare the PPMS for the overall Project. The first set of data on subprojects will be collected within 3 months of loan effectiveness. The results will be included in the subproject completion report to be prepared by LGUs and eventually in the project completion report to be prepared jointly by the EAs.

## **IV. TECHNICAL ASSISTANCE**

50. The TA will strengthen systems within DBP, HUDCC, LGUs, and MFIs to enable the formulation of housing projects and financing appropriate to the needs of the poor. The TA will (i) enable DBP, HUDCC, and LGUs to foster community-based mechanisms for upgrading slums and providing low-income housing; and (ii) enable DBP and MFIs to implement financial systems to fund shelter development for the poor and to provide financing for the poor to access shelter, neighborhood improvements, and livelihood support. The TA will also provide support to the PMOs in (i) realizing the policy reform agenda; (ii) strengthening LGUs' shelter planning and



outreach capabilities; (iii) strengthening the project evaluation, appraisal, approval, and implementation capabilities of implementing agencies; (iv) effectively coordinating with other agencies involved; (v) coordinating with other external funding agencies over cofinancing; (vi) establishing and making operational a system to monitor and report on project activities; and (vii) developing procedures for contract tendering, bid evaluation, and award. Details of the TA are described in Appendix 11.

## **V. PROJECT BENEFITS, IMPACTS, AND RISKS**

### **A. Project Benefits and Impacts**

#### **1. Overview**

51. Once implemented, the Project will help reduce urban poverty in three ways: (i) in part A, about 20,000 urban informal settlers will gain access to land tenure with basic infrastructure and services; (ii) in part B, over 20,000 poor urban families in the informal sector are expected to gain access to microcredit facilities and to be absorbed as members of the government social security system through savings mobilization; and (iii) in part C, over 60 communities and partner NGOs will build up their capacity to prepare, develop, and implement community-driven development projects in a decentralized environment. More than 270,000 people will directly benefit from better houses, communities, and improved access to the formal financial system. The proposed off-site infrastructure, including flood protection facilities, main roads, and drainage, will indirectly benefit 120,000–230,000 others residing in more than 60 nearby communities. Indirect benefits from basic urban services and improvements in the slum environment will accrue to the population in project cities, and will have a positive spillover effect on adjacent communities.

52. Physical improvements in urban services and better sanitation in participating communities will help reduce waterborne and water-related diseases, improve health, and thus bring additional economic benefits through increased capacity for income generation. Reducing the costs of urban services will also save time for informal settlers, thus helping increase their economic productivity. Community participation in development planning and implementation will reinforce the economic and health benefits associated with the water supply, drainage, sanitation, solid waste, and community improvement components, and ensure that the initial gains provided can be sustained and maintained. Access to microcredit will also allow informal settlers to engage in more income-generating activities. The community development and resettlement policy applicable to the Project is set out in Appendix 12. The Project will benefit women by addressing security of tenure, improving access to basic infrastructure and services, and soliciting their full participation in project implementation.

53. Proposed subprojects were subjected to economic and financial analyses, using 2003 prices, which included assessments of household affordability and willingness to pay for land and home improvements, the financial capability of MFIs and LGUs, cost recovery, and subproject sustainability. The economic internal rate of return (EIRR) calculated for the subprojects exceeds the economic opportunity cost of capital, and the financial internal rate of return (FIRR) of revenue-generating components exceeds the real weighted average cost of capital. Land and basic services, as a percentage of the income of each decile of the targeted beneficiaries, are deemed affordable, given the self-targeting subsidies available to the LGU proponents, and given, in some justifiable cases, a government land subsidy.

## **2. Economic and Poverty Analysis**

54. The major indicators of the economic viability of the proposed upgrading subprojects are summarized in Appendix 5. Base-case EIRRs for the subprojects ranged from 27.9% to 44.6%, exceeding the 12% economic opportunity cost of capital, and confirming the economic robustness of the proposed subprojects. Sensitivity analysis conducted on parameters that included a 10% increase in costs, a 10% decrease in benefits, or both, and delays in the realization of benefits, showed that the EIRRs will be highly vulnerable to changes in the anticipated benefits. EIRRs for the microfinance subprojects were robust, ranging from 18.3% to 54.8% because they are short-term, require little capital, and have a high product turnover. The poverty impact ratio, based on the direct economic benefits from representative subprojects in Parts A and B, is 66%. This ratio is significantly higher than ADB's estimate of 9.2% income share of the urban poor in the Philippines, and confirms the pro-poor impact of the Project. The poverty impact analysis is summarized in Appendix 5.

## **3. Financial Analysis**

55. FIRR and financial sustainability projections were prepared for the revenue-generating subprojects: (i) microfinance for home improvements, (ii) finance for small enterprises, and (iii) housing loans. FIRR was not calculated for site development subprojects because all eight have significant subsidy elements. The local governments will eventually recover project subsidies through property taxes.

56. All the microfinance components are viable, with base-case FIRR of 6.0–51.9% above the weighted average costs of capital adjusted for inflation. Major indicators of financial viability are summarized in Appendix 5. The financial capability of the LGUs serving as implementing agencies for site development were evaluated based on their financial statements and forecasts of revenues and expenditures. The cash flow projections indicate that all four pilot LGUs have the capacity to borrow for the proposed investments. The financial analysis of representative MFIs ascertained their ability to effectively relend to project beneficiaries and to repay their proposed subloans under part B.

57. Monthly amortization payments on loans for land and basic services through the MFIs, at an indicative interest rate of 12% and a term of 15 years, were compared with the income and borrowing capacity of beneficiaries in the pilot subproject areas. Serviced plots will be affordable to targeted beneficiaries. Overall, the serviced plots from the pilot subprojects were designed to be affordable to the bottom 50% of urban households (Appendix 13). This targets the urban poor, defined by the National Census and Statistics Office as those below regional poverty thresholds. Amortization payments for a serviced plot and housing improvement loan package will generally be affordable to urban households in the second to third deciles, and payments on a serviced plot and housing loan package will be affordable to the third to fifth deciles. In addition, households in the target sites will earn increased income through the small enterprise component, and by renting space created by home improvements and housing loans.

## **4. Environmental Assessment**

58. The Project is in environmental category B. Initial environmental examinations were prepared for eight pilot communities. All pilot subprojects, and the Project as a whole, will generate little environmental impact during construction. The civil works are not substantial in scale or cost, and most involve improving drainage, roads, footpaths, and water distribution systems. Mitigation measures will include ensuring construction workers are briefed on how to

minimize nuisance, and carefully planning excavations and other construction to avoid damaging utilities. At most, the negative environmental impact would be interference with other utilities, or the temporary increase of solid waste, sewage, dust, or noise during construction. Mitigation measures will include documenting the work and utilities undertaken. The community-based organization will undertake this documentation, as input to future construction activities. Also important will be the careful design of septic tanks and drainage, and community education on appropriate site cleaning and maintenance. Recommended mitigation measures are easy to integrate into project feasibility and detailed engineering studies. The Project will fundamentally improve the urban environment through better access, proper handling and disposal of domestic wastewater, avoidance of flood damage, and provision of potable water. The summary initial environmental examination is in Appendix 13.

59. For sector projects, site selection criteria include residential safety, which will have to be supported by adequate environmental assessment. DBP has been certified as ISO 14001 compliant<sup>13</sup> and has the appropriate assessment and monitoring arrangements in place. Mitigation measures must be recommended, and the conditions set in place for their implementation before any subproject is approved for site development. Where a proposed project has significant environmental impact as defined under ADB guidelines, DBP will provide details of the proposed subproject, its impact, and proposed mitigation measures for posting on the ADB web site for 120 days prior to DBP approval.

## **5. Social and Gender Assessment**

60. According to socioeconomic surveys in the eight pilot areas, about 40% of the residents, or 48,000 potential project beneficiaries, are ultra-poor. These families have incomes below the subsistence level, estimated at \$166.08 (P8,304) per capita per year in 1997 and defined by the National Statistical Coordination Board as the annual per-capita income required to satisfy minimum basic nutritional needs. Other target beneficiaries have incomes below the urban poverty threshold or have no formal access to basic services, particularly housing and related infrastructure.

61. The Project will generate significant benefits for the urban poor. First, it will lead to increased security of tenure and improved living conditions, and thus to economic, health, and quality-of-life benefits. Security of tenure will allow the targeted urban poor to realize the value of the capital represented by their house and lot. Second, the Project will improve their quality of life and overall well-being by providing microfinance for home improvements and housing loans. Third, the Project will uplift economic conditions by providing microfinance for growth-oriented enterprises. The community-driven approach to project preparation (Appendix 12) will ensure full participation from all community groups.

62. Women generally bear the brunt of insecurity of tenure and poor access to infrastructure and services because they are responsible for their families' well-being. The Project will benefit women by addressing security of tenure and improving access to basic infrastructure and services. Women will also be the key beneficiaries of the community development components of part C because they are most involved in neighborhood enterprises and community services. Women will also benefit indirectly from education and training in gender awareness for policymakers, housing professionals, national and local housing officials, and NGOs. Microfinance will have a bias toward women, increasing their income-earning ability and contributing to their economic independence. This will benefit the entire family, because studies

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<sup>13</sup> Certifying that its environmental management practices comply with international standards.

in the Philippines have shown that women give greater priority than men to expenses for housing and basic services. Women will be considered equal partners in establishing CBOs for the Project. They will be consulted and will participate actively in decision-making. The Project will ensure that gender balance is maintained in the representation and membership of the elected officers in community organizations.

63. The Project is structured so that no involuntary resettlement will be involved. Where upgrading necessitates adjusting plot boundaries or moving structures, the CAP process will ensure consent by requiring the signature of all household representatives. Appropriate compensation will be paid to those who are voluntarily moving or are inconvenienced in other ways. None of the pilot subprojects will affect indigenous peoples, nor is this likely to happen in subsequent batches, because the project targets cities. In the extremely remote case that an affected community fits ADB's characterization of indigenous peoples, community-driven planning mechanisms will ensure the application of the policy requirements in project implementation. The summary poverty reduction and social strategy assessment is shown in Appendix 14.

## **B. Project Risks**

64. The project risks and safeguards relate primarily to two areas: the amount of interest that LGUs and communities show, and the effectiveness of the targeted subsidy scheme. Risks are anticipated and mitigating measures proposed in the key areas of political and administrative change, project timing, project approvals, adherence to the policy framework, and absorptive capacity and transparency of the targeted subsidy scheme.

65. **Risks Associated with Political and Administrative Change.** The Project will rely on the continuing commitment of DBP and HUDCC to the project approach, and of the implementing agencies such as LGUs and MFIs, to project implementation. Since some degree of administrative change is inevitable, the Project must deal with this change in a way that will not harm progress or results. The Project's goal of poverty reduction will likely remain a central pillar of government policy. At the local level, negative effects of administrative change can be mitigated by (i) a continuing awareness and advocacy program; and (ii) the sector loan approach, which allows ineligible and unqualified LGUs and communities to be dropped and new ones to join.

66. **Risks Associated with Timely Implementation.** The Project is likely to include up to 25 LGUs and as many as 66 communities. While the project duration is set for 6 years, achieving the projected scale and disbursement rate will require (i) qualifying communities and LGUs to express true demand, and (ii) an efficient PMO. Furthermore, a lengthy period of project planning and design, resulting from the participatory nature of the Project, may prove difficult to reconcile with the need for rapid processing. Project design will help mitigate these risks in a number of ways. First, the regional offices of DBP and HUDCC will support the Project. Second, sector programming gives the Project the flexibility of replacing communities that cannot process loans quickly with those that can. Third, the project implementation support consultancy component includes two elements that will help mitigate these risks: (i) a project advocacy and awareness program involving seminars and workshops for mayors, information campaigns at the regional and LGU levels, and a public awareness campaign directed at potential project communities and LGUs; and (ii) a strong project management support team working with PMO staff and technical staff seconded from NHA, which will have the full range of skills necessary to minimize processing time.

67. **Risks Associated with Subproject Approvals.** The PSC will meet quarterly, or more often if necessary, to review subprojects' compliance with eligibility criteria and to assess progress. This committee may seriously compromise timely implementation if it fails to meet regularly and make clear, quick decisions. This risk will be mitigated by support from a strong PMS and PMOs staffed by competent counterparts and experienced consultants.

68. **Risks Associated with Policy Actions.** Efficient project implementation relies on prompt action on the policies above. No major legislative change is needed, but effective implementation of existing laws will require interventions within the regulatory and institutional frameworks. While some land management issues will be addressed under a project supported by the World Bank and Australian Agency for International Development (AusAID), loan conditions will ensure that critical policy actions in support of the Project are taken promptly. The PSC must also carefully monitor policy reforms.

69. **Risks Associated with Financial Commitments and Absorptive Capacity.** The SFTA and LSFF aim to reduce cost of serviced plots that LGUs develop, and to make them more affordable. However, the scheme currently relies on the LGUs as the core urban development agents. The absorptive capacity of the SFTA and LSFF subsidies will therefore depend on the extent of the shelter programs the LGUs develop every year. Onsite infrastructure was seldom provided in the past because of a limited budget. Only since the recent entry of government financial institutions such as DBP and Land Bank of the Philippines into this market have LGUs begun to consider financing infrastructure through debt. The preparation of shelter development plans will help LGUs make financial projections of their resources and adopt a more dynamic policy of borrowing from DBP for the purchase of land and the building of secondary or tertiary infrastructure. Such a trend must be encouraged at the subproject level. Every developer of low-income shelter projects can potentially benefit from the increased availability of long-term bank financing with upfront grants from the SFTA and LSFF. The sensitivity analysis indicates that some subprojects could be vulnerable to a lower-than-expected increase in plot value after investment, for example. This could slow loan uptake. The project's focus on the lowest possible threshold of affordability is designed to address this issue.

70. **Risks Associated with Transparent Subsidy Scheme and Titling Arrangements.** SFTA and LSFF eligibility criteria should be well understood and transparent. They should be institutionalized within the LGUs, LSFFs, NHA, PMO, and SFTA, and the project implementation support consultancy services early in the Project. These criteria will rely on such parameters as applicants' incomes, the costs of subprojects, and the financial condition of the SFTA and LSFFs in a given year. Grant applicants should be screened as suggested in para. 69, starting from the community level (NGOs, LGUs, and CBOs), to minimize political interference and leakage. The information processing and support documents should be designed by corporate organization specialists to avoid excessive red tape and consequent delays. Because the complex interrelations among land management agencies could delay the issue of final titles, the Project has developed arrangements for interim titles based on the 'lease-to-own' modality backed by HGC.

## VI. ASSURANCES

### A. Specific Assurances

71. The Government, DBP, and HUDCC have given the following specific assurances, in addition to the standard assurances, which will be incorporated in the legal documents:

- (i) The Government, through HUDCC, will carry out policy reforms according to the agreed policy action plan in Appendix 3.
- (ii) The Government will rationalize the housing finance sector in accordance with Executive Order 138, including market-based lending at all financial institutions.
- (iii) The Government, through HUDCC, and DBP will ensure that counterpart resources for project implementation are provided on time. To this end, the Government and DBP will take all measures necessary or appropriate for the prompt disbursement.
- (iv) HUDCC and DBP will not consider subprojects requiring significant resettlement. The PMS will screen each subproject for involuntary resettlement effects to ensure no losses of land, income, housing, community facilities, or resources. Any involuntary resettlement arising from land acquisition will conform to the resettlement policy in ADB's *Policy on Involuntary Resettlement*, the CAP, and the resettlement policy framework.
- (v) DBP will ensure that it maintains (a) a capital adequacy ratio of 10% or above, (b) a minimum return on average total assets of 0.5%, and (c) a minimum liquid assets ratio<sup>14</sup> of 25%.
- (vi) The Government, through HUDCC, and DBP will ensure that the Project is carried out according to the Philippines' applicable environmental rules and regulations, as well as ADB's *Environmental Assessment Guidelines*.
- (vii) Except as ADB may otherwise agree, the Borrower and the Guarantor will ensure that all land required for a proposed subproject has unencumbered, clear title or evidence of clear ownership is acquired no later than the first drawdown of a subloan.
- (viii) Before a subloan is awarded, DBP and HUDCC will ensure that (a) a local SPIU has been established and appropriately staffed; (b) an adequate CAP has been prepared; (c) all beneficiaries have agreed on that plan; and (d) the participating LGU has agreed in writing that a specified community-based organization will represent the community.

