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THE WORLD BANK

**AN ASSESSMENT OF HOUSING
FOR LOW-INCOME GROUPS IN DANANG**

Phase II report

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ALMEC Corporation

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1. INTRODUCTION

1.1 BACKGROUND

Danang City is the capital and economic hub of the central region of Vietnam. As in all of the major urban centers of the country, Danang is currently experiencing rapid urbanization fueled by consistent economic growth and the resultant steady increase in population, much through rural-urban migration. For this reason, central and city government has been increasingly concerned with the urban development and housing sectors.

In August 2004, in response to a request from the Government of Vietnam (GOV), the WB/ IDA launched preparatory activities for the Priority Infrastructure Investment Project (PIIP) in Danang. The PIIP is a multi-sectoral infrastructure investment initiative aimed at poverty reduction and the promotion of economic growth. The Project reflects the national goals set out in the Comprehensive Poverty Reduction and Growth Strategy (CPRGS), and is in line with the overall development priorities of the City's Five-Year (2006-200) Socio-Economic Development Plan (SEDP).

The (PIIP) Project objectives are to: i) improve the living conditions and productivity of low income residents through better access to basic services; ii) promote economic growth through strategic investments that enhance mobility and increase private sector participation in the City's economic development; and iii) improve city and district level management through institutional and human resource development and capacity building.

1.2 THE ASSESSMENT OF HOUSING FOR LOW INCOME GROUPS IN DANANG

Objective

During the course of (PIIP) Project preparation activities, Government expressed a desire to include a further sub-component to support the provision of housing for poor households not affected by the Project. This provided the rationale for the Assessment of Housing for Low Income Groups in Danang, (hereinafter referred to as the Low Income Housing Assessment Study (LIHAS)), which will parallel, support and inform preparation of the PIIP Project, while not being an integral part of it.

The objective of the (LIHAS) Study is to undertake an assessment of the low-income housing sector in Danang with a view to: i) determining effective demand for low-income shelter in Danang; and ii) providing alternative models of housing production, including aspects of housing finance, construction and maintenance.

Executing/ Implementing Arrangements

The Client for the Study is the Urban Development Unit of the East Asia and Pacific Region of the World Bank (WB). Key institutions within Danang involved in preparation of the Study include the: i) Danang People's Committee (DPC); ii) PIIP Project Management Unit; iii) Department of Planning and Investment (DPI); iv) Department of Natural Resources, Environment and Housing (DONRE); v) Department of Construction (DOC); and vi) Danang Urban District Administrations.

Work Program / Consultancy Inputs

The (LIHAS) Study began in July/August 2006 and is scheduled to last for about seven months with the final Study recommendations due at the beginning of February 2007. The Study will be prepared on the basis of about 18 weeks of international and domestic consultancy inputs.

Scope of Work

The Study will take account of Government housing policy as it affects low-income households (LIH) in Danang. In this regard there has been a move away from direct Government involvement in house construction for the public sector service which was found to be financially unsustainable. The scope of work is based on two phases as follows:

Phase I. Data Collection and Analysis: this involved: i) agreement with the DPC on a definition “low-income households” for Danang City to be used as basis for the Study; ii) a literature review of relevant reports and studies; iii) preparation of an inventory of all existing publicly constructed housing developments for low-income groups in Danang; iv) a rough assessment of the current size and rate of expansion of informal housing in the City; v) an assessment of the type and level of private sector participation in low-income housing provision; vi) a review and assessment of the roles and responsibilities of both DONRE and DOC in respect to the provision and maintenance of publicly sponsored low-income housing; vii) a financial assessment of DONRE and DOC operations with respect to the provision and maintenance of low-income housing; viii) identification of the binding constraints on the creation of low-income housing generally and in Danang specifically.

Following the first phase reports a working meeting was held between the consultants, local counterparts and the World Bank in Danang to present the findings of the study to date and gather feedback, and arrive at a consensus about the next stage of the report. Some approaches to the second phase of this report were altered in the lights of the suggestions given at this meeting, including:

- The suggestion that the preliminary threshold for low income housing at 400,000VND/person/month was too low.
- The desire of the Danang counterparts to develop policy recommendations which address the housing market more generally, rather than policy only relating to shelter for low income groups.

Phase II. Options and Recommendations: this second stage report contains: i) determination of the effective demand for low-income housing; ii) description of alternative technical standards for low income housing in the city; iii) overview of the need for financing of low income households, the demand for finance and different models of low income household finance; iv) definition of an outline low income housing policy for Danang City v) models of low-income housing production with varying degrees of public and private participation; vi) suggestions relating to the institutional framework for public housing provision and management.

It was decided to delay the development of recommendations on any technical assistance programme until after the phase II work shop to be held in Danang in late March – early April.

Reporting Schedule

Four main reporting outputs are called for in the Study. These are the: i) Inception Report (submitted in September 2006); ii) Draft Report on Phase I; iii) Draft Report on Phase II ((this report); and iv) Final Reports (Phase I and II)

2. HOUSING NEEDS

2.1 INTRODUCTION

Housing need is conventionally associated with a basic or fundamental requirement for housing, related to some form of minimal provision. This form of minimal provision is often defined in term of production targets or basic quality standard. In other word, 'housing need' is defined as the quantity of housing that is required to provide accommodation of an agreed minimum standard and above for a population given its size, household composition and age distribution

In this section we take steps to estimate current and future housing need in general and more specifically for low income groups. The first step in defining this need is determining criteria to define low income households. The second is to develop an estimate of current household structure (by size and income) and housing stock. Thirdly, we formulate an estimate of housing need by using indicators to define currently inadequate housing – both in terms of need for new units and need for upgrading and maintenance. The chapter then proceeds with identifying needs by those households below the new threshold for low income household as target for future interventions.

Estimates for future housing needs can be derived from population projections and essentially calculate demand due to in migration and new household formation in the city.

This section utilizes data from two main sources: HIS conducted in this study and the Vietnam Household Living Standard Survey (VHLSS) 2004 as inputs for estimations. It finally concludes with a number of caveats to the estimations made and suggestions on techniques to improve this analysis.

2.2 DEFINING LOW INCOME HOUSEHOLDS

It was agreed after the Phase I that current income definitions which used DoLISA, or adjusted DoLISA poverty lines (300,000VND/person/month and 400,000 VND/person/month respectively) were too low. The income threshold for low income households should instead be based upon some calculation of minimum expenditures supplemented by a reasonable amount for expenditures on shelter. To arrive at an estimate for this we use housing cost estimates determined by the consultants (chapter 3 of this report), and the Vietnam Household Living Standard Survey¹ (VHLSS) 2004.

The most recent version of the VHLSS data available is 2004. From this data we are able to look at the spending patterns of households at the poverty line, this will in turn help us to establish whether the poverty line as adopted is sufficient to account for expenditures on adequate housing.

Table 2.2 gives a breakdown of living expenditure for those households who are just meeting their minimum calorific requirement in Danang. In average, a household in this group spend 1,528,900VND per month for everything, equal 335,100 VND/person (taking average household size is 4.6 in Danang). Among these, total monthly expenditure on housing of 10,500 VND/month/hh. This represents a very small amount of money available for housing amongst these households.

Table 2.1: Basic living (consumption) expenditures Danang

Item	Expenditures per month (1000 VND)	
	Household	Person
Expenditure for eating & drinking	934.3	204.8
Expenditure for clothes, blanket and	51.7	11.3

¹ The VHLSS conducted every two years has detailed data on household expenditures across Vietnam and forms the basis of GSO's expenditure based poverty line

bedding		
Expenditures for education services	109.8	24.1
Expenditure for health care	34.8	7.6
Expenditure for housing	217.9	47.8
<i>Of which:</i>		
<i>Electricity</i>	97.2	21.3
Water supply	23.4	5.1
<i>Telephone, internet fee</i>	85.4	18.7
Rental fee, small maintenance	5.5	1.2
Waste collection, sanitation	6.5	1.4
Expenditure for transport	95.7	21.0
Expenditure for social communication	45.7	10.0
Expenditure for recreation	14.3	3.1
Saving	20.6	4.5
<i>Of which:</i>		
Building houses, significant repair/maintenance of housing, improvement of housing	5.0	1.1
<i>Buying durable goods</i>	6.3	1.4
Money for saving, buying public debt, buying stocks etc	8.9	1.9
Buying gold, foreign currency, assets	0.5	0.1
Other	4.1	0.9
Total	1,528.9	335.1

Source: VHLSS 2004

Estimating cost of minimum standard housing

Housing cost per unit used in this section derived from discussion in chapters 3 and 4 of this report. To simplify this, we take an apartment unit for a 4-person household for cost calculation. According to chapter 3, housing costs per person excluding the cost of land is approximately 143,000VND/person/month, and including land more than double this figure of 320,000 VND/person/month², or 572,000VND/HH/month and 1,280VND/HH/month.

A better alternative is to use estimated rental costs (excluding land value) for a single house for household of four, we arrive at rental cost of approximately 650,000VND/month. This estimate is supported by the limited information available on market rents derived from the HIS study (average rental fee is 10,200VND/m², equal 612,000VND/per month).

Table 2.3 below estimate minimum expenditure including shelter per person, first by adding non-housing minimum spending of 4-person household (1,453,000VND) and minimum housing cost, then divided by 4 (member of household).

Table 2.2: Estimating minimum expenditures including shelter

Type of housing provision	Cost/HH/month	Minimum household expenditure	Minimum household expenditure inc. shelter allowance*	Minimum expenditure /person inc shelter	Estimated inflation 8% (2006)
Estimated rental cost ex. land	650	1,453	2,073	518	560
Estimated private rental cost from HIS	612	1,453	2,035	509	549
100% mortgage cost ex. land	572	1,453	1,995	499	539
100% mortgage cost inc. land	1,280	1,453	2,703	676	730

Note: * This is equal to min. household expenditure - expenditure on housing + estimated cost of shelter. VHLSS expenditure figures have been adjusted to account for inflation in 2005, the 2006 estimate is included in the final column as this is not an official estimate.

² Based upon a household of 4 living together in a two storey detached house on a separate plot.

Given the current conditions in Danang and the indicative (if not accurate) data on the rental market the figures suggest a *minimum expenditure requirement of approximately 560,000 VND/person/month*. Anyone below this threshold is low income, and depending on their specific housing circumstances, should be eligible for targeted interventions of differing types.

2.3 DANANG HOUSEHOLD STRUCTURE AND INCOME

Firstly, HIS data has been organized into 5 groups as in table 2.4 so that they are roughly comparable to the VHLSS data.

