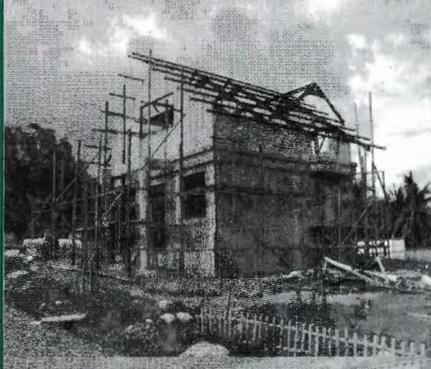


ANALYZING CO-OP HOUSING

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*historical analysis
of cooperative housing*



ANALYZING CO-OP HOUSING

Historical Analysis of Cooperative Housing



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Volumes Included in the Manual on Cooperative Housing

1

Analyzing Co-op Housing

2

Managing Co-op Housing

3

Financing Co-op Housing

4

Accounting Co-op Housing

5

Regulating Co-op Housing

6

Constructing Co-op Housing

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Foreword

Adequate shelter is a right that should be enjoyed by everyone. International statutes such as the United Nations Declaration on Human Rights guarantee this right. However in the Philippines, providing shelter to the homeless remains one of the primary concerns of government and cause-oriented groups.

Various approaches have already been adopted to solve the housing problem. One such approach is cooperative housing. It is an alternative self-help approach which applies the principles and methodologies adopted by cooperatives to shelter delivery.

While historically, cooperative housing has been put into practice in the late 19th century in various countries, its growth and development in the Philippines has only begun recently. As a response to promoting this innovative approach, CHF implemented the Cooperative Development Program in 1997, with the National Housing Authority (NHA) as its local partner and with funding from USAID.

The program sought to increase the availability of affordable housing services to underserved populations through cooperative housing. In particular, technical assistance was extended to build up the institutional capacity of NHA and several cooperatives to establish cooperative housing as a sustainable system. Part of such efforts is the development of a training manual on cooperative housing.

This Manual on Cooperative Housing was thus conceived to guide cooperatives engaged in mass housing projects for their homeless

members. In the process, it is hoped that this will encourage the creation of a favorable environment for the emergence of more housing cooperatives in the future.

CHF produced this manual in order to provide cooperatives with a better understanding of the operational and technical requirements, as well as, the processes involved in the cooperative housing project.

This Manual is designed to explain various concepts in terms that will be best understood by its intended end-users, which are the cooperatives. CHF attempted to provide a simplified presentation of some of the most important elements and steps of cooperative housing since there are so many details and variables involved in this process that varies according to each situation.

While we have wanted to base this Manual on the actual experiences of the pilot cooperatives of the Cooperative Development Program, it was not possible since these cooperatives have not gone through the entire cooperative housing process at this stage. The Manual was developed and drew largely from presentations made during the CHF-sponsored National Conference on Cooperative Housing held in Cavite on December 2001.

Volume One on **Analyzing Co-op Housing: Historical Analysis of Cooperative Housing** discusses the emergence and growth of cooperative housing in different countries, what were the issues and problems they faced, and how were these resolved. It also examines the experience of the SLU-SVP Housing Cooperative, one of the country's pioneers in cooperative housing.

Volume Two on **Managing Co-op Housing: A Guide on How to Manage the Organization, Implementation, and Maintenance of the Cooperative Housing Project** explains how the project affects the organizational structure and processes of the cooperative. It defines project management and lays down the specific management requirements necessary for the implementation and maintenance of the project.

Volume Three on **Financing Co-op Housing: A Guide on How to Avail of Fund Assistance for Cooperative Housing from Land Bank of the Philippines** presents the details of the bank's Cooperative Pabahay Program and how this may be utilized by the cooperative to finance its housing project.

Volume Four on **Accounting Co-op Housing: A Guide on Accounting Systems for Cooperative Housing** presents the different financial transactions of the project and how these should be documented and accounted for by the implementing cooperative.

Volume Five on **Regulating Co-op Housing: A Guide on Securing Titles, Licenses and Permits, and How to Avail of Tax Exemptions for Cooperative Housing** lists down the different legal and documentary requirements that regulate the project and how these can be secured by the cooperative. A section on taxation explains how a cooperative involved in socialized housing may avail of tax exemptions.

Finally, Volume Six on **Constructing Co-op Housing: A Guide on Construction Management of the Cooperative Housing Project** provides a layman discussion on the resource requirements, procedures, and tools needed during the construction phase of the project.

CHF hopes that these six volumes comprising the Manual on Cooperative Housing would serve as a valuable contribution towards the development of the cooperative housing movement in the Philippines.

Randall Sach
Country Director
CHF Philippines

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Lastly, this manual would not have been possible if not for the generous funding provided by the United States Agency for International Development (USAID).

I N T R O D U C T I O N

Why review history?

Cooperative housing, a mutual, self-help approach to housing that was developed during the latter part of the 19th century, is now making headway in the Philippines.

Given the magnitude of the housing problem, this alternative approach can be further developed to provide shelter to the growing number of homeless Filipino families and individuals.

However, its implementation and growth is held back by various factors endemic to the Philippine setting. There are some problems encountered in the areas of management and organization, finance, project development, and the legal and regulatory framework. A broad understanding of the key elements in cooperative housing and how they were dealt with and implemented historically is therefore crucial in addressing these problems.

It is the purpose of this manual to assist in clarifying the issues. By reviewing the specifics of the cooperative process, and the history of cooperative housing in different parts of the world including the Philippines, it is hoped that we can identify the measures necessary for the smooth implementation of this approach.

As an introductory volume to the Manual on Cooperative Housing, it is also expected to provide cooperatives with a background on the various steps (which are discussed in the succeeding volumes) to be undertaken in implementing the cooperative housing project.

A **cooperative** is a voluntary association of persons united to jointly own and democratically control an enterprise. It is organized to meet the common economic, social and cultural needs and aspirations of its members.

Members give equitable contributions to the capital required by the cooperative in order to realize its objectives and specific projects. As such, each member accepts a fair share in the risk for every cooperative undertaking but receives a fair share in the benefits.

The cooperative serves as a means to expand opportunities and options for the individual members because of group effort. It is an institutional framework whereby those who are economically weak are able to gain more control over resources, technologies, and other factors in production.

Early Beginnings

Cooperatives were first formed among production and distribution enterprises in Western countries as a reaction to the problems that resulted from the industrial revolution, such as exploitation of labor through long hours, low pay and dangerous working environments. Workers found that they can improve both their economic and living conditions through banding together in an equitable way.

Although there are many early attempts to build cooperatives and cooperative communities, cooperatives in the modern era followed the Rochdale Model, which takes its name from a town near Manchester, England. In the 1840's, a group of merchants and artisans, in a newly organized and registered cooperative, created

what are now known as the **Rochdale Principles of Cooperation**. These principles have been adopted by most cooperative organizations including the **International Cooperative Alliance (ICA)**, a global apex organization for cooperatives which was also founded in 1895 in Rochdale. ICA now has its headquarters in Geneva, Switzerland.

Cooperatives Worldwide

Cooperatives began as small grassroots organizations, mainly of workers, in Western Europe, North America, and Japan, in the middle of the 19th century. Today, cooperatives comprise one of the biggest organizations in the world with more than 800 million individual members. They have played a big role in encouraging job creation, economic growth and social development. They are estimated to employ more than 100 million women and men.

By assuming a broader set of non-profit and non-commercial values, many cooperatives have succeeded in promoting economic and social development. The need for profitability is balanced with the wider interests of the community simply because cooperatives are owned by those who use their services. Through collective efforts, they have also succeeded in ensuring equal access to markets and services for their members.

Cooperatives operate in fields as diverse as agricultural marketing and supply, finance, wholesale and retailing, health care, housing and insurance. Now, they are venturing into new fields of activity, especially in the telecommunications and service industries.

Cooperative Principles

Cooperatives are based on the values of self-help, self-responsibility, democracy, equity, solidarity, honesty, social responsibility, and caring

for others. These values are put into practice through the ICA principles (which are based on the original Rochdale Principles) that now guide the operation of different cooperatives, namely:

1. Voluntary and open membership
2. Democratic control by members
3. Economic participation
4. Autonomy and independence
5. Education, training and information
6. Cooperation among cooperatives
7. Concern for the community

Organization and Structure

Like any other organization, the cooperative is primarily defined by its function and purpose. This function or purpose is incorporated or enshrined in the cooperative's Constitution or By-Laws. The By-Laws is a legal document that also defines the cooperative's organizational systems and structures.