## **B. Conditions for Loan Effectiveness**

72. The Loan Agreement will take effect subject to the following conditions:

- (i) DBP will submit to ADB an acceptable draft of the subsidiary loan agreement.
- (ii) The guarantee and project implementation agreement between ADB and the Government will have been executed and delivered, and all conditions precedent to its effectiveness—other than a condition requiring the effectiveness of the Loan Agreement—will have been fulfilled.

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<sup>14</sup> Cash on hand; checks and other cash items due from the Central Bank and other banks; marketable securities, trading account securities, government securities with maturities of less than 1 year or more than 1 year, which can be traded in the secondary market; interbank loans receivable with a maturity of less than 1 year to total deposits.

- (iii) The PMOs and SPIUs in pilot cities are established and staffed.
- (iv) The PSC is established and has held its first meeting.

## **VII. RECOMMENDATION**

73. I am satisfied that the proposed loan would comply with the Articles of Agreement of ADB and recommend that the Board approve

- (i) the loan of \$30,500,000 to the Development Bank of the Philippines, to be guaranteed by the Republic of the Philippines, for the Development of Poor Urban Communities Sector Project from ADB's ordinary capital resources with interest determined according to ADB's LIBOR-based lending facility; an amortization period of 25 years, including a grace period of 6 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft Loan and Guarantee and Project Implementation Agreements presented to the Board; and
- (ii) the provision of technical assistance not exceeding the equivalent of \$1,500,000 to the Government of the Philippines for Capacity Building for Housing Microfinance.

Tadao Chino  
President

21 November 2003

## PROJECT FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<b>Goal</b> Reduced urban poverty	<ul style="list-style-type: none"> <li>Reduction in incidence and prevalence of urban poverty</li> </ul>	<ul style="list-style-type: none"> <li>National government statistics</li> <li>LGU statistics</li> <li>NGO statistics</li> <li>CBO statistics</li> </ul>	
<b>Purpose<sup>a</sup></b> To provide sustainable systems for providing affordable shelter and services for the poor	<ul style="list-style-type: none"> <li>Government to reform other shelter financing mechanisms based on the project model</li> <li>LGU to adopt model and obtain finance through mechanisms not associated with the Project</li> </ul>	<ul style="list-style-type: none"> <li>National and LGU records</li> <li>Project progress reports</li> <li>Community-based participatory monitoring systems</li> <li>project completion report</li> </ul>	<ul style="list-style-type: none"> <li>Political commitment to enforce existing land and taxation legislation</li> </ul>
<b>Outputs</b> Improved access to land tenure and basic infrastructure for urban informal settlers in the lowest five deciles of household income  Appropriate systems to finance shelter and livelihood improvement for the poor and low income  Systems to build capacity of communities, of LGUs, and of the national government to implement shelter subprojects in a decentralized environment	<ul style="list-style-type: none"> <li>Number of urban informal settlers outside National Capital Region (NCR) reduced by 20,000 families by 2009</li> <li>Approximately 60 shelter subprojects, in at least 20 LGUs, prepared, financed and implemented</li> <li>Site improvement and housing loans to at least 14,000 poor families.</li> <li>&gt;85% repayment efficiency after 3 years.</li> <li>10,000 small business loans provided</li> <li>&gt;85% repayment efficiency after 1 year</li> <li>Community development activities supported in at least 60 communities.</li> <li>Establish housing boards with community representation in 20 LGUs</li> <li>Average time of community project approval reduced from 36 to 18 months</li> <li>Average time of access to funding package reduced from 36 to 18 months</li> <li>Average time of issuing individualized lot tenure reduced from 36 to 18 months</li> </ul>	<ul style="list-style-type: none"> <li>Participating LGU records of mortgages and titles issued</li> <li>Infrastructure and services provided and housing lots created by participating LGUs</li> <li>Participatory monitoring and evaluation system in the project communities</li> <li>DBP and MFI records</li> <li>Project progress and completion report</li> <li>ADB loan disbursement</li> <li>PO and NGO records</li> <li>Records of national and regional legislative bodies</li> <li>Field evaluation and review missions</li> </ul>	<ul style="list-style-type: none"> <li>National government continues to support decentralization of housing activities and poverty reduction through land distribution and shelter finance</li> <li>Urban land market reflects increased value of serviced sites</li> <li>Interim titles issued by LGU are acknowledged and recognized as a formal title</li> <li>No pressure applied to retain below-market interest rates</li> <li>LGUs show continued interest in and commitment to responsibilities for shelter sector</li> <li>Greater transparency in government transactions</li> <li>LGUs committed to comply with property tax billing</li> <li>Political and administrative change</li> </ul>

<sup>a</sup> For Government Shelter Policy Context, see Supplementary Appendix A.



Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<b>Activities</b> A1. Provision of shelter packages for 2,220 poor households in eight pilots  A2. Provision of shelter packages for at least 15,000 poor households in 60 communities in 20 cities  B1. Provision of housing loans or housing material loans to at least 12,000 poor urban households  B2. Provision of microfinance for 10,000 urban families in the lowest five deciles of family income  C1. Project implementation support  C2. Capacity building for decentralized shelter delivery C3. LGU financial strengthening	<ul style="list-style-type: none"> <li>October 2003 to December 2006 Responsible: PMO/SPIUs</li> <li>Jan 2005 to December 2009 Responsible: PMO/SPIUs</li> <li>Jan 2004 to December 2009 Responsible: PMO/MFIs</li> <li>Jan 2004 to December 2009 Responsible: PMO/MFIs</li> <li>October 2003 to June 2009 Responsible: PMO</li> <li>October 2003 to June 2009 Responsible: PMO</li> <li>October 2003 to June 2009 Responsible: PMO</li> </ul>	<ul style="list-style-type: none"> <li>Consultants' progress reports</li> <li>ADB review missions</li> <li>Project progress reports</li> <li>Participatory monitoring and evaluation system in project communities</li> <li>LGU, GFI, and MFI records</li> <li>Participatory monitoring and evaluation system in project communities</li> <li>LGU, GFI, and MFI records</li> <li>DBP, HUDCC, and NHA project records</li> <li>ADB review missions</li> </ul>	<ul style="list-style-type: none"> <li>Timely processing by Government, DBP, and MFIs of project approvals and adequate project management in DBP and LGU</li> <li>As above</li> <li>Selection of competent MFIs and good quality project management</li> <li>As above</li> <li>Timely hiring of consultants</li> <li>Selection of competent consultants and good quality project management and contract supervision of consultant team</li> </ul>
<b>Inputs</b> LIBOR-based ADB loan Government counterpart funds DBP/MFI counterpart funding Concessional cofinancing Grant cofinancing LGU counterpart funding Community counterpart Foreign consultants Local consultants	<ul style="list-style-type: none"> <li>\$30.5 million</li> <li>\$3.5 million</li> <li>\$1.1 million</li> <li>\$5.0 million</li> <li>\$1.3 million</li> <li>\$6.3 million</li> <li>\$1.1 million</li> <li>22 person-months</li> <li>283 person-months</li> </ul>	<ul style="list-style-type: none"> <li>EAs work records and annual reports</li> <li>Project progress reports</li> <li>PBME</li> <li>Project accounts</li> <li>ADB review missions</li> <li>EA annual reports</li> <li>Cofinanciers' reports</li> </ul>	<ul style="list-style-type: none"> <li>Cofinancing released in agreed quantum and on time.</li> <li>Counterpart staff available and of requisite skills.</li> <li>Timely and transparent recruitment of local consultants by SPIUs.</li> </ul>

ADB = Asian Development Bank, CBO = community-based organization, DBP = Development Bank of the Philippines, EA = executing agency, FIES = family income and expenditure statistics, GFI = government financing institution, HUDCC = Housing and Urban Development Coordinating Council, LGU = local government unit, LIBOR = London interbank offered rate, MFI = microfinance institution, NGO = nongovernment organization, NHA = National Housing Authority, NSO = National Statistics Office, PBME = project benefit and monitoring, PMO = project management office, PO = people's organization, SPIU = subproject implementing unit.

**EXTERNAL ASSISTANCE TO THE HOUSING, URBAN SERVICE, LAND MANAGEMENT,  
AND MICROFINANCE SECTORS (1990)**

<b>Project</b>	<b>Fund Source</b>	<b>Cost (\$ million)</b>	<b>Duration</b>	<b>Description</b>
<b>1. Land Administration</b>				
Land Administration and Management Project (Stage One)	World Bank AusAID	10.3	2001-2004	To improve land titling and administration procedures at the national level.
<b>2. Microenterprise Finance</b>				
Microenterprise Access to Banking Services	USAID	9.0	1998-2003	Training support in microfinance to the Rural Bankers' Association of the Philippines and selected rural banks in Mindanao.
Rural Microenterprise Finance Project	ADB	65.0	1997-2002	Support to microcredit organizations that support the Grameen Bank approach for providing credit to the poor.
<b>3. Urban Services</b>				
Regional Cities Development Program	World Bank	67.00	1983-1992	Bacolod, Cagayan de Oro, Davao, and Iloilo Lead agency: NEDA, together with DPWH, NHA, and DOF. Infrastructure improvements over various sectors, including mini-industrial estates and major slum upgrading.
Program for Essential Municipal Infrastructure Maintenance Engineering Development (PREMIUMED I)	World Bank (MDP I)	68.80	1984-1993	Lead agency: DPWH; provide LGUs with access to loans for development of basic urban infrastructure and services. Includes capability enhancement through training and support to the real property tax program of DOF.
PREMIUMED II	World Bank (MDP III)	108.00	1993-2000	As above.
Metro Manila Infrastructure, Utilities and Engineering Project (Project M-MINUTE II)	World Bank (MDP II)	44.50	1990-1996	Assistance to Metro Manila Commission in planning and implementing management of basic services and community infrastructure.
Philippine Regional Municipal Development Program	ADB AusAID	21.00 10.00	1997-2001	Urban infrastructure and service improvements and capacity building in cities of General Santos, Puerto Princesa, Tagbilaran, and Iligan.
Local Government Finance and Development (LoGoFinD)	World Bank	134.00	2000-2006	Financing of LGU projects, LGU training and capacity building, resource mobilization and monitoring and reform of MDF.
Mindanao Urban Planning and Basic Services Sector Project	ADB	70.50	2001-2007	Improved access to basic urban services and infrastructure for up to 40 urban local governments in Mindanao.

ADB = Asian Development Bank, AusAID = Australian Agency for International Development, DILG = Department of the Interior and Local Government, DOF = Department of Finance, DPWH = Department of Public Works and Highways, JBIC = Japan Bank for International Cooperation, LGU = local government unit, MDF = Municipal Development Fund, MDP = Municipal Development Project, NEDA = National Economic and Development Authority, NHA = National Housing Authority, USAID = United States Agency for International Development.

## POLICY ACTION PLAN

Policy Objective	Issues	Actions To be Taken	Agency	Time-frame	Status/ Notes
<b>1. Market-Based Interest Rates</b>					
<ul style="list-style-type: none"> <li>Improve formal finance linkage to informal sector settlers and economy</li> <li>Attract private financiers and developers to socialized housing</li> </ul>	<ul style="list-style-type: none"> <li>Current extensive use of interest rate subsidy causes market distortions</li> <li>No incentives for entry into market using own</li> </ul>	<ul style="list-style-type: none"> <li>Establish clear policy for market-based interest rate financing and appropriate lending modalities to provide affordable finance on sustainable basis in place of administered interest rates</li> </ul>	<ul style="list-style-type: none"> <li>HUDCC to coordinate</li> </ul>	2002-2005	EO 138 of 1999 mandates market interest rates for government financial institutions
<b>2. Institutionalizing Accessible Financing Mechanisms</b>					
<ul style="list-style-type: none"> <li>Improve linkage of formal sector financial institutions to informal sector settlers and economy</li> </ul>	<ul style="list-style-type: none"> <li>Potential high cost of HGC guarantees for future budgets</li> <li>Heavy cost of foreclosure keeps banks away from the sector</li> <li>Only GFI long-term savings being tapped for housing, leading to artificial rationing</li> </ul>	<ul style="list-style-type: none"> <li>Draft and prepare EO liberalizing collateral requirements, allowing banks to lend against long-term leases and other variants.</li> <li>Assess the role of guarantee agencies in shelter provision for the poor and recommend financially sustainable changes to current practice, in particular extending the applicability of HGC revised underwriting guidelines and use of cash-flow guarantees.</li> </ul>	<ul style="list-style-type: none"> <li>HUDCC</li> <li>HGC on guarantees</li> </ul>	2003-2005	Refer to Appendix 1 for funding approval indicators
<ul style="list-style-type: none"> <li>Improve access to credit for housing and livelihood opportunities for the urban poor</li> </ul>	<ul style="list-style-type: none"> <li>Difficult for urban poor to access credit for housing and livelihood opportunities in terms of physical and administrative access</li> <li>Where microcredit is available, it is unsuitable for housing finance in that it is uncollateralized, short-term, and carries high interest rates.</li> </ul>	<ul style="list-style-type: none"> <li>Develop implementing rules and regulations for SFTA</li> <li>Assess operation of SFTA and recommend measures to extend its operation and funding</li> <li>Engage LGU to promote, in partnership with MFIs, a sustainable shelter finance system based on private savings mobilization and targeted subsidies through the SFTA</li> </ul>	<ul style="list-style-type: none"> <li>HUDCC</li> </ul>	2003 onwards	Refer to Appendix 1 for funding approval indicators

Policy Objective	Issues	Actions To be Taken	Agency	Time-frame	Status/ Notes
		and other non-distorting mechanisms			
		<ul style="list-style-type: none"> <li>Include livelihood and employment support in the design of all possible low-income shelter projects</li> <li>Develop and implement support and monitoring mechanisms for shelter MFIs</li> </ul>	<ul style="list-style-type: none"> <li>HUDCC and DBP</li> </ul>		
<b>3. Securing Government-Owned Urban Land for Low-Income Housing</b>					
<ul style="list-style-type: none"> <li>Strengthen mechanisms for land consolidation and facilitate land banking</li> </ul>	<ul style="list-style-type: none"> <li>Land consolidation is not practiced because of weak organizing capacities and inadequate technical capabilities at LGU-level and conversion laws</li> </ul>	<ul style="list-style-type: none"> <li>NGAs to draw up improved implementing rules and regulations for the practice of land proclamation in order to make it more targeted, coordinated, and efficient</li> <li>HUDCC works with LGUs to identify priority areas for proclamation</li> <li>NGAs to offer technical and legal guidance for LGUs in conveyance</li> <li>Develop mechanisms to encourage the creation of local housing boards</li> </ul>	<ul style="list-style-type: none"> <li>HUDCC lead</li> <li>HLURB support to LGUs</li> <li>LMB consultation</li> <li>LGA consultation</li> </ul>	2003-2006	<ul style="list-style-type: none"> <li>Refer to Appendix 1 for plot delivery indicators</li> </ul>
<b>4. Reform Measures to Provide Secure form of Interim Land Title</b>					
<ul style="list-style-type: none"> <li>Develop a mechanism for providing interim land titles and registration for beneficiaries of CMP-type projects</li> </ul>	<ul style="list-style-type: none"> <li>World Bank and Australian Agency for International Development-assisted project is unlikely to be able to introduce beneficial reforms in short/medium term (up to 5 years)</li> <li>Beneficiaries of CMP-type projects receive group title which is of little use for collateral</li> </ul>	<ul style="list-style-type: none"> <li>Document and promote the use of the interim title – long-term lease with option to purchase</li> <li>Draft and prepare for issuance EO to enable the use of interim title as collateral</li> <li>Empower appropriate local agency to initiate the issuance of interim titles</li> </ul>	<ul style="list-style-type: none"> <li>HUDCC lead</li> <li>LMB consultation</li> </ul>	2003-2005	<ul style="list-style-type: none"> <li>Refer to Appendix 1 for title issuance indicator</li> </ul>

Policy Objective	Issues	Actions To be Taken	Agency	Time-frame	Status/ Notes
<ul style="list-style-type: none"> <li>Improve property valuations at the local level</li> </ul>	<ul style="list-style-type: none"> <li>Assessed property values for land taxes are below market values</li> <li>Tax rolls are not updated, compromising LGU efforts at revenue generation</li> </ul>	<ul style="list-style-type: none"> <li>Assistance to LGUs to regularly update property values and levy appropriate taxes.</li> </ul>	<ul style="list-style-type: none"> <li>LGUs</li> </ul>	2003-2004	
<b>5. Enhance Private Sector Participation in Socialized Housing Supply</b>					
<ul style="list-style-type: none"> <li>Generate incentives to encourage developers to become involved in socialized housing</li> <li>Improve compliance with mandated 20% proportion all private developments as socialized housing.</li> </ul>	<ul style="list-style-type: none"> <li>Few incentives to developers for effective targeting, and subsidies not transparent or effectively monitored</li> <li>Lack of access to land due to inefficient land markets</li> </ul>	<ul style="list-style-type: none"> <li>HUDCC/LGUs to assist in identifying potential areas for development and facilitate rezoning</li> <li>Design mechanisms to provide regular funding to the SFTA</li> <li>Assess required incentives to attract private sector funds</li> <li>Streamline permission process for socialized housing schemes</li> </ul>	<ul style="list-style-type: none"> <li>HUDCC lead</li> <li>DOF consultation</li> <li>LGU</li> <li>HGC implementation</li> </ul>	2003-2005	<ul style="list-style-type: none"> <li>EO being drafted by HUDCC to address streamlining of permitting process</li> <li>Refer to Appendix 1 for subproject approval indicator</li> </ul>
<ul style="list-style-type: none"> <li>Introduce more appropriate standards for low-cost shelter</li> </ul>	<ul style="list-style-type: none"> <li>Some infrastructure and servicing standards are unaffordable for targeted beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>Update selected BP220 and PD957 standards with a view to relaxing some standards for socialized housing</li> </ul>	<ul style="list-style-type: none"> <li>HLURB</li> </ul>	2003	

CMP = Community Mortgage Program, DOF = Department of Finance, EO = executive order, GFI = government-financed institution, HGC = Home Guaranty Corporation, HLURB = Housing, Land, and Urban Regulatory Board, HUDCC = Housing and Urban Development Coordinating Council, LGA = Local Government Academy, LGU = local government unit, LMB = Land Management Bureau, LRA = Land Reform Agency, MFI = microfinance institution, NPA = nonperforming asset, ROPOA = real and other properties owned and acquired, SFTA = Shelter Finance Trust Account.

## SUMMARY DESCRIPTION OF SUBPROJECTS

Table A4: Pilot LGUS, Summary Statistics

LGU	Region	Status	Area	Population			Housing Backlog	CDP	CLUP
				NSO, 1999	Growth Rate	Forecast 2010			
Angeles	III	HUC	62.16	254,000	1.44	290,000	14,931	Yes	Yes
Talisay	VI	FCM	86.40	152,000	5.00	–	10,110	Yes	Under preparation
Bacolod	VI	HUC	161.45	458,000	2.50	–	30,291	Yes	Yes
CDO	X	ICC	1,037.60	510,000	4.45	831,000	52,925	No	Yes

– = not available.

CC = component city, CDO = Cagayan de Oro, CDP = community development plan, CLUP = comprehensive land use planning, FCM = first-class municipality, HUC = highly urbanized city, ICC = independent component city, LGU = local government unit, NSO = National Statistics Office.

Source: National Statistics Office. 1997. *Draft Shelter Plans*. Manila.

1. Four pilot LGUs have been identified for inclusion in the Project: Angeles in Luzon, Bacolod and Talisay in the Visayas, and Cagayan de Oro from Mindanao. Based on their shelter plans, these LGUs submitted a number of potential subprojects that were evaluated by the PPTA consultants. Eight communities qualified as pilot subprojects and each is described briefly below. All subcomponents will benefit from Part C, involving (i) participatory community-driven development, (ii) LGU capacity building for decentralized shelter delivery, and (iii) project implementation support.

### 1. Angeles – Marisol Site Upgrading

2. **Site Development Civil Works.** Building drainage systems along roads, alleys, and footpaths to reduce frequent flooding. Upgrading outer subdivision roads, alleys, and footpaths for improved circulation and access to individual plots. Approximately 220 meters (m) of main road (offsite), 140 m of secondary roads, 496 m of alleys, and about 1020 m of footpaths will be paved.

3. **Microfinance for Incremental Home Improvement.** Approximately 115 households in Marisol (27%) will be eligible for loans for serviced plot and incremental housing improvement. Average loan size will be P20,000 with a maturity of up to 5 years.

4. **Microfinance for Small Enterprises.** Approximately 72 households (about 17%) will be eligible for loans to support small enterprises. Loans would range from P10,000 to P30,000 with repayment terms of up to 1 year. Loans will support further commercial expansion for neighborhood shops, backyard trading, manufacturing, and noncrop agriculture.

5. **Housing Loans for Serviced Plots.** Based on a socioeconomic survey, all 420 households will use project financing to buy serviced plots. The average loan size is estimated at P15,000, which is equivalent to the calculated average selling price of serviced plots in Marisol, net of the beneficiaries' equity contributions.

### 2. Angeles – Abacan Malabanas Site Upgrading

6. **Site Development Civil Works** will provide drains along roads, alleys, and footpaths to prevent flooding. It will also facilitate household wastewater removal and improve existing roads, alleys, and footpaths for better circulation and access to plots. Approximately 125 m of main road, 240 m of secondary roads, and 530 m of footpaths will be paved.

7. **Microfinance for Incremental Home Improvement.** Approximately 63 households in Malabanias (25%) will be eligible for loans for incremental housing improvement. On average, the loan size will be P20,000 with a maturity of up to 5 years.

8. **Microfinance for Small Enterprises.** Based on a survey from the project preparatory technical assistance (PPTA), 75 households (about 30% of total) would be eligible for microenterprise loans. These would range from P10,000 to P30,000 and lasting up to 1 year. They would support commercial expansion similar to the Marisol subproject.

9. **Housing Loans for Serviced Plots.** The onsite socioeconomic survey estimated that 200 households would use project financing to buy serviced plots. The average loan size is P20,000, roughly equivalent to the average selling price of serviced plots in Malabanias, net of the beneficiaries' equity contributions.

### 3. Angeles – Sapalibutad Site Upgrading

10. **Site Development Civil Works.** Drains along roads and footpaths to reduce flooding, and improvements to roads and footpaths for improved circulation and access to individual plots. Improvements are needed to the existing drain along the paved main road. About 280 m of road and 1,122 m of footpath will be paved. The water supply line needs expansion through the local water district. Better solid waste management.

11. **Microfinance for Incremental Home Improvement.** Approximately 100 households in Sapalibutad (29%) will be eligible serviced plot and incremental housing improvement loans. Average loan size will be P20,000, with a maturity of up to 5 years.

12. **Microfinance for Small Enterprises.** A rapid socioeconomic survey conducted under the PPTA indicates that 75 households (about 22 %) in Sapalibutad will be eligible for small enterprise loans. Amounts would range from P10,000 to P30,000 with repayment terms of up to 1 year. The loans will finance the expansion of small businesses such as neighborhood shops, backyard trading, manufacturing, business services, furniture making, handicrafts, and noncrop agriculture.

13. **Housing Loans for Serviced Plots.** An estimated 277 households will avail of project financing to buy serviced plots. The average loan size is about P10,000, equivalent to the average selling price of serviced plots, net of the beneficiaries' equity contributions.

### 4. Angeles – Pulongbulo Site Development

14. **Site Development Civil Works.** Constructing a two-lane, 300-m-long concrete road with side drain. Extending the existing water line to allow individual water connections.

15. **Microfinance for Small Enterprises.** A rapid socioeconomic survey conducted under the PPTA indicates that 20 households or 30% will be eligible for small enterprise loans to P10,000 to P30,000 and lasting up to 1 year. Loans will finance the expansion neighborhood shops, backyard trading, workshops, business services, furniture making, handicrafts, and noncrop agriculture.

16. **Housing Loans for Serviced Plots.** It is estimated that all 67 households will avail of project financing to buy serviced plots averaging P40,000.

## 5. Bacolod – Riverside Site Upgrading

17. **Site Development Civil Works.** The subproject requires filling about 20,500 square meters of tidal and waterlogged areas. About 875 m of main road, 445 m of secondary road, 1720 m alley, and 265 m of footpaths will be constructed. All will be provided with side drains. About 950 m of water distribution lines and 11 public standpipes are proposed. The southern bank of the Banago Creek will be provided with riprap protection to control bank erosion and prevent overflowing. Neighborhood solid waste collection will be improved.

18. **Microfinance for Incremental Home Improvement.** Approximately 27% of the existing community will be eligible for loans averaging P30,000 with a maturity of up to 5 years.

19. **Microfinance for Small Enterprises.** Some 118 households are expected to make use of microenterprise loans. On average, these loans would be for a total of P25,000 for a term of up to 1 year. The loan will finance expansion small businesses in fishing, animal raising, small retail, and handicrafts.

20. **Housing Loans for Serviced Plots.** Based on a socioeconomic survey, 376 households will avail of project financing to buy serviced plots priced at an average P40,000.

## 6. Cagayan de Oro – Macabalan Site Upgrading

21. **Site Development Civil Works.** Existing sea walls will be completed to control tidal flooding. About 550 m of circumferential road, 125 m of onsite main road, and 245 m of secondary roads are proposed for paving, complete with concrete-lined side drains to improve access and circulation. Concrete footpaths of about 1,185 m with tertiary side drains will be constructed to improve plot access. Minor water supply and solid waste management improvements will also be made.

22. **Microfinance for Incremental Home Improvement.** Approximately 150 (30%) of the 480 households living in existing structures will be eligible for home improvement loans. Average loan size would be P20,000, with a term of up to 5 years.

23. **Microfinance for Small Enterprises.** Approximately 123 households will avail of microenterprise loans totaling between P10,000 and P30,000 for a term of up to 1 year. They would support commercial activities such as small retail, metal works, and bicycle repair.

24. **Housing Loans for Serviced Plots.** An estimated 384 households will avail of project financing to buy serviced plots. The average loan size is about P22,000, equivalent to the calculated average selling price of serviced plots in Macabalan, net of the beneficiaries' equity contributions.

## 7. Talisay – Tangke Site Upgrading

25. **Site Development Civil Works.** About 398 m of footpaths will be concreted and 285 m of lined main drains and 138m of lined tertiary drains are proposed. Approximately 250 m worth of water distribution line will provide household water connections throughout the area. Five public standpipes will be provided.

26. **Microfinance for Incremental Home Improvement.** An estimated 25 households in Tangke, representing 25% of all existing resident settlers, will avail of these loans at an average of P30,000 for up to 5 years.



27. **Microfinance for Small Enterprises.** Community survey results showed 19 households would avail of microenterprise loans. These loans will average P25,000 and would last for up to a year. They would help expand small retail outlets, backyard trading, manufacturing and workshops, and off-farm enterprise activities.

28. **Housing Loans for Serviced Plots.** An onsite socioeconomic survey showed 79 households would avail of project financing to buy serviced plots with an average price of P42,000.

## 8. Talisay – Lagtang Site Upgrading

29. **Site Development Civil Works.** The project area has sloping terrain, so only concrete footpaths of about 460 m will be provided. About 177 m of interceptor drain would divert runoff away from the erosion-prone project site, and 135 m of secondary drain, 372 m of water distribution line, and seven public standpipes will be provided. Tertiary drains will be constructed along the footpaths.

30. **Microfinance for Incremental Home Improvement.** About 14 households, representing 25% of all existing settlers, would use home improvement loans, averaging about P20,000 for up to 5 years.

31. **Microfinance for Small Enterprises.** Only 8 households will be eligible for microenterprise loans. These loans will average about P25,000, for a term of up to a year.

32. **Housing Loans for Serviced Plots.** Based on a socioeconomic survey, 70 households will avail of project financing to buy serviced plots averaging P40,000.

## IMPACT ANALYSIS

### A. General

1. The economic and financial analyses of the nine subprojects were undertaken in accordance with the following Asian Development Bank (ADB) guidelines: (i) *Framework for the Economic and Financial Appraisal of Urban Development Sector Project*, (ii) *Guidelines for the Economic Analysis of Projects*, (iii) *Guidelines for the Preparation and Presentation of Financial Analysis of Projects*, and (iv) *Bank Criteria for Subsidies*. This appendix summarizes Supplementary Appendix B, which sets out the detailed calculation of economic internal rates of return (EIRRs), calculated for all subprojects, and the financial internal rates of return (FIRRs) computed for revenue-generating components.

### B. Economic Analysis

2. The proposed site development subprojects will resolve the land ownership issue and distribute individualized titles or other forms of secure tenure instruments. It will also provide basic services such as roads, footpaths and drains to (i) increase access to employment opportunities, (ii) reduce damages, losses, and waterborne diseases associated with flooding, and (iii) improve sanitation by increasing the capacity of existing sewer drains. Microfinance component benefits were quantified either by imputing the potential increase in property rental values or by converting the potential stream of net income flows into economic benefits accruing to the borrowers.

3. The major indicators of the economic viability of the proposed upgrading subprojects are summarized in Supplementary Appendix D. Base-case EIRRs ranged from 21.0% to 40.5%, exceeding the ADB's 12% economic opportunity cost of capital (EOCC) and confirming the economic robustness of the proposed subprojects. A sensitivity analysis was conducted on parameters that included a 10% increase in costs, a 10% increase in benefits, or both, and delays in the realization of benefits showed that the EIRRs will be highly vulnerable to changes in anticipated benefits. The short-term nature, low capital input, and high product turnover of representative activities made EIRRs for microfinance subprojects robust, ranging from 18.2% to 54.8%.

### C. Financial Analysis

4. FIRRs and financial sustainability projections were prepared for the revenue-generating subprojects: (i) Microfinance for Home Improvements, (ii) Microfinance for Small Enterprises, and (iii) Housing Loans. FIRRs were not calculated for the site development subprojects. Beneficiaries had a limited ability to pay, and spillover benefits of offsite infrastructure to surrounding communities meant that some degree of government subsidy would be justified. Local governments will eventually recover subsidies through property taxes.

5. The major indicators of financial viability are summarized in Supplementary Appendix D. All the shelter finance subcomponents are viable. Base-case FIRRs are 6.0% to 51.9%, all above the computed real weighted average cost of capital (WACC).

### D. Poverty Impact

7. Supplementary Appendix J sets out detailed poverty impact assumptions. Each major project component is assessed for (i) direct impact on poverty groups based on the income distribution derived from surveys of the pilot sites, (ii) the percentage of direct government benefit, (iii) the proportion of government benefit which will benefit the poor, (iv) the percentage of capital costs which will accrue to poor (unskilled labor), and (v) the percentage of operation and maintenance costs which will accrue to the poor. These figures are derived from the

economic analysis and summarize the poverty impact assessment conducted in Supplementary Appendix J.

7. Pilot project consumer benefits were calculated by deducting the financial payment of beneficiaries from their calculated economic benefit. Key to the large poverty impact of the project is the targeted land subsidy applicable to beneficiaries of upgrading sites. The poverty impact of benefits accruing to government, and the labor component of the civil works and housing constructed under the pilot project, was then calculated.

8. Table A5 shows the calculation of the poverty impact ratio derived from the experience in pilot sites. The pilot sites are representative of the size and type of investments and, broadly, of the communities to be serviced. Thus the benefits and costs associated with the various components have to be increased to calculate the actual poverty impact of the whole project. These factors are increased in proportion to the relative size of the full project component to the pilot component. The size of a component is measured in terms of number of households impacted or loans as appropriate.

**Table A5: Summary Project Poverty Impact**

Benefit Category	Project Consumer Impact	Impact to Other Stakeholders				Total	Benefits to the Poor	Total Project Benefits
		Government		Labor				
		Capital	O&M	Capital	O&M			
Site Development	729.77	5.25	1.82	70.01	24.33	101.42	831.19	1,397.93
Home Improvement	10.81	0.63	0.03	12.08	0.00	12.74	23.55	24.30
Housing	53.07	14.21	0.53	189.48	0.00	204.22	257.29	243.44
Microfinance	54.44	0.00	0.05	0.00	0.00	0.05	54.49	106.95
<b>Total</b>	<b>848.09</b>	<b>20.09</b>	<b>2.43</b>	<b>271.57</b>	<b>24.33</b>	<b>318.43</b>	<b>1,166.52</b>	<b>1,772.62</b>
Poverty Impact Ratio								0.66
Microfinance-Generated Labor								2,597.63
Poverty Index with Generated Labor								2.12

O&M = operation and maintenance.

Source: Asian Development Bank estimates.

## **E. Pricing and Affordability to Targeted Beneficiaries**

9. Overall, the serviced plots from the pilot subprojects were designed to be affordable to the bottom 50% of Philippine urban households (see Supplementary Appendix B). For residents availing of both the serviced plots and the housing improvement loan packages, the amortization payments will generally be affordable at the second to third deciles of the total Philippine urban households. For those purchasing the serviced plots and availing of the housing loans, payments will be affordable to those comprising the third to fifth deciles of the total Philippine urban households. Monthly amortization payments for purchasing the serviced plots were calculated at an indicative 12% for 15 years, and compared against the income and borrowing capacity of the pilot subprojects beneficiaries. All serviced plots will be affordable to the targeted beneficiaries, with the exception of Lagtang and Riverside, whose relatively high land acquisition costs, flood protection work, constrained ability of targeted beneficiaries, and positive spillover effects justify subsidies.

## **F. Affordability to Local Governments**

10. The financial capability of the local government units (LGUs), who will serve as the implementing agencies (IAs) for the site development component, were evaluated (see Supplementary Appendix D) based on their financial statements and forecasts of revenues and expenditures. Internal revenue allotments (IRAs) constitute from 51% to 60% of the regular incomes of pilot LGUs. Cash flow projections show all four pilot LGUs have the capacity to

borrow for project investments. The Local Government Code requires LGUs' annual debt servicing be limited to 20% of total revenues. Given the financing requirements of the site development component, all pilot LGUs will stay within the debt servicing limit, with the highest ratio of debt servicing to total income reaching only 5%. Projected financial statements from 2001 to 2010 suggest that financial performance will improve over the medium term.

## **G. Affordability to Participating Financial Institutions**

11. For the shelter finance component, the financial capability of eligible, representative microfinance institutions (MFIs) and countryside financial institutions (CFIs) were evaluated (see Supplementary Appendix D). Financial projections were also conducted to ascertain their ability to pay the subprojects' debt servicing requirements. For the Microfinance for Home Improvements and Microfinance for Small Enterprises subprojects, the Negros Women of Tomorrow Foundation (NWTF), which was seen as a representative MFI, was assessed. With a collection efficiency of 97% and a 3.16% portfolio at risk, the NWTF is one of the best performing MFIs in the Philippines. Projections of the NWTF's financial statements indicate that it will continue to operate profitably over the long-term. The MFI exceeds minimum standard requirements set by the Philippine Microfinance Coalition on (i) track record, (ii) outreach, (iii) internal control, (iv) manual of operations, (v) management information systems, and (vi) policy on write-offs and loan losses. The NWTF will be capable of repaying debt-service requirements.

8. For the housing loans subproject, the financial capability of Cooperative Bank of Misamis Oriental, Inc. (CBMOI), a representative CFI, was examined. CBMOI is among the top ten best performing cooperative banks in the country, with liquidity, profitability, asset quality, and capital adequacy ratios consistently above the industry average. Financial projections show it will continue to generate significantly positive net incomes, with return on assets (ROAs) ranging from 4.3% to 19.0% for the period 2001-2010. The eligibility criteria for CFIs have been prepared to attract efficient, innovative, and productive local banks such as CBMOI. CBMOI will comfortably meet the project's debt servicing requirements (Supplementary Appendix D).

## PROJECT COST ESTIMATES

Table A6.1: Project Cost Summary, by Expenditure Accounts

Expenditure Account	(pesos mn)			(\$ million)		
	Foreign Exchange	Local Currency	Total	Foreign Exchange	Local Currency	Total
<b>A. Investment Costs</b>						
1. Land Acquisition	0.0	409.5	409.5	0.0	7.8	7.8
2. Civil Works	243.9	249.6	493.5	4.6	4.8	9.4
3. Housing Loans	184.2	608.5	792.7	3.5	11.6	15.1
4. Home Improvement Loans	5.0	52.7	57.7	0.1	1.0	1.1
5. Microenterprise Loans	14.5	305.8	320.3	0.3	5.8	6.1
6. Training and Conferences	0.0	0.1	0.1	0.0	0.0	0.0
7. Equipment and Vehicles	197.0	65.5	262.5	3.8	1.2	5.0
8. Consulting Services	24.5	112.0	136.5	0.5	2.1	2.6
<b>Subtotal (A)</b>	<b>669.0</b>	<b>1,803.9</b>	<b>2,472.9</b>	<b>12.7</b>	<b>34.3</b>	<b>47.0</b>
<b>B. Financial Charges During Implementation</b>						
1. Interest During Implementation	57.7	0.0	57.7	1.1	0.0	1.1
2. Commitment Charges	21.0	0.0	21.0	0.4	0.0	0.4
3. Front-End Fees	15.7	0.0	15.7	0.3	0.0	0.3
<b>Subtotal (B)</b>	<b>94.5</b>	<b>0.0</b>	<b>94.4</b>	<b>1.8</b>	<b>0.0</b>	<b>1.8</b>
<b>Total</b>	<b>763.5</b>	<b>1,803.9</b>	<b>2,567.4</b>	<b>14.5</b>	<b>34.3</b>	<b>48.8</b>

Notes: Figures may not add up to total because of rounding.

Detailed costs are contained in Supplementary Appendix D.

Source: Asian Development Bank estimates.

Table A6.2: Project Cost Summary, by Components and Expenditure Accounts  
(\$ million)

Expenditure Account	Site Development and Tenure Distribution		Microfinance for Low-Income Communities			Capacity Building and Implementation Support		Total
	Upgrading Sites	New Sites	Microfinance for Home Improvements	Microfinance for Small Enterprises	Housing Loans	Sector Strengthening and Project Implementation Support	LGU Financial Strengthening for Shelter Provision	
<b>Investment Costs</b>								
1. Land Acquisition	4.1	3.8	—	—	—	—	—	7.9
2. Civil Works	2.8	6.6	—	—	—	—	—	9.4
3. Housing Loans	—	—	—	—	15.1	—	—	15.1
4. Home Improvement Loans	—	—	1.1	—	—	—	—	1.1
5. Microenterprise Loans	—	—	—	6.1	—	—	—	6.1
6. Training and Conferences	0.0	—	—	—	—	—	—	0.0
7. Equipment and Vehicles	0.0	—	—	—	—	—	5.0	5.0
8. Consulting Services	0.4	0.9	—	—	—	1.3	—	2.6
<b>Total</b>	<b>7.3</b>	<b>11.2</b>	<b>1.1</b>	<b>6.1</b>	<b>15.1</b>	<b>1.3</b>	<b>5.0</b>	<b>47.0</b>

— = not available.

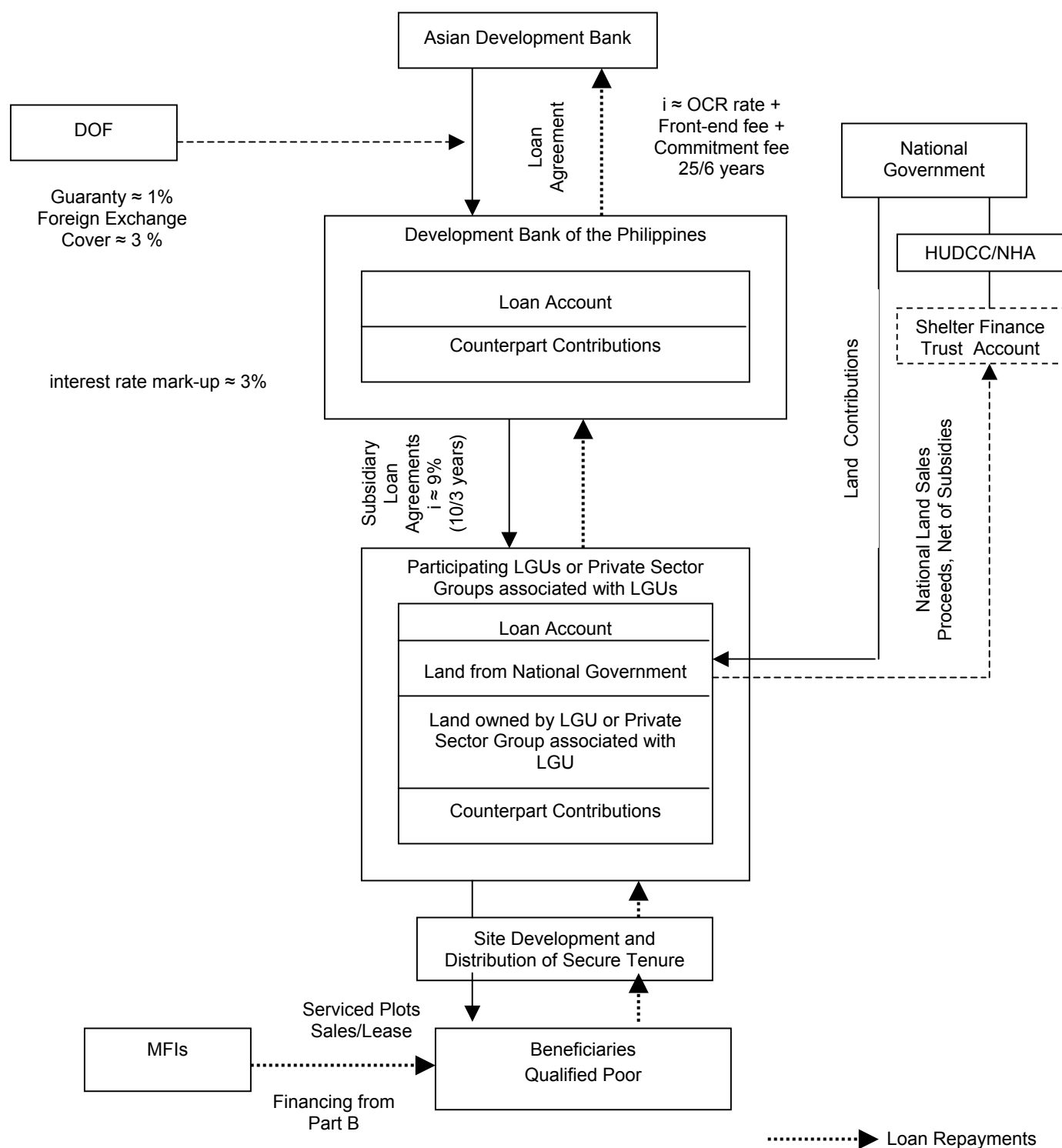
Notes: Figures may not add up to total because of rounding.

Detailed costs are contained in Supplementary Appendix D.

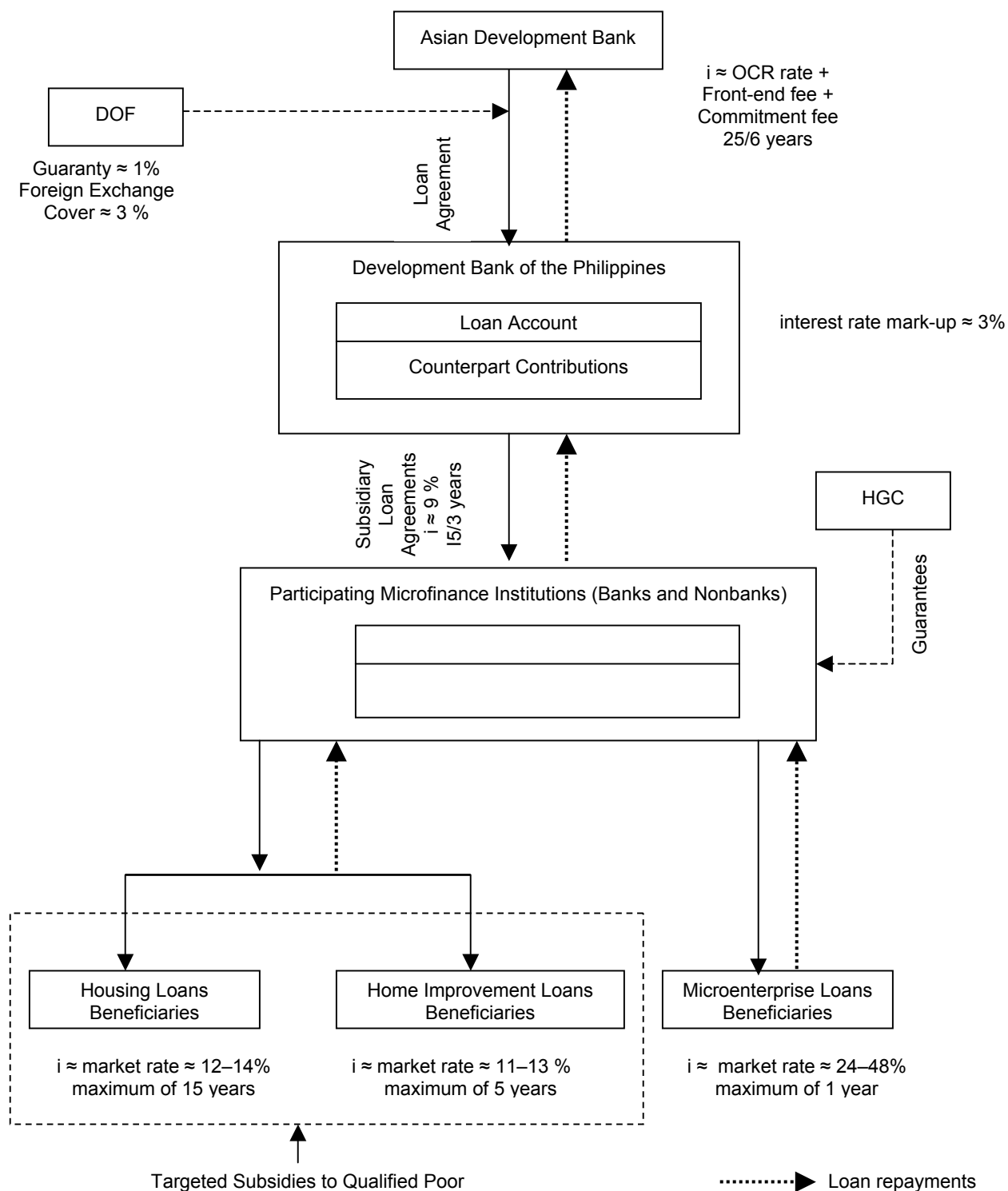
Source: Asian Development Bank estimates.

## FINANCING ARRANGEMENTS AND FUND FLOW

Figure A7.1: Site Development and Distribution of Secure Tenure

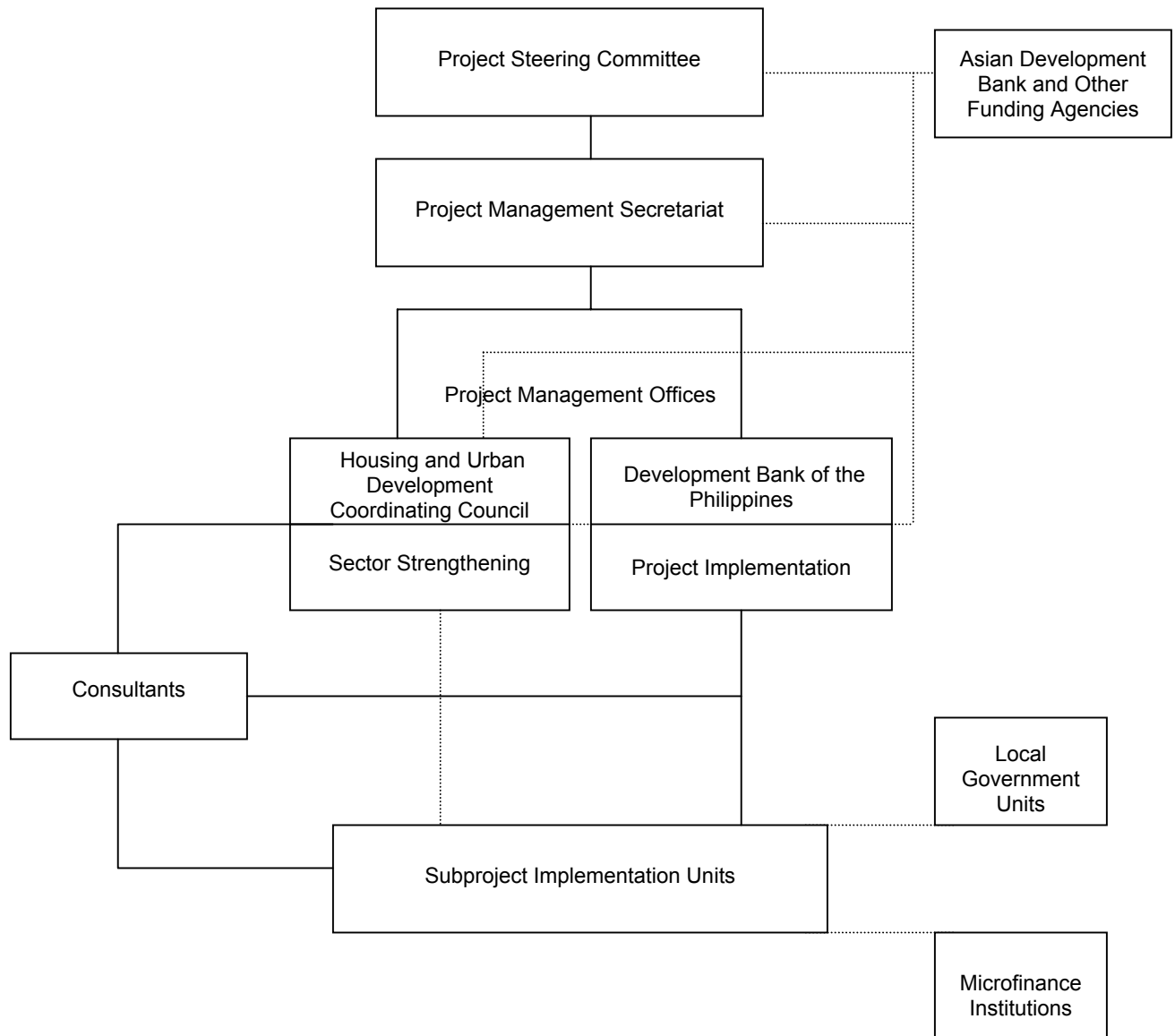


DOF = Department of Finance, HUDCC = Housing and Urban Development Coordinating Council, LGU = local government unit, MFI = microfinance institution, NHA = National Housing Authority, OCR = ordinary capital resources.

**Figure A7.2: Shelter Finance for Low-income Communities**

DOF = Department of Finance, HGC = Home Guaranty Corporation, HUDCC = Housing and Urban Development Coordinating Council, LGU = local government unit, MFI = microfinance institution, NHA = National Housing Authority, OCR = ordinary capital resources.

## ORGANIZATION CHART





## **DEVELOPMENT BANK OF THE PHILIPPINES – PROJECT FINANCIAL IMPACT AND MFI CRITERIA**

### **A. Development Bank of the Philippines**

1. The Development Bank of the Philippines (DBP) is a government financing institution (GFI) aimed at providing credit facilities to develop and expand the Philippines' agriculture and industry, and diversify the national economy. Since its establishment in 1947, DBP has played a major role in the Government's pump-priming activities by lending facilities to strategic sectors. DBP is a conduit for international funds from multilateral sources and bilateral institutions, and for official development assistance (ODA) programs and grants. As a universal bank, it also offers a broad range of investment opportunities, business, financial, and lending products.

2. DBP is governed by a board of directors whose chairman is appointed by the president of the Philippines. A president and chief executive officer serves as vice-chairman of the bank's board. For the bank's day-to-day operations, a senior executive vice president is appointed as chief operating officer. In addition, the bank has 3 senior executive vice presidents, 3 executive vice presidents, 2 first senior vice presidents, 16 senior vice presidents, 9 first vice presidents, and 23 vice presidents.

3. As of December 2002, DBP's total assets stood at P148.64 billion, making it one of the biggest banks in the Philippines. Total liabilities and stockholders' equity were P129.52 billion and P19.13 billion, respectively. In 2002, DBP's reported net income after tax was P1.87 billion, contributing to a return on assets (ROA) of 1.3%, well above the industry average of 0.8% for the same year. Other indicators of DBP's financial robustness in 2002 include a return on equity (ROE) of 10.22%, equity-to-risk-assets ratio of 24.08%, a past-due rate of 12.90%, and a liquid-assets-to-deposits ratio of over 300%. All these ratios were better than the calculated banking industry average for earning performance, capital adequacy, asset quality, profitability, and liquidity in 2002.

4. Using modest growth assumptions, DBP plans to continue to operate viably and profitably in the next 5 years by (i) generating more low-cost deposits as a primary source of funds for lending and investments; (ii) maintaining sufficient liquid assets to meet withdrawals; (iii) preserving the balance between operating expenses, gross income, and total assets; and (iv) ensuring that its capital adequacy indicator meets the central bank requirement. DBP estimates its total assets will grow from P148.64 billion in 2002 to P182.22 billion in 2007 (Table A9.1), an increase of more than 20%. This growth trend is also reflected in its income after tax, which is expected to increase from P1.87 billion in 2002 to P2.25 billion in 2007 (Table A9.2).

5. A summary of the financial performance indicators of DBP for the next 5 years confirms its continued commitment to preserve a capital adequacy ratio that is higher than the central bank's mandated 10% (Table A9.3). Asset quality will be enhanced by keeping past-due rates below 12% during this period. DBP will be more than able to respond to its clients' withdrawals as measured by its projected liquid assets to total deposits ratios of 170% to 236% during the period 2003-2007. Profitability will be better than the estimated average for the banking sector, as indicated by a projected ROA of about 1.3%. The proposed ADB loan will account for at most 1% of DBP's projected total assets from 2003 to 2007 and will, thus, have a minimal impact on its overall financial condition.

**Table A9.1: Actual and Projected Balance Sheets of DBP, 2000-2007**  
(pesos bn)

Account	2000	2001	2002	2003	2004	2005	2006	2007
	Actual ----->>>			Projected ----->>>				
<b>Assets</b>								
Cash and Due from Banks	26.57	5.39	3.66	5.44	5.48	5.61	5.23	5.66
Investments in Bonds/GS/TB	25.52	49.12	65.54	77.19	80.30	79.61	80.63	84.14
Underwriting Equity Securities Purchased	0.00	0.47	0.47	0.47	0.48	0.49	0.51	0.52
Equity Investments	0.73	0.72	0.76	0.76	0.78	0.80	0.82	0.84
Loans	73044	72.63	71.61	73.36	77.03	81.60	86.45	91.58
Real and Other Properties Owned or Acquired	2.68	3.16	3.80	3.36	3.02	2.72	2.45	2.20
Allowance for Probable Losses	(0.12)	(0.15)	(6.77)	(8.46)	(9.08)	(9.81)	(10.59)	(11.32)
Premises, Furniture, Fixtures, and Equipment	0.93	0.90	0.87	1.61	1.92	2.08	2.18	2.22
Other Assets	5.51	6.68	8.70	5.82	7.21	6.70	6.27	6.38
<b>Total Assets</b>	<b>135.27</b>	<b>138.91</b>	<b>148.64</b>	<b>159.55</b>	<b>167.14</b>	<b>169.80</b>	<b>173.92</b>	<b>182.22</b>
<b>Liabilities and Equity</b>								
Deposits	29.18	28.07	34.18	35.30	38.83	42.71	46.99	53.09
Borrowings	86.11	88.09	87.81	94.14	94.41	91.67	89.74	89.43
Interests and Other Fees Payable	2.52	2.86	6.37	9.39	11.99	12.38	13.06	14.84
Deferred Credits	1.89	2.48	1.15	0.74	0.83	0.81	0.80	0.78
Stockholders Equity	15.57	17.41	19.13	19.99	21.08	22.23	23.34	24.07
<b>Total Liabilities and Equity</b>	<b>135.27</b>	<b>138.91</b>	<b>148.64</b>	<b>159.55</b>	<b>167.14</b>	<b>169.80</b>	<b>173.92</b>	<b>182.22</b>

DBP = Development Bank of the Philippines, GS = government securities, TB = treasury bills.

Note: Figures may not add up to total because of rounding.

Source: Development Bank of the Philippines.

**Table A9.2: Actual and Projected Income Statements of DBP, 2000-2007**  
(pesos bn)

Account	2000	2001	2002	2003	2004	2005	2006	2007
	Actual ----->>>			Projected ----->>>				
Interest Income	10.63	12.54	6.06	5.89	6.35	6.98	7.68	8.45
Other Income	1.11	1.47	8.28	7.70	8.46	8.85	9.02	9.30
<b>Total Income</b>	<b>11.74</b>	<b>14.01</b>	<b>14.35</b>	<b>13.59</b>	<b>14.80</b>	<b>15.83</b>	<b>16.70</b>	<b>17.75</b>
Cost of Funds	5.83	6.67	5.55	5.24	5.75	6.07	6.37	7.01
<b>Gross Margin</b>	<b>5.91</b>	<b>7.34</b>	<b>8.80</b>	<b>8.35</b>	<b>9.05</b>	<b>9.77</b>	<b>10.33</b>	<b>10.75</b>
Total Administrative Expenses	3.38	3.74	4.32	4.86	5.39	5.91	6.36	6.65
<b>Net Income Before Provision for Probable Losses</b>	<b>2.53</b>	<b>3.60</b>	<b>4.48</b>	<b>3.50</b>	<b>3.66</b>	<b>3.86</b>	<b>3.97</b>	<b>4.10</b>
Provision for Probable Losses	0.92	1.55	2.53	1.32	1.39	1.47	1.56	1.65
<b>Net Income After Provision for Probable Losses</b>	<b>0.62</b>	<b>2.05</b>	<b>1.95</b>	<b>2.17</b>	<b>2.28</b>	<b>2.39</b>	<b>2.41</b>	<b>2.45</b>
Provision for Income Tax	0.15	0.22	0.08	0.21	0.20	0.20	0.20	0.20
<b>Net Income After Tax</b>	<b>1.46</b>	<b>1.84</b>	<b>1.87</b>	<b>1.96</b>	<b>2.08</b>	<b>2.19</b>	<b>2.21</b>	<b>2.25</b>

DBP = Development Bank of the Philippines.

Note: Figures may not add up to total because of rounding.

Source: Development Bank of the Philippines.

**Table A9.3: Actual and Projected Financial Performance Indicators of DBP, 2002-2007**  
(pesos bn)

Indicators	2002	2003	2004	2005	2006	2007
	Actual	Projected ----->>>				
<b>Capital Adequacy</b>						
Equity/Risk Assets	24.08%	25.98%	25.91%	26.28%	26.50%	26.05%
Total Debt/Total Equity	6.80	6.48	6.32	6.05	5.86	5.92
<b>Asset Quality</b>						
Loan Loss Provision	3.30%	11.54%	11.79%	12.03%	12.25%	12.36%
Past Due Rate	12.90%	11.18%	11.18%	11.18%	11.18%	11.18%
<b>Managerial Efficiency</b>						
Operating Expenses/Gross Income	86.43%	84.01%	84.62%	84.92%	85.57%	86.20%
Gross Profit Margin	61.34%	61.44%	61.15%	61.69%	61.84%	60.53%
<b>Earning Performance</b>						
Return on Assets	1.30%	1.27%	1.27%	1.30%	1.29%	1.26%
Return on Equity	10.22%	9.46%	10.12%	10.10%	9.70%	9.49%
<b>Liquidity</b>						
Total Loans/Total Deposits	251.71%	258.78%	209.50%	207.80%	198.36%	191.04%
Liquid Assets/Deposits	314.60%	236.01%	222.70%	201.18%	184.25%	170.51%

DBP = Development Bank of the Philippines.

Source: Development Bank of the Philippines.

## B. Eligibility Criteria of Microfinance Institutions

6. Eligible MFI applicants with nonbanking functions such as microfinance nongovernment organizations (MFNGOs), savings and loan associations (SLAs), credit unions (CUs), and cooperatives may apply for funding support. MFI with banking functions such as rural banks, cooperative banks, thrift banks, development banks, and commercial banks are likewise eligible applicants. MFIs are classified as banking and nonbanking. Non-banking MFIs include microfinance NGOs, savings and loans associations, cooperatives, and credit unions while banking MFIs are the rural banks, cooperative banks, thrift banks, and commercial banks with MFI windows. For nonbanking MFIs, DBP will adopt the NGO Microfinance Standards released by the Coalition for Microfinance Standards.

7. To be eligible to access project funds, nonbanking MFIs must pass the NGO Microfinance Standards for institutional, financial, and lending performance.

- (i) **Registration.** Must be duly registered with the Securities and Exchange Commission (SEC), Cooperative Development Authority (CDA), or other registering and regulating entity such as the Department of Labor and Employment-Bureau of Rural Workers (DOLE-BRW).
- (ii) **Track record.** (a) Minimum of 3 consecutive years' experience in managing and implementing a microfinance program, (b) a minimum of 500 clients, and (c) no adverse borrowing record for the past 3 years based on creditor's rating.
- (iii) **Outreach.** (a) Institution must clearly express in its vision and mission statements a distinct commitment to reach low-income clients, and (b) at least 75% of active clients have loans of P25,000 and below.
- (iv) **Internal control.** (a) Written internal control and/or audit manual; (b) annual external audit that would reveal enforced internal controls, systems, and procedures, as well as the absence of fraud from management and/or board for the last 3 years; and (c) regular internal audit.
- (v) **Manual of operations.** A written operations manual shall include the administrative and credit program systems and procedures. Manual should clearly define levels of authority and accountability, job descriptions, and microfinance program systems and procedures.
- (vi) **Management information systems (MIS).** MIS should include regular and timely reports on (a) the loan portfolio, including repayment, loans outstanding, and aging of loans; (b) a CBU report, including number of accounts, amount outstanding, and withdrawals; (c) income statements, balance sheets, and cash flow statements; (d) outreach reports, including the number of active clients; and (e) at least a 1-year operating plan and budget for microfinance program(s).
- (vii) **Write-offs and loan losses.** Existing and enforced policy on write-offs and loan loss provision.

8. The following critical performance indicators have been selected for performance standards of nonbanking MFIs: (i) number of active clients; (b) repayment rate and portfolio at

risk; (c) sustainability, as expressed in its operating cost ratio, operational self-sufficiency, and financial self-sufficiency; (d) capital adequacy/leverage; and (e) liquidity ratios.

9. The eligibility of a nonbanking MFI will be based on the scoring system of the NGO Microfinance Standards, where performance is given a score for each of several indicators. Only nonbanking MFIs with a performance level of at least “3” may participate. For the banking MFIs, only the rural banks, thrift banks, cooperative banks, and commercial banks with MFI windows will be allowed to participate. These banking MFIs have to be accredited under the DBP’s wholesale lending program. The guidelines are contained in the DBP’s accreditation guidelines and are similar to the NGO standards.

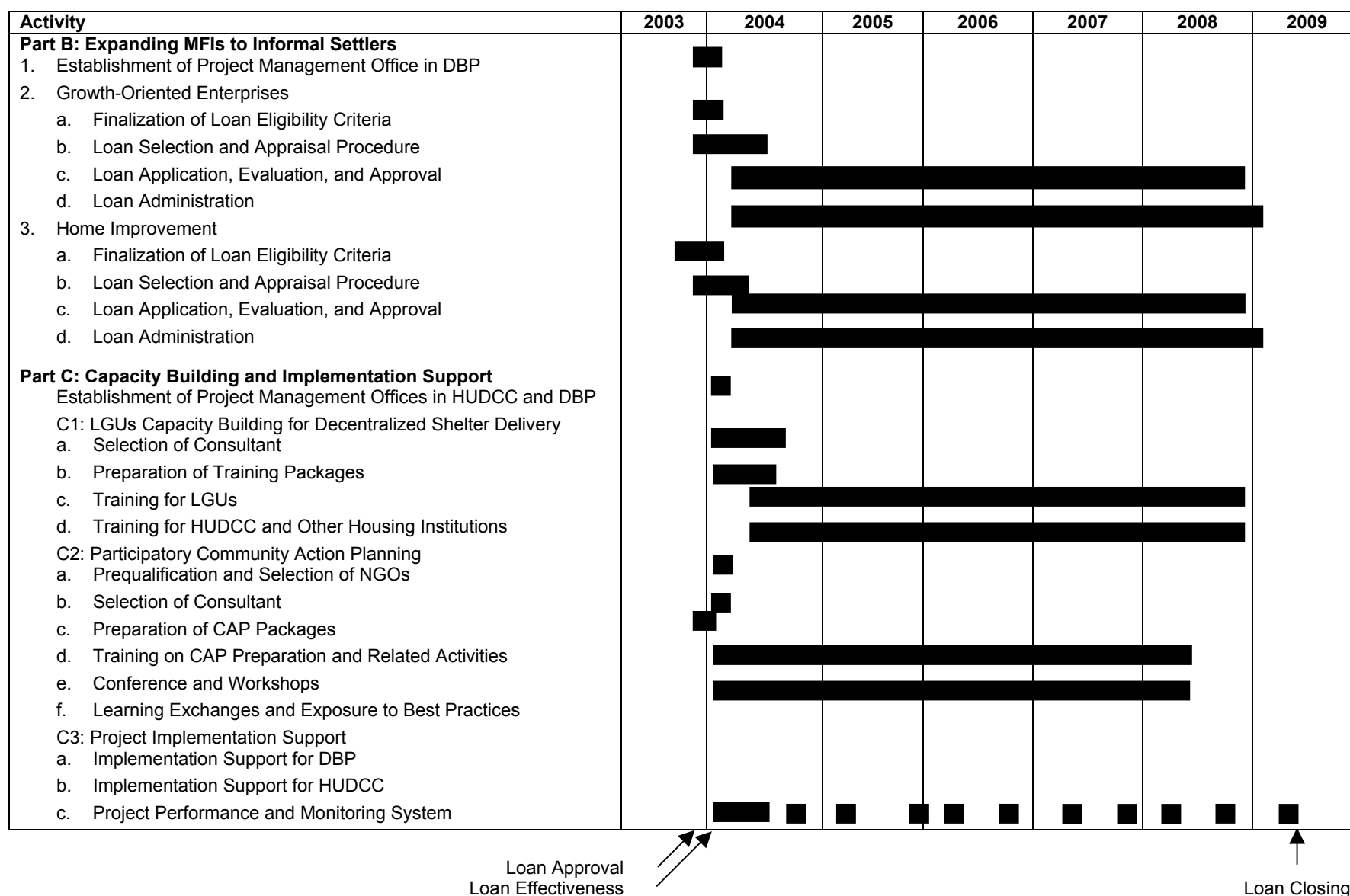
10. DBP may institute adjustments on the performance indicators as governing bodies such as the National Credit Council will recommend. Seen as enhancements to the existing standards, performance indicators such as the COOP-PESOS (relating to the operations of cooperatives) and similar enhancements as approved by ADB will be considered inclusion in eligibility criteria.

## IMPLEMENTATION SCHEDULE

Activity	2003	2004	2005	2006	2007	2008	2009
<b>Common Preparatory Activities</b>							
1. Establishment of Project Steering Committee	■						
2. Establishment of Project Management Secretariat	■						
<b>Part A: Site Development</b>							
1. Preparatory Activities							
a. Establishment of Project Management Office in DBP	■						
b. Finalization of Selection Criteria and Application Procedure	■						
2. First Batch: 8 Pilot Sites							
a. Community Action Plan (feasibility study included)	■						
b. Subloan Agreement		■					
c. Detailed Engineering Design		■					
d. Procurement			■				
e. Implementation			■	■			
f. Operation and Maintenance				■	■	■	■
3. Second Batch							
a. Selection of LGU/Communities		■					
b. Community Action Plan (feasibility study included)		■					
c. Subloan Agreement			■				
d. Detailed Engineering Design			■				
e. Procurement			■				
f. Implementation				■	■		
g. Operation and Maintenance					■	■	■
4. Third Batch							
a. Selection of LGU/Communities			■				
b. Community Action Plan (feasibility study included)			■				
c. Subloan Agreement				■			
d. Detailed Engineering Design				■			
e. Procurement				■			
f. Implementation					■	■	
g. Operation and Maintenance						■	■

Loan Approval  
Loan Effectiveness

Loan Closing



CAP = Community Action Plan, DBP = Development Bank of the Philippines, HUDCC = Housing and Urban Development Coordinating Council, LGU = local government unit, MFI = microfinance institution, NGO = nongovernment organization.

## TECHNICAL ASSISTANCE

### A. Purpose and Output

1. The technical assistance (TA) will help the Government strengthen systems within the Development Bank of the Philippines (DBP), Housing and Urban Development Coordinating Council (HUDCC), local government units (LGUs), and microfinance institutions (MFIs) to formulate projects and financing appropriate to the housing needs of the poor. The TA will (i) enable DBP, HUDCC, and LGUs to foster community-based mechanisms for slum upgrading and low-income housing; and (ii) to enable DBP and MFIs to implement financial systems to finance shelter, neighborhood improvement, and livelihood support for the poor.

2. The major project components will be (i) support to community-based mechanisms for slum upgrading and low-income housing; and (ii) support to improve financial systems to fund such shelter development. Project outputs will be: (i) improved capacity of DBP to manage the process of pro-poor shelter finance and of HUDCC to foster LGU planning for appropriate projects; (ii) improved capacity of LGUs to plan shelter for the poor and to undertake the outreach required to work effectively with MFIs and poor communities; (iii) improved systems for MFI provision of housing microfinance; and (iv) better participation of nongovernment organizations (NGOs) in the process of financing shelter development for the poor.

### B. Methodology and Key Activities

3. The TA will assist DBP, HUDCC, LGUs, and MFIs to sustain the systems developed under the Project. The TA will be undertaken primarily through on-the-job training and dissemination of international and local best practice in the field. It will involve close consultation with representatives of communities likely to benefit from the Project and the NGOs assisting them, particularly in respect of sustainable mechanisms for effective community participation. This aspect of the Project is important as a sustainable financing system for low-income people depends on their clear understanding of the Project, their establishing a strong trust and savings relationship with the MFI concerned, and their commitment to service the loan.

**Table A11.1: Technical Assistance Framework**

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<b>Goal</b> The urban poor and vulnerable near-poor participate in and benefit from shelter finance to increase their income, assets, and well-being.	The number of: <ul style="list-style-type: none"> <li>- poor and near-poor households with reduced vulnerability to economic, environmental, and other adverse impacts;</li> <li>- households benefiting from improved housing;</li> <li>- households benefiting from improved environmental conditions;</li> <li>- households with access to local microcredit; and</li> <li>- poor and near-poor</li> </ul>	Local government and nongovernment organization (NGO) records of development  PMOs' records	Continued and consistent commitment of Government to poverty reduction  Stable macroeconomic management with growth rate higher than rate of population increase  Good governance and effective decentralization  No financial sector meltdown

<b>Design Summary</b>	<b>Performance Indicators/Targets</b>	<b>Monitoring Mechanisms</b>	<b>Assumptions and Risks</b>
	households with reduced vulnerability to economic, environmental, and other adverse impacts		
<b>Purpose</b> Local governments and other eligible proponents regularly implement bankable shelter projects for the poor in partnership with poor communities  Financial institutions will have and use profitably shelter finance products appropriate to the needs of the poor	The number of: <ul style="list-style-type: none"> <li>- city participatory upgrading and new site projects targeted to the poor and near-poor;</li> <li>- poor and near-poor beneficiaries of such projects; and</li> <li>- local parliament endorsed pro-poor shelter development strategies</li> </ul>	As above  PMOs and consultants records	Adequate revenue and willingness to borrow on the part of local governments  Acceptance of targeted and market-friendly subsidy mechanisms
<b>Outputs</b> City shelter strategies  Upgrading projects  New site development projects  Shelter finance products appropriate to the needs of the poor established within financial institutions to which the poor have good access	Number of shelter strategies  Number and size of projects/community action plans fully prepared  Number of microfinance institutions serviced	Progress reports and review missions  Project Performance Monitoring System (PPMS) of the Project	Successful launch of the Project
<b>Activities/Inputs</b> (to be developed through the implementation of technical assistance)			

### C. Cost and Financing

4. The total cost of the TA is estimated at \$2.15 million equivalent, comprising \$570,000 in foreign exchange and \$1,580,000 equivalent in local currency. The Government has requested ADB to finance \$1,500,000 equivalent, covering the entire foreign currency cost and \$930,000 equivalent of the local currency cost. The TA will be financed by ADB on a grant basis from the ADB-funded TA program. It is estimated that about 50% of the ADB grant will be used for shelter sector strengthening activities, and the remaining 50% for project implementation activities. HUDCC and DBP will finance the remaining local currency costs amounting to \$650,000 equivalent, which cover the office and support facilities, counterpart staff, administrative support, part of workshop expenses, report production and dissemination, and local transportation. Details of the cost estimates and a financing plan are shown in Table A11.2.



**Table A11.2: Cost Estimates and Financing Plan**  
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
<b>A. Asian Development Bank Financing<sup>a</sup></b>			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	450	0	450
ii. Domestic Consultants	0	440	440
b. International and Local Travel	10	30	40
c. Reports and Communications	5	25	30
2. Equipment	40	20	60
3. Training, Seminar-Workshops, and Conferences	0	0	0
a. Seminar-Workshops and Conferences	0	80	80
b. Training Program	0	150	150
4. Miscellaneous Administration and Support Costs	0	100	100
5. Contingencies	65	85	150
<b>Subtotal (A)</b>	<b>570</b>	<b>930</b>	<b>1,500</b>
<b>B. Government Financing<sup>b</sup></b>			
1. Office Accommodation and Transport	0	250	250
2. Remuneration and Per Diem of Counterpart Staff	0	400	400
<b>Subtotal (B)</b>	<b>0</b>	<b>650</b>	<b>650</b>
<b>Total</b>	<b>570</b>	<b>1,580</b>	<b>2,150</b>

<sup>a</sup> Financed by ADB's TA funding program.

<sup>b</sup> To be provided by HUDCC and DBP, with each contributing 50% of the total estimated requirements.

Source: Asian Development Bank estimates.

## **D. Implementation Arrangements**

5. The joint executing agencies (EAs) for the TA will be HUDCC and DBP. The lead EA for shelter sector strengthening activities is HUDCC, and for the capacity building activities related to project implementation support, DBP. HUDCC will establish its project management office (PMO) with a designated full-time project manager to undertake the technical and administrative aspects of strengthening the decentralized shelter delivery framework. DBP will also establish its PMO for project implementation. Both EAs will ensure that suitably qualified and experienced counterpart staff in their offices will work alongside the TA consultants. The TA consultants will provide full support to HUDCC in respect of sector strengthening activities, and to DBP in respect of capacity building for implementation activities. They will work in close collaboration with their counterpart teams in accordance with an agreed work plan to be established in the Inception Report. The project steering committee (PSC) will serve as the TA steering committee and will be chaired by HUDCC, with members from Department of Finance, DBP, the National Economic and Development Authority (NEDA), and other concerned agencies, and will be established by the end of month one of the TA project. A project management secretariat (PMS), comprising personnel from HUDCC and DBP, assisted by the TA consultants, will constitute the technical working group of the PSC to ensure coordinated and efficient project implementation.

6. The TA will require 21 person-months of international and 108 person-months of domestic consulting with expertise in housing and microfinance, shelter upgrading, development and management, municipal finance, sociology and resettlement, environmental sciences, and land law. An international consulting firm will be engaged following ADB's *Guidelines on the Use*

of *Consultants*, using the quality cost-based selection method. Short-form proposals will be sought. Any procurement will be conducted according to ADB's *Guidelines for Procurement*. HUDCC will be responsible for providing the agreed counterpart resources. The consultants will be based in Manila and will be expected to travel as necessary to the regions.

7. The TA is expected to commence in December 2003, and will be implemented over 36 months with the submission of a final report in December 2006. The consultants will also produce (i) an inception report at the end of the first month; (ii) capacity building strategies and procedural manuals for DBP, MFIs, and LGUs in months 4 and 12; (iii) detailed shelter plans and CAPs for all participating cities by the end of month 21; and (iv) a summary of training and workshops conducted, complete with training strategies, materials presented and attendance lists. Tripartite reviews will be held to evaluate each of the outputs, and seminars associated with these reviews will present progress to, and obtain input from, central government agencies, local governments, civil society, and representatives of the communities involved.

## **E. Outline Terms of Reference for Consultants**

### **1. Objectives**

8. The objectives of the proposed TA are to assist the DBP and HUDCC, in establishing, installing, and initially supervising affordable shelter finance systems for the poor using a community action planning approach in the participating LGUs, MFIs, and community-based organizations (CBOs). At all levels, capacities need to be built to manage, implement, and monitor the new poverty reduction methodologies.

### **2. Scope of Work**

9. The consultants will prepare an overview of all structural and procedural requirements for project implementation and develop a set of implementation guidelines for all project components. These guidelines will clarify key policies, principles, and strategies of the project and will provide a detailed framework for project implementation. In consultation with all stakeholders, they will design a comprehensive training program and train the staff of DBP, HUDCC, NHA, HGC, and the selected LGUs and MFIs to ensure the sustainability and replicability of the Project approach.

10. In participating communities, and in other areas where resources are available, consultants will build the capacity of community organizations that are project finance recipients. Community organizations will require strengthening to manage the process of interaction with MFIs, community action planning, savings-and-loan operations, and project activities. They will be made familiar with project procedures and trained to participate in all stages of implementation. Communities will also be important in verifying project policies and approaches. The consultants will document a "good practice" approach for DBP, HUDCC, LGUs, other eligible proponents, and the MFIs.

11. Consultants will establish within MFIs the systems for disbursing and monitoring shelter and small-business loans based on an analysis of the present financial systems, to facilitate control and monitoring of loan funds. They will develop and undertake financial training workshops for MFI staff, assist in installing the financial systems, and supervise the operations initially. In particular the consultants will:

- (i) examine and analyze present financial operations, computerization, and MIS requirements of representative participating MFIs with regard to their microlending and monitoring systems needs;

- (ii) determine, in conjunction with the sample MFIs and DBP, the types of financial output and the reporting format required for effective management and monitoring of shelter microfinance as programmed, by MFIs and design an appropriate benefit monitoring and evaluation (BME) system incorporating needs of DBP, MFIs, and beneficiaries;
- (iii) establish the minimum requirements for prudent financial controls and design a recording and analysis system that (i) can be easily understood and adopted with minimum staff and computer requirements; and (ii) will ensure that all financial intermediation is recorded in an appropriate form, using standard definitions and methodologies to facilitate control and monitoring of funds;
- (iv) evaluate the hardware and software being used by MFIs for their portfolio, design additional systems in consultation with these organizations, and integrate new systems into their financial controls;
- (v) undertake, at selected locations, a series of financial training workshops for MFI staff, accountants, and bookkeepers, augmented by training at selected MFIs where staff from surrounding organizations would assemble;
- (vi) after developing, testing, and supervising the installation of the required financial recording and analysis system in the selected MFIs, prepare an operations manual to provide step-by-step instructions for other MFIs seeking to install an appropriate financial control system;
- (vii) provide a trouble-shooting service to resolve the difficulties of MFIs in installing the new systems and provide refresher training courses;
- (viii) review the existing and proposed operational systems; and design, test, and install appropriate BME systems to provide an efficient means of monitoring the operation and the impact of the project investment; and
- (ix) document a “good practice” approach to these activities for DBP and HUDCC.

12. The consultants will analyze the capacity of participating LGUs and make recommendations for institutional adjustments to ensure that LGUs will be able to undertake the shelter-related poverty reduction program. In the decentralized shelter and poverty reduction program, LGUs will play a pivotal role for which they need to be prepared institutionally and in terms of human resource development. LGUs should become more responsive to the needs of the urban poor and a systematic approach of cooperation between the urban poor, MFIs, and LGUs will be developed. In each participating LGU, the consultants will produce sample city shelter plans and community action plans (CAPs). The consultants will undertake technical and on-the-job training of LGU staff in the new approaches. The consultants will document a “good practice” approach to these activities for DBP, HUDCC, and MFIs.

13. For DBP, the consultants will (i) design systems for DBP appraisal, support, and monitoring of pro-poor housing development, CAPs, and MFI sublending; and (ii) train the staff involved in implementing these activities. For HUDCC, the consultants will (i) assess the need for broader systems of support to sustain the preparation of pro-poor housing development, CAPs, and housing microfinance; (ii) prepare an action plan for putting these into place; and (iii) train the staff involved in implementing this plan. Coordination between capacity-building elements is critical, and linkages with the main project components essential. Consultants will be required to coordinate other capacity building activities with DBP, HUDCC, and the project steering committee.

## SUMMARY COMMUNITY PARTICIPATION AND RESETTLEMENT

### A. Background

1. The Philippines has requested the Asian Development Bank (ADB) for \$30.5 million dollar equivalent loan for a sector loan to undertake the Project. The Project will improve the livelihood quality of life and reduce poverty in selected mid-size Philippine cities and first-class municipalities through land titling and other forms of secure tenure for informal settlers, on- and offsite upgrading, and microfinance for housing, home improvements, and small enterprises. Nine pilot subprojects were identified and are in various preparation stages. Discussions with the National Housing Authority (NHA), local government units (LGUs), and nongovernment organizations (NGOs) in pilot subproject areas, site visits, and interviews with project beneficiaries and community associations constitute the basis for this summary.

### B. Land Acquisition/Resettlement Strategy

2. Given its subproject selection criteria and highly participatory planning approach, the Project is not generally expected to cause involuntary land acquisition and resettlement. The selection criteria ensure that site acquisition will not involve the exercise of the principle of eminent domain and participation of project beneficiaries to off-site schemes is voluntary. Participatory planning guarantees that minor land losses caused by reblocking are freely contributed by affected informal settlers or, if needed, replaced through voluntary land redistribution. To warrant the rehabilitation of informal settler participants in the upgrading schemes, serviced plots will be priced at rates affordable to them, house losses will be compensated at replacement cost; and relocation subsidies provided. If in exceptional cases unexpected involuntary land losses to formal settlers will occur, they will be fully compensated in accordance with ADB's *Involuntary Resettlement Policy*.

### C. Participatory Planning and Land Acquisition/Resettlement Guidelines (PPLARG)

3. To guarantee community participation and compliance with ADB's resettlement policy, a set of PPLARG was prepared. The PPLARG addresses issues within and beyond the scope of a resettlement plan detailing (i) subproject selection/processing criteria; (ii) participatory planning tools; and (iii) a resettlement policy framework.

#### 1. Subproject Selection and Processing Criteria

4. The following criteria will regulate subproject selection/preparation:

##### a. Eligibility Criteria

- (i) Off- and onsite scheme areas must have been public for at least 2 years before being submitted for consideration; or, if still private, their price must have already been negotiated between relevant community associations and landlords.
- (ii) Offsite scheme areas cannot replace land affected by infrastructure projects.
- (iii) Offsite development areas must be tied to specific beneficiary communities, within 15 kilometers of their original residence, and supported by an initial social assessment.

- (iv) Proof of beneficiary acceptance of offsite subproject site must be available. Settlers unwilling to relocate will be able to remain at their premises without sanctions.

**b. Appraisal Criteria** (at least 6 months after selection)

- (i) Community associations must be well established, operational, and fully endorsed by project beneficiaries;
- (ii) Appraisal will be based on a community action plan (CAP) prepared by beneficiaries with NGO assistance and technical facilitation. Community associations will endorse the CAPs.
- (iii) If after 10 months the above criteria are not satisfied, a subproject will be dropped.

**2. Participatory Planning and the Community Action Plan (CAP)**

5. CAPs will be fully participatory initiatives prepared by beneficiaries and facilitated by NGOs. CAPs will detail (i) community association status and participatory planning history, (ii) agreed subproject design and implementation/organization features, (iii) land/house impacts by household and compensation agreements, (v) agreements on land prices and voluntary land losses, (vi) replacement plots location, (vii) land acquisition and resettlement budgets, and (vii) eventual involuntary resettlement cases and relative resettlement plan in keeping with the larger resettlement policy framework.

**3. Resettlement Policy Framework**

6. The PPLARG will include a resettlement policy framework, which will be prepared based on ADB's *Handbook on Resettlement: A Guide to Good Practice*. The PPLARG will establish compensation provisions for land and other losses affecting both informal settlers and eventual formal settlers and will detail land acquisition and resettlement implementation/organization features, including institutional responsibilities, disclosure mechanisms, grievance procedures, and monitoring/evaluation schemes.

7. **Land Losses.** As for informal settlers, marginal residential land losses (less than 20%) will not be compensated while severe residential land losses (more than 20%) will be replaced through voluntary land redistribution of their community land. Informal settlers will pay for their plots at an agreed price and receive a title. All land losses of formal settlers affected by subproject developments will be fully compensated in cash at market rates.

8. **Other Provisions.** All other provisions are the same for informal settlers and eventual formal settlers. House impacts will be compensated in cash at replacement, cost free of demolition and salvaged materials. Crop losses will be compensated at market rates. Business losses will be compensated through a monthly allowance equal to P1,000 or to the declared monthly incomes for each month of business interruption. Settlers forced to relocate will also receive a fixed disturbance allowance of P15,000.

9. **Institutional Responsibilities.** DBP, with technical assistance from HUDCC (supported by NHA staff), has overall responsibility for subproject appraisal and resettlement. Liaison with

community associations and NGOs—as well as land management, asset valuation, and entitlement delivery—will be the responsibility of project proponents.

10. **Disclosure and Grievance Procedures.** The resettlement guidelines will be distributed in all beneficiary communities and will be disclosed at the ADB country office together with each approved CAP. Grievances would be first lodged to a community grievances committee. If the case is not settled within two weeks, the complainant will lodge the grievance to the office of the neighborhood captain. If still unresolved within 1 month, the case can be taken to the appropriate court.

11. **Monitoring and Evaluation.** The PMO will establish a monthly reporting system on CAP implementation and resettlement. External monitoring will be assigned to an independent agency. The PMO will report quarterly to ADB on land acquisition and resettlement. External monitoring reports will be submitted to ADB twice a year.

#### **D. Pilot Subprojects**

12. **Nine Pilot Subprojects were Identified.** For three of them, the participatory planning process has been successfully concluded and CAPs are ready for appraisal. One subproject failed because two community associations did not agree on land prices or the location for development. The other four are currently under preparation and will be appraised when the CAPs satisfying the selection criteria are finalized and become available. Details of subprojects with CAPs completed or in the advanced stage of preparation are below.

13. **Sapalibutad, Angeles.** This subproject entails onsite reblocking, remains at an initial preparation stage, and is based on a CAP not yet ready for implementation. The target site is a 2.0 hectare (ha) area inhabited by 300 households represented by the Nagkakaisang Samahan ng Sapalibutad Resettlement. Subproject provisions include land security to 300 local households. A CAP will be available when reblocking impacts have been fully assessed.

14. **Pulungbulo, Angeles.** This offsite development subproject is fully prepared and is based on a CAP ready for implementation. The subproject site is a 0.63 ha area to be purchased by Angeles City at P200 per square meter, as set by a deed of sale already issued. The site will be used to resettle 46 informal households that will be evicted from a nearby property, and will also settle additional 21 formal settler households. These 67 households are represented by the Tinig ng Pagkakaisa ng Pulungbulo Association, which prepared the CAP. Provisions include land titling, site preparation, utilities, infrastructure, and livelihood programs. The 41 informal settler households will receive full compensation at replacement cost for their houses plus disturbance allowances. House compensation will amount to P707,000, while relocation subsidies will amount to a total of P15,000 for the entire subproject.

15. **Malabanias, Angeles.** This subproject entails onsite reblocking, is fully prepared, and its CAP is ready for implementation. The subproject site is a 3,107 ha area inhabited by 253 households represented by the Acaban Malabanias Urban Poor Association. Subproject provisions include titled plots. Reblocking will affect 39 households to be affected by fence or house damages. Compensation will amount to P231,800 for the entire subproject.

16. **Marisol BLISS, Barangay Ninoy Aquino, Angeles.** This subproject entails onsite reblocking/upgrading, is fully prepared, with CAP ready for implementation. The project is a 3,171 ha property. The beneficiary community includes 499 households fully represented by the BLISS Urban Poor Association. Subproject provisions include titled plots to 253 households.

Eight households are affected by reblocking. Impacts consist in partial house demolition or damages. Repairs will amount to P154,109.

17. **Purok Esperanza, Bacolod.** This subproject involved onsite upgrading/reblocking, offsite development, and involuntary resettlement for a service road. A CAP has not been successfully concluded as beneficiaries are split into two CAs with different views on land prices and CAP details. As a result, the LGU has submitted another site to replace this pilot subproject. Preliminary design and impact assessment indicated that 400 households would participate in onsite development and that 20 houses will be relocated in the nearby offsite development area.

## SUMMARY INITIAL ENVIRONMENTAL EXAMINATION

### A. Environmental Measures

#### 1. Introduction

1. This section presents the summary of the initial environmental examination (IEE), findings, and recommendations conducted on proposed upgrading subprojects: Marisol, Malabanas, Sapalibutad, and Pulongbulo in Angeles City; Tangke and Lagtang in Talisay City, Cebu; Villa Pook Esperanza and Purok Riverside in Bacolod City; and Macabalan in Cagayan de Oro. The conduct of the IEEs has allowed timely identification of environmental impacts and the required mitigation measures for the pilot sites. The IEE also led to the revision of one site development plans as proposed by the participating local government units (LGUs) and the abandonment of two proposed subprojects.

2. The procedure adopted in identifying all significant environmental impacts from different stages of subproject development<sup>1</sup> is contained in the Asian Development Bank's (ADB) 1993 *Environmental Guidelines for Selected Infrastructure Projects* (Checklist of Environmental Parameters for Urban Development Projects), and the results were checked for consistency against the new guidelines, except for the Sapalibutad and Pulongbulo subprojects where the ADB's *Environmental Assessment Guidelines* (2003) were used. A more detailed description of environmental issues relating to the Project is set out in Supplementary Appendix K.

#### 2. Description of the Project and Environment

3. All subprojects involve small-scale civil works such as local roads and drains to improve the environment of poor communities. All subprojects generate small, significant environmental impacts during design and construction. The civil works required in the Marisol, Malabanas, Sapalibutad, Pulongbulo, Tangke, and Macabalan subprojects are not substantial in terms of scale and cost, and involve mostly onsite improvement of drains, roads, and water distribution. The proposed works by their very nature mitigate environmental impacts and reduce the inherent health risks attributable to unplanned development. However, the subproject areas' high population density multiplies small environmental impacts and warrants attention, particularly in the planning stage.

4. The proposed subprojects will upgrade communities with limited available land and plots that are still vacant are already earmarked for disposition. The constraints brought about by unplanned house construction and the complex systems resulting from the contingent layout of drainage canals and water lines installed by individual settlers cause the majority of identified significant environmental impacts. Since existing drains and water lines are located in the same trench and usually follow alleys and footpaths, any improvement on any of these will interfere with other components. Nonetheless, the impacts on utilities are short-term and co-terminus with construction.

5. The environment of the subproject sites is already urban, albeit poorly serviced. No significant species of flora or fauna were found. Topography varies, but with the exception of the Talisay site (see below) is generally flat. Soil conditions also vary from sandy soils to clay.

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<sup>1</sup> Including location, design, construction, and operation stages.



### 3. Potential Environmental Impacts and Mitigation Measures

6. Impacts common to the subprojects and recommended mitigation measures are indicated in Table 1 below. These recommended measures are simple and easy to integrate in the feasibility and detailed engineering studies.

**Table A13: DPUCP Subproject Environmental Impacts and Typical Recommended Mitigation Measures**

Impacts	Recommended Mitigation Measures
<b>Environmental problems due to design</b>	
Interference with other utilities in same trench	With residents and the local water utility, prepare a detailed map of each residential/subdivision block showing the alignment of existing water lines. Prepare an excavation schedule of each section of the proposed drainage system that avoids or minimizes interference with water line.
Intensification of water pollution control	With limited available area, a combined sewer and drainage canal is recommended. The prohibitive cost of a centralized sewage treatment plant does not allow its construction. Ensure that all households have septic tanks that are regularly maintained for proper operation.  When possible, re-use domestic wastewater coming from bathrooms and sinks for irrigation.
Creation of sewage/sanitation problem	Cover open drainage canals along the major roads with concrete slabs. Ensure that all households have septic tanks that are regularly maintained. When feasible, convert all footpaths and alleys as covered drain to ensure adequate canal capacity, optimize available space, and minimize health risks.
<b>Environmental problems in construction stage</b>	
Hazards to workers and nearby residents to communicable diseases and from emissions of dust, fumes, noise, and vibration	Educate all construction workers on handling sewage. Equip workers with proper protective gear such as rubber gloves and boots. To minimize nuisance, heavy equipment operation should be done during daytime (9-6 pm). Inform affected residents prior to equipment operation.
Accidental damage to utilities in the same trench	Based on the detailed map showing the location of water pipes and excavation map, inform affected residents on possible disturbances in water supply. Drainage canals to be constructed along/as footpaths that will affect access should be done in phases and immediately covered by metal sheets or catwalks.

### 4. Institutional Requirements and Environmental Management System

7. Because subprojects will not have significant environmental impacts, participating LGUs will be required to obtain either certificates of noncoverage or environmental compliance from the regional Environmental Management Bureaus of the Department of Environment and Natural Resources (DENR). This will require consultant support to the project management office (PMO). Part C cofinancing will provide this, while institutionalizing the capacity within the Development Bank of the Philippines (DBP).

8. The environmental management system is integrated into the subproject approval and community action plan (CAP) processes. The PMO will not approve subprojects without the appropriate environmental clearance and environmental management plan. The steering committee will monitor compliance. The CAP process is consultative, and designs project interventions with the community concerned and written approval from all community members is required (see below).

## **5. Public Consultation and Information Disclosure**

9. Ample opportunities were ensured for the public to participate in the design process of all subprojects. These opportunities came in the form of:

- (i) Subproject site walkthroughs with the officers of homeowners associations, local housing boards, HUDCC regional officers, bank officers, and jurisdictional local government officials. These walkthroughs, in addition to a good appreciation of the subproject as platform for intervention where environmental impacts will be identified and evaluated, allowed immediate responses on the subproject topology that maximize positive environmental impacts. During each study team visit, at least three walkthroughs were conducted.
- (ii) Workshops were conducted where the subproject initial design was discussed and ADB's environmental screening process is presented. The consultant primarily informed the community of the environmental impacts of the subproject. This workshop also validated the consultant's assessment of the impacts. During these workshops, the need to comply with local environmental regulations was also emphasized.
- (iii) A one-on-one discussion with the local mayor was conducted to present in summary the findings and initial recommendations of the study team. Issues raised during the walkthroughs and workshops were revalidated. This discussion also sought to determine the mayor's priority on subproject implementation.
- (iv) A meeting with the regional HUDCC and local housing boards, discussing the issues raised and needed activities for its resolution, were presented by the study team.
- (v) A socioeconomic and perception survey was conducted in coordination with local colleges, universities, and institutions, and results were used to assess baseline conditions and attitudes on a range of issues including environmental issues.

10. The length needed for the regional HUDCC and local housing board to consult on subproject design is noteworthy. The communities are asked to prepare a CAP that consisted of documenting the planning process and their site development goals presented in the form of subproject proposals.

11. The CAP itself is a product of an intensive consultation process as embodied by the principle of participatory planning and community-led approach to development. This implies that interventions are conceptualized, designed, planned, and implemented by community members themselves in close collaboration with the local government and guided by sound urban planning, social, and environmental principles. The CAP is the result of consensual agreements that could only be achieved through constant interaction among those involved.

Aside from documenting the public consultations undertaken, the CAP outlines proposals and designs from community members themselves.

12. LGUs themselves incorporate consultation in their activities. LGUs have ensured that they properly consulted all affected persons, including owners of assets and occupants of private lands affected by right-of-way acquisition and other subprojects development. Individual visits and consultation meetings were conducted. Minutes of the meetings and agreements reached were properly documented in the CAP, including the master list of affected persons.

## **6. Findings and Recommendations**

13. All proposed subprojects were evaluated and the key findings are set out below.

### **a. Revision of Lagtang Site Development Plan to Avoid Significant Environmental Impacts**

14. The initial development plans for the Lagtang Upgrading Subproject, as submitted by Talisay City to HUDCC, were revised to avoid severe environmental impacts inherent to the subproject locations. The Lagtang subproject site has steep slopes and soil highly vulnerable to erosion, necessitating the reduction from 80 to 30 lots. This reduction is based solely on the slope limitation that was set for this subproject at 30%. It should be emphasized that this threshold is above the Bureau of Soils and Water Management (BSWM) recommendation. The BSWM classifies lands with greater than 15% slope as marginally suitable for homesite/subdivision development. The higher slope threshold was set for this subproject considering that there are several existing houses that adopted practical erosion control techniques, allowing them to adapt to the site. These practices include limiting the height of structures, minimizing the cut, and avoiding construction of houses between terraces. Reducing and constructing erosion-control devices during house construction will minimize the risk of erosion to an acceptable level and will not require further environmental impact assessment.

15. Proper mitigation measures to minimize erosion should be integrated in local building ordinances, particularly for this site. Simple construction procedures, in addition to preventing settlers from residing in areas with more than a 30% slope, should be adopted. This will (i) minimize the loss of vegetation; (ii) decrease the slope and its length, and (iii) minimize soil disturbance such as increased pulverization.

### **b. Replacement of the Esperanza Upgrading Subproject**

16. Villa Pook Esperanza is a former city dump, and was not properly closed before the site was settled by informal dwellers. This site poses serious environmental risks. Although the volume of waste dumped is relatively small, estimated at 16,188 metric tons, its composition is unknown and assumed to contain hazardous waste. Anecdotal information from the settlers indicated that hospitals waste was dumped there. The poor load-bearing capacity of uncompacted municipal waste jeopardizes the structural stability of proposed roads. The main recommendation is to scrape all waste dumped on vacant areas and fill the vacant areas with soil as part of the proposed upgrading. A vacant area within the site will be converted into a small sanitary landfill where the scraped waste will be transferred. This landfill will subsequently be used as open area consistent with Bacolod City's land use plan. An environmental impact assessment is needed to determine solid waste impacts such as groundwater contamination. Esperanza poses significant environmental impacts and was deemed unsuitable as a pilot subproject.

17. Bacolod Housing Authority (BHA) proposed Purok Riverside as a replacement to the Esperanza subproject. Pook Riverside is located along the Banago Creek. An initial environmental examination found no significant environmental impacts related to the subproject, but some small impacts were identified due to the site's location near an ecologically sensitive swamp area. The removal of some mangrove trees is unavoidable. Most significant impacts would occur only during construction: (i) hazards to workers through contact with untreated sewage during construction and drain improvement; (ii) dust from earthmoving and from heavy equipment exhaust; and (iii) temporary local flooding during backfilling. Mitigation measures have been identified, including (i) education and protective clothing for workers; (ii) operation of heavy/noisy equipment only during day time, (iii) informing residents of work schedules; and (iv) temporary bunding of houses and other facilities likely to be inundated.

18. A review of Bacolod City's zoning map indicated that Purok Riverside is classified as a residential area. The DENR-EMB Regional Office informed BHA that the area is not classified as environmentally critical or part of the protected areas system.

### **c. Deferment of the Naga City Triangulo/CBD II Site Development Subprojects**

19. Subprojects in Naga City involve upgrading Triangulo and Central Business District II. It has a similar infrastructure development component requires upgrades footpaths, alleys, roads, water supply, and drains. As previously discussed, these components will have easy-to-manage impacts common to all subprojects. Like Lagtang and Villa Pook Esperanza, the Naga City<sup>2</sup> subproject sites include the major development constraint that they are flood-prone. Triangulo is about 180 meters away from the Bicol River, the main drain of the Bicol Basin with headwaters in Lakes Buhi, Bato, and Umbao. The subprojects will be of little value to the community unless flooding is addressed. This can only be done at the city level, if not at the basin scale, and these subprojects are therefore recommended for deferral until flooding is addressed.

## **7. Conclusions and Recommendations**

20. The nature of the proposed subprojects, being community upgrading or new site development, will fundamentally improve the urban environment through improved access, proper handling and disposal of domestic wastewater, avoidance of flood damage, and provision of potable water. Also inherent to upgrading subprojects is the dense population at the construction site, so even simple excavations will have an impact, however small.

21. This Project emphasizes the importance of conducting an early environmental examination to allow environmental considerations during subproject site identification, design, and feasibility analysis. The findings and recommendations enriched the engineering designs to incorporate simple mitigation measures like dust suppression, timing of heavy equipment operation to avoid noise disturbances, proper handling of domestic wastewater and its reuse for irrigation. The IEE also pointed out the need to revise the engineering designs to avoid erosion and groundwater contamination, and other environmental impacts.

22. Local proponents of community upgrading subprojects lack the expertise to conduct environmental examinations. Although it would be ideal to build the communities' capability to assess environmental impacts, the cost and its limited use at the administrative level do not

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<sup>2</sup> In fact, the entire Naga City is flood-prone; based on the Camaligan Flood Gauge Station, 12 serious floods occurred in the area during the last 18 years, reaching depths as high as 4.04 meters.

warrant investment along this line. The capacity-building TA should establish an environmental management unit capable of assisting the PMO, LGUs, and communities to undertake IEEs of proposed subprojects and to guide them in complying with the Government's environmental regulations and funding agencies' procedural requirements.

23. Local Governments will need to ensure that all subprojects secure an environmental compliance certificate or a certificate of noncoverage from the Environmental Management Bureau-Department of Environment and Natural Resources (EMB-DENR). Proponents will likely be able to comply with the EMB-DENR environmental impact statement guidelines with few changes to the IEEs.

## SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY (SPRSS) FORM

### A. Linkages to the Country Poverty Analysis

Sector identified as a National Priority in Country Poverty Analysis?	Yes/No Yes	Sector identified as a National Priority in Country Poverty Partnership Agreement?	Yes/No Yes
<p>Contribution of the sector/subsector to reduce poverty in the Philippines:</p> <p>The project will have direct poverty reduction effects on its beneficiaries. Slum upgrading/community empowerment will lead to safer, healthier, and better-organized communities where poverty reduction can be systematically pursued. Greater land security will foster social responsibility/ownership benefits and, through eventual land titling, will offer the beneficiaries with formal lending options. The project will also involve various community-designed livelihood improvement initiatives, which may include microfinance development, cottage industry/trade development, community services, and construction of light infrastructure. Through these initiatives, project beneficiaries will be provided with untapped income sources and the means to maximize their time and existing resources. The project will also directly address the socioeconomic disruption caused by flooding.</p>			

### B. Poverty Analysis

### Proposed Classification

<p>What type of poverty analysis is needed?</p> <p>Poverty analysis will be integral to subproject selection/design and will be based on quantitative and qualitative methodologies. Subproject selection will include the combined analysis of sector poverty data with country, region, and subproject poverty data and involve poverty assessments and stakeholder consultation in the field. Subproject planning/design will entail intensive qualitative analysis, directly involving project beneficiaries through the extensive use of participatory methods to identify the local poor population and provisions to better fit their needs. The poverty impact analysis based on the analysis of pilot subprojects has yielded a poverty impact ratio of 0.6.</p> <p>Poverty Classification</p>	<b>Core Poverty Intervention</b>
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### C. Participation Process

<p>Stakeholder Analysis – Identify consultations needed at Project Design (see Appendix 4):</p> <p>Public consultation/participation will be at the core of project design as subprojects will be selected through stakeholder consultation and will be prepared through community-driven design mechanisms. A condition for subproject approval will be the preparation of a participatory community action plan (CAP) endorsed by the beneficiary communities.</p> <p>Participation strategy required</p>	<b>Yes/No</b>
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### D. Potential Issues<sup>a</sup>

	Significant/ Insignificant/ Uncertain/ None	Strategy to Address Issues	Plan Required <sup>b</sup>
Resettlement <sup>c</sup>	Insignificant for core-subprojects	Resettlement needs/significance for the core subprojects has been determined by the project preparatory technical assistance after site selection. Resettlement plans (RP) have been incorporated in CAPs prepared through a fully participatory process with project stakeholders. During CAP preparation, one planned core-subproject was removed from the project scope. CAPs for the other 4 core-subprojects are included in Supplementary Appendix L.	Full/Short/ Not Known/ None (not applicable) RP included in CAP
Gender	Significant	Women will be fully represented in participatory design so as to ensure that shelter/upgrading provisions reflect the women's role in the domestic economy and that health/income-generation benefits reflect women's needs. Particular attention to women will be also given in the distribution of land-tenure rights. A Gender Plan is being prepared and will be included in Supplementary Appendix L.	<b>Yes/No/Not Known/None</b>
Affordability	Significant	When land security schemes involve buying residential plots or developing microfinance schemes, land prices and repayment rates will be fixed so as to be commensurate to beneficiaries' capacity to pay. The project design has addressed this issue (Appendix 5 and Supplementary Appendix B).	<b>Yes/No/Not Known/None</b>
Labor	Uncertain	CAPs for each subproject will consider the distribution of project-derived jobs to beneficiaries.	<b>Yes/No/Not Known/None</b>
Indigenous Peoples	None	None encountered in pilot sites. Also unlikely on subsequent sites as the project will target major cities where ethnic minorities may not be vulnerable groups. If encountered, the CAP process will ensure their needs are met.	<b>Yes/No/Not Known/None</b>
Other Risks/ Vulnerabilities		Possibility of recolonization of cleared areas by new informal settlers. The risk will be dealt with by improving the capacity of local administrations and by empowering local communities to supervise communal areas.	<b>Yes/No/Not Known/None</b>

<sup>a</sup> If not known, a contingency should be included in the TA budget to predict the need of a plan.

<sup>b</sup> A plan will be required during design if any of the potential issues are found significant.

<sup>c</sup> Significant involuntary resettlement requires a full resettlement plan; insignificant effects require a short resettlement plan.