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**PORTUGAL LOW-COST
HOUSING PROGRAM**

**ANNUAL PROGRAM REVIEW
150-HG-004**

June 1991

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PREFACE

This Program Review was undertaken by Abt Associates Inc. for the A.I.D. Representative in Lisbon, Portugal and the Regional Housing and Urban Development Office for the Near East (RHUDO/NE). The report is based on the team's field work, interviews, and review of documents in June 1991.

We are very appreciative of the full cooperation of the INH board and staff; the work depended entirely on their input, which was provided graciously and completely. We benefitted from the assistance at several project sites by local government officials, cooperative representatives, and private developers. IGAPHE staff was also very helpful. And, we thank the A.I.D./Portugal staff and consultants -- David Leibson for the substantive guidance he provided, and José Trindade and Edward Robbins for their overall direction, thorough orientation, and for the invaluable information and insights they shared with us.

We, of course, take full responsibility for this report.

**John D. Miller
Milagros Nanita-Kennett**

EXECUTIVE SUMMARY

The Government of Portugal (GOP) has taken a number of important steps that strongly support the Program Agenda's three global objectives. These include:

- . Promoting public/private sector partnerships,
- . Loosening rent controls,
- . Encouraging the role of local governments,
- . Mobilizing new resources for INH, and
- . Liberalizing the financial market.

The Program Agenda itself -- the three page chart developed by the INH and A.I.D. in 1989 (see Annex) -- remains an accurate reflection of strategies that the INH should continue to pursue in response to the country's shelter problems. Ten public housing programs (credit lines and divestiture actions) and six policy approaches fall within each of the Agenda's three broad objectives. The Annual Program Review -- the field work for this report -- has provided an important opportunity for INH to take a longer, objective view, past and future, at their own work. The mere focus of close attention on the Program Agenda by the INH, the consulting team, and A.I.D. reinforces the overall objectives of the institutions involved.

The Government of Portugal and the INH have made good progress toward the three global objectives, particularly in the promotion of increased production of new housing affordable for ownership. The INH continues to effectively attract housing cooperatives and private developers into the low income housing markets. Reasonable progress has been made on most credit lines reflected in the Program Agenda and on the six policy issues reflected in the Program Agenda, in particular, the development of long term strategies for INH.

All of the credit lines and divestiture actions are still operating, and all are still valid. Some have met or exceeded the established targets, some have made reasonable progress, but have not met the targets, and two have experienced very limited activity.

- . Very good progress has been made through the RECRIA program (over two million contos allocated; over 1,800 units rehabilitated) and construction lending (to cooperatives, municipalities, and private developers).
- . Good progress has been made on financing for infrastructure (nearly 900,000 contos will be disbursed in 1991), the Realojamento program (over 10,000 units will be completed by the end of 1991), and mortgage lending (over one million contos of loans per month).

- . The pace of IGAPHE's rehabilitation and divestiture of housing stock and land has diminished (about 2,000 units rehabilitated; about 500 units sold; land sold to accommodate about 20 percent of planned units).
- . The PRID program and financing of community facilities are virtually dormant.

It is noteworthy that major achievements have occurred in the context of restrictive economic policies. This is a tribute to the high capacity and effectiveness of INH and IGAPHE staffs.

Serious concerns remain, however, about the policy direction and fundamental mission of the INH. The realities of election year in Portugal (elections scheduled for October) will limit any major new initiatives from taking place. Nevertheless, the INH can take the opportunity of its impending structural changes and increased assets to strengthen its determination to facilitate the provision of low-cost housing for low income families, and to seek an integral role in national housing policy formulation.

Equally important are the immediate steps that must be taken to strengthen the working and managerial relationship between the INH and the Caixa Geral de Depósitos (CGD). These include the identification of suitable strategies for both institutions leading toward a) the increase of investments and production of housing for low income families; b) the development of public-private partnerships; and c) the promotion of policies oriented to supply land and infrastructure.

ACRONYMS AND DEFINITIONS

A.I.D.	U.S. Agency for International Development
câmaras municipais	municipal governments
CDH	Contratos de Desenvolvimento de Habitação Housing Development Contracts
CGD	Caixa Geral de Depósitos
conto	one thousand escudos
conservatórios	title registration offices
CPP	Caixa Predial Português
custos controlados	controlled costs (affordable housing programs)
EC	European Community
escudo	Portuguese currency; July 1991 approximate rate: U.S.\$1.00 = 155 Portuguese escudos
fundos perdidos	grant funds
FFH	Fundo de Fomento de Habitação Housing Development Agency
GOP	Government of Portugal
HG	Housing Guaranty
IEC	Instituições Especiais de Crédito Specialized Credit Institutions
IGAPHE	Instituto de Gestão e Alienação do Patrimônio Habitacional do Estado Institute for Management and Divestiture of Government Housing Stock

INH	Instituto Nacional de Habitação National Housing Institute
PRID	Programa de Reabilitação e Recuperação de Imóveis Degradados Home Improvement Program
Realojamento	Realojamento da População Residente em Barracas Replacement of Shantytowns with Low Income Rental Housing
RECRIA	Regime Especial de Participação na Recuperação de Imóveis Arrendados Special Program for Rental Housing Improvement
títulos de participação	capital shares

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I. THE HOUSING GUARANTY PROGRAM AND THE ANNUAL PROGRAM REVIEW

The United States Agency for International Development (A.I.D.) and the Government of Portugal (GOP) have been collaborating in the finance of housing for low income families since 1975. In 1989, A.I.D., the Instituto Nacional de Habitação (INH) and the office of the Secretary of State for Housing developed the fourth housing sectoral program, a \$55 million Housing Guaranty (HG) Loan Program and a companion \$600,000 Grant for Consultants and Training.

The goal of the Low Income Housing Program is to improve the housing and neighborhood conditions of low income families in Portugal. The Program supports policies that increase and open new credit lines to local developers (cooperatives, local governments, and private developers) and thereby promote investments in housing for low income families, land, infrastructure, community facilities, and improvements to homes and neighborhoods. Local currency generated by the HG loan increases the financing available for those investments.

The Agreements between A.I.D. and the INH established the following objectives:

1. Promote improvement of living conditions in existing homes and low income neighborhoods;
2. Promote increased production by local developers of new housing affordable for ownership by low income families; and
3. Promote increased supply of land and services suitable for low-cost housing.

The Program Agenda (see Annex) was developed to reflect the sectoral objectives and strategies of the GOP, as well as the specific lines of credit available or planned. At the same time, a Consultant and Training Plan was developed to support the Program Agenda.