Cooperatives can have one or several functions. A housing cooperative, for example, is generally a distinct single-purpose cooperative. Its sole focus is to provide housing for its members, and in the process, improve their physical, social, and economic living conditions.

A multi-purpose cooperative (MPC) is a much more complex organization in terms of the plurality of services it provides to its members. Although the cooperative may be involved in several business activities, its members may not avail of all the services it offers.

An MPC may undertake housing as one of its component or subsidiary services to its members but not all members may move into the

housing project. This is different from a housing cooperative where usually most, if not all, members are residents, so all partake in its main product or service.

The multi-purpose cooperative might eventually spin-off a housing cooperative depending on the growth and development of the cooperative, its member's needs, and its approach to developing such a housing project. The housing cooperative can be a distinct and separate entity from the parent multi-purpose cooperative, and primarily be responsible for owning and maintaining the housing units, or it can be a subsidiary, or division, of the MPC.

Membership

Membership in the cooperative is voluntary. The cooperative adopts a system of open membership wherein no one is refused admission into the organization so long as he or she satisfies its requirements and criterion for membership, such as the submission of an application form and payment of membership fees.

However, in some cases, membership may be limited to certain categories or criteria. For example, members might only be drawn from specific geographic areas, particular organizations such as a trade union or employee's association, or a group of people with a common condition or factor, such as people in wheelchairs. These are known as special purpose cooperatives.

Cooperatives often make the purchase of shares a condition of membership. However there are also non-share capital cooperatives. In cooperatives that are shareholder based, a member subscribes to a specific number of shares in the cooperative. A limit to shareholding is sometimes set to prevent a member from contributing too much to the total capital. A member that has invested too much capital may tend to exercise more power within the organization

since his or her withdrawal could threaten the cooperative's existence.

The entire membership of the cooperative, or at least a quorum (a minimum percentage defined in the By-laws) of the membership, convened in a General Assembly, is the highest authority in the organization. Each member has one vote during such a meeting. All decisions of major importance are voted upon and approved by the General Assembly.

Cooperatives must hold at least one General Assembly every year, aside from regular meetings held quarterly or at some other agreed interval.

The **Annual General Assembly** has two major functions:

1. Receives and discusses the cooperative's annual report and financial statements; and
2. Elects the Board of Directors.

Amendments to the By-Laws and other important matters can be discussed and voted upon during the General Assembly provided an adequate notice of the meeting and its agenda is given to the membership.

Board of Directors

In between the General Assemblies, the Board of Directors is the next highest decision-making body in the cooperative organization. The Board is responsible for all aspects of administration such as maintaining the cooperative's finances and properties, conducting training and education, and planning the different activities of the organization.

Members of the Board are elected every year or at any given time based on rules defined in the By-laws. Board members then usually

elect among themselves the President, Vice-President, Secretary, and Treasurer.

The Board holds regular meetings, usually monthly, to monitor the administration and development of the cooperative and its projects and activities. Thus, the Board provides an oversight function and implements the decisions of the General Assembly.

The Board may also form committees to assist it in its different functions such as legal work, financial management, and education. These committees report directly to the Board and have no power of themselves other than the specific task for which they were formed. However, committees may make recommendations to the Board of Directors. Committees are usually composed of one Board member, who is generally the head of the committee, and the interested members of the cooperative.

Staff and Office Management

It is important that the cooperative sets up an office so that it can efficiently handle its day-to-day tasks and properly maintain its records. The office serves as the 'nerve center' that coordinates all of the cooperative's day-to-day activities.

The office receives and transmits the cooperative's various communications and conducts the business activities of the cooperative. It is where the By-Laws, financial statements, minutes of meetings, and other major documents are stored in an organized manner for safekeeping.

The office also serves as the 'first point of contact' with the members and the general public. If a member or any person wants information on the status of any cooperative activity, the office may easily provide such information. It is where those who wish

to secure information about the status of any of the cooperative's activities should go.

General administration of the office remains a responsibility of the Board of Directors but office staff can be hired to handle its various duties. The staff is usually composed of non-members, which are hired and paid by the cooperative on a regular basis, or contracted for specific tasks as needed.

Education and Training

Raising the awareness of the members on the values of self-help and mutual cooperation is crucial to the maintenance and development of the cooperative organization. Through education, the cooperative spirit among the members is strengthened. Members acquire a high degree of moral commitment to pursue the objectives of their organization. It is through education and consciousness-raising that members of the cooperative become fully aware of what they want to achieve, and how they would realize their objectives.

Education or training also serves as an effective venue for the acquisition of skills necessary to manage the cooperative and its activities. The long-term success of a cooperative depends on the level of knowledge and skills of its members.

The cooperative must strive to develop a continuing education and training program for all of its members and at different levels. When leadership changes occur, new leaders are trained on relevant management and organizational skills so that they become capable of addressing issues, conflicts or problems whenever they arise.

Cooperative housing is an alternative housing approach that utilizes the principles and processes of cooperativism. The ICA defined a housing cooperative in 1999 as a “legal association formed for the purpose of providing housing to its members on a continuing basis. It is owned and controlled by its members. It is distinguished from other housing associations by its ownership structure and its commitment to cooperative principles.”

Organizational Development

In the United States and Canada the usual development process involves groups of people that come together for the purpose of building a housing project that then becomes a cooperative. Since much of the cooperative housing stock in these countries was developed with government subsidies or assistance, housing cooperatives usually develop independently of other types of cooperatives.

However, these cooperatives are sometimes sponsored by specific organizations, such as trade unions or other organized groups. They are also often assisted by Technical Service Organizations or resource groups of housing professionals. While they may use the services of other cooperatives, they are not generally sponsored by other co-ops.

In the Philippines, this process is almost reversed, primarily because there are only a few housing cooperatives in existence. Multi-purpose cooperatives involved in other business activities (mostly savings and credit services), on the other hand, decide to undertake the development of a housing project to address the housing requirements of its mostly

low-income earning members. They involve themselves in the acquisition of land for housing, as well as in the direct production of decent and affordable housing units. The housing project then either becomes an independent entity or a division of the existing cooperative.

At least, this is the methodology that seems to be emerging in the Philippines. This development method is, in some ways, similar to the prevalent model in Scandinavia and the early model in Europe. However, in the European model, there is a specialized secondary cooperative, much like a building society, which sponsors the primary housing cooperative, rather than a multi-purpose cooperative. The secondary cooperative also collects savings from members to capitalize the development of the housing project. This type of savings scheme is currently being attempted in the Philippines, although its success is yet to be determined.

Socio-Economic Advantages

Based on the experience of cooperatives in the Philippines, United States, Europe, and other countries, cooperative housing has the following economic and social advantages:

Economic Advantages

1. **Affordability** – The cooperative usually offers lower than market payments for housing and maintenance costs. In equity cooperatives it can lower down payments and individual mortgage costs since it utilizes economies of scale and pooling limited resources. Monthly amortization can also be kept at affordable levels since the cooperative keeps its operating expenses low due to its break-even operations and members of the cooperative have a vested interest in keeping costs down. Members only increase monthly costs when operating costs go up.

2. Equity – Cooperatives that have shareholders offer an opportunity to increase equity, but such increase has limits since it is imperative to assure the long-term affordability of housing units to old and new members. In non-shareholder cooperatives, members usually have a permanent right of tenure. They can stay as long as long as they want if they make their payments and follow the By-Laws, but do not generally accrue any equity, other than interest on member loans provided to the cooperative.

3. Consumer Action – When cooperatives unite together, they can purchase services for operations at reduced rates and obtain improved services from local governments. Community development projects, improvements and repairs in the conditions of the housing units, and the acquisition of new services are usually decided by the cooperative as a group.

4. Savings – Since the cooperative and the housing project are maintained for service to members and not primarily for the purpose of making a profit, the cooperative obtains savings from its operations.

5. Shared Maintenance Expenses – In the non-equity collective model, the cooperative as a corporation maintains the building, oversees major capital improvements, and its members are really renters. In equity cooperatives, the cooperative may oversee maintenance in common areas while the member/owner is responsible for maintenance inside the unit. However, the cooperative's Board of Directors or some other committee often must approve these changes if they are considered major.

Social Advantages

1. Security of Tenure – With the elimination of the outside landlord, the cooperative offers control of one's living environment and a security of tenure that is normally not available to individual tenants.

2. Community Control – As cooperative owners, members participate at various levels in the decision-making process. Members take their turn sitting on the cooperative's Board, while others are officers of the organization at different levels.

3. Develops Local Leadership – Members increase their skills by learning about cooperative development, chairing or participating in meetings, and assisting in building management.