Table 2.3: Income groupings in the HIS data set

Income categories		HIS survey (HH income level) (1000 VND)	Approximate percentage of sample
Low	LL	Below 850	18.6
	L	850 – 1,449	25.9
Medium	LM	1,450 – 2,124	22.9
	M	2,125 – 2,999	19
High	H	Greater 3,000	13.6

From VHLSS 2004, table 2.5 gives the income levels in Danang by quintile adjusted for prices in the CPI (assuming the incomes have increased with inflation). Based upon the data available we estimate that individuals on or below the 40th percentile fall below the LIH income threshold of 560,000 VND/person/month.

Table 2.4: Danang personal monthly income by quintile (1000 VND)

Year	Average	Income quintiles				
		1	2	3	4	5
2004	670.2	251.0	397.1	551.8	770.9	1379.6
2005*	726.5	272.1	430.4	598.2	835.7	1495.5
2006*	784.7	293.9	464.9	646.0	902.6	1615.1

Note: *Adjusted for changes in the CPI

It should be noted that direct comparisons between HIS and VHLSS are not possible because the HIS data collected income information by the division of households into discrete groups whereas the income data from VHLSS is a continuous variable. Nor is a direct comparison desirable as different survey methodologies inevitably yield different results. For these reasons, we assume that the income structure of HIS approximate that found in the VHLSS data. It means that the bottom 40% of HH in HIS sample is below new low-income threshold, thus make up the target group for interventions in our assessment of housing need.

Table 2.5 shows personal monthly incomes in different household sizes and incomes by taking maximum income level for that group. Collating with table 2.6, those in bold is the bottom 42% of households and will be treated as target group of this study.

Table 2.5: Maximum (*minimum) personal monthly income by household size and income group

Household Income (1000 VND)		Household size				
		1	2	3	4	5+
Low	LL	850	425	283	213	170
	L	1,449	725	483	362	290
Middle	LM	2,124	1,062	708	531	425
	M	2,999	1,500	1,000	750	600
High	H	3000*	1,500*	1,000*	750*	600*

Source: HIS

Table 2.6: Household structure by monthly income and household size percent 2006

Household Income		Household size					Total
		1	2	3	4	5+	
Low	LL	1.72	3.15	4.73	4.30	4.58	18.48
	L	0.29	2.87	4.15	7.16	11.32	25.79
Middle	LM	0.00	1.29	3.72	7.88	10.03	22.92
	M	0.00	0.72	2.58	6.59	9.31	19.20
High	H	0.00	0.29	1.72	3.44	8.17	13.61
Total		2.15	8.60	17.34	29.94	43.41	100

Total number of LIHs in Danang city

This can be scaled up to assess the number of LIHs in the city. By using population statistics for 2005 of 777,216 and³ the average household size (from VHLSS) of 4.6 persons, we arrive at an estimate of total 168,960 households in the city. Excluding Hoa Vang district which was not covered in the HIS survey, we have a figure of 138,260 households. Over 58,000 (42%) of which fall below the LIH threshold

The data is likely to miss out a large proportion of unregistered migrants and migrants with temporary registration, estimated to account for up to an extra 20% of the population, or about another 155,500 people, or 33,400 households. However, the inclusion of migrants in these estimates will also alter the structure of the housing stock and any implied housing need.

2.4 CURRENT HOUSING NEED – NEW/REPLACEMENT UNITS

There are three main sources which compose current housing need, generated by resettlement, by typhoon damage and due to insufficient housing provision to date.

2.4.1. Need due to insufficient provision

Need is estimated based upon the number of units in a representative sample of HIS which do not meet certain minimum standard criteria. At this point, we are concerned with assessing unit need. For this reason, the indicators we use do not attempt to assess wider environmental conditions, other than environmental conditions which are directly indicative of additional housing need. Three major indicators were used: vulnerable location, poor quality structure, and inadequate space (see Table 2.7).

Table 2.7: Criteria for houses which imply need for further housing

Criterion and rationale	Notes	Indicators from HIS
Housing which is in an environmentally vulnerable or hazardous area.	Although some houses are subject to frequent flooding in most cases this could be addressed through the provision of adequate drainage. In some extreme cases it might be that houses are subject to regular severe flooding, in which case relocation maybe the most feasible option. Houses in or immediately adjacent to power transmission lines, road/rail reservation, polluting and/or hazardous activity (e.g. waste disposal dump)	Housing regarded as very unsafe by occupants.

³ This was adopted for estimates rather than the average household size from the sample as the sample was taken from urban areas only and average household size in the rural district was expected to be slightly larger than rural areas. Although for the estimates of the structure of households the only available figures (save census data) for Danang are those derived from the HIS analysis.

Very poor quality structures	Either housing which is temporary and requires replacement or housing which is in such a poor state of repair that any improvements would be tantamount to replacement.	Classification of housing and maintenance condition.
Inadequate dwelling space	Even when housing is in decent condition if the dwelling does not provide adequate dwelling space for residents it falls below minimum standards. For estimation of inadequate dwelling space we suggest conditions with less than 6m²/person requires additional housing units.	Floor space per person.

Many of these criteria will pick out the same households so the estimate of total housing required is less than the sum of houses meeting any specific criterion. Table 2.12 show insufficient housing units that bare at least one of the three indicators above. It made up a need of total of 26,954 units excluding Hoa Vang, accounted for as high as 19.5% of current housing stock in Danang. Among those, 13.3%, are composed of dwellings which do not meet the minimum space criterion of above 6m²/person. Temporary housing accounts for around 6%. Housing with very poor maintenance accounts for only 1.5% of housing in the city while housing which is regarded as very unsafe accounts for less than 1% of the housing in the city. Poor housing occurs in all income groups. Around 56% of that or a little over 15,000 units are accommodations of the low income.

Table 2.8: Estimated number of new units required*

Income		Household size					Total
		1	2	3	4	5+	
Low	LL	396	792	1,387	1,783	2,377	6,735
	L	0	792	792	1,387	4,754	7,725
Medium	LM	0	198	1,585	990	3,367	6,140
	M	0	198	198	396	3,169	3,962
High	H	0	0	0	198	2,179	2,377
Total		396	1,981	3,962	4,754	15,846	26,954

Note: * all these figure exclude Hoa Vang as it was not included in the HIS survey. Those in bold are need of the LIHs

If taking Hoa Vang into consideration⁴ and adding 3,000 homeless households identified by DoLISA, we can arrive at a current total housing need for the LIHs of 21,400 units.

2.4.2 Resettlement need

As discussed above Danang's resettlement program is substantial and is expected to lead to the resettlement of over one third of the city population, or around 60,000 households⁵ by the time that the master plan is fully implemented in 2020. According to VDR 2005, around 20% of households in Danang had already been resettled or approximately 33,250 households by 2005. This would leave approximately 26,750 households to be resettled in the coming years. Assuming that the same proportion of resettlement housing (19.5%) would be deemed as unfit for habitation or insufficient housing condition, this would imply an extra housing need due to resettlement of approximately 21,500, of which 12,000 would be LIHs.

2.4.3 Extra need due to Typhoon damage

According to report of *DPC, DoC, DoLISA on typhoon damage*, there are 8,526 units were destroyed by the storm, although arguably temporary houses, poorly maintained houses and those in locations considered unsafe maybe represented disproportionately in this figure,

⁴ We assume the same level of housing need (19.5%) in Hoa Vang. This suggests about another 6,000 units needed, at least around 3,360 of which are likely to belong to LIHs.

⁵ Given that the estimated number of households is between 170,000 to 200,000, an estimate of 180,00 seems reasonable.

there is no data available on this. We assume 19.5 percent of these units were identified as insufficient in HIS, thus extra need for units due is approximately 6,863. Although official estimates suggest priority households only compose 1,696, using the LIHAS LIH criterion we arrive at an estimate of 3,843 LIH housing need caused by the recent typhoon

2.4.4. Remarks

Table 2.9 sums up all current housing need for new and replacement units in Danang. Estimated needs due to inadequate condition, including Hoa Vang, homeless and typhoon damage account for around 25,300 units in which about 42,800 units are of the low income. Taking into account needs for resettlement, it totals up to 37,338 units, among that, 64,317 units are of the low income.

Table 2.9: Breakdown of housing need

Source of housing need	Number		Percent	
	LIH	Total	Of LIH	Of total
Currently inadequate housing (HIS estimate) <i>Of which:</i>	15,094	26,954	26.0	19.5
<i>Temporary housing</i>	2,970	8,731	5.1	6.3
<i>Inadequate floor space</i>	11,092	17,644	19.1	12.8
Hoa Vang estimate	3,360	6,000	N/A	N/A
Need due to typhoon	3,843	6,863	6.6	5.0
DoLISA homelessness estimate	3,000	3,000	N/A	N/A
Total current inadequate housing	25,298	42,817	43.6	31.0
Current/immanent resettlement need	12,040	21,500	13.3	13.3
Total need	37,338	64,317	64.3	46.5

2.5 HOUSING RENOVATION NEEDS

Aside from better infrastructure to improve the environmental conditions of and access to housing, many housing units which do not need replacement yet require extension or upgrading. To some extent the PIIP project is addressing this issue through offering microfinance loans to households in LIAs for housing improvement. Outside the 15 project areas a relatively high proportion of housing requires upgrading.

Similarly to approach applied to estimated needs for new/replacement units, we use indicators developed through the HIS survey as in table 2.10

Table 2.10: Criteria for housing which needs structural upgrading

Criterion and rationale	Notes	Indicators from HIS
Housing which is in a poor state of repair and which has a poor structural quality.	This may include permanent or semi permanent housing depending on the household assessment of maintenance conditions.	Semi permanent houses regarded by residents as having poor or average maintenance conditions, permanent houses with poor maintenance conditions.
Inadequate dwelling space	Dwelling space which is below the suggested minimum of 13m ² per person, but above the 6m ² per person which was adopted as an indicator of replacement need.	Floor space per person.

Using the indicators, we arrived at the estimates of total renovation units indicated in table 2.11. .