The Agreements established a joint Annual Program Review process in which A.I.D. and the INH would review progress toward the program's objectives and targets. The implementation of the programs identified in the Program Agenda was intended to lead to meeting the objectives to which A.I.D. and INH agreed. A.I.D. and INH were always aware that there were other activities that could as well contribute to meeting the same objectives and more. Indeed, during the 1990-1991 period, there have been several GOP/INH housing sector initiatives that are important to recognize. These other impacts can in some part be attributed to the continual dialogue between the GOP/INH and A.I.D. and the consultants and training provided by A.I.D.

This report was prepared to facilitate the review of the progress toward the objectives of the Program Agenda from the last Annual Program Review (May 1990) to the present (June

1991). It was prepared by a team from Abt Associates, in close collaboration with INH, IGAPHE, and A.I.D. officials.

The significant activities in the Portugal housing sector that have occurred and can be attributed to the pursuit of the objectives of the Program Agenda are discussed in Part II. Part III briefly discusses the two key institutions -- the INH and IGAPHE -- which are implementing the Program Agenda. Part IV reviews the progress toward achieving each individual item of the Program Agenda. The Consultant and Training Plan reflecting the current needs of the program is presented in Part V. The original Program Agenda is provided in the Annex.

II. HOUSING SECTOR IMPACTS

The common theme of the impacts discussed below represents the single most important progress in the shelter sector in Portugal, and one which can continue to be strongly supported by A.I.D. That is, it is the role and responsibility of the national government to establish policy, to create conditions, and to provide incentives that collectively promote and encourage private developers to build low-cost housing. Municipal governments as well respond to the national programs, and in turn provide their own conditions for private developers to produce low-cost housing. Given a suitable mix of opportunities, private promoters, whether housing cooperatives or developers, will produce housing. It is in this context that the production of low-cost housing in Portugal is becoming increasingly privatized.

1. The Private Sector and Public/Private Partnerships. In the past fifteen years, Portugal's housing sector has made major policy changes -- from the historic approach that the actual construction and ultimate ownership and management of housing is a public responsibility (the era of the Fundo de Fomento de Habitação) to the view that government's most effective role is to provide the conditions and incentives for others to construct, own, and manage housing. It is in this context that INH has been successful: despite its limitations, it has indeed been able to promote housing construction by private developers, and most notably has been instrumental in the growth of cooperatives as private promoters of housing.

The cooperative movement has emerged as a major housing developer in Portugal not so much by the virtues of cooperativism as practiced in other countries, but rather by housing cooperatives acting as private promoters, responding to the great demand for housing. The innovative set of public laws that permit and encourage housing cooperatives to promote the production of new housing are important. Housing cooperatives for the most part are private promoters of housing construction through government programs; they identify the demand, work with the INH to develop a project, secure the financing, hire the construction company, and organize the subscribed members. In Portugal, cooperatives are formed to develop projects for an assured and eligible market. As promoters, they benefit from tax exemption, from the subsidy system, and sometimes by the provision of land and infrastructure by municipal governments.

2. Rental Housing Market. Portugal's strict rent control laws since the 1940s have perhaps served some social good for many families by maintaining rental costs quite low for many years. However, rent control has resulted in a distorted housing market in the major urban areas of Lisbon, Porto, and others; a well functioning housing market should have a balance of rental and ownership housing of different prices for different family sizes and income levels. The consequences of rent control on the rental housing market have been serious. With no opportunity for a free-market response to demand, with no financial incentives for developers to build, convert, or rehabilitate for the high demand for rental housing at all

income levels, new construction of rental housing (only three percent of all new unit construction in 1980s) has mostly occurred at the high end of the market, and conversion and rehabilitation have occurred hardly at all. At the same time, without the opportunity for a landlord to recover costs and to make a reasonable profit, even normal maintenance has been neglected, so that the physical condition of rental property (individual units and entire buildings) has deteriorated substantially.

Beginning with landmark legislation in 1985, and continuing in gradual steps through October 1990, the GOP has authorized a series of changes to the rent control regulations. They provide, for instance, that the term of the rental contract can be limited to five years, that the contract may not be inherited after the death of a tenant, and that the landlord can collect some of the costs of certain kinds of improvements to the unit. Although the changes to the rent control law do not place rental housing in a free market, they do indeed provide more opportunities for landlords to recover the costs of improvements, and hence are likely to result in the physical improvement of at least some of an otherwise deteriorating and aging housing stock. It is still too soon to assess the potential impact of the rent control revisions on new private investments for the construction of rental units for different income groups.

3. Decentralization. Local governments have been delegated authority and the capacity to mobilize resources; centrally collected receipts from real estate taxes, for instance, have been transferred to local governments. Portugal's "câmaras municipais" have been given increased authority to raise and direct the use of revenues along with increased responsibility for schools, roads, and infrastructure. They are indeed important participants in INH programs, serving as developers of "custos controlados" housing. It is at this local level too that public/private collaboration functions best. The relationship between housing cooperatives and municipal governments is important in this regard; indeed, some cooperatives and municipal governments are working very well together.

4. Resource Mobilization. The notion that financial institutions should be completely owned and operated by the public sector is increasingly in disfavor throughout the world. In the case of Portugal, the Government has started to divest itself of most of the public commercial banks. It is in this context of a more liberalized financial system that the impending changes of INH ownership represent a significant step toward mobilizing new (public and private) resources for a government-created and owned housing finance institution. The changes should serve to put the INH on a more business-like basis, making it more financially viable and giving it the flexibility to remain viable. The GOP will retain 51 percent ownership of the INH, while "títulos de participação" will be sold to new shareholders. Arrangements are underway for two of the public Specialized Credit Institutions, or IECs, (Caixa Geral de Depósitos and Crédito Predial Português) to make substantial investments in the INH. The immediate impact will be to recapitalize the INH and strengthen its role as a provider of credit for housing construction. The working and

managerial relationship between the INH and the Caixa is thus vital to the future activities of the INH.

5. Financial Market Liberalization. Strict government controls over the volume of credit available from different kinds of financial institutions have limited the quantity of financing available to families seeking mortgages from the INH and the IECs. In April of this year, the GOP loosened those controls significantly by permitting credit institutions besides the INH and the IECs to provide credit under the same terms of "custos controlados" programs. The newly eligible institutions, which include virtually any bank that is otherwise financially stable, must monitor and manage the use of the credit as INH normally does. Since this is a new function of those banks, they may seek assistance from the INH, for which INH may charge a fee. This liberalization represents an important additional element to the availability of credit and will strengthen and make more flexible existing financial mechanisms.

There are also implications for the housing sector of financial market liberalization resulting from Portugal's full integration into the European Community. GOP policy is oriented to bringing interest rates for all kinds of credit, including construction and mortgages, to levels consistent with the rest of Europe. Non-Portuguese financial institutions will be able to operate in Portugal, possibly providing competition to the INH and the IECs.

The creation of the Banco Nacional de Crédito Imobiliário (National Real Estate Bank) is also an important step toward the availability of long-term financing for low-cost housing - 33 percent of the investment will be provided for low-cost housing during the Bank's first three years of operations.

III. INSTITUTIONAL BACKGROUND

INH. The Instituto Nacional de Habitação (INH, National Housing Institution) was created in May 1984 in order to support a government policy of decentralization and serve as an instrument of housing policy and financial support for programs directed at low income families.

In 1990 the INH reached record levels of activity in terms of the volume of the completion of low-cost housing units financed by its programs. INH production of completed units increased by 1,308 units from 1989 to 1990, an increase of nearly 31 percent. The use of credit increased during the period by 27 percent.

Despite that activity, serious cash flow problems in 1990 obliged the INH to reduce the number of approvals of new projects. At the start of 1990, INH was analyzing projects calling for the production of some 19,600 units. Only 2,231 units were finally approved for financing during the year.

In response to this situation, the GOP has authorized important structural changes that will result in an increase in INH assets. The INH statutes will be changed to permit active use of capital markets for resource mobilization, and also to allow other financial institutions to take a financial position in the INH.

INH continues to promote an increased supply of housing for low income families. Housing units produced with INH financing generally cost between 4,500 and 7,400 contos (thousands of escudos) and lower cost units are affordable to families with incomes between 100,000 and 120,00 escudos per month, slightly more than two times the minimum salary. Moreover, INH financed units with tighter sizes and standards than generally available (though still comfortable) sell for about half the median sales price of units on the market.

Table 1. INH Housing Production, 1989-1990

	1989		1990	
	units	contos (000)	units	contos (000)
Contracted	7,579	29,768	7,673	36,105
Completed	5,432		5,579	
Under construction	12,607		14,515	

IGAPHE. Until the closing of the Fundo de Fomento de Habitação (FFH) in 1982, Portugal's policies promoted government construction and ownership of housing. The GOP owned a large public housing stock characterized by a lack of maintenance and low performance in terms of recuperation.

The Instituto de Gestão e Alienação do Patrimônio Habitacional do Estado (IGAPHE, Institute for Management and Divestiture of Government Housing Stock) was created in 1987 to manage and sell the FFH publicly owned units and land to the public. The main objectives of IGAPHE can be summarized as follows:

- . to manage, preserve and transfer publicly owned housing and infrastructure that would benefit low income families;
- . to provide technical support to municipal governments and other organizations for the administration and conservation of publicly owned housing; and
- . to sell or transfer publicly owned land designated for the construction of housing for low income families.

With a sound understanding of its objectives, IGAPHE is moving gradually towards its targets. IGAPHE has rehabilitated over 10,000 of its 45,000 unit stock, although it has sold only about 1,500 units. IGAPHE has sold land that accommodates about 20 percent of the potential number of units that can be constructed on its land.

IV. PROGRESS TOWARD THE OBJECTIVES OF THE PROGRAM AGENDA

The Program Agenda remains an accurate reflection of the strategies that the INH should continue to pursue. The three broad objectives are being pursued with good results. They are stated below, followed by references to progress or lack on the specific agenda items. Reasonable progress has been made on most of the ten credit lines of the Program Agenda and significant progress has been made on one of the six policy issues of the Program Agenda, the development of long term strategies for the INH.

OBJECTIVE I: PROMOTE IMPROVEMENT OF LIVING CONDITIONS IN EXISTING HOMES AND LOW INCOME NEIGHBORHOODS

1. Loans and Grants for Neighborhood Infrastructure Aquisição e Infraestrutura de Solos, Decreto-Lei 6/84

Objective: Loans from INH to municipal governments and grants from the Secretary of State for Local Administration.

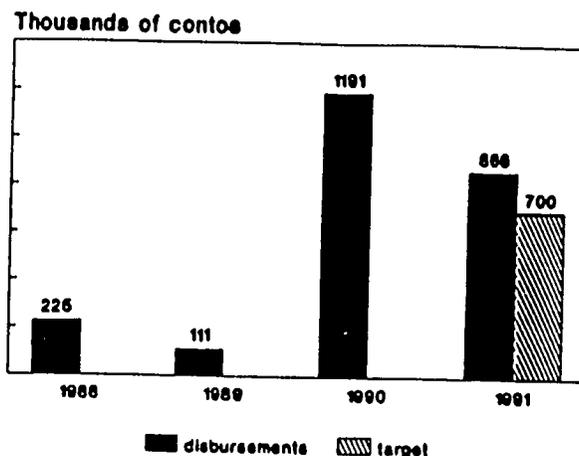
Agenda: To develop operational procedures and complete planning for test projects in clandestine and deteriorating neighborhoods.

- Targets:**
- a) Range of 700 to 2,500 thousand contos by 1991 for the INH program.
 - b) Completion of procedures and planning for the Local Administration program in 1990.
 - c) Initiation of test financing for the Local Administration program in 1991.

This Agenda item has two parts. The first, the INH program, is oriented to the provision of loans to municipal governments for investments in water and sewerage systems associated with low-cost housing. Interest rates are set at 19.5 percent for loans of 3 to 15 years. The subsidy element is 4.5 percent during the first three years, reduced to one percent in subsequent years. The loan ceiling is 190 contos per unit.

The target established in the Project Paper for 1991 of 700,000 to 2,500,000 contos was met in 1990, a year earlier than estimated:

1988	225,773
1989	111,309
1990	1,191,000
1991 (est.)	866,100



The INH has met its target, and efforts should be continued. Some municipal governments, however, still require assistance in the provision and management of urban services, and cost recovery, to utilize these funds well.

The other part of this Agenda item calls for the development of a new program in which the Ministry of Local Administration would make loans to municipal governments for improvements to infrastructure. No action has been taken on this component. It should be noted that this part of the agenda relies completely on grants and could be eliminated. The Ministry now has important responsibilities for the allocation of European Community funds for local infrastructure investment.

2. Loans for Home Improvements

Programa de Reabilitação e Recuperação de Imóveis Degradados/PRID Decreto-Lei 449/83, Decreto-Lei 386/84

Objective: Loans for home improvements from INH and the CGD to municipalities and homeowners.

Agenda: Restructure and revitalize the program.

Targets: Revision of structure in 1990 and test of financing in 1991.

These loans were intended for use by municipal governments, cooperatives, and individuals to improve rental or owned units. They were to be ten year loans at no more than 750

contos per unit. Interest rates were 19.5 percent, with a nine percent subsidy for municipal governments and a seven percent subsidy for other participants.

This program was established originally as a grant program to be managed by the FFH which was to rehabilitate 7,000 units, spending 500,000 contos. By 1982, over 3,000 units had been rehabilitated for 250,000 contos. When the PRID program was started again as a loan program in 1983, municipal governments, cooperatives, and individuals could apply for loans from the Specialized Credit Institutions (IECs).

PRID has never worked well because of its dependence on local government capability and initiative, high levels of municipal government debt, and the limited potential for recuperation of investment by landlords.

Only 400,000 contos have been authorized for PRID, all of which has been destined for rehabilitation of units in Lisbon. The limited finances available from the INH and the apparent limited capacity of the Lisbon government has limited the effectiveness of the program.

When the RECRIA program was established in 1988 (see Agenda item 4), utilizing grant funds, it became the more appealing and dynamic rehabilitation program.

3. Rehabilitation and Sale of Publicly-Owned Rental Stock

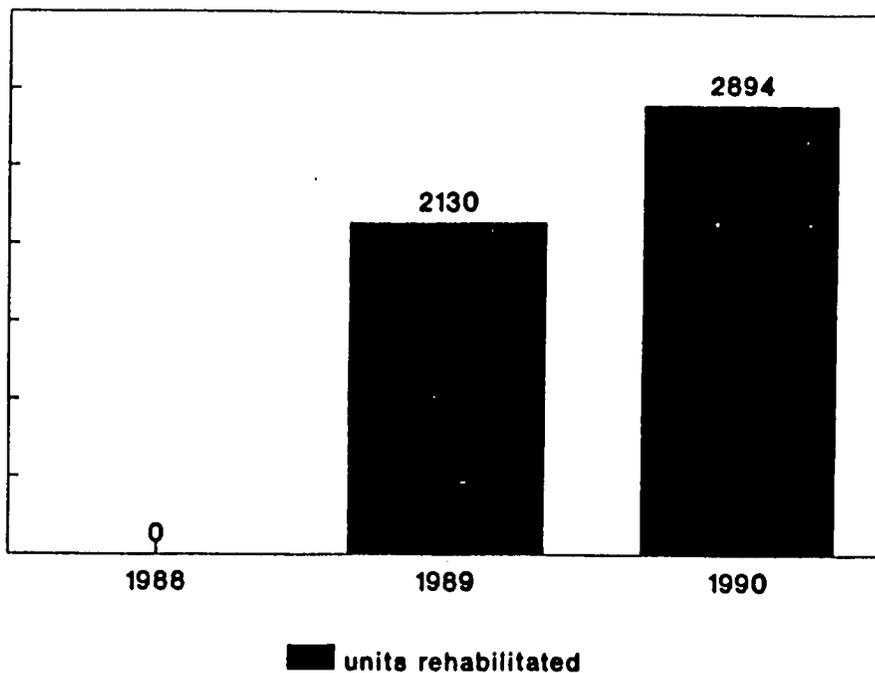
Objective: Sales to be made by IGAPHE to tenants.

Agenda: a) Repair and rehabilitate stock.
b) Prepare tenants for transfer of property management.

Target: Rehabilitation by 1992 of half of the stock owned with initiation of sales in 1989.

This Agenda item supports the rehabilitation and sale to tenants of the enormous publicly-owned stock (nearly 45,000 units) of housing originally constructed, owned, and managed by the FFH.

Several problems have caused this activity to achieve only limited progress. Clouded titles of many properties have required IGAPHE to undertake administrative and legal actions, so that it has only effectively liquidated its holdings of the units most ready for sale. The pace of rehabilitation itself has not been rapid: none in 1988, 2,130 in 1989, and 2,894 in 1990, totaling 5,024 units rehabilitated. Most (559) of IGAPHE units sold have been from its Lisbon area stock.



IGAPHE's responsibility remains high -- over 44,000 units to manage. This activity (and the sale of land) is the fundamental reason for IGAPHE's existence, and requires constant attention. Units must be in good condition in order to be sold. Until the government (IGAPHE) completely liquidates the old FFH stock, it will remain an enormous financial and administrative burden. IGAPHE must focus its attention on the legal and administrative requirements to clarify titles in order to sell units (and land).

4. Rehabilitation of Privately-Owned Rental Stock
Regime Especial de Participação na Recuperação de Imóveis Arrendados (RECRIA), Decreto-Lei 4/86

Objective: Grants from IGAPHE and municipalities to property owners for rehabilitation.

Agenda:

- a) Review program.
- b) Consider loans from INH to increase resources.
- c) Review rent control legislation.

Targets

- a) Up to 400,000 contos for 1989-1991.
- b) Study in 1990 of feasibility of INH lending.
- c) Study of rental markets.

Although GOP regulations make building maintenance mandatory, rent control laws have discouraged property owners from maintaining minimum standards. The RECRIA program

is intended to promote grants for the rehabilitation of privately owned rental stock that had been subject to rent control.

More than two million contos have been allocated for this program. Through 1990, contracts for remodeling 1,846 units (most in Lisbon) were signed, committing an investment of 979,000 contos, (586,000 contos from IGAPHE and 393,000 contos from municipal governments), exceeding the established targets.

The RECRIA program is still small but effective, and appears to have replaced previous home improvement lending programs (notably PRID). The feasibility of INH expanding its lending activity to RECRIA has not been pursued. Nevertheless, should the INH be given greater lending flexibility, this possibility should be explored. In its present arrangements with IGAPHE and municipalities, RECRIA should continue to be supported.

5. Replacement of Shantytowns with Low Income Rental Housing Realojamento da População Residente em Barracas, Decreto-Lei 110/85

Objective: Replacement by municipalities with loans from INH and grants from IGAPHE.

Agenda: Limit program to level of grant resources available.

Targets: Study of alternatives including direct assistance to low income families with home purchase.

The Realojamento program directs IGAPHE financing of 50 percent of low-cost rental unit construction developed by local governments, with INH financing covering the remaining 50 percent with long term loans to local governments. The loans cover 100 percent of development costs, carry a 12 percent interest, and a repayment period of 25 years.

INH and IGAPHE have generally not co-financed projects, but rather have supported separate projects. Thus, with INH financing, 1,353 units have been constructed since 1987 under this program. It is estimated that an additional 1,401 units will be completed by municipal governments in 1991.

With IGAPHE financing, 4,241 units have been constructed by municipal governments under this program since 1988. It is estimated that an additional 3,324 units will be completed in 1991 for a total of 7,565 units.

The capital markets consultant team (currently studying future financial strategies for the INH) concluded that the long term nature of Realojamento loans is one of the reasons that INH could face capitalization problems. It should be noted, however, that it is only during

the first years of the 25 year repayment period that it may contribute to the problem; the way that the loan terms are established, loan repayment is considerably stronger after the first five years of the term.

Municipalities face certain problems in implementing this program. Rents on these units are often so low related to unit costs that the municipal governments must pay a large differential. This is an extra burden on the limited resources of municipal governments.

On the other hand, the law allows for the sale of units at a later date, subject to INH approval. This will ultimately serve to decrease the public (municipal government) responsibility of ownership and maintenance. In addition, to free municipal governments from these responsibilities, cooperatives are willing to become involved in this program if they can readily secure land from the municipal governments and receive funds through "fundos perdidos" directly from IGAPHE. In this way, cooperatives would play an increasing role in Realojamento, particularly important for the long term private maintenance of the buildings.

In any case, it is important to note that this program is unique in its special focus on families with greatest need. Cooperatives have been able to build low-cost units for families living in shantytowns with INH financing and municipal support for land and infrastructure.

OBJECTIVE II: PROMOTE INCREASED PRODUCTION BY LOCAL DEVELOPERS OF NEW HOUSING AFFORDABLE FOR OWNERSHIP BY LOW INCOME FAMILIES

6. Mortgage Lending

Objective: Mortgage lending from specialized credit institutions, principally the CGD, to purchasers of units defined by size and price as low-cost housing.

Agenda: Increase the share of total mortgage credit from the CGD that is made available to purchasers of low-cost housing.

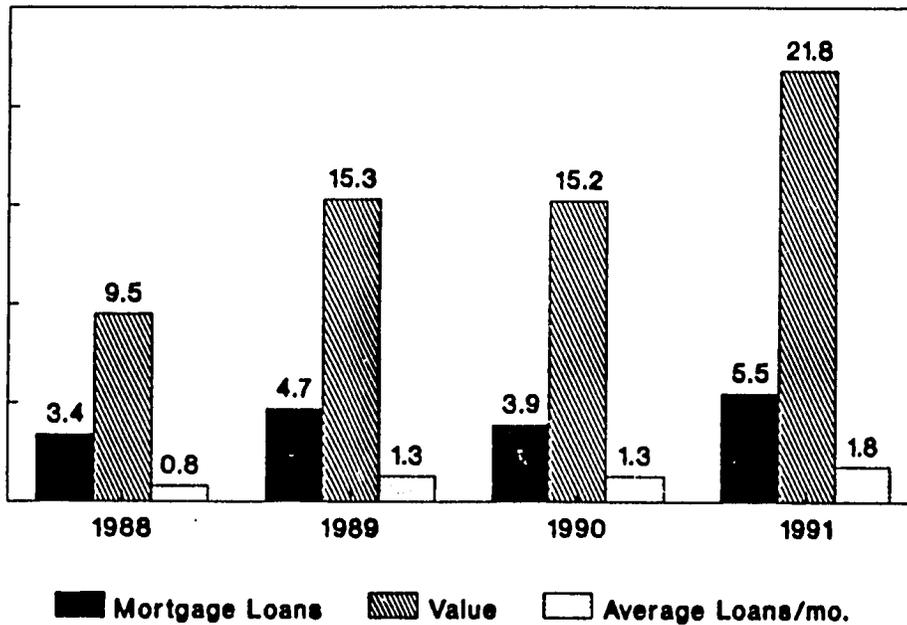
Targets: Increase in volume of mortgage closings on low-cost units from under one million contos per month in early 1988 to over three million contos per month in 1992.

Information on mortgage loans reflects the activities of the three IECs:

Table 3. Mortgages by Specialized Credit Institutions, 1988-1991

	loans	average contos	loans/mo.
1988	3,403	9,520.8	793
1989	4,663	15,307.7	1,276
1990	3,942	15,195.4	1,266
1991*	5,523	21,825.6	1,819

*if maintain pace of first four months



Although lending for home acquisition has not yet met the targets, due partly to rising interest rates and limited credit availability, the rate of mortgage placements in early 1991 suggests significant progress. With the opening of home acquisition lending to other banks, home mortgage programs still offer the best opportunity for families to become homeowners.

7. Construction Lending

Construção para Venda ou Arrendamento, Decreto-Lei 220/83, 349/83, 39/89

Objective: Construction lending from INH and specialized credit institutions to developers of low-cost housing.

Agenda: Increase the supply of credit available to developers from the INH for construction; continue to control standards and prices in projects constructed with INH financing.

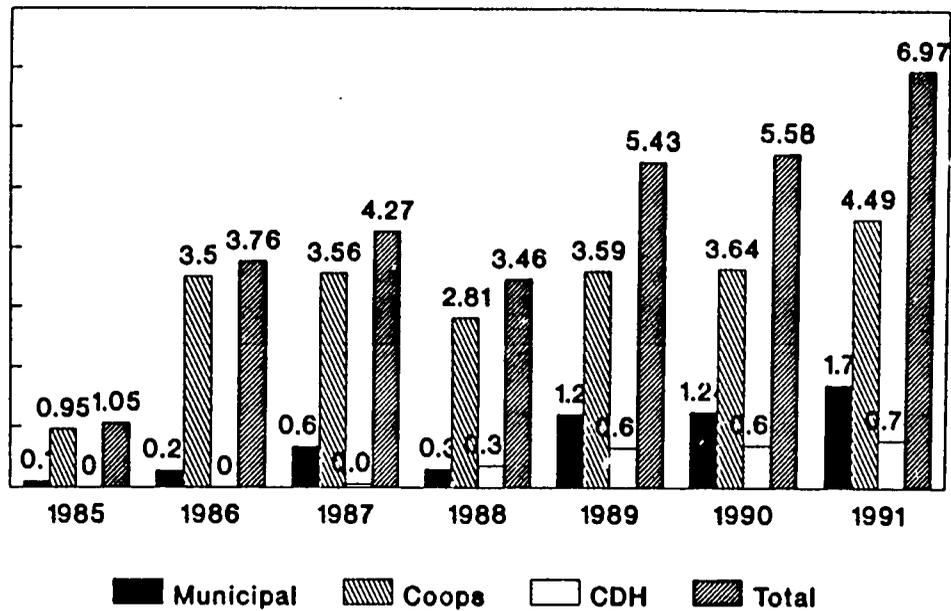
- Targets:**
- a) Increase in the number of units started with INH financing from 7,000 in 1988 to 12,500 in 1992, and the financing from 17.5 million contos in 1988 to 100-132 contos by 1991.
 - b) Average sales prices of units financed by the INH at 50 percent or less of median prices in area.

Construction loans are made at market rates of interest for a three year period. Depending on the beneficiaries, 80 or 100 percent of the unit construction costs can be financed. Most of the units built under this program are one and two bedroom units, although the HG program does not require this.

As shown on the following table, cooperative participation in this program represents the most significant, and growing share of available construction financing:

year	Number of Finished Units			Total
	unic.	coops	CDH	
1985	100	948	0	1,048
1986	268	3,496	0	3,764
1987	659	3,558	54	4,271
1988	305	2,810	348	3,463
1989	1,201	3,590	641	5,432
1990	1,244	3,643	692	5,579
1991 (est)	1,703	4,492	780	6,975
Total	5,480	22,537	2,515	30,532
	18%	74%	8%	100%

thousands of finished units



There are reasons for the patterns suggested in the table above. The low, but growing share of construction financing represented by the municipal governments reflects at least two factors. First, families often underreport their income for tax purposes, and then are found ineligible to purchase units due to their "low" income. Second, despite the effective demand, some "social" housing retains a negative image so that some qualified families are unwilling to occupy the units; many units still remain vacant, which will lead the municipal governments ultimately to rent the units. Some municipal governments are reluctant to continue their participation, but are quite willing to provide a package of incentives to cooperatives. That said, part of the reason for the slow generation of municipal projects has been the excessive indebtedness that plagued many towns well into the mid-1980s.

The low, and not increasing share of construction financing represented by private builders (CDH) reflects their concerns about profitability and clear national policies.

The very high percentage share that cooperatives hold of construction financing reflects the very strong and successful efforts of this kind of private promoter.

This program relates to the whole future of INH, and is an important element of the capital markets study currently under way. The INH and the IECs recently entered into an agreement in which the IECs have committed new funds for "custos controlados" as well as land acquisition and infrastructure provision by municipal governments. The CGD has allocated 18 million contos, and the CPP 6 million contos.

8. Development of Long Term Strategies

Objective: Develop long term strategies for mortgage and construction financing.

Agenda: Monitor progress.

Targets:

- a) Analysis in 1990 of trends in housing finance and capital markets with assessments of options for capital mobilization and for broader based loan origination through private banks.
- b) Improved analysis in 1990 of market supply and demand.

This Agenda item has resulted quite specifically in the present work of the capital markets consultant team. The market supply and demand analysis was not carried out in 1990, but is still an important element in INH planning, and is scheduled to be carried out in the next few months.

9. Property Transfer Improvements

Objective: Improvement of title and mortgage processing procedures.

Agenda: Monitor progress.

Targets: Feasibility study for INH title insurance program.

The problems associated with the transfer of property relate to verifying titled ownership, formal registrations and approvals, and traditional administrative processes. The consequences of delays in property transfer are serious: finished units remain unoccupied; rehabilitated units remain unsold; available land remains unused. Any delays in the process ultimately increase unit costs for rent or purchase.

Titles require the concurrence from the central government "conservatórios" (which do have the advantage of operating in a decentralized administrative system). The process is somewhat antiquated, not computerized, and understaffed. The subsequent registration at the IECs is not as cumbersome, but is again a cause of delays.

Although the Agenda suggested that a title insurance program might improve the process, it appears it will be difficult to provide a program for such activities at this time. In the meantime, the situation can be improved through simple management improvements, and perhaps providing municipal governments with the responsibility and resources to administer the registration process.

10. Scaling Down Interest Rate Subsidies

Objective: Continue scaling down interest subsidies with greatest support directed to lowest income families and lowest cost units.

Agenda: Monitor progress.

Targets: Updated income distribution and housing expenditure survey.

The major type of housing subsidy used in Portugal is the interest rate subsidy, which is open to anyone meeting certain family income, and until very recently, maximum sales price criteria. Different versions of the formula have existed since 1976.

Although the Program Agenda indicates the importance of reducing interest subsidies, further reductions are unlikely to occur at this time as present interest rates of 22.5 percent make access to housing difficult for low income families. However, given present interest rates and subsidies (up to 40 percent of 17.5 percent), families are paying positive interest rates when considered in the context of an annual inflation of 12 percent.

In terms of income distribution and housing expenditure, little change has occurred in the subsidy system. The recent adjustments to housing credit regulations, creating simpler, more flexible lending terms, suggest that the GOP will not change its support for the interest rate subsidies that are at the heart of the low-cost housing program. However, INH intends to use the forthcoming 1991 census data to determine the accessibility of low income families to housing. Without such a determination, no sound decisions can be made about changes in the subsidy system to assure that housing is not out of the reach of low income families.

OBJECTIVE III. PROMOTE INCREASED SUPPLY OF LAND AND SERVICES SUITABLE FOR LOW-COST HOUSING

11. Lending for Land Acquisition and Infrastructure **Aquisição de Terrenos e Infraestruturas, Decreto-Lei 367/87, Portaria 385/89**

Objective: Lending from the INH and the specialized credit institutions to developers of low-cost housing.

Agenda: a) Increase lending from 600,000 contos in 1988 to 6-10 million contos in 1989-1991, and expand the program.

b) Reduce cost of land acquisition and infrastructure.

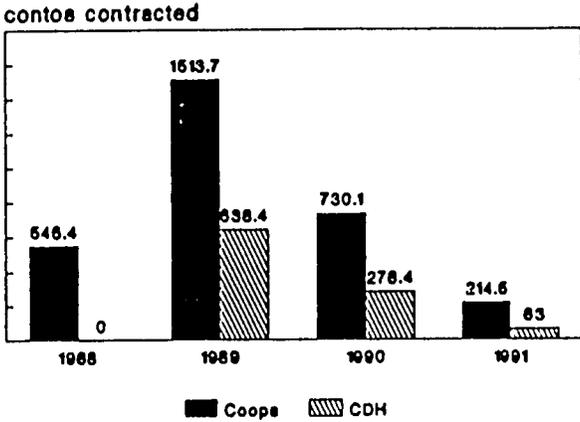
Targets: Increase from 5 percent of total INH lending in 1988 to 10 percent in 1991.

This credit line is to finance the purchase of land and infrastructure for housing construction by cooperatives and private developers. This program provides financing for up to 80 percent of total land value, for projects for which land cannot comprise more than seven percent of construction cost. Loans are for two years, can be extended for another year, and to four years for projects of more than 250 units.

The established target is met. Although this program alone represents only 1.6 percent of INH planned credit for 1991, when land acquisition credit for municipal governments is also included, 6.7 percent of INH allocated finance will be provided for infrastructure and associated land costs.

Table 5. Value of INH Contracts for Land and Services, 1988-1991 (contos)

	cooperatives	CDH
1988	546,389	0
1989	1,513,693	638,410
1990	730,137	278,400
1991	214,500	63,000



The strength of cooperatives compared to CDHs is evident from the previous data. Nevertheless, based on the significant decrease of contract value with cooperatives, this program requires INH attention.

**12. Loans for Community Facilities
Construção de Equipamento Social, Portaria 302/88**

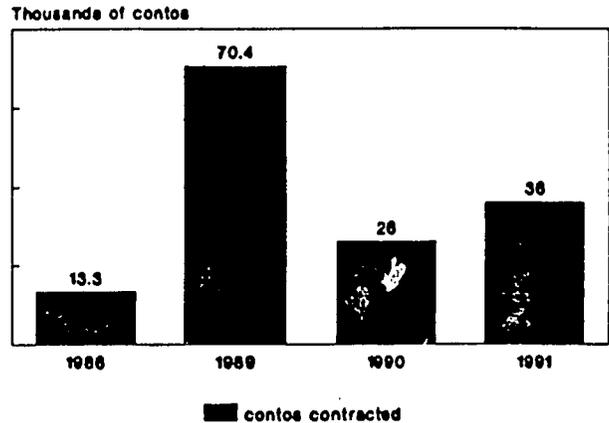
- Objective: Loans from the INH to developers.
- Agenda: Increase lending and expand the program to other developers.
- Targets: Study in 1990 of options for expansion.

This program is oriented toward cooperatives and private developers who integrate community facilities into housing projects. These loans are made for up to 50 percent of total construction costs, for a maximum of three years.

Lending for this line of credit has been small, apparently inhibited by the conservative nature of INH practices in 1990. Lending has been limited to about 0.2 percent of total INH lending.

However, the needs remain. According to INH, 45 percent of the nation's housing stock lack access to basic community facilities, such as public spaces and play areas. This program can play an important role in the provision of such facilities, and should be subject to renewed INH efforts.

1988	13,325
1989	70,433
1990	26,000
1991 (est)	36,000



13. Sale of Government Owned Land Despacho 29/88

Objective: Sale by IGAPHE to cooperatives and private developers of low-cost housing (first sales in 1988).

Agenda: Monitor progress.

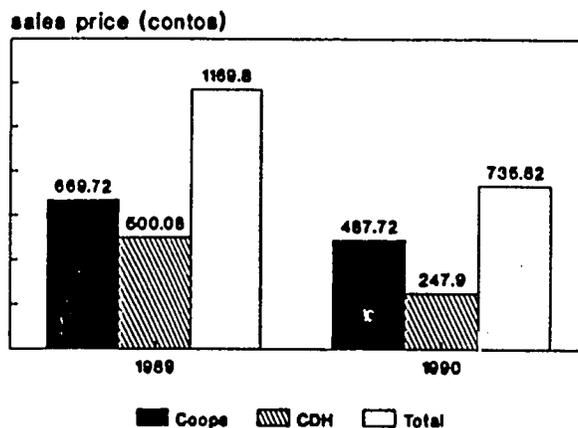
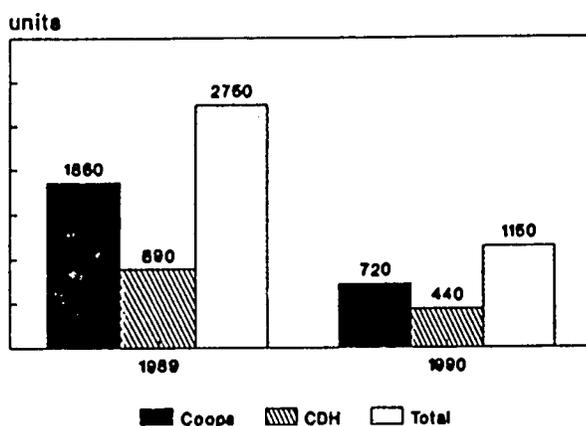
Targets: Sale by 1992 of land sufficient for 20,000 units.

This is IGAPHE's other major program in which it seeks to divest itself of 613,000 hectares of land, on which is planned 18,350 units.

The data on the following table reflects the fact that IGAPHE has been only able to sell land to accommodate about 21 percent of the potential unit construction. It sold the easiest first, that is, the land for which there were no title problems. Thus, 1989 was the most successful year.

Table 7. IGAPHE Divestiture of Land, 1989-1990

	potential units			sales price (contos)		
	coops	CDH	total	coops	CDH	total
1989	1,864	889	2,753	669,721	500,079	1,169,800
1990	716	435	1,151	487,715	247,906	735,562
total	2,580	1,324	3,904	1,157,436	747,985	1,905,362



As in IGAPHE's other divestiture program, in order to prepare land for sale, much attention needs to be paid to problems of property ownership. In addition, some parcels of land for sale are not suitable for the intended projects; they require additional adjacent lots to provide sufficient land for full project construction. Given weak developer response to earlier land offerings, IGAPHE must strengthen its marketing and publicity efforts to assure maximum interest and sound proposals.

14. Community Planning and Environmental Soundness

Objective: Improvement of community planning and environmental soundness of development financed by the INH.

Agenda: Monitor progress.

Targets: Study in 1990 of alternative planning concepts and sponsorship of a design competition.

The INH's regulations require that projects meet all municipal planning and legal requirements. In addition, the GOP has tied new financing after 1992 to master plan approval for all municipalities.

The INH should consider establishing a pilot program in which environmental planning issues are given a high priority. This would demonstrate environmental importance to both developers and municipal governments. The ongoing environmental study in Setubal will provide valuable lessons for local, regional, and national environmental planning.

15. Municipal Planning

Objective: Support municipal economic and development planning.

Agenda: Monitor progress.

Targets:

- a) Comprehensive master plans completed and approved by the majority of municipal governments by 1992.
- b) Study of housing development and real estate tax revenues.

The mandatory master plan preparation at the local level is well underway. Although very few cities have completed their master plans, most cities have already embarked on the planning process. The more than 300 municipalities will be participating in this activity that potentially has significant impact for the country.

16. Land Banking

Objective: Explore the need and potential for land banking.

Goal: Monitor progress.

Targets: Study of projected land supply and demand.

There have been no developments related to this objective.

V. CONSULTANT AND TRAINING PLAN

The Consultant and Training Plan that forms part of the INH/A.I.D. agreements was prepared to support the Program Agenda objectives in specific areas of need. The Plan has proved extremely useful in providing assistance that is both timely and appropriate. The July 1990 update correctly refined some of the earlier intentions and reflected the realities of the timing of events.

As a result of this Annual Program Review, the following consultancies and training are recommended during the remaining duration of HG program implementation (through the fall of 1992). This listing is confined to the most important items, reflecting the known limitations of budget resources.

Consultants:

1. Secondary Mortgage Market

Assistance in the standardization of mortgage instruments in the Portuguese housing finance market, mortgage insurance, indexation system.

U.S. consultants (60 workdays); September 1991.

2. Planning and Cost Control System

a) Assessment of the potential for application in Portugal of planning and cost control system developed for low-cost housing construction.

U.S. consultants (14 workdays); September 1991.

b) Assistance in the development of planning and cost control techniques for low-cost housing construction, design, project standardization, and improved construction management.

U.S. consultants (20 workdays); March 1992.

3. Planning and Production of Environmentally Sound Housing

Addressing the link between urban growth and the need for environmentally sound residential development. In collaboration with a municipality, an analysis would be undertaken of the environmental impacts of alternative sites, planning, and design for housing promoted by the INH. Analyses and methodologies for housing site selection from the perspective of careful planning and sound environment and an outline of the parameters to follow in layout and design, would be provided. At the conclusion, a roundtable will be organized for municipal officials, INH, and local

developers.

U.S. consultants (20 workdays); April 1992.

4. Market Analysis

Assistance to the INH in refining data collection and market analysis and mechanisms. This is the second stage of the technical assistance initiated in 1988 to support increased INH capacity to analyze the need and market for low-cost housing. The completion of the 1991 national census will provide a wealth of necessary data previously unavailable to the INH. The assistance will refine the methodology used to estimate the level of housing need, establish criteria to assess dwelling unit quality, and identify appropriate data processing systems.

U.S. consultants (36 workdays); September 1991.

5. Other Consultants

Local Personal Services Contract Project Manager, 18 months, July 1991 - December 1992.

Resident U.S. Advisor, 90 workdays, July 1991 - December 1992.

Follow-up and other technical support to respond to unanticipated needs.

6. Annual Program Review

Assistance to INH staff in the review of progress toward program objectives, joint annual review and assistance in the revision of the program agenda.

Local project manager and resident U.S. advisor, 20 workdays, April-May 1992.

7. Final Evaluation

Summary of sectoral development, 1985-1992; measurement of progress toward the objectives of the Program III and IV Agendas; review of uses of Housing Guaranty and Grant funding; evaluation of their impacts; identification of lessons learned and recommendations for government and INH strategies for the future.

U.S. consultants, 30 workdays, January to March 1993.

Training:

1. Fels Housing Finance Seminar (University of Pennsylvania)

Participants: 2 officers from INH and/or IECs and private banks, May 1992.

2. Successful Land Development Course (Berkeley/Lincoln Institute)

Participants: INH staff engineer, September 29-October 12, 1991.

3. Successful Land Development Course (Berkeley/Lincoln Institute)

Participants: 2 officials from INH and/or private sector, 1992.

4. U.S. tour by Portuguese low-cost housing developers actively involved in affordable housing projects.

Discuss construction systems, cost control, construction management, standards, etc.

U.S. consultant to organize visits and accompany team of 4 private developers selected by INH, October 1991.

5. RHUDO/NE Regional Conference

Participants: 2 senior officials from INH, 1992.

6. Working visit coordinated by the Regional Plan Association of New York City Metropolitan Area.

Participation in urban planning activities with special emphasis on coordination among different levels of government; Portuguese visitors to be assigned to working groups in one of the region's cities where activities are best oriented to their field of interest.

Participants: 2 senior officials, 1992.

7. Training to respond to unanticipated needs.

ANNEX: PROGRAM AGENDA

PROGRAM AGENDA

OBJECTIVE 1: Promote Improvement of Living Conditions in Existing Homes and Low Income Neighborhoods

PROGRAMS	AGENDA	TARGETS	AID SUPPORT
<u>Loans and Grants for Neighborhood Infrastructure</u> loans from INH to municipal governments and grants from the SecState/Local Administration (programs not yet operational)	<u>Core Agenda</u> develop operational procedures and complete planning for test projects in clandestine and deteriorating neighborhoods	completion of procedures and planning in 1990; initiation of test financing in 1991	Housing Guaranty Loans, consultants and training
<u>Loans for Home Improvements from the INH and the Caixa to municipalities and homeowners</u> (programs initiated mid 1980s but did not meet expectations)	restructure and revitalize the program	revision of structure in 1990 and test of financing in 1991	Housing Guaranty Loans, consultants and training
<u>Rehabilitation and Sale of Publicly-owned Rental Stock</u> sale by IGAPHE to tenants (new program initiated in 1988)	repair and rehabilitate stock; prepare tenants for transfer of property management	rehabilitation by 1992 of half of the stock owned with initiation of sales in 1989	consultants and training (particularly on conversions to cooperative ownership)
<u>Rehabilitation of Privately-Owned Rental Stock</u> grants from IGAPHE and municipalities to property owners for rehabilitation (new program initiated in 1988)	review program; consider loans from INH to increase resources review rent control legislation	study in 1990 of feasibility for INH lending study in 1990 of rental markets	consultants and training HG loans (if feasible) consultants and training
<u>Replacement of Shantytowns with Low Income Rental Housing</u> by municipalities with loans from INH and grants from IGAPHE	<u>Secondary Agenda</u> limit program to level of grant resources available	study of alternatives including direct assistance to low income families with home purchase	

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OBJECTIVE 2: Promote Increased Production by Local Developers of New Housing Affordable for Ownership by Low Income Families

PROGRAMS	AGENDA	TARGETS	AID SUPPORT
<u>Mortgage Lending</u> from specialized credit institutions, principally the Caixa Geral de Depositos, to purchasers of units defined by size and price as low cost housing	<u>Core Agenda</u> increase the share of total mortgage credit from the Caixa that is made available to purchasers of low cost housing	increase in volume of mortgage closings on low cost units from under 1 million contos per month in early 1988 to over 3 million per month in 1992	
<u>Construction Lending</u> from the INH and specialized credit institutions to developers of low cost housing	increase the supply of credit available to developers from the INH for construction	increase in the number of units started with INH financing from 7,000 in 1988 to 12,500 in 1992	Housing Guaranty Loans to increase INH long term capital resources
	continue to control standards and prices in projects constructed with INH financing	average sales price of units financed by the INH at 50% or less of median prices in area	
relevant to both programs	develop long term strategies for mortgage and construction financing	analysis in 1990 of trends in housing finance and capital markets with assessments of options for capital mobilization and for broader based loan origination through private banks	consultants and training
		improved analysis in 1990 of market supply and demand	consultants and training
	<u>Secondary Agenda</u> improve title and mortgage processing procedures	feasibility study for INH title insurance program	
	continue scaling down interest subsidies with greatest support directed to lowest income families and lowest cost units	updated income distribution and housing expenditure survey	

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OBJECTIVE 3: Promote increased supply of land and services suitable for low cost housing

PROGRAMS	AGENDA	TARGETS	AID SUPPORT
<u>Lending for Land Acquisition and Infrastructure</u> from the INH and specialized credit institutions to developers of low cost housing (new program initiated in 1988)	<u>Core Agenda</u> increase lending and expand the program; reduce costs of land acquisition and infrastructure	increase from 5% of total INH lending in 1988 to 10% in 1991	Housing Guaranty Loans, consultants and training
<u>Loans for Community Facilities</u> from the INH to developers, to date all cooperatives (new program initiated in 1988)	increase lending and expand the program to other developers	study in 1990 of options for expansion	Housing Guaranty Loans, consultants and training
<u>Sale of Government-owned Land</u> by IGAPHE to cooperatives and private developers of low cost housing (first sales in 1988)	monitor progress	sale by 1992 of land sufficient for 20,000 new units	
relevant to all three	improve community planning and environmental soundness of developments financed by the INH	study in 1990 of alternative planning concepts and sponsorship of a design competition	consultants, training and co-sponsorship of awards
	<u>Secondary Agenda</u> support municipal economic and development planning	comprehensive master plans completed and approved by the majority of municipal governments by 1992	
		study of housing development and real estate tax revenues	
	explore need/potential for land banking	study of projected land supply and demand	

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