4. Housing Security – Secured housing at an affordable cost allows members to advance in other areas of their lives such as their career, education, health, family and community.

5. Extended Services – Additional services can be developed by the housing cooperative to its members. Livelihood or employment generation can also be accomplished through the cooperative structure.

Concepts of Ownership

Ownership refers to the right to use and possess a certain thing or property. In cooperative housing, there are basically two concepts of ownership -- individual ownership and collective ownership of the housing units.

These concepts can also be referred to as equity or non-equity models. There are also for-profit or non-profit cooperatives, owned collectively or owned individually. Sometimes this status is determined by legislation in different jurisdictions, and other situations have evolved historically through practice or particular interpretations of cooperativism.

Individual ownership in a housing cooperative involves the resident-member holding full, or partial, title to the housing unit, and possibly the land or lot on which the house is situated. The cooperative

maintains ownership of the common areas of the housing project including the land on which the units are situated, but not the housing units themselves. The member acquires a certificate or title that legally guarantees ownership to the property. The individual owner is free to dispose, sell, sublease, or do whatever he or she wants with the unit, although this can often involve some approval process within the cooperative. The cooperative may contractually reserve the right of first offer to buy the unit at an agreed price.

Equity, a related concept to individual ownership, means that the member has some kind of ownership stake in his or her unit, or holds shares in the cooperative as a whole. This equity stake may or may not have value outside the cooperative. In some cases this may be sold freely, although usually the Board of Directors must first approve any stock sales or transfers. The Board may also decide on the sale price of shares, although not always. This model allows for a return on equity for shareholders while maintaining affordability for users of the housing units. Equity models can be found in many parts of Europe and in some parts of the United States and Canada.

On the other hand, under collective ownership, the cooperative holds the title to the land and/or buildings. Member-residents pay some form of rent, or a "housing charge" or fee, to the cooperative to cover all operating costs, including mortgage payments, utilities, maintenance, and reserve funds for long-term repairs. The cooperative usually has one "blanket" mortgage for all the land and buildings rather than individualizing title to the member-residents.

In collective ownership, the cooperative defines the rules and guidelines concerning the use and maintenance of the housing units and its facilities. Members receive a contract, or Occupancy Agreement, entitling them the right to occupy the individual housing unit on a permanent basis and to do minor improvements. Generally, all members decide on any major alteration or improvement that will significantly affect the entire property.

In the non-equity model the member has no ownership stake and has to surrender the housing unit back to the cooperative if he or she leaves, realizing no gain. Non-equity cooperatives are usually also non-profit corporations or entities. Sometimes this status is a result of legislation or some other agreement. Non-equity housing cooperatives can be found in many parts of Canada and the United States, Germany, and a few other European countries.

Cooperative Housing is a relatively recent phenomenon in world history. The first housing cooperative is believed to have been built in Rennes, France in 1720. Housing cooperatives began to appear in Britain and Denmark in the mid-1800s, New York City in 1876, Sweden in 1880, and Switzerland in the late 1800s.

However, cooperative housing was not a significant part of the housing sector in any of these countries until after World War I. The 1920s, in particular, saw a large increase in the development of housing cooperatives in both the US and Europe. This period of growth was followed by a decline during the Great Depression of the 1930s.

An even greater growth period however followed World War II. During the war, there was virtually no housing development even in countries not involved in the conflict and with soldiers returning home and starting families in countries that were involved. Faced with these pressures and a general housing shortage, western governments began mass housing programs including assistance to the development of cooperative housing. With many changes and evolutions, co-op housing continues to the present time.

Europe and the Scandinavian Model

With the aim of duplicating the success of their cooperative store, the Rochdale Pioneers from England decided to build a "superior class of dwelling for the working man". In 1861, they formed the Rochdale Land and Building Company which built 25 small cottages

on Spotland Road in Rochdale. They expected that most of the shares will be purchased by prospective tenants but the high cost of land and construction remained unaffordable to the common worker.

In 1869, the main Rochdale Equitable Pioneers Society, which had also began building a cooperative estate consisting of 84 houses, took over the Rochdale Land and Building Company. By the end of the century, the society owned over 300 houses. It also established the Co-operative Building Society which became a major lender to members who wished to build their own houses.

However, the early Scandinavian model of cooperative housing became the guide for much of the cooperative housing development in Europe. This model involved a "mother cooperative", or building society, that raises funds and manages construction.

The "daughter" cooperative -- with the completed and operational housing project -- is then separated on a functional basis, but remained in an organizational relationship with the "mother" for management purposes (which is similar to the model developing in the Philippines).

Individuals purchasing housing units became shareholders in the development with lessee rights at very favorable terms. Actual ownership, or the title, was either retained by the cooperative or transferred to the member-resident through sale of the units under individual or condominium ownership agreement. Sometimes this was done over a 10- or 20-year period as the member-resident repaid his or her share of the loan to finance construction.

Most of cooperative housing built in these periods benefited low and moderate-income families, particularly in Europe. However in the US, particularly in New York City, luxury cooperatives were also developed for the wealthy.

The Experience in the United States

Early Stage: Late 1800s

Cooperative Housing in the United States first appeared in New York City in 1876 with construction of the "Randolph" on West Eighteenth Street. This was followed by several similar projects over the next few years.

These projects were called "home clubs", with the term "cooperative" not being adopted until after 1900. Home Clubs were joint-stock companies with the stockholders allowed long-term leases on apartments owned by the company. Leases can only be transferred if a majority of the shareholders agreed by approving of the proposed new leaseholder.

Often only 40 or 50% of the units were occupied by shareholders, the rest rented to outside individuals with their rental payments used to pay the maintenance costs of the project. These types of projects were designed to allow people with high income to have the advantages of home-ownership without the responsibilities of individual ownership by collectivizing services and achieving economies of scale.

Although this model still exists in New York City, the initial period of cooperative housing development ended around 1885 with the return to private multi-unit housing delivery for the rental market.

Post World War I and the Great Depression

With the economic boom that followed the First World War and the increasing growth in the populations of cities with rapid urbanization, the high cost of land and construction created conditions that made cooperative housing look appealing. Co-op housing provided a type of home-ownership at an affordable cost.

A group of Finnish-artisans in Brooklyn, New York built the first true housing cooperative, designed and operated as such, in the US in 1918. In 1920 the first 100% stockholder-occupied housing cooperative was created. This form of organizational design was replicated for the next 10 years, both for low cost housing and for luxury projects.

Luxury co-ops during this period were expensive with stock for one unit costing as much as \$450,000 with \$22,000 in maintenance fees. The screening process for luxury projects could be very discriminatory with the purpose of keeping out "undesirables".

Legislation was introduced at this time and facilitated the growth of housing cooperatives. In 1927 the New York Housing Act, also called the State Limited Dividend Housing Companies Law, led to the formation of 13 co-ops which benefited from 50-year tax exemptions from value increases due to the construction of the new projects. Contrasted to luxury co-ops, these co-op housing projects typically had purchase requirements of \$500 with \$1 per room carrying charges. One still existing cooperative from those days is the Amalgamated Housing Corporation, sponsored by the Amalgamated Clothing Workers Union, which started with 300 units and now has grown to 1400 units in The Bronx.

Development of housing cooperatives spread during this time. By 1925, housing co-ops existed in 16 cities in the US, including Chicago, Detroit, Buffalo, San Francisco and Philadelphia, although about half of all units were located in New York City. Total value of these projects exceeded \$500 million by 1930.

The financial crisis of 1929 and the resulting Great Depression of the 1930s almost stopped the development of new housing cooperatives. This crisis created difficulties for existing ones as defaults by residents led to financial difficulties. Many luxury and low-income co-ops in New York failed financially, bringing the whole concept of housing cooperatives into question. By 1934 only two luxury co-op projects remained in New York City and 75% of all

housing cooperatives in New York and Chicago had gone bankrupt. Many of these buildings were sold under foreclosure.

World War II and the Post-War Period

Although things looked bleak for cooperative housing in the US as the Second World War began, rent controls were introduced in 1942 through the Emergency Price Control Act. As profit margins of property owners shrank due to fixed returns and rising operating costs, many converted their buildings to co-ops. Tenants were eager to join these conversions as they provided security of tenure. However they avoided many of the responsibilities of home ownership.

At the same time, residents of housing cooperatives in the US were allowed to deduct mortgage interest charges and real estate taxes from their income taxes in the same way as private homeowners. This was particularly advantageous to high-income earners as it spurred them to buy co-op apartments rather than rent.

After the war, more tax incentives introduced by government to non-profit housing development caused cooperative housing development to expand again. In 1949, a group of Senators and Congressmen went to Europe to study cooperative housing and their reports formed the basis of the National Housing Act of 1950. This Act authorized the Federal Housing Administration to insure "blanket" or collective mortgages on cooperative housing projects. Section 213 of the Act allowed for this type of financing and by 1958, almost half of the existing 100,000 cooperative housing units were financed under this program.

1950s to the Present

The favorable 'enabling' environment created by government in the post-war period contributed to an increase in the development of

housing cooperatives. It also led to the establishment of new forms of organization to facilitate this process of growth and expansion. The 1950s and 1960s saw the formation of Technical Service Organizations (TSOs), federations, and other support organizations and associations.

The 1980s and 1990s saw few new construction of housing cooperative projects in the US. However, the number of conversions from rental to co-op increased substantially. In the 1970s, only 7% of conversions were to co-op, but by 1982, this increased to more than 50%. At the moment, there are 750,000 units of cooperative housing in the United States.

A. Technical Service Organizations (TSOs)

TSOs emerged in 1951 with the founding of the United Housing Foundation (UHF) in New York and the Foundation for Cooperative Housing (FCH), now the Cooperative Housing Foundation (CHF), in Washington, D.C. UHF concentrated its activity in New York City and New York State while FCH, also active in New York, focused more on other areas of the country, such as Maryland, Connecticut, New Jersey, Ohio, West Virginia, Pennsylvania, and Missouri.

United Housing Foundation (UHF)

The City and State governments of New York were particularly helpful with programs that supported cooperative housing development. UHF built on the experience and success of the Amalgamated Housing Corporation of the 1920s to become a sponsoring and service organization and to expand the cooperative housing sector with the assistance of the State and City. By 1965, UHF helped to create 23 housing cooperatives, ranging from 100 units to the largest housing cooperative in the world -- Co-op City in New York City with 15,000 units and 40,000 resident members.

Larger projects incorporated schools, supermarkets, and other services such as banks and specialty stores.

Cooperative Housing Foundation (CHF)

FCH, now CHF, was originally founded as a national non-profit organization conducting research and education in the field of cooperative housing. However, CHF realized the need for a TSO to provide expertise in the development process, specifically in the areas of locating financing sources, architectural design, engineering, site-plan development, community and organizational development, member education and training, and property management.

CHF's first projects involved conversion of existing multi-family projects to cooperative ownership. In 1952, CHF assisted the conversion of 1,579 houses to a cooperative in the town of Greenbelt, Maryland. The houses were purchased by residents through a cooperative association. At that time it was the largest housing cooperative in the United States.

Several other conversion projects were undertaken in the first half of the 1950's while new construction projects were also undertaken. By the end of 1960, CHF has assisted in the creation, by conversion or new construction, of 6,300 cooperative homes worth about \$25 million.

The 1960s saw a rapid expansion in CHF's development activities with 4,000 units per year being produced by 1965. In 1970, CHF's output had doubled to 8,000 units per year in a total of 30 states. The mortgage value of these new developments also increased during this time, from \$50 million a year in 1965 to \$145 million a year by 1970. Total CHF assisted projects exceeded 50,000 units by 1972, making CHF the largest sponsor of cooperative housing in the United States.

It was in the 1970s that CHF began to work internationally to develop housing cooperatives in countries outside the USA. At present, CHF works almost exclusively outside the United States.

B. Federations

The 1950s and 1960s also witnessed the creation of new associations of housing cooperatives into 'federations'. These were membership organizations, but the members were housing cooperatives rather than individuals. The purpose of the federations were to provide education and training, provide a forum for housing cooperatives to discuss common issues, and create a platform for political advocacy and lobbying for the cooperative housing sector. First organized in New York City, the idea of creating 'apex' organizations spread to other regions and on the national level.

Federation of New York Cooperatives

The first to appear during the mid-1950s was the "Federation of Section 213 Cooperatives" (now the Federation of New York Cooperatives). It was originally organized by housing cooperatives financed under this section of the National Housing Act. The impetus for organizing the Federation was due to problems that arose from co-ops developed under Section 213.

The said section allowed private developers to take advantage of the mortgage insurance program to build housing cooperatives without the involvement of the end-user or beneficiary. Thus, many of these "builder sponsored" projects created "dummy" co-ops with family members and company staff as the "members".

These bogus "boards" approved any changes in construction or materials that the builder wanted, which resulted in many projects with sub-standard construction and numerous defects in the

buildings. When these projects were handed over to what became genuine cooperatives, these deficiencies were discovered and many such co-ops initiated lawsuits against the builders. The leaders of the Section 213 cooperatives banded together to deal with this commonly shared problem.

Later on, the Federation opened its membership to non-Section 213 co-ops. It now has more than 100,000 people living in member cooperatives in New York. It provided a means for member education and a platform for political advocacy for cooperatives. Its guiding principle was "an informed board is an effective board".

Through political means, the federation managed to secure an agreement from Congress to set up a mutual mortgage insurance fund for cooperatives capitalized by contributions of half of one (1) percent of the amount of the mortgage of these projects. Dividends on this fund are paid regularly to participating cooperatives as revenue always exceeded payouts for defaults. Section 213 cooperatives have the lowest default rate of all Department of Housing and Urban Development (HUD) funded projects.

National Association of Housing Cooperatives (NAHC)

It was not until 1960 that a national federation was formed with the efforts and assistance of CHF, UHF, and the Cooperative League of the USA. All established housing cooperatives were allowed to join the NAHC and were provided services, such as training, conferences, and advocacy for housing co-ops at the federal government level.

NAHC, with CHF, also stimulated the creation of regional federations or associations of housing co-operatives across the USA. These organizations still exist and provide services and a forum for debate for the housing cooperative sector.

C. Government Support

The growth of the housing cooperative sector in the US was greatly accelerated by favorable government legislation in the form of tax breaks and mortgage guarantees at reasonable interest rates. As has been noted above, this began in the post-World War I era and accelerated after the Second World War. There have also been new developments in the help provide by government, more recently with HUD assisting with rental properties converting to cooperatives through mortgage assumption or transfer of assets.

Secondary Mortgage Markets

Loan making became institutionalized through the creation of the National Cooperative Bank. In 1981, the Federal Home Loan Mortgage Corporation (known as "Freddie Mac") entered the blanket mortgage market for housing cooperatives. Three years after, the Federal National Mortgage Association (called "Fannie Mae") started a multi-family mortgage program for cooperative housing projects.

Fannie Mae and Freddie Mac, both government-sponsored entities, buy cooperative housing blanket mortgages on a secondary mortgage market. Fannie Mae is a secondary market investor in cooperative housing share loans.

Cooperative Housing in the Philippines

While Europe and North America (United States and Canada) are in an advanced stage of developing and managing cooperative housing, in the Philippines cooperative housing is still at a relatively early stage. The key characteristic of an advanced or evolved cooperative housing sector is the existence of secondary and tertiary tiers or levels of organization which can sustain and expand the sector. In

the absence of federations or other umbrella organizational structures, groups of professional housing developers specializing in cooperative housing, such as Technical Service Organizations or TSOs, must be in evidence. However, this does not exist yet in the Philippines although there are early signs of such levels of organization evolving and emerging.

Although cooperatives have been well established in the Philippines for some time, housing cooperatives were not attempted until the 1970s. Early records of cooperative housing development in the Philippines are sketchy and so it is difficult to give a detailed history of their development. However, by 1992 there are 14 housing cooperatives registered with the Cooperative Development Authority (CDA).

As of 2002, there are 82 cooperatives registered in the National Housing Authority's (NHA) Cooperative Pabahay Program. These cooperatives are in various stages of organization, land acquisition, site development, or construction.

One of the first housing cooperatives in the Philippines was the Saint Louis University – Saint Vincent Parish Housing Cooperative (SLU-SVP) which was established in Baguio City in 1971. *(A detailed account of the history and development of the cooperative is included in this volume as a Case Study. SLU-SVP was selected due to its age and size, and because its history covers many of the situations which a cooperative housing project faces in its development, growth and maturity. However, SLU-SVP is unique compared to current co-ops attempting to develop housing cooperatives. One of these differences is that SLU-SVP started as a housing cooperative and then expanded its activities into other areas, unlike at present wherein most current development is by existing and established multi-purpose cooperatives that want to build housing for their members.)*

Generally, cooperatives in the Philippines are well established and they are considered a significant sector of the national economy.

Housing cooperatives, though, are not a large segment of the cooperative sector at present. Thus, those who wish to go into cooperative housing depend on the support of several "actors" to drive the development of such a process in the country until such time that the sector develops enough to sustain itself.

The primary cooperatives in the Philippines are the main actors in the process. At present, they are supported by the larger cooperative sector which has access to significant financial assets, the government (mostly through the National Housing Authority or NHA), and by foreign development projects from the US, Canada and Sweden.

Thus, a kind of mixture of ideas and influences is converging in the Philippines. This mixture is leading to a multiple-model process in the development of cooperative housing. Perhaps this mirrors the existing multi-purpose nature of the cooperative sector.

What are that factors facilitated or hindered the development of cooperative housing in the Philippines? This section tries to examine the short history of implementing cooperative housing projects in the Philippines based on accounts gathered by CHF and on CHF's own experience in working and relating with different cooperatives.

Organizational

The primary organizational issue facing existing cooperatives as housing developers in the Philippines is that they are multi-purpose co-ops. The positive aspect of this is that they are established entities and have an existing structure, experience in running businesses, a financial 'track-record' (credit rating and loan repayment history), and cash flow. They also have access to financial information of their members, including savings and loan payment records, that help determine if prospective housing beneficiaries are good or bad risks.

The negative aspect, on the other hand, is that they are managing several business activities simultaneously. Thus, they have a limited time to devote to housing development, a complex, time-consuming, and expensive undertaking for which they may not be well prepared.

There is also a difficult dynamic within the cooperative memberships since only a sub-set of the membership is interested in developing housing. Other members fear that cooperative funds that may be used for other purposes (such as credit provision) will be tied up in housing development. This is a reasonable concern as housing development uses large amounts of funds over a long period of time, so cash flow must be managed very well.

The other organizational issue that flows out of this is how the 'parent' co-op is related to the 'child' co-op (housing project). Shall the housing co-op be a separate legal entity, a subsidiary of the 'parent' co-op, or just another 'department' of the multi-purpose co-op? If it is a 'department', how best can the housing project residents be protected from the 'parent' co-op members deciding to sell or otherwise divest of the housing project? This issue has yet to be resolved and has been approached on a case-by-case basis in each co-op. To date, no multi-purpose cooperative has set up a separate entity for its housing project.

Legal Framework

The legal framework for cooperatives is fairly well defined and flexible. However specific legislation on housing cooperatives does not exist. Housing is just mentioned as one potential area that a multi-purpose service cooperative can conduct business. Thus, issues of tenure and ownership (individual title or collective ownership and management of the property) are not addressed by existing legislation.

In fact, a study shows that the present laws on ownership in the country are based more on individual ownership and discourage collective ownership in the long term. When in dispute, courts have generally ruled against collective ownership, or co-ownership, because defining boundaries tends to be quarrelsome.

Under Philippine laws, when the cooperative acquires land, houses, and other properties, the members could enter into an agreement not to partition the property within a period of ten (10) years. This could be extended to another ten (10) years. But after which, any co-owner may demand to partition the properties at any given time.

Due to the legal environment, most developing housing cooperatives

in the Philippines seem to follow the individual or equity, model. However, there are some that wish to attempt some form of collective or non-equity ownership. This form may be difficult to achieve under the existing legislative framework. But it is still possible to organize in a collective fashion due to the vagueness of the legislation that covers housing cooperatives and the recent introduction of 'blanket' mortgages by the Land Bank of the Philippines. It will be interesting to observe how successful the collective model will be once such projects are built and start operating on this basis.

Thus, in the Philippine cooperative environment, equity and non-equity, profit and non-profit cooperatives may be formed in the production of the cooperative housing stock. At present, even some multi-purpose cooperatives (MPCs) are no more than "developers" entering the housing market to build housing for profit. The housing projects they produce may or may not follow cooperative principles.

Just what ownership model will become dominant in the Philippines is an open question at the moment. It may end up in a mixed situation of individual and collective models. Such diversity can bring innovation and is not necessarily a negative trait. Given the lack of an agreed upon model to follow, different formations are bound to occur, particularly where the legislative framework is also weak in defining the form which the cooperative should take.

Regulation

The regulatory area has been the most problematic in terms of bottlenecks and obstacles in the development of cooperative housing. There are five different government agencies involved in the development process and each one requires some kind of permit or approval before development can proceed. Each agency seems to operate fairly independently. Attempts to coordinate with other

agencies and streamline the process do not seem to be effective.

One major problem in the regulatory system is the lack of clarity regarding whether the local or national office is responsible for making a final decision. Another is the different set of requirements found in various provinces or municipalities because procedures are not well defined at the national level or are not disseminated properly.

A third problem, which is partly a result of the first two, is corruption in the system, where bureaucrats at all levels demand 'under the table' payments to 'facilitate' approvals and permits. If these illicit payments are not made then applications can languish for months.

Two new regulatory requirements – the Environmental Clearance Certificate (ECC) and the Environmental Geological and Geo-hazard Assessment Report (EGGAR) – were imposed on all new housing development. These new requirements proved the most difficult for the developing co-ops as the procedures for approval were not well defined and were interpreted quite differently from jurisdiction to jurisdiction.

Financial

Until recently, the high interest rates of 18% available from the commercial banking sector discouraged many co-ops from entering into loan agreements to develop housing projects.

This situation has now improved significantly since April 2001 when the Land Bank of the Philippines set up a financing window of P500 million (about \$10 million) exclusively for co-op housing development at 9% for house and lot packages costing under P180,000 (less than \$3,600) and 13% between P180,000 and P500,000 (\$3,600 to \$10,000) over a 15-year term. This window also allowed for 'blanket' mortgages held by the cooperative, or individualizing title to

beneficiaries at the option of the cooperative.

Institutional Support

The political environment currently seems supportive of cooperative housing. However, government programs geared specifically to housing cooperative production are only a recent occurrence. Nonetheless, these are still very positive developments in terms of state support.

For example, Land Bank of the Philippines, a government owned bank, just set aside P800 million for co-op housing. The bank also started disbursing loans at lower than market interest rates in early 2002.

In 1997, the National Housing Authority (NHA), government's main involved in direct shelter production, established the Cooperative Pabahay Program. The program extended technical assistance to established cooperatives who are seeking to address the housing problem of their members, primarily the homeless low-income earners.

The NHA assisted cooperatives in the entire development process of cooperative housing through capability building and training, access to financial resources, and consultation on the preparation of project feasibility and designs. It also facilitated the acquisition of necessary permits, licenses and tax exemptions.

Other types of government support include exemption from property taxes if the cooperative develops at least 20% of the project for low-income families. These types of support can be instrumental in encouraging a quick expansion in the production of cooperative housing, as we have witnessed in the experience of the US.

While there are hardly any Technical Service Organizations (TSOs) in existence yet, there are several NGOs providing various forms of

different cooperatives with housing projects are actually helping stir up interest in the development of the cooperative housing process as an alternative approach to addressing the housing problem.

Appendix

CASE STUDY

The Saint Louis University - Saint Vincent Parish Housing Cooperative

Case Study Conducted: May 2000

<i>Type of Cooperative</i>	:	Housing Cooperative
<i>Address</i>	:	Bakakeng, Baguio City, Philippines
<i>Date Organized</i>	:	10 February 1971
<i>Date Housing Started</i>	:	16 November 1971
<i>Total Active Members</i>	:	934 (as of December 1999)
<i>Total Units Generated</i>	:	1,036

I. Historical Background

How the Cooperative started

The cooperative formation was initiated by two Belgian brothers, Fr. Paul Zwaenepoel, President of Saint Louis University, and Dr. Joseph Zwaenepoel, President of M+R (Misereor Philippines) Foundation. Fr. Zwaenepoel opened a Seminar-Workshop on Cooperatives and Community Development during the summer of 1967, with funding from Misereor Foundation, Germany. In the early 70s, he opened another program entitled "Town and Country Planning". Mr. Fernando Bahatan, Jr., coordinator of the Seminar-Workshop, assisted him.



The incorporation took time with the efforts of the Coordinating Committee. Members of the body were chosen from active parishioners of Saint Vincent Parish and some faculty and administration personnel of Saint Louis University.

While waiting for the proper financing for project implementation, the Cooperative further organized itself. The first General Assembly took place on December 19, 1970. The Articles of Incorporation and By-Laws were adopted and the Board of Directors and Audit and Inventory Committee members elected.

A special General Assembly was held on January 31, 1971, electing additional Board members and scheduling the educational program. The Cooperative was registered with the Cooperatives Administration Office on February 10, 1971, with Certificate of Registration No. 002843.

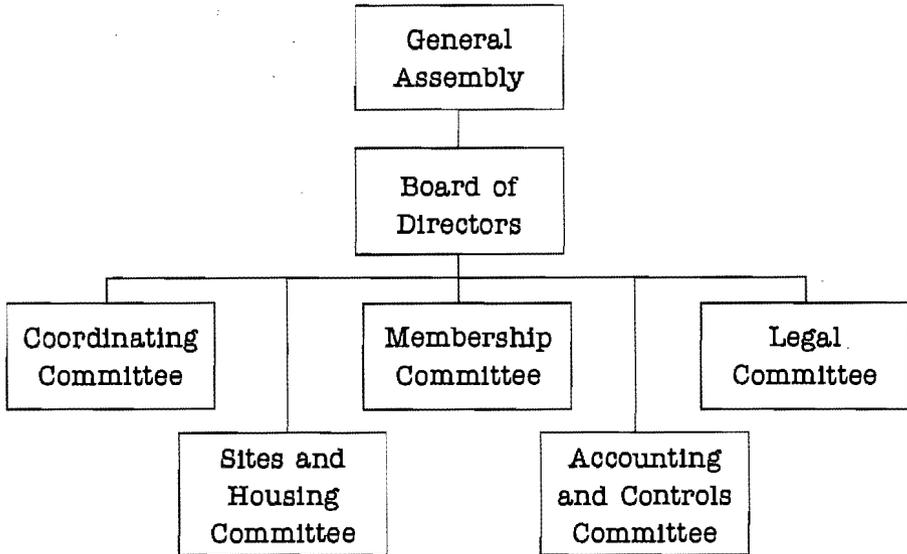
Types of business being managed

- Housing - 7 Phases with total of 1,036 units
- Trading (Consumer Store) - located within the office premises, serving grocery needs of the community
- Savings & Loan
- Transport Service - started with 2 buses for rent
- Seminar Services - The Board are usually invited as resource persons on Cooperative Housing for a fee

Statement of Financial Status (1999)

Revenues	P 1,058,797.26
Operating Expenses	<u>963,869.21</u>
Net Savings	P 94,928.05

Organizational structure



II. The Housing Project

Objectives of the housing project

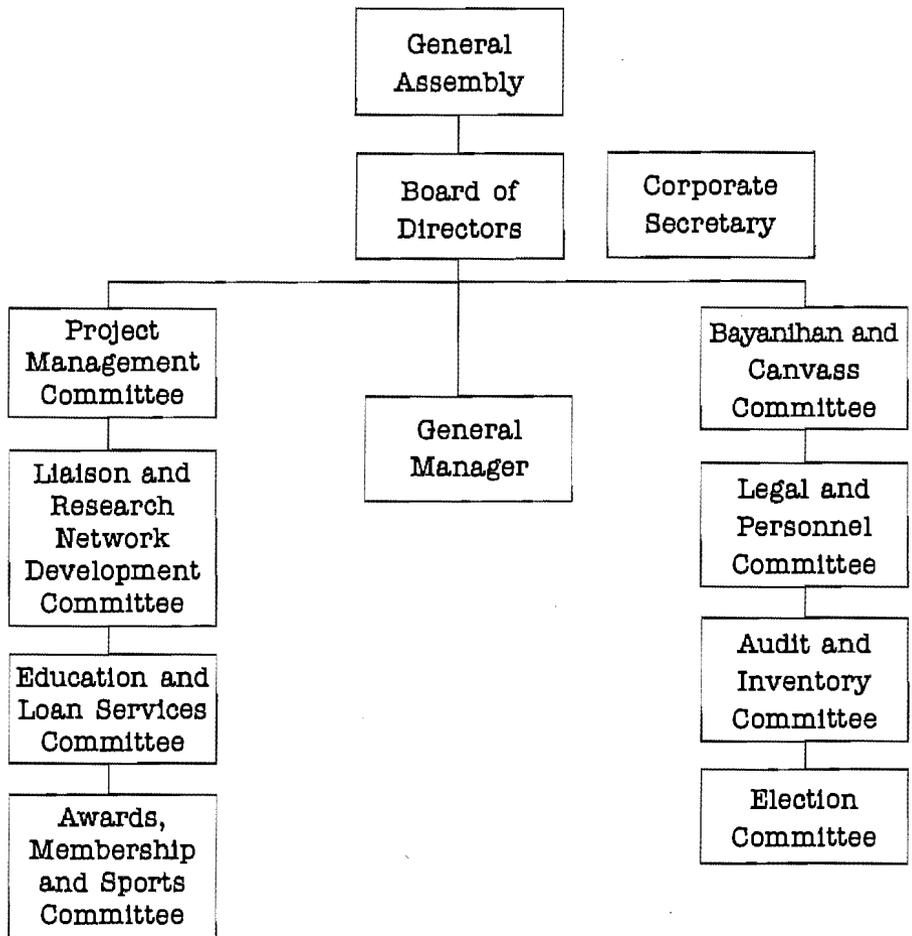
a. Vision

- Where the economic, social, physical and spiritual needs of household/members are met towards prosperity
- With clean, safe environments, access to transportation to and from the city
- Where meaningful interaction of its people are guided by spiritual and moral values of self-discipline, brotherhood, justice, responsibility and breeding ground for character formation for future responsive leaders of the city/country

b. Mission

- To provide economic opportunities
- To provide opportunity for housing to members and other communities
- To educate people on cooperativism
- To provide infrastructure and public utilities
- To provide physical fitness/culture/personal developments

Organizational Structure of the Housing Project in relation to previous Organizational Structure



Legal Process of the Housing Project

- December 19, 1970 - The first General Assembly took place. The Articles of Incorporation and By-Laws were adopted and the Board of Directors and Audit and Inventory Committee elected.
- January 31, 1971 - A special General Assembly was held on electing additional Board members and scheduling the educational program
- February 10, 1971 - The Cooperative was registered with Cooperatives Administration Office with Certificate of Registration No. 002843.
- Resolution No. 03-28-99 - Change of Name of Cooperative; Amendment of Article 1 of the Articles of Cooperation to the effect that the name of the Cooperative reverted to its original name, from SLU-SVP Multi-Purpose Cooperative, be amended and changed to the original name, SLU-SVP Housing Cooperative.
- The Cooperative made its latest amendment to its Articles of Cooperation and By-Laws.

Organizational Process

Cooperative Housing was used as a vehicle for the formation of the organization. The advantage included incentives, such as tax incentives, and that a cooperative promotes values and principles appropriate for the building of a functional community. The Cooperative also has socio-cultural objectives and is allowed to engage in business.

Applicants for membership in the Cooperative were required to attend education seminars to imbibe the values and principles of

cooperativism, a great factor in encouraging members to significantly participate in the proposed housing project.

In 1999, for PMES alone, a total of 8 seminars were undertaken graduating 404 applicants. Trainees were given the Primer on Cooperatives and the Primer on Cooperative Housing for their information and appreciation of the principles of cooperativism.

Outreach to Other Cooperatives

Director Fernandez also wrote a paper -- *The SLU-SVP Experience: Modeling Coop-Barangay Collaboration for Co-Housing* -- for inclusion in the Best Practices on LGU-Co-op Collaboration under the sponsorship and funding of a PCC-UNDP Program. In the said paper, Fernandez proposed Local Government subsidy in maintenance of roads and open spaces from the beginning of any co-op housing project because upon purchase of any lot, it is obvious that eventually, it will be turned over to the Local Government. Hence, it looks like the members are buying property for the government.

The SLU-SVP experience was incorporated in the Training given in Palawan, Aklan and Samal Island in year 2000. It was also cited in Robert Pagdanganan's book *A Call for Cooperative Revolution* when he visited the project.

Some officers of the Cooperative are also members of major cooperative organizations.

Financing

a. Internal

As a start for their savings mobilization program, the Cooperative collected P 1,000 per member at P 115 per month. To further

increase their fund, it had a policy that there will be "no patronage refund" to members. In place of patronage refund, the members were contented to have lower amortization.

For Phases V to VII, the Cooperative felt obliged to continue building low cost housing units through their own resources.

The consensus resulting from many discussions was to try some of government financing programs. The choice was the Group Land Acquisition and Development (GLAD) Program of the Home Development Mutual Fund (HDMF). Government Service Insurance System (GSIS) and the Social Security System (SSS) have no land acquisition loan program although SSS officials have been consulting the Cooperative in the formulation of their own housing loan package.

So having chosen the GLAD Program, the interested members had to qualify themselves under Pag-Ibig Fund requirements. The group then looked for land and named it as the Amblong Project. To get the landowner's commitment, the Cooperative advanced its own money as the first installment, the second installment came from the members equity contribution, and the third and last installment was paid from GLAD.

Now, without GLAD, there is no more pressure on deadlines and unnecessary conditions that lead to unnecessary expenses. Strategies such as raffle were used to raise P 0.7 million for site development. Moreover each awardee was asked to save/deposit P 10,000 with the Cooperative.

For Phases V to VII, the Cooperative decided it must rely on its own resources, after serious consultations with the members and prospective beneficiaries. Applicants must now acquire their lots and build their houses using their own money or with borrowed funds.

It was a costly experience with Phase V, hence, the Cooperative embarked on Phases VI & VII with self-help. During the land

acquisition phase, the Cooperative may not yet resort to borrowing. It will now buy land through members' money. This time, the Cooperative has to put to good use the goodwill it earned through the years.

b. External

For Phases I to IV, the Cooperative enjoyed external help through:

b.1. Grants

- MISEREOR Foundation, Germany - 200,000 DM (revolving fund)
- 150,000 DM (loan)
- CICM
- CICM Rome
- C and A Belgie

b.2. Other Benefactors

- Pablo Fernandez, SLU
- Broderlyk Delen
- Rev. Fr. Willenstoot Masselt, Linburg
- Rev. Fr. Thillo Declerg
- Felipe Tomas
- Rev. Fr. August Bellens
- Jun Francisco

Physical Development Process

a. Land Acquisition and Conversion

The Coordinating Committee oversaw the purchase of a 7.9-hectare lot in Bakakeng, Baguio City, from the CICM Missionaries at "soft" conditions. The Misereor Philippines Foundation offered to prepare

all documents, plans, cost estimates, etc., including a proposal for financial assistance that was sent to Europe.

On July 7, 1971, the Cooperative was informed by the Foundation that they would receive a grant in the form of donation to be utilized as revolving fund in the amount of 200,000 DM and a loan in the amount of 150,000 DM for the first 50 units and related development works. The said amounts were actually received by the Cooperative on November 17, 1971.

The first 50 units were acquired at only P 4 only per square meter. The housing package which included cost for house and lot was only P 27,600, payable at 3% interest per annum for 25 yrs. For phases V to VII, they Cooperative had designed smaller houses, with no double walling, to save on costs.

The Cooperative found a piece of land 20 minutes away from Baguio City which was offered to the Cooperative for only P 150/sq.m. The total price was P 7.5 million. The lot could be subdivided into 140 lots at 250 sq.m., each priced at P 53,000/beneficiary. Thus it was announced: "Buy a 240 sq.m. lot at P 53,000, first come, first served", and the Cooperative was able to raise the P 7.5 million in three months.

Three more parcels of land were acquired. Hence with four parcels of land in its hand, two parcels were named Phases VI-A and VI-B, and the other two as Phases VII-A and VII-B.

Expenses for geodetic survey was charged to beneficiaries as mark-up. Land was converted after land development, where the Cooperative spent P200,000.

b. Planning and Design, Project Feasibility Study

The Cooperative was lucky that technocrats, researchers and feasibility consultants were available. There was a research and

consultancy firm, a foundation with connections in Europe, that prepared the feasibility study which earned the first grant and soft loan from MISEREOR Germany.

There were also researchers and feasibility experts among the member-beneficiaries. The feasibility study prepared earned P 3.6 million from the European Economic Communities.

For Phase I - IV the project proposal was prepared by Mr. LaMadrid of the MNR Foundation, local members, and the Research and Feasibility Study Committee for funding by Misereor Foundation.

The Cooperative spent P 40,000 for feasibility study preparation for Phase V. The FS was partially prepared by NEDA.

c. Land Development

The actual realization and implementation of all previous dreams and plans formally began on November 16, 1971. "First, improvements were made on the connection road to make it passable for delivery trucks, bulldozer, and other vehicles necessary for the construction." The pine trees "bearded with moss" had to fall and shrubs fresh with "morning dew" had to give way to the housing needs of the pioneers.



Members and prospective beneficiaries were required to join the *bayanihan*. This has been an SLU-SVP trademark, also called "sweat equity." Millions of pesos worth of labor was saved

through free labor provided by members. Members go to the site on a free day, usually Sunday, to help in any way they can, such as clearing the roads as the bulldozer rolls on, digging canals, planting trees, etc.

Site development for Phases V to VII will be done by administration. A committee headed by a member of the Board will oversee the project. And although it will hire the services of technical people, the *bayanihan* approach will still be utilized.

c.1. Project Status by Phase

Bakakeng (Phases I - IV)

- 100-sq.m. lot donated to the Barangay for construction of Barangay Hall to house Day Care Center, Health Center and Function room, repair of water lines by Baguio Water District.

Phase V

- Electrification system completed
- Occupancy Permits for newly constructed units completed
- Pag-Ibig loans approved

Phases VI-A and VI-B

- Transfer Certificate of Title of Phase VI-A unitized/transferred to awardees
- Right of Way for both phases acquired
- TCT for both phases transferred to the Cooperative

Phases VII-A and VII-B

- Transfer of ownership to awardees in Phase A in the form of Tax Declaration in process

- Subdivision permit for Phase B applied
- Phase B - 168 lots awarded; 61 still available
- Lots have yet to be unitized before it is developed

c.2. Total Units

The housing project has a total of 1,036 lots for all phases. Using Model 1, the Cooperative completed four phases of its housing project, with Phases I to IV building 290 housing units. It converted the community into a *barangay*, a political unit, and a Catholic Parish, a religious unit. The community capped its success with the building of a beautiful diamond-shaped parish church for the entire Bakakeng Valley, Baguio City.

d. Plan of Ownership

The Cooperative is not yet applying for a subdivision permit. The big parcels are being subdivided into smaller parcels, then into individual lots. The road lots are also provided for. In time, the lot owners will be building the road lots together.

The great difference between Model 1 and Model 2 is in the mode of ownership. For Model 1, ownership was per individual. For Model 2, participants are group buyers, therefore, co-owners.

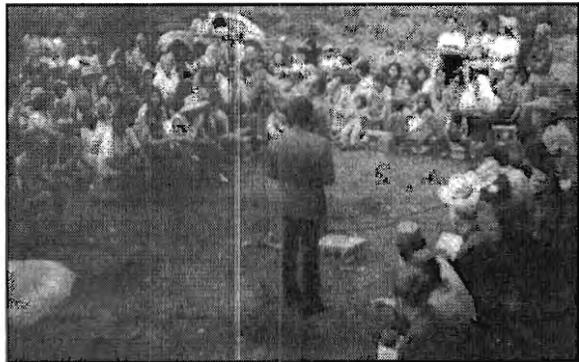
The future awards of a unit no longer work as an incentive for *bayanihan* points. In all meetings conducted prior to site development, members confirmed their willingness to render *bayanihan* (sweat equity) to reduce cost.

Starting with Phase VI, upon purchase of the lot, the title is transferred to a group, not the Cooperative, thereby the buyers are now co-owners. So what appears in the title is, "et.al".

Estate Management

The first applicant-members were from all walks of life, ranging from homeless residents from the lagoon area of Saint Vincent Parish to professors in Saint Louis University. They had the privilege to foresee that in the future (which may be present now) it would be far more expensive to be renting an apartment or a room in the city. With all the sweat of their brow, they hastened the development of the area, through their *bayanihan* labor. Together they toiled and struggled against the discomfort of climbing up and down the only footpath to the area. Comforted only by the calm and rural-like atmosphere of the area, they labored from morning till dawn whenever it was possible.

Initial criteria for membership were adopted as well as procedures for investigating and screening applicant-members. The Cooperative evolved with a criteria on Awards during a special meeting held June 22, 1993. One of the major criteria was for the Cooperative to cater to the upper-lower and lower-middle income classes, at that time considered to be the earners of P230.00 - P600.00 monthly. It was also decided that the distribution of awardees be done on a 50-50 basis between Saint Louis University and Saint Vincent Parish.



Points were assigned to candidates based on the following:

Length of Membership in the Cooperative	10 pts.
Latest Conjugal Income	10 pts.
Monthly Per Capita Income	10 pts.
Date of Payment and Amount of Downpayment	10 pts.
Attendance in Seminars Conducted	10 pts.
Attendance in the Gen. Assembly	10 pts.
<i>Bayanihan</i> (Sweat Equity)	
Member	15 pts.
Dependents	5 pts.
Date of Payment and Amount of Shares (Minimum of P1,000.00)	<u>20 pts.</u>
Total Points	100 pts.

The first 10 houses were constructed and awarded to the applicants who garnered the highest points in terms of the criteria laid down as a matter of policy. The first awarding ceremony was held on February 28, 1972. It was followed by another 20 houses and then another 20 to complete the targeted 50 housing units.

The Phase I of the Project was completed in August 1972. Each housing unit was estimated to cost P 11,700. Thus, it is fair and accurate to say that the first 50 member-awardees were the real pioneers of the Cooperative.

The Cooperative came up with a 2-page Application for Award Membership. In the form, the applicant pledges to subscribe 100 shares of common stock with a par value of P100 per share, minimum of 10 shares for a value of P 1,000 upon approval of membership. The form also includes data both for married and single applicants. Membership fee is P 100.

The Cooperative also evolved with MC Form 1 on Requirements for Membership. The form provides for signature of the checker and

Board action whether approved/disapproved, signed by the Secretary.

Project Management

Cooperative members participated in reviewing/managing the housing projects, the common areas, garbage collection, maintenance of cleanliness and common facilities in compliance with the Rules & Regulations governing the SLU- SVP Housing Cooperative, Inc., designed by the Cooperative.

Water system of Phase 4 for donation to Baguio Water District, hence, maintenance will be done by the *Barangay*.

III. Problems, Issues and How they were Resolved

Water & Electricity

The pioneers experienced days when they had no water and electricity. Water services did not reach them for some time. They had to go down to a nearby spring to fetch water. The managing directors had no choice but to coordinate with the power and water utilities but it took time before installations were made.

Too Low Interest Rate

One major mistake the Cooperative vows not to repeat again was the charging of only 3% interest for the initial 277 units payable in 20 years. When the Cooperative was already doing the build-up of operating expenses, they found it was not viable

considering the unexpected costs (survey, legal and administrative). They finally decided to increase the interest rate to 12%, but the General Assembly disapproved it, no matter what explanation.

Right of First Refusal

Originally, the Cooperative has the right of first refusal to anybody who wants to buy the lot. This was stipulated in the lot titles, but the General Assembly changed that. Hence, with Phases V, VI and VII, the Cooperative does not anymore have the first priority to buy the lot. They are now transferring ownership straight from owner to awardee, not to the Cooperative.

At present, for absolute titles for Phases I to IV, the Cooperative does not have any right of first refusal. So far, only two sold their property.

No Dividend Policy

The Cooperative exerted all efforts to gather funds. Hence, it did not operate to earn money to be distributed as dividends. The awardees understood that even as they remain as stockholders they do not expect dividends. The very low cost of their unit is enough a dividend for them.

This means "better no dividends from profits but lower cost of unit" than "dividends out of earning but higher cost of unit". Thus only 3% interest is added to actual cost of the project per unit to finance administrative cost. Sometimes the reason why commercial subdivisions sell very costly housing units is the huge mark-up to allow big dividends. Comparatively, while a co-op housing unit may cost P 100,000, a commercial developer may be selling the same for P 400,000.

Costly Road Maintenance

To avoid costly road construction, the Cooperative pioneered and adopted the "Cooperative-Barangay Fusion Strategy", as envisioned by Atty. Fernandez. They intentionally did not develop the roads completely to save on money. Then, the Cooperative registered the community as a *barangay*, which later took over road construction and maintenance.

Tax Payment

The Cooperative was able to save on capital gains tax payments for Phases VI and VII. It agreed with the landowner for undervaluation of the land and manipulated the acquisition price at the minimum allowable by law. For example, per zonal valuation in the Deed of Sale, it was only P 11, but actually it was P 100.

The Cooperative effectively availed of exemption from capital gains tax by making use of the Tax Exemption Certificate issued by the Main Office of the Cooperative Development Authority (CDA).

For allegedly selling lots, they are now being assessed by BIR and asked to pay sales taxes. They were asked to explain why they should not be taxed. They explained they are into group buying and that they are not selling and they just gave in to members' request to buy land and then distribute.

Mismanagement of Trading Venture and Transport Business

Originally, the Cooperative itself ran the trading store but due to poor management, the Board decided to lease it to a private trader. For the transport business, the Cooperative decided to sell one of their buses due to costly maintenance. The other bus is left stocked in the warehouse and is intended for sale this year.

The former General Manager ran away with some P 180,000 worth of store sales checks and cash. The Cooperative filed a case against him. As temporary replacement, a Management Committee was formed composed of two lady General Managers, one for internal operations and the other for external operations who now run the Cooperative. They work in half-day shifts.

Bureaucracy and Costly Loan Processing

The problem the Cooperative encountered with the GLAD Program was that it was the first time the Coop acquired a Site Development Loan. Hence, meeting construction deadlines was new to them, compared to what they were used to when they did the land development themselves with the *bayanihan* approach.

This was drastically new in the light of the Cooperative's experience. In the earlier projects, the roads were practically developed for free. All money then available was intended more for the construction of housing units than spent for the road networks. But under GLAD, money borrowed was used both for land purchase and site development, which must conform to engineering specifications. Henceforth, they hired the services of expensive land developers. The result -- P 6 million was spent to buy the land, and P 5.7 million for site development of merely earth macadam road network, which could have been built at much lower cost using the Cooperative's *bayanihan* scheme.

Regarding the HDMF two-year moratorium on loan repayment, the Cooperative finds it useless because all payments are credited to interest; nothing is deducted from the principal. The Cooperative collected the HDMF monthly loan amortization for two years but they received no collection fee.

For the Countrywide Development Loan Fund, which was devolved to the Local Government, the Cooperative was a victim of

bureaucracy. They experienced the municipal employees pass them from one staff to another.

Hence they decided not to avail of government funding for their new housing projects.

Payment of Fines

The Cooperative was fined by HLURB for the amount of P10,000 for changes in the development plan. Hence, it strategized to develop the land first before seeking a subdivision permit from HLURB.

Land Conversion

To avoid the nitty-gritty of approval of conversion for Phases VI and VII, the Cooperative opted to subdivide the land into smaller lots at 250 sq.m. each among the co-owners. With such a small size, the lots need no conversion. According to Atty. Fernandez, the law provides that subdivision of lots is allowed among co-owners without the necessity of a subdivision plan. There is a plan being followed during construction but it's internal.

They are required to pay P200,000 bond to DAR as a requirement for conversion, although no official receipt is issued for the purpose. Their application for conversion is presently with the Office of the DAR Secretary.

High Cost of Land

To avoid the high cost of land in Baguio City, they opted to buy cheap land with no TCT but with tax declaration, classified as agricultural land at P125.00/sq.m. for Phase V. Those classified as residential costs P300.00/sq.m. The Cooperative started the project

without a building permit. They are later helped by City Hall to get the building permit. Conversion is still being processed in Manila.

For Phases VI and VII, the land was bought at P500.00/sq.m. and classified as residential.

Violation of DENR Ruling

The Cooperative experienced receiving DENR warnings for isolated cases of tree cuttings by individual homeowners, common field for garbage and filled up septic tanks. These notices were forwarded directly to the homeowners. Non-compliance to these notices were referred to the *Barangay* for action.

Sanctions Against Erring Awardees

The Cooperative already experienced cases of lot re-possession due to the following violations of rules and regulations:

- nuisance to neighbors
- non-occupancy of housing unit
- burning of housing unit by son under influence of drug
- misuse of unit for entertainment by boarders working in night spots
- quarrelsome member causing trouble to neighbors

These cases were decided by the General Assembly, usually following a long, standard process of "humanitarian" consultations with the accused. A series of hearings are usually held for three consecutive months before sanctions are imposed on delinquent accounts. The Notice of Re-Possession is delivered on the 4th month. All the amortization paid by candidates for re-possession are treated as rentals; no reimbursement is made. If they refuse to leave after a Notice to Vacate, then they are referred to the Sheriff.

Cases of boundary disputes, repair of riprap and others, which are physical in nature are referred to the *Barangay*.

Poor Attendance in Meetings

Presently the Cooperative is not satisfied with the attendance of members during meetings that are held to update them on the housing project. This has somehow affected the collection efficiency of the Cooperative especially for preliminary expenses for land development.

In view of this, the Cooperative implements various ways of disseminating information. Meetings were announced through Notice of Meeting, publication in the *Midland Courier*, radio announcements and posters in conspicuous places.



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CHF International serves as a catalyst for long-lasting positive change in low and moderate income communities around the world, helping to improve their housing, economic circumstances, and environments. It works with a wide range of organizations to develop systems, policies, and practices that increase access to affordable housing, community services and finance. It believes that safe and affordable housing is the foundation upon which families can build a livelihood, a healthy community, and a peaceful, democratic society.

In the Philippines, CHF is working with the National Housing Authority to promote cooperative housing. It also provides technical assistance to 3 pilot cooperatives whose housing projects are already under construction.