Table 2.11: Estimated number of units which require upgrading, maintenance or extension

Income		Household size					Total
		1	2	3	4	5	
Low	LL	1,387	2,377	4,358	3,565	3,764	15,450
	L	396	2,179	3,565	7,329	9,904	23,373
Middle	LM	0	990	2,575	6,933	9,112	19,610
	M	0	396	2,377	5,744	6,933	15,450
High	H	0	198	1,387	2,575	5,150	9,310
Total		1,783	6,140	14,262	26,147	34,862	83,194

Note: * all these figure exclude Hoa Vang as it was not included in the HIS survey

Assuming a similar pattern in Hoa Vang suggests another 3,600 households in need of maintenance, leading to a total of approximately 89,800 households. Households scheduled for redevelopment are excluded, reducing the estimate by 13%. The total is around 78,100 households.

Factoring damaged caused by the typhoon into this estimate is difficult. There is likely to be a high correlation between houses which were poorly maintained and typhoon damaged houses. For this reason the 71,000 or so households damaged in the recent typhoon are excluded from the estimate.

LIHs represent about 46% of this total in the HIS data, if this pattern is repeated across Hoa Vang, and taking into account resettlement, the estimate is that around 36,000 LIH units are in need of upgrading or extension.

2.6 FUTURE HOUSING NEEDS

Assessing future housing need in a rapidly changing socio economic context can be difficult because of population levels, population growth rates, changing household structure and changing demands with greater affluence. We use two scenarios of population growth rate of 2.94 and 4. Table 2.12 below gives a rough estimate of future population levels and numbers of households.

Start with Danang's population in 2005 of 932,600 (including 20% unregistered migrants), it's population is estimated to increase up to 1,080,340 in 2010 and 1,450,000 in 2020 if assuming the growth rate 2.94. If assuming the growth rate of 4, population is estimated to be 1,139,141 in 2010 and 1,710,000 in 2020 (See table 2.12).

At the time of this study, approximately 40% of households in the population are low income. We assume that the proportion of LIHs will decrease to 30% and 20% in 2010 and 2020 respectively.

Table 2.12: Increases in population and number of households

Growth rate (%)		Population growth and changes in number of households						Total increase	
		2005*		2010		2020			
		Pop.	HH	Pop.	HH	Pop.	HH	Pop.	HH
Overall	2.94	932,600	202,739	1,080,340	234,857	1,450,000	315,217	517,400	112,478
<i>Natural</i>	1.2			60,302	13,109	150,882	32,800	211,184	45,909
<i>Migration</i>	1.74			87,438	19,008	218,778	47,561	306,216	66,569
Overall	4	932,600	202,739	1,139,141	247,639	1,710,000	371,739	777,400	169,000
<i>Natural</i>	1.2			61,962	13,470	171,258	37,230	233,220	50,700
<i>Migration</i>	2.8			144,579	31,430	399,601	86,870	544,180	118,300

* includes an estimated 20% unregistered migrants

Using these figures we can also attempt to derive estimates for future low income housing provision. An accurate projection of income growth is difficult and would require more time and data than is available at present. Moreover, as the definition adopted for LIH in this study includes some assessment of rental values movements in the property market introduce another variable which could have a direct impact on the LIH threshold and the level of provision needed. Notwithstanding these caveats, assuming stable GDP growth of around the growth of the agricultural sector of around 4% we would expect the level of low income households as follow:

- If assumed population growth rate is 2.94, then estimated total number of LIHs is 9,600 in 2010 and 11,200 in 2020.
- If assumed population growth rate is 4, then estimated total number of LIHs is 13,500 in 2010 and 17,000 in 2020.

2.7 CONCLUSION

In this section, we estimate that approximately 19.5% of the housing stock is inadequate and needs replacing or supplementing with new units. Taking resettlement needs caused by resettlement and typhoon damage, the estimation accounts up to 64,317 units, among this bulk, needs of the LIH accounts for 37,338 units (58%). A much larger proportion of the housing stock, estimated to be around 45%, excluding housing damaged by the recent storm need renovation or improvement: 89,800 units. Among this bulk, 36,000 units equivalent to 46% is renovation needs of the LIHs. It is estimated that, in 2010, housing needs of the LIH will be 9,600 units or 13,500 units if population growth rate is assumed to be 2.94% or 4% respectively. In 2015, LIHs needs is estimated to be 11,200 units or 17,000 units with respective growth rate.

There are many factors making the predictions of housing need of migrants complicated and uncertain: small house hold size, choice of places to live, instable job or floating migrant... What becomes clear from all these uncertainties is that there is a real need to better enumerate the number of migrants and population in general. One way of predicting the housing need of migrants with greater accuracy is by focusing more explicitly on those with permanent work who will certainly have a housing demand. The most obvious sources of employment for immigrants are large enterprises in industrial zones. From available data different demand projections for workers in these industrial zones can be generated.

3. LOW INCOME HOUSING STANDARDS AND TYPES

3.1 INTRODUCTION

This chapter discusses on minimum housing standard for the low income household as basic for future provision and proposes suitable housing types that meet requirements of minimum housing standards while providing good living quality for LIH. Minimum compound cost (including construction cost and land price) of decent housing for LIH is estimated to pave the way for finding sustainable financial mechanism for these proposed housing models.

The chapter will proceed with the definition of minimum housing standards for LIH by examining all related Vietnamese construction codes, construction standards and constructed projects for LIH in Vietnam, followed by different housing type proposals. Other related planning and construction standards were also reviewed from Vietnam building codes and the Proceeding of Vietnam construction standards, and given in Appendix. Some models of storm resistant housing are also mentioned in consideration with real natural situation of Danang. Finally, the chapter examines minimum housing cost for those decent housing types propose. This will be basic to estimate effective demand as collating to these costs.

3.2 DEFINE MINIMUM HOUSING STANDARDS FOR LIHS

3.2.1 Floor area per capita

After referring to various sources as summed up in Table 3.1, this project proposes a minimum of living standard for LIHs in Danang which ranges from 9 to 15m² of floor area per capita. Based on these spatial standards, we propose minimum floor area for three types of households as follows:

Type 1: Household of 2 – 3 people, minimum total floor area needed is 30m² to 40m²

Type 2: Household of 4 – 5 people, minimum total floor area needed is 50m² to 60m²

Type 3: Household of more than 5 people, minimum total floor area needed is 70m² to 80m²

Table3.1: Define minimum standards for LIH

No	Minimum standard (m ²)	Document and reference					Minimum standards	
		TCVN ¹ 4450 : 1987 (Vol:IV)	HDOMP ¹ 1995	HDOMP ¹ 2004	HMC projects of LIHs	HIS, projects in Da Nang	Other sources	Proposed Min. standards
1	Floor area/per in urban area	8.0 - 17	8.0	15 -20	9-14	6 - 13		9 - 15
2	Unit area in apartment block							
2.1	01 room (2 – 3 per/HH)	28 - 34	16 - 24	30 - 60	18 - 42	12 - 39	18 - 45	35 - 40
2.2	02 rooms (4- 5 pp/HH)	46-48	32 - 40	60 - 100	36 - 70	24 - 65	36 - 75	50 - 60
2.3	03 rooms (6- 7 pp/HH)	56-58	48 - 56	80 - 140	54 - 98	36 - 91	54 - 105	70 - 80
2.4	04 rooms (>=8 pp/HH)	70 - 72	>= 64	120 - 160	72 - 112	48 - 104	72 - 120	85 - 95
3	Floor area of single house							
	Row - house for HH of 3 people	24 - 51	24	45 - 60	27 - 42	18 - 39	27- 45	30 - 40
	Row - house for HH of 4 people	32 - 58	32	60 - 80	36 - 56	24 - 52	36 - 60	47 - 50
	Row – house for HH of 5 pp	40 - 85	40	75 - 100	45 - 70	30 - 65	45 - 105	70 - 75
	Row – house for HH>5 pp	>85	>40	>100	> 70	>65	> 105	110 - 115

3.3 HOUSING TYPES SUITABLE TO LOW INCOME HOUSEHOLDS

Experiences in other cases show that high-rise apartment block is not a suitable type for the LIHs for several reasons: high construction cost, high monthly service and maintenance cost incurred on to residents. High rise buildings are only really become an option for low income housing provision when the value of land is increase.

In the Danang context, where land is still relatively cheap as compared to Hanoi or HCM city, the construction of high rise buildings for low income people is inappropriate and impractical. It is apparent from the facts that minimum standard housing for low income people is only low – rise buildings, including:

- a) Multi storey buildings of 4- 6 stories without elevators⁶; and
- b) Single or row houses of 1 to 2 stories

3.3.1 Multi storey building

When comparing construction costs of apartment blocks of 4, 5, or 6 stories on the same land, we found that 6 storey block cost the least (approx 2.2 – 3.008 Million VND/m²), followed by 5 storey apartment block of 2.235 – 3.049 mil VND/m² and 4 storey block requires a highest cost of 2.25 mil VND to 3.05 million VND per m² (see Table 3.16). However, considering the convenience of living for habitants, we propose 5-storey apartment block since it is not too high for residents who live in the top floor walking up by staircase everyday without elevators.

3.3.2 Single house on individual plot

For this housing type, the study proposes minimum land plot size. Based on the Building Code of Vietnam, and some constructed resettlement projects in Danang, we can propose for minimum land plot size that different household types need in Danang as follow:

Type 1: Household of 2 – 3 people, minimum land plot size is 57m²

Type 2: Household of 4 - 5 people, minimum land plot size is 60m² to 62.5m²

Type 3: Household of more than 5 people, minimum land plot size is 91m²

3.3.3 Compare to Danang housing program to 2010 – 2020

The Danang Housing Development Proposal also proposes 5-story apartment block as housing type for LIH. However, only one unit model of 50m² is applied for all different sizes of households while the project proposes for 3 unit models in accordance to 3 typical household sizes. Moreover, Danang housing program does not give minimum land plot sizes needed for housing building for LIH that meet requirement of minimum. Thus, the study has proposed wider ranges of housing units for different low-income household sizes, and has pointed out the most suitable housing types for low income people.

Table 3.2: Housing types proposed for the poor and the low income household in Danang housing program period of time from 2010 -2020

	Housing type	Number of storey	Total floor area/unit Total floor area/ HH	Land plot size (m ²)
1	Apartment block	Max :5	50m ²	Not mentioned
2	Hostel (apartment block)	Max: 5	30m ² – 40m ²	Not mentioned
3	Row house	2	120m ²	Not mentioned
4	Single/ independent house	1	40m ²	Not mentioned

Source: Danang Housing Development Proposal (2005 – 2010)

⁶ Buildings above these kinds of heights require an elevator, this increases unit construction costs dramatically.

3.4. MINIMUM CONSTRUCTION AND PLANNING STANDARDS FOR LOW INCOME HOUSING

Minimum construction standards and planning standards for the proposed housing types for low-income groups regarding setback, plot size, access, fire security, structural design, building and finishing materials, urban services and environment as referred to the Building code of Vietnam and Proceeding of Vietnam construction standard, and some architectural models are given in appendix.

3.5. STORM RESISTANT HOUSING

Experience from Typhoon Xangsane hit Danang Province on September 30, 2006 that requires serious consideration to storm resistant housing models for low income people, especially those who live near storm affected areas. Storm resistant housing should be able to withstand severe winds and heavy rainfall in a category 6 hurricane rating that can happen in the future in Danang. There is no specific technical standards require for storm resistant housing in “Proceeding of Vietnam construction standards”. However, considering different documents and references internationally as well as real situations in Danang, DOC has proposed 03 different storm resistant housing models for people who live in the place that is vulnerable to hurricane affect (See Figure: 3.4,3.5,3.6 in appendix)

Principle of technical design in 03 storm resistant housing models:

In terms of architecture design:

- Construction surface should be range from 38m² – 40m² (affordable for LIHs of self built)
- Discouraging households from building large structurally weak housing (it was mentioned in the UN HABITAT report). House should not be too high, especially brick house. The most suitable house height is from 4m to 5m
- Extend living floor area by utilizing mezzanine or loft space

In terms of structure:

- Using reinforced concrete frame (Concrete label 300 follow Proceeding of Vietnam construction standard)
- Brick walls have to be supported by reinforced concrete beams
- Metal roof panel (.4 mm thick) supported by steel beams (40mm x 40mm) and strong connect to these steel beams

In terms of materials:

- Using metal frames for doors and windows to withstand big storms
- Using wooden panel main doors and plastic panel for small, inner doors
- Using wooden shutter windows

3.6. COST ESTIMATES FOR HOUSING MODELS

3.6.1. Cost estimates for multi-storey building

We consider cost of an apartment comprising of land cost and construction cost, from that we can estimate unit cost for 1m². For simple calculation, we consider a 4- to 6-storey building with typical floor plan of 500m²; will necessitate 1250m² land (Vietnam Buidling code). This study applies the construction cost/m² is 2.0-2.8 million VND (the construction price in 2006 in Danang) and land price in suburban area of 0.47millionVND/m² as input for calculation. The results are as follow (See table 3.3 : *Investment cost for different housing models*)

Type 1: if we build 04 storey apartment block, the maximum density regulated in Vietnam building code is 47% and max. floor area ratio is 1.88 , then total floor area is 2350m², and the compound price unit is **2.25 – 3.05 million VND/m²**

Type 2: if we build 05 storey apartment block, the maximum density regulated in Vietnam building code is 40% and max. floor area ratio is 2.00 , then total floor area is 2500m², and the compound price unit is **2.235 – 3.049 million VND/m²**

Type 3: if we build 06 storey apartment block, the maximum density regulated in Vietnam building code is 39% and max. floor area ratio is 2.34 , then total floor area is 2925m², and the compound price is **2.2 – 3.009 million VND/m²**

As mentioned in section 3.3, the housing type of 05 apartment block is the most suitable type regarding to habitants' convenience, therefore is concluded that the compound price to invest is **2.235 – 3.048 million VND/m²** construction of floor area.

3.6.2. Cost estimates for single house

In order to project estimation cost for land plot and house building, it is necessary to based on land plot sizes and minimum floor area needs that are proposed in section 3.3. Applying the land price as average land price in new resettlement area of 1.2 - 1.6million VND/m² and construction cost ranges from 0.6 – 1.4 million VND/m² of construction, we can have compound price for each type of single house.

Type 1: one storey single house for 3 people HH : with land plot size of 57m², construction area is 40m², total land cost is 91 million VND and building cost is 24 – 56million VND depending on housing structure (wooden or reinforced concrete). Then the compound price is 115 – 147million VND

Type 2a: two storey house for 4 people HH: land plot size of 60 m², construction area is 60m², total land cost is 96 million VND and building cost is 88 – 100 million VND (reinforced concrete structure). Then the compound price is 184 – 196million VND

Type 2b: two storey house for 5 people HH: land plot size of 62.5 m², construction area is 75m², total land cost is 100 million VND and building cost is 90 – 105 million VND (reinforced concrete structure). Then the compound price is 190 – 205million VND

Type 3: two storey house for more than 5 people HH: land plot size of 91.6 m², construction area is 110m², total land cost is 109.2 million VND (place that has cheaper land price) and building cost is 132 – 154 million VND (reinforced concrete structure). Then the compound price is 241 – 263million VND

It can be stated that land price for building single or row house is very expensive in compare to income rate of LIH. Normally, spending for land represent for 50% or more total investment cost for both land and house. Therefore, building single house is the most suitable solution for LIH who already have land from inhabitant or compensation; otherwise it is difficult for LIH to afford for both land and construction house.

Table 3.3: Estimated cost per person

Unit description	Cost /m ² (Mil. VND)		Cost/person (approx. 15m ² /person) (Mil.VND)	
	Basic cost	Land cost	Basic cost	Land cost
Multi storey apart. Block				
4 storey apart. block	2.0 - 2.8	0.47	30 - 42	3.75
5 storey apart. block	2.0 - 2.8	0.47	30 - 42	3.525
6 storey apart. block	2.0 - 2.8	0.47	30 - 42	3.00
Single house				
57m ² land plot - 01 storey house (3 pers/HH)	0.6 ⁷ - 1.4	1.6 ⁸	8.0- 21	30.3
60m ² land plot -02 storey house (4pers/HH)	1.2 - 1.4	1.6	18 - 21	24
62m ² land plot -02 storey house (5pers/HH)	1.2 - 1.4	1.6	18 - 21	20
91m ² land plot - 02 storey house (>5 per/HH)	1.2 - 1.4	1.2	18 - 21	<=18.1

3.6.3. Reducing Construction Cost For Low Income Households

Construction cost can be reduced by using appropriate design solutions design solutions.

⁷ Construction cost to build one storey, brick , tiled roof houses in some resettlement projects

⁸ Average construction cost referred to PIIP resettlement project

- Building low rise building, or multi storey buildings (4, 5, 6 storeys) with light roof will cost low price. These kinds of buildings should have reinforced concrete frame and are able to improve when needed (ie : improve interior quality, create s large space from small spaces, easy to contribute 2 units into 01 large unit ...)
- Equip low-cost equipments that mostly considering of durable and quality rather than aesthetic design
- Use medium price materials, changeable cover materials, easy to upgrade depending on household's need
- Common spaces as staircase, elevators, lobby ...should be designed with minimum standards while are convenient for users
- Floor plans and building form should be designed in a coherent, simple way. All units in the same floor should be connected in short, suitable lobby.
- Span between columns should be designed carefully such that technical systems as electric and water system can be equipped concentrated. Therefore, spending for technical infrastructure systems will reduce significantly.

Table 3.4: Investment cost for different housing models

Housing typology	No. of storey	Constr. area (m2)	Max. Building coverage %	Max. FAR	Total floor area (m2)	Land plot size (m2)	Land price ⁹ Mil VND/ m2	Land cost Mil VND	Estimated constr. Cost/ m2	Total constr. cost Mil VND/ m2	Compound price (Mil/1 m2 of floor area)
Multi-story building	4	587	47	1.88	2350	1250	0.47	587.5	2.0 – 2.8	4,700 – 6,580	2.25 – 3.05
	5	500	40	2.00	2500	1250	0.47	587.5	2.0 – 2.8	5,000 – 7,000	2.235 – 3.049
	6	487.5	39	2.34	2925	1250	0.47	587.5	2.0 – 2.8	5,850 – 8,190	2.2 – 3.008
Single house											
3 pers	1	40	70	0.7	40	57	1.6	91	0.6 - 1.4	24 – 56	115 - 147
4 pers	2	30	50	1.2	60	60	1.6	96	1.2 -1.4	88 -100	184 - 196
5 pers	2	37.5	60	1.2	75	62.5	1.6	100	1.2 -1.4	90 - 105	190 - 205
> 5 pers	2	55	60	1.2	110	91.6	1.2	109.2	1.2 – 1.4	132 - 154	241 - 263

3.7 CONCLUSION

In this chapter we have sought to determine a minimum housing standard for LIH that have taken living floor area per person as one indicator. From minimum floor area per capita proposed, we have floor area standards by different types of households as: ii) Household of 2 – 3 people the minimum total floor area needed is **30m2 to 40m2**; ii) household of 4 – 5 people the minimum total floor area needed is **50m2 to 60m2**; and iii) Household of more than 5 people, minimum total floor area needed is **70m2 to 80m2**. The study also proposes two housing types for the LIHs in Danang: Multi storey buildings of 5 stories without elevators; and single or row houses of 1 to 2 stories. In term of housing cost (including land), apartment block of 5 storey is the most suitable housing model for LIH who need an accommodation while do not have land. Those who have land, building single house that not exceed 2 stories is the reasonable way.

Moreover, this chapter also review related minimum construction standards and planning standards that should be apply to housing building for LIH. These standards mostly come from building code of Vietnam, Proceeding of Vietnam construction standards and LIHAs proposals. Storm resistant housing models are also provided to contribute to an overall picture of alterative housing development technologies for LIH in Danang.

⁷ Land price calculated for a suburban area , base on the land price list regulated by Danang PC in a decision number 62/2006/QĐ-UBND

4. EFFECTIVE DEMAND FOR LOW INCOME HOUSING

4.1 INTRODUCTION

Differed from needs - defined as the quantity of housing that is required to provide accommodation of an agreed minimum standard for a population given its size, household composition and age distribution, ignoring ability to pay for it, housing demand is more usually associated with requirement of individual household over or above 'need', telling more about choices which households make in moving house or in gaining access to a new dwelling. Effective demand is demand supported by ability to pay

This section has three objectives, firstly estimating the effective demand for low income housing. Secondly, using the estimates generated in chapter 3 and chapter 4 to estimate the gap between LIH's ability to pay for adequate housing at minimum standard and the cost for it. Thirdly, it looks at current sources of funding available to households and likely future requirement for housing finance amongst these groups.

4.2 ESTIMATING EFFECTIVE DEMAND FOR LOW INCOME HOUSING

Effective demand is essentially the maximum amount available for households to spend on housing. It can be arrived at by using the following formula:

Average per capita income (by VHLSS quintile) - Minimum consumption expenditure + Spend on rental/maintenance/saving for housing (in Minimum consumption expenditure) = Maximum available funds for housing = Effective demand for housing.

To calculate the level of effective demand amongst LIHs we assume that all those living in accommodation which has been identified as inadequate or in need of maintenance would choose to invest in better housing if they had the financial wherewithal. Any excess income that these households have in excess of their basic minimum consumption needs would be a source of funds for housing.

For the purposes of this section we focus on the demand for new units

Current effective demand

Table 4.1 gives estimates of funding available to LIH for housing. As the average income of the first quintile is below the poverty line of GSO, the level of effective demand amongst these groups is negative, at *-75,000 VND/person/month*. In aggregate the total effective demand for housing of this group is negative, reflecting a shortage for housing amongst the lowest income group. It is suggesting that, any low income housing scheme is unlikely to be self-sustaining and will require transfers of funds from elsewhere. As most households in need of new units fall into the first income quintile, in terms of unit need, effective demand is negative.

For the second quintile, households have on average a maximum of *108,000 VND/person/month* to spend on housing.

Future effective demand

Table 4.2 extends this analysis to assess the kind of effective demand which may exist in the coming years. If the income of lower groups does increase even a little over inflation (assumed 4% per annum), if property prices do not increase relative to other prices, and the amount of funds available for housing even in these low income groups will show a significant increase, suggesting that in the longer term the scope for self sustaining housing finance models and the role of the private sector will increase substantially.

However, these estimates are likely to underestimate the funds LIH themselves can provide for housing since households tend to underestimate their income levels and often have higher income levels than reported in household surveys.

Table 4.1: Estimation of effective low income demand for housing **

	Household size	Minimum expenditure/month (minus expenditure on housing) (100 VND)	Average income/month (1000VND)	Effective demand/HH/month (1000VND)	Effective demand/HH/year (1000 VND)	HH in need of units/maintenance/upgrading	Total Effective demand (million VND)	Total effective demand per year(million VND)
First quintile	1	390	316	-74	-884	0	0	-110,816
	2	779	632	-147	-1,768	0	0	
	3	1,169	948	-221	-2,651	0	0	
	4	1,559	1,264	-295	-3,535	5,348	-18,906	
	5+	1,949	1,580	-368	-4,419	20,799	-91,910	
Second quintile	1	390	500	110	1,322	0	0	190,178
	2	779	1,000	220	2,645	0	0	
	3	1,169	1,500	331	3,967	5,745	22,792	
	4	1,559	2,000	441	5,290	16,045	84,873	
	5+	1,949	2,500	551	6,612	12,479	82,513	
Total effective demand								79,362

Note: * The HH income structure derived from the HIS is roughly comparable to that of the VHLSS data, it is assumed that the bottom most 20% in the HIS household structure breakdown in table 2.12 are roughly equivalent to the bottom 20% in the VHLSS data and so forth. The above table populated accordingly. **Income values have been adjusted to account for income growth assuming that income growth in the lowest income quintiles is roughly approximate to income growth in agriculture approximated by per capita income growth. Effective demand is essentially the maximum amount available for households to spend on housing arrived at using the following formula: average per capita income by VHLSS quintile - minimum consumption expenditure + spend on rental/maintenance/saving for housing in minimum consumption expenditure = maximum available funds for housing = effective demand for housing

Table 4.2: Projected effective demand present - 2010

Pop. growth rate	Year	Estimated LIH in need (excluding resettled households and typhoon damage)*	Average effective demand/HH/year** (1000 VND)	Total effective demand (million VND)	Total for period (million VND)
2.94	Current	60,416	1,314	79,362	97,316
	2007	2,220	1,245	2,765	
	2008	2,127	1,856	3,949	
	2009	2,039	2,492	5,080	
	2010	1,954	3,153	6,160	
4	Current	60,416	1,314	79,362	104,250
	2007	3,020	1,245	3,761	
	2008	2,924	1,856	5,428	
	2009	2,831	2,492	7,055	
	2010	2,741	3,153	8,643	

Note: * Based upon a total population of 202,739 households.**Based on an average household current size of 4.6, and thereafter a household size for newly formed and in migrant households of 3. Barring the current situation for which estimates have been produced already the calculation assumes that half the households fall into the bottom group and half into the top, incomes are assumed to increase by 4%, other prices are kept constant. Need projections are based upon population estimates given in chapter 2, LIH are projected to decline to around 30% of households in 2010.

4.3. HOUSEHOLD ASSETS

Household assets can be sources to bridge the gap between household's funds available and household's housing need. Assets can be land or in other forms. Data derive from HIS and other reference sources indicate that people in Danang have considerable assets that can be disposed for housing.

Regarding land holding, most households in the sample owned their own houses and land across all income groups, these estimates suggest that only around 10% of households in the 1st and 2nd quintiles do not own their own housing (Table 4.3).

Table 4.3: House ownership by income group percent

Self-owned	Household Personal Income level					
	LL	L	LM	M	H	Total
Owner occupier	88.7	90.8	91.3	95.8	95.1	92.1
State owned	0.7	0.7	1.2	0.7	0.0	0.7
Private rental	3.3	3.5	3.1	3.5	3.9	3.4
Collective ownership	0.0	0.0	0.6	0.0	0.0	0.1
Other	7.3	4.9	3.7	0.0	1.0	3.6

There is no correlation between either household income or household size and land holdings. Even low income groups have significant land holdings. Amounts of households' land housing vary significantly: from under 10 square meters to over 1500; this variation also shows no correlation to income levels or household size. However, this does not account for the value of assets household have because land values varies widely according to locations and condition. The bottom 40% or so of households identified as being in need of new housing have in average 53 m² of land.

Other assets

Aside from the 10% of low income households who have no real estate assets in the sample and although land holdings are in some cases limited, even the lowest income groups in the poorest houses, have some assets which could contribute to the cost of housing. For example around 75% of households in the lowest income category bought their current housing

outright from their own savings. When being asked of future preferences for housing purchase, around 8% of LIHs would be willing to pay in full in advance and about 35% would pay a 50% deposit in advance.

However, it is extremely difficult to put a specific value on households' assets, thus not possible to include these assets in estimating the gap between effective demand and actual cost. However, differing payment options have been considered which should give some indication of differing costs per unit depending on the assets available to households.

4.4. ESTIMATING THE FUNDING GAP FOR LOW INCOME HOUSING

Based on calculated costs for proposed housing types in Chapter 3, the estimated monthly housing costs for mortgage and rental housing excluding land cost and including land cost are given in tables 4.4 and 4.5 respectively. Two important issues are immediately obvious from consideration of these tables. Firstly, rental costs are in general higher than mortgage costs as private investors require a profit from their investment. Secondly, it is only when the value of the land is taken into consideration that high rise buildings become a viable option. Costs for housing maintenance and upgrading are more difficult to estimate, as they are likely to be highly variable. This is considered in greater detail below when funding models are considered. For the time being we focus on unit provision.

Clearly the funds available to LIH are insufficient to finance minimum standard housing. The difference between the cost of housing and the funds available to LIH is estimated in table 4.6 for this year. The extra funds needed to cover the aggregate yearly demand for the current housing backlog range between 60 billion VND to 170 billion VND depending on the kind of housing provision made. Although household assets were not included in this estimation for the reasons given above, if most households have land the funding gap may be reduced dramatically. If even 50% of households can afford a mortgage package excluding the price of land and with a 50% deposit this would reduce the funding gap by around 40-50%.

Table 4.7 presents estimates of the yearly cost of future housing provision calculated for units for three. Two important caveats should be borne in mind when considering these estimates. Firstly, they show the funding gap shrinking every year as household incomes rise relative to inflation (estimates of which include house price), and as the proportion of LIHs fall. This maybe unrealistic, income levels in the agriculture which determines the reserve wage rate for immigrants may not rise at the predicted levels, indeed growth in this sector is likely to stagnate relative to the modern sectors in years to come. So it is not clear that income levels in this sector grow so quickly, and it is likely that income inequality will increase.

Secondly, as the modern urban sectors and income levels within them grow more rapidly households in higher income quintiles are likely to spend a greater proportion of their increasing incomes on real estate investment. This may mean that real estate prices increase more rapidly than other prices, which in turn means that shelter may become less affordable for LIHs. Indeed the recent history suggests this is highly likely, especially given the limited ability the government seems to have to control activity on the property market. This latter point is central to the whole issue of funding housing development in Danang and is a point to which we return.

Nevertheless, these estimates do constitute a preliminary framework for the development of more accurate future predictions.

4.5. CONCLUSION

In this chapter we have assessed roughly the effective housing demand Danang, particularly of household at and below new threshold of LIHs. The assessment reveals that effective demand of the bottom group is negative at – 75,000 VND/person/month, making aggregated annual effective demand of this groups is – 110,816 million VND. The second bottom group has average effective demand of 108,000 VND/person/month, makes aggregated annual effective demand is 190,178 millions VND. Thus total effective demand of the LIHs in Danang (2 bottom groups) is estimated to be 79,362 millions VND per year.

The chapter also estimated current fund gap necessary to bridge effective demand to housing needs at the minimum standards proposed in Chapter 3. The extra funds needed to cover the aggregate yearly demand for the current housing backlog range between 60 billion VND to 170 billion VND depending on the kind of housing provision made. If even 50% of households can afford a mortgage package excluding the price of land and with a 50% deposit this would reduce the funding gap by around 40-50%.

The issues of household assets in Danang have also discussed in this chapter. Evidences have shown that households have certain resources that can be disposed for housing improvement, so that the funding gap may be reduced dramatically. However, detail data is not available to take these assets into estimation.

The remaining question is that how to provide for and mobilize all social resources to reduce the funding gap in the most effective way. The next chapter will introduce several financial models to this question.

Table 4.4: Estimated housing costs for mortgage and rental excluding land

Housing type and cost				Estimated mortgage repayments/HH/month (1000 VND)*			Estimated rental cost /HH /month(1000 VND)***
Housing type	Based on household size	Average Cost/person (Million VND)**	Cost per HH (Million VND)	100% over 30 years	50% over 20 years	50% over 10 years	
Multi storey apart. Block							
4 storey apart. block	3	36.0	108	792	452	655	900
5 storey apart. block	3	36.0	108	792	452	655	900
6 storey apart. block	3	36.0	108	792	452	655	900
Single house							
57m2 land plot - 01 storey house (3pers/HH)	3	15.5	47	341	194	282	392
60m2 land plot -02 storey house (4pers/HH)	4	19.5	78	572	326	473	650
62m2 land plot -02 storey house (5pers/HH)	5	19.5	98	715	408	591	817
91m2 land plot - 02 storey house (>5 per/HH)	5+	<19.5	<98	<715	<408	<591	<817

Note: *With an APR of 8%, ** based on 15m2/person, *** based on a return on investment of 10%¹⁰.

Table 4.5: Estimated housing costs for mortgage and rental including land

Housing type and cost				Estimated mortgage repayments/HH/month (1000 VND)*			Estimated rental cost HH/month(1000 VND)***
Housing type	Based on household size	Average Cost/person (Million VND)**	Cost per HH(Million VND)	100% over 30 years	50% over 20 years	50% over 10 years	
Multi storey apart. Block							
4 storey apart. block	3	39.8	119	873	498	722	994
5 storey apart. block	3	39.5	119	873	498	722	988
6 storey apart. block	3	39.0	117	859	489	710	975
Single house							
57m2 land plot - 01 storey house (3 pers/HH)	3	45.8	137	1,005	573	831	1,145
60m2 land plot -02 storey house (4pers/HH)	4	43.5	174	1,277	728	1,056	1,450
62m2 land plot -02 storey house (5pers/HH)	5	39.5	198	1,453	828	1,201	1,646
91m2 land plot - 02 storey house (>5 per/HH)	5+	<37.6	<188	<1,380	<786	<1,140	<1,567

Note: *With an APR of 8%, ** based on 15m2/person, *** based on a return on investment of 10%.

¹⁰ The adoption of this rental cost is not unrealistic if the indicative rental data from the HIS is to be believed, which compared to rental costs in developed countries such as the UK at about 1% of property value, is much higher. This is probably more to do with inflated property prices in developed countries than anything else.

Table 4.6 : Estimated current funding gap for current LIH unit need

Income group	LIH description			50% mortgage over 20 years, detached house including land			50% mortgage over 20 years, detached house excluding land			Rental excluding land		
	Household size	Effective demand/ HH/year	Number of households*	Unit cost per year (1000 VND)	Yearly funding gap/HH (1000 VND)	Total funding gap (million VND)	Unit cost per year (1000 VND)	Yearly funding gap/HH (1000 VND)	Total funding gap (million VND)	Unit cost per year (1000 VND)	Yearly funding gap/HH (1000 VND)	Total funding gap (million VND)
First quintile	1	-884										
	2	-1,768										
	3	-2,651										
	4	-3,535	1,783	8,732	12,268		3,915	7,450		7,800	11,335	
	5+	-4,419	7,131	9,937	14,356	124,245	4,893	9,312	79,687	9,800	14,219	121,606
Second quintile	1	1,322										
	2	2,645										
	3	3,967	1,387	6,876	2,908		2,334	-1,634		4,700	733	
	4	5,290	8,716	8,732	3,443		3,915	-1,375		7,800	2,510	
	5+	6,612	3,367	9,937	3,325	45,235	4,893	-1,719	-20,040	9,800	3,188	33,629
						Total		Total		Total		Total
						169,480		59,647			155,235	

Note: *This table is based on estimates presented elsewhere in this chapter. This table covers unit need only and does not consider housing maintenance need. This table is also based on housing need estimates which exclude housing unit need caused by the recent typhoon.

Table 4.7: Estimated funding requirement present to 2010

Household characteristics					Housing and land, based on 3 people 100% mortgage over 30 years				Rental apartment land and including land costs				Rental apartment excluding land costs			
Pop. growth rate	Year	Estimated LIH in need *	Ave. effective demand/HH/year* (1000 VND)	Total effective demand/year (million VND)	Unit cost per year (1000 VND)	Yearly funding gap/H (1000 VND)	Total funding gap for year (million VND)	Total funding gap for period (million VND)	Unit cost per year (1000 VND)	Yearly funding gap/H (1000 VND)	Total funding gap for year (million VND)	Total funding gap for period (million VND)	Unit cost per year (1000 VND)	Yearly funding gap/H (1000 VND)	Total funding gap for year (million VND)	Total funding gap for period (million VND)
2.94	Current	18,454	1,314	79,362	12,060	10,746	198,314	280,936	11,984	10,670	196,912	278,899	10,800	9,486	175,062	247,176
	2007	2,220	1,245	2,765		10,815	24,005			10,739	23,836			9,555	21,208	
	2008	2,127	1,856	3,949		10,204	21,706			10,128	21,544			8,944	19,026	
	2009	2,039	2,492	5,080		9,568	19,507			9,492	19,352			8,308	16,938	
	2010	1,954	3,153	6,160		8,907	17,404			8,831	17,255			7,647	14,942	
4	Current	18,454	1,314	79,362	12,060	10,746	198,314	312,317	11,984	10,670	196,912	310,039	10,800	9,486	175,062	274,554
	2007	3,020	1,245	3,761		10,815	32,660			10,739	32,430			9,555	28,855	
	2008	2,924	1,856	5,428		10,204	29,836			10,128	29,614			8,944	26,152	
	2009	2,831	2,492	7,055		9,568	27,089			9,492	26,874			8,308	23,522	
	2010	2,741	3,153	8,643		8,907	24,417			8,831	24,209			7,647	20,963	

Note: * Based upon a total population of 202,739 households. Current need is based on the HIS data alone and does not include DoLISA estimates of homeless households, typhoon damage - but does include estimated value for Hoa Vang. **Based on an average household size of 4.6. Barring the current situation for which estimates have been produced already the calculation assumes that half the households fall into the bottom group and half into the top, incomes are assumed to increase by 4%, other prices are kept constant. Need projections are based upon population estimates given in chapter 2, LIH are projected to decline to around 30% of households in 2010, assuming this decline is uniform this suggests a decline in the proportion of LIH to 30% by 2010.

5. FUNDING LOW INCOME HOUSING IN DANANG

5.1. INTRODUCTION

Designing appropriate financial mechanisms for the provision of LIH is difficult. There are no countries where policy for low income housing funding can claim complete success. Funding mechanisms for low income housing need to be cost effective while offering housing solutions which are affordable and attractive to LIHs.

Following the previous chapter on effective demand and funding gap in low income provision in Danang, this chapter at first review household financial activities currently in Danang by utilizing evidence from HIS. It then proceeds to the review of public and public-initiated financial activities for housing in Danang, with discussion on various issues of the current practice. Finally, based on the argument that the most effective way to the low-income provision in Danang is to help people's housing activities rather than direct intervention by public sector, the chapter suggests a number of options of financial models that can be applied to Danang to different extend.

5.2. HOUSEHOLD'S HOUSING FINANCE – EVIDENCE FROM THE HIS

This section, utilizing data from HIS, tries to depict some characteristic of housing acquisition activities, financial means by which households acquired their current housing and means they may want to have access to in the future, as well as information on what, if any, loan provision was preferred

Firstly, according to result of the HIS, it seems that there a lot of activity in the property market, with over 50% of households being acquired in the last 10 years. Interestingly, LIHs seem to be just as active on the housing market as other groups.

Secondly, when comparing method of acquisition of households between income groups, we find that there is a significant difference between the lowest income group and others in methods of acquisition while there are no significant differences among the other four groups. More specifically:

- The bottom income group did not report inheriting their property – perhaps suggesting inter-generational poverty or that not inheriting family asset has a causal role to play in future income levels (0% in table 5.1)
- The bottom income groups are more likely to purchase their housing (35.7% from individual and 7.1% from developers) whereas other income groups are more likely to inherit or build housing themselves. (Table 5.1)
- Self-built is the most popular method for all income groups, proving this as main source of housing supply in most of Vietnamese cities. (Table 5.1)

Table 5.1: Methods of housing acquisition by income group (percent)

Method of housing acquisition	Average Household Income/person (percent of group)					
	LL	L	LM	M	H	Total
Inheritance	0.0	13.6	10.8	15.8	14.5	13.9
Purchase from developer	7.1	1.7	3.6	1.0	1.7	1.9
Purchase from individual	35.7	11.9	15.3	10.7	11.8	12.6
Rent	7.1	6.8	8.1	3.6	3.7	4.7
Compensation	0.0	1.7	0.0	2.0	1.7	1.5
Self built	50.0	61.0	57.7	61.7	62.3	61.0
Others	0.0	3.4	4.5	5.1	4.4	4.4

Source: HIS 2006

Thirdly, when looking at a range of different financing options and people's preference on these options (Appendix 5.1.), we find that

- Demand for loan financing seemed high even amongst low income groups
- Lower income households in general show a greater preference for 100% mortgages and longer repayment periods
- The number of households wishing to purchase housing outright reflect more traditional attitudes to housing finance, and perhaps the high level of savings amongst many households.

Fourthly, based on HIS data, we can compare current supply and demand for different types of housing finance (Appendix 5.2, 5.3), including (1) Own saving, (2) Compensation payments, (3) Secured loan, (4) Loan from land fund, (5) Borrow from individual, (6) Microfinance. Demand here implies the expressed desire of respondents for different forms of housing finance. Result of the comparison reveals a number of significant trends.

- Firstly, poorer house holds tend to rely on more highly differentiated funding sources, essentially trying to scrape together enough money to purchase housing.
- Secondly, amongst all groups of households the largest proportion of tended to rely, and wish to rely on personal savings to fund their housing (this in turn suggests, even among some of the poorest groups, that households are able to save significant amounts).
- Thirdly, demand for secured loans from banks or financial institutions to facilitate housing purchase are significantly higher than supply amongst all groups especially amongst low income groups.
- Fourthly, demand for microfinance loans also outstrips supply but less so than demand for secured loans, it is possible that households are not familiar with the concept of microfinance. This maybe because the question posed sought to establish supply and demand of financing for housing units small microfinance loans probably did not appear as an option for such a costly purchase.
- Finally, the importance of both financing from the city land fund (i.e. deferring payment for land plots) and compensation payments reflects the significance of resettlement in the city.

At last, the HIS also gathered data on levels of cost of housing households thought they could afford. Unsurprisingly most LIHs feel they can only afford a house price below 50 million VND (Appendix 5.4) According to the cost estimates this may cover construction costs but would be unlikely to cover the cost of land for the cheapest kind of housing.

5.3. CURRENT PUBLIC HOUSING FINANCE MECHANISM IN DANANG

As noted in the ADB studies on housing finance¹¹, in Vietnam recent government interventions in the housing sector have been limited to the following:

- The sale of Government housing;
- Granting access to State land for housing development;
- Subsidies for infrastructure development;
- Subsidized housing for sale or rent to LIH and priority persons;
- Land, house and rental price regulation; and
- Land and property tax exemptions

¹¹ ADB PPTA xxxx and PPTA XXX

In the Danang context the range of interventions has been more limited, including: selling off housing stock; granting some land for housing development to lower income groups (e.g a 40 ha site for the development of housing for in migrants – yet to be built); and the provision of subsidized housing for sale or rent to priority households (many of them resettled households). This section will review public funding mechanism for housing in Danang.

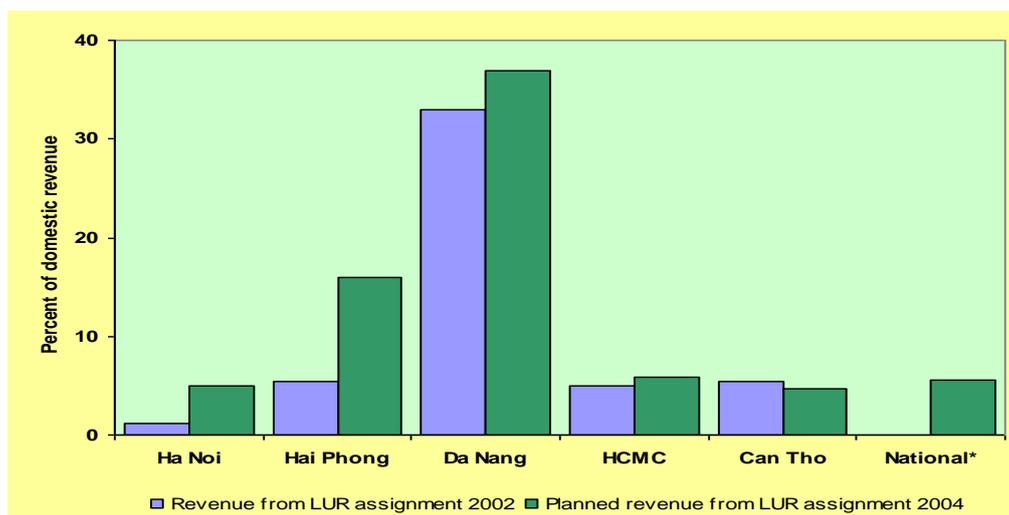
5.3.1. Municipal finance

In the current climate of decentralization and the emphasis on municipal level autonomy funds raised at the municipal level are likely to be extremely important in the financing of low income housing. In Danang the relationship between municipal finance and low income housing is even closer, revenues generated through redevelopment and resettlement projects are extremely important.

Sources of municipal finance in Danang are limited, what tax revenues are available are very low (such as land use tax). There is no local value based property taxation, nor income taxation. What taxes are collected are administered by a taxation system which is under direct central control, these are remitted back to the central government then reallocated back to the city. As a result the cities funding base is low and the opportunity to raise funds limited.

An area where the city administration can exercise control, and in virtue of this generate revenue is through its control over land use. Danang has used this extensively to raise revenues. Revenue from land use fees and land rent in Danang accounted for over 40% of budget; it's dramatic increase accounted for around 81 % of the increase in budget revenues between 2001-2002, 59% of the increase between 2002-2003, and 67% of the increase between 2003-2004. This is much higher than for comparable cities such as Hai Phong and Can Tho, see figure 5.1 below. In the mean time, revenues from taxes on land accounted for just 0.23% of revenue in 2004. The land use plan readjustment for 2004-2010 suggests that 93% of these revenues are destined for reinvestment in development expenditures and compensation payments. According to city officials the reliance on land allocation to generate revenues has already reached its zenith and is likely to decline in coming years.

Figure 5.1: Revenues from land allocation fees in the five centrally governed cities



Source: EAP Sustainable development on the Urban Fringe, World Bank 2007 (draft)

This source of revenue may constitute a means of facilitating development in the absence of sufficient private sector interest and limited local ability to recover costs through taxation for the public goods implied by urban development. However, there are a number of major drawbacks:

- Reliance on land conversion does not represent a sustainable source of funding.

- While it maybe a useful way of funding capital investment, recurrent costs must be funded through other mechanisms
- It may encourage over zealous recovery of land (and market volatility)
- In the absence of demand management instruments it may encourage speculation – though the release of too much land into the market
- The redevelopment entailed causes a great deal of resettlement which may not be entirely necessary.

In the medium term it is imperative that Danang seek to develop more sustainable funding mechanisms, for example municipal bonds. Whatever the shape of financing in the future it is likely to rely more heavily on local taxation.

5.3.2. Public Housing and Danang Housing Management Company

Danang HMC manages all the public housing in the city: old stocks and the recently built apartment blocks. As discussed in the phase I report most of the old housing stock constructed prior to 1980 is either being sold to current residents or is scheduled for redevelopment (yet at unspecified time in the future). Most of the housing stock designated for sale has already been sold with only about 16% of this stock still remaining to be sold. Funds generated are remitted back to the housing fund for use in future housing projects. However, details on how these finances are used to fund housing construction have not been available.

Most new housing stock built since 2000 is designated for resettled households, or in some cases key target groups such as government employees. In these cases, households are generally granted long term allocations to a unit. Households have rental contracts with the HMC. In some cases to sweeten the bitter pill of resettlement households were offered rent holidays for up to three years and there are some reports that it has been subsequently difficult to encourage the payment of rents.

In terms of the financial management of this social housing provision, there is a question mark over rental fees in terms of their payment by households. Although 40% of rents are remitted back to the HMC for administration and maintenance it is not clear that any systematic maintenance takes place (if at all). How successful HMC is at collecting rents is also unclear as figures were not available on this. The remaining 60% of rental collections is remitted back to the housing fund.

5.3.3. Funding resettlement housing

In general, resettlement developments are funded from the sale of development rights on recovered and subsequently serviced land made available to private buyers. There is some suggestion that monies from the housing fund were also used in the construction of resettlement housing, however, to what extent this is the case is not clear.

Resettlement housing currently accounts for essentially all public housing and publicly assisted private housing provision in Danang. This includes the provision of apartments, or what is euphemistically called 'low income housing' and the provision of serviced land plots for housing construction. Regarding the provision of apartments, funds come from either the sale of development rights on the recovered and upgraded land or from the housing fund. The exact source of funds in these cases is not clear. Nor is it clear that financial provision has been made for the maintenance of these buildings in the case where rent is waived or difficult to collect.

Regarding the provision of serviced plots for self built housing, this seems by far the most common form of resettlement provision in Danang. Households are compensated for the land

and housing they lose in the resettlement process with money. They are also given the right to buy one or more resettlement plots at concessional rates (which are generally about 60% of market price depending on the exact compensation package and the local price frame which determines the administrative price for land). Households with greater amounts of recovered residential and garden land, or large extended households living together with more than one household registration book often receive more than one plot of land. The cost of the plots on resettlement sites even at concessional prices, let alone the cost of building new housing units, is usually more than the funds households receive in compensation for their previous real estate holding. The allocation of more than one plot to some households allows them to sell plot allocations which are surplus to their needs at market rates and use the funds to build accommodation. Households who are only eligible for one plot of land are often unable to buy the resettlement plots allocated to them outright. In these cases the PMU continues to hold the LURC for the land and the households borrow the money which they pay back after a loan period of 5 to 10 years at an interest rate of around 5%. The number of plot allocations on resettlement sites being sold on in the city is clear from a visit to any local real estate agent (*nha dat*), in outlying areas around 40% of plots advertised for sale were actually plot allocations on resettlement sites (referred to as '*phieu*').

In a recent survey of resettled farm households conducted in Danang it was found that around 57% of households in the sample received more than one plot allocation. Table 5.2 gives an idea of the extent to which the practice of plot on selling and borrowing to buy resettlement plots takes place.

Table 5.2: Plot allocation and lending

	Plot 1		Plot 2		Plot 3		Plot 4		Plot 5	
	No.	% ¹²	No.	%	No.	%	No.	%	No.	%
Sold on	12	6	44	22	21	11	10	5	2	1
Retained	184	92	69	35	15	8	3	2	1	1
<i>Of which retained plots had loans (% of plot value):</i>										
<51%	12	7	6	9	0	0	0	0	0	0
50>%	27	15	16	23	4	27	0	0	1	100

Source: EAP Sustainable development on the urban fringe: Vietnam case study, World bank 2006

The flexibility of the compensation package may lead to difficulties. In particular, it seems that no prudential lending criteria are adopted in extending loans to households. Although the loan is secured on the land, if not repaid it is not clear whether legal provisions on the repossession of land given as collateral on loans are adequate, nor whether it would be politically feasible (or socially desirable) to repossess land occupied by poor households in the event of default. Approximately one third of households in a survey conducted of resettled farm households had borrowed to purchase their resettlement lot allocations. The same survey also noted that given the apparent inability of many resettled farm households to find new sources of income and employment the possibility of loan default in the medium term is very real. In short, the method of extending loans for housing secured on resettlement plots is potentially problematic, the total extent of this lending is not clear, nor is the extent to which these liabilities have been accounted for in the budgetary plans for the city (as the loan is often the value of the land which previously represented an unrealized state asset).

¹² The percentage of the survey sample (199) who either received plots or sold them on. The two rows of the table give the percentage of loans of a given size.

This practice seems to be leading to a high proportion of serviced but vacant land in some of the outlying areas of the city. The survey cited above shows that the majority of the second plots which were allocated in the resettlement survey continued to be held by households, either to pass on to their sons (they intended to use the plot to build a house in the future), or through use of land as a precautionary or speculatively held asset. In all three cases there may be no incentive to try and put the plot into productive use (other than by using it for small scale agricultural production), as there is insufficient demand for rented accommodation or the goods and services offered by small enterprises which may be viable on these sites (due in part to the peripheral location of many resettlement sites). The slump in the land market in Danang compounds this pattern meaning that people are unwilling to sell on land for construction until the price improves.



Vacant serviced plots on resettlement site in Lien Chieu used for growing vegetables, June 2006

Widespread on selling of land is not confined to households who have been allocated more than one plot of land. Even when only receiving one plot in compensation, 12% of households in the survey sold on their plots. Land administration on resettlement sites actually seems to encourage this on-selling through allocation of plots to households at below market value (even for second and third plots), and through allowing households to sell on their land allocation - before they receive their land use right – allows them to avoid transfer taxes and registration fees. Some reports suggest that land is transacted as many as 5 times from when the allocation is made.

Some households cannot yet afford to build houses on their plots and are waiting for the land price to rise either through a rising market, or through capitalization of infrastructure improvements into the property value before one selling part of their allocation to build housing.

What is clear from this general discussion is that it may actually encouraged speculation, and cause of plot vacancy in serviced resettlement areas. The practice of allocating more than one plot at below market value in effect allows PMUs and the city government to achieve, in the short term, the maximum liquidity from the resettlement procedure as they actually encourage households to reinvest as much compensation money as possible by offering multiple plots at concessional rates rather than giving larger financial payments in compensation, and so leveraging their cities main asset and main source of funds, namely land and the development rights to land. This approach also encourages households to take on some of the risk of land redevelopment. These financial resources allow PMUs to invest in the development of the site, or are remitted back to the city and used for development expenditures elsewhere.

Exactly what resettlement provision is offered to which household and the financing mechanism this implies depends upon a host of factors including the project involved, the vintage of the project, the household size, the number of registration books held within one household and the extent of previous land holdings of the household. Other common concerns expressed by households with regards to the financing of resettlement provision include:

- The expense of resettlement plots; and,
- Denomination of loans in gold (which has recently appreciated considerably against the dollar)

Resettlement provision is ad hoc, and notwithstanding the description given above resettlement allocations and financing are likewise ad hoc. It is also likely that short term political and financial considerations have affected compensation, resettlement and consequent funding decisions. It is therefore difficult to say anything more definitive about resettlement policy. To the extent that public housing development is resettlement development (which by all indications seems to be the all of it), this discussion of resettlement funding describes the mechanisms currently in place for the financing the construction of units for LIHs in Danang.

Box 5.1: International Experience of Resettlement Through Inner City Renovation Programmes

Over the years, many governments have been tempted to demolish deteriorating housing. In the 1960s and 1970s, inner-city renovation programmes led to the loss of large numbers of homes in Lagos, Rio de Janeiro and Tunis. In Delhi, some 700,000 squatters were moved in 1976 from the central areas to the outskirts. And, currently millions of people are threatened with eviction under similar kinds of circumstances.

Demolition normally creates more problems than it solves. In the centre of Mexico City, attempts to resuscitate commercial activity in the central area destroyed vast numbers of rental homes in the central city. It has been estimated that slum demolition and new road programmes during the 1970s led to the destruction of 50,000 rented rooms in three neighbourhoods alone.

Demolition certainly goes against the argument that **housing standards should be less concerned about physical quality than about the role that shelter plays in a household's survival strategy**. An example might be to compare the lot of an elderly retired farmer who has been resettled into a formal four-bedroom house and a rag picker who lived in a shack in the back garden of a relative. The retiree could not afford the payments on his house but the rag picker was living in virtually free accommodation and had access to water and electricity. The 'supportive shack' was hardly adequate accommodation but given the current instability of the man's employment, it freed him from finding the money to pay rent or mortgage payments. If the rag picker had to remain in the shack permanently it would cease to be a satisfactory housing solution. But in the short-term, until he could find better employment, the backyard shack was preferable to a formal but very much more expensive alternative.

When considering the possibility of resettlement it is important that such factors be fully considered.

Source: UN HABITAT Rental housing: An essential option for the urban poor in developing countries, 2003

5.4. FUNDING OPTIONS FOR UPGRADING EXISTING UNITS

Before looking at funding option for housing in Danang, we may review a number of peculiar characteristics in Danang which mean that many of the housing solutions developed elsewhere would not be feasible in the Danang context:

- Danang has not, as yet, seen a great influx of migrants, and has as yet relatively few illegal dwellings and no, if any, illegal settlements that would compare to the slums and shanty towns elsewhere in the south.
- Civil society is underdeveloped and community based advocacy organizations rare. Any community based interventions will have to function through existing administrative institutions, mass organizations and possibly local and international NGOs.

- Danang has a high proportion of owner occupied housing (judging by the HIS results about 90% of housing in Danang is owner occupied). This should be a major factor in dealing with the residual demand for improved housing as households often have some assets.
- Despite the ambiguity surrounding tenure formality this is not uncommon and does not seem to affect tenure security greatly, as it seems to elsewhere in the world.
- Land is relatively cheap in Danang and as yet, save a few ongoing developments in the city centre, **private sector developers have shown little interest in developing housing. This limits the current potential to develop interventions which leverage the governments control over land to gain access to private sector funding for low income housing** as has been the case in places such the UK, Hong Kong and to a lesser extent Hanoi, although it maybe an option in the longer term as property values increase.

To meet housing needs estimated in chapter 2, there are basically two ways: create additional units or improvement (or rebuild) units on existing areas. There is a general consensus amongst the international literature on low income housing provision that encouraging upgrading of existing dwellings is a much better solution than is relocation and resettlement. Given the context in Danang as discussed above, this study argues that helping people improve their existing dwelling would be the optimum solutions to the issue of low-income housing. This also implies the limitation of resettlement as much as possible. The following will introduce several financial models to help people's home improvement

5.4.1. Grants for home upgrading

In a number of countries government grants have been given to improve low income housing. These maybe options for a minority of very poor households who simply cannot afford loan repayments for improving their substandard homes. In such circumstances granting funds to households may prove to be more equitable and cheaper than the alternative of relocation elsewhere.

Such grants could range in value and be used for a range of home improvement purposes usually for materials for home improvement, households themselves supplying the labour required. Such loans could range in value up to about 10 million VND.

Granting of these funds to households would have to be dependant strict selection criteria and usually only be available to the very poorest groups. Grants of funds could be made but only paid once work was completed and checked by the grant administration. This could probably be performed though the offices of either district or ward construction agencies.

This option could be regarded by some as too expensive, but it should not be ruled out as for a small subset of LIHs there will be few other options available.

Other kinds of loans could also be made available for private household construction of rental accommodation, such as housing extensions etc. This is looked at in more detail below.

5.4.2 Micro finance loans for shelter upgrading

Most poor households can only afford to build incrementally, funding to allow them do this in terms of microfinance loans is now a widely accepted strategy for upgrading and improving urban accommodation. Short term small scale loans of one to eight years are more useful for incremental development than long term loans.

There have also been suggestions that encouraging incremental building of dwellings can lead to efficiency gains as there is a *greater probability that households will build well, rather than building poorly and incurring large annual maintenance costs. This may be particularly relevant to conditions in Danang which mean that the city is often battered by severe storms, and where better quality construction could have ameliorated the impact of the recent*

Xangsane typhoon. Incremental building also avoids the wasteful process using improvised dwelling materials and discarding them for permanent materials later, it also reduces the age at which a householder can afford to become an owner¹³. Microfinance loans for urban shelter offer a promising way of providing finance for the extension of existing dwellings, building on already serviced land, adding rooms and adding facilities. Importantly these loans are more affordable for poorer groups reaching further down the income scale than mortgages.

There are a number of microfinance project running in Danang at present, including one under the Social policy bank and one under Vietnam Women’s union. Under the PIIP a much larger fund is proposed probably to be administered by the Women’s Union. The PIIP investment report reports that around 44% of households in the 15 low income areas identified for project interventions would like to receive credit for housing improvement. On average, households wished to borrow approximately 44 million VND. This was deemed to be an over estimate on the part of households, and adjusted downwards taking account for actual costs and suggesting an average desired level of credit of about 22 million VND/household for housing improvement and 6 million VND/household for economic development. The programme will loan up to 50% of the costs in relation to housing improvement and enterprise development investments described above. The maximum loan under the programme is 14 million VND. Average repayments are calculated to be approximately the same as current average savings, or 320,000 VND/household/month (somewhere between the 1st and 2nd quintiles in the VHLSS data). Repayment periods can be as long as 50-55months, and the period of loan 60 months (5 years).

The revolving fund allows repayments to be disbursed as loans to new borrowers.60 repayments of 320,000VND would allow the extension of a loan to one more borrower. Starting with 60 borrowers after 5 years the fund can lend up 140 borrowers and in the 215 year life span of the programme the expected number of borrowers will be 4,760. With 1,020 initial borrowers the primer capital required is 14.3 billion VND, including administrative costs the initial funding will be about 16.3 billion VND.

Interest rates are expected to be around 1% per month, or about 12.7% per annum. Experience of microfinance schemes elsewhere shows that even with relatively high interest rates there is still a high demand for these kinds of finance.

If this scheme is successful it may prove a viable method to promote the upgrading of housing more widely in the city. Greater extension of microfinance funds for shelter improvement and enterprise development throughout the city is certainly an option Danang should consider in the medium term. The operation of the ADB scheme when it reaches implementation will also provide useful indications of the potential for similar schemes in Danang in years to come.

With any extension of these schemes, if the city is unable to secure these funds at a concessional rate and have to rely on the capital markets this will be reflected in the interest rate charged on their loans. One way the government could assist the formation of such funds is by setting up formal guarantee organizations which would allow micro finance institutions to lower their risk, borrow funds for on-lending more cheaply and reduce customer interest rates. Whether this is possible at a sub national basis within the current institutional context is something which requires greater research.

Given the loan limitations such a mechanism is not suitable for the funding of unit production, unless in the form of a ‘top up’ loan which would imply households have significant assets already and are likely to exclude LIHs. There is also a question over the extent to which these schemes are viable for the lowest income groups, as the VHLSS data implies, the poorest 20% of households in Danang are actually spending more than they save.

Table 5.3: Demand for microfinance in 15 low income areas

No.	Description	Expected expenses (million VND)
A	Housing improvement	22

¹³ Financing urban shelter, UN HABITAT 2006

1	Private toilet	3
2	Wash basin	3
3	Drainage and sewerage	1
4	Water supply	1
5	Power meter and electricity	1
6	Minor repairs to the house	10
7	Floor raising	3
B	Economic development	6
1	to breed pigs and poultry	2
2	Small business	4
C	Total	28

Source: PIIP investment report

5.4.3 Home loans – home improvement loans

An option considered under the ADB project, which could be applicable in Danang is the extension of home improvement loans which are essentially small mortgages. These are best regarded as a halfway house between full mortgage lending and micro finance loans. The loans under such a scheme could be secured on land and housing title. Interest rates would be lower than for microfinance loans as they are secured on the property, and should be no more than 9-10%. The size of the loan could be up to around 20 million VND and would typically require repayment at the rate of around 254,000VND/HH/month over a ten year period, or 127,000VND/HH/month for loan of 10 million repaid over a period of 10 years.

These would differ from mortgage lending as the size of the loan may still be amenable to management as a rotating fund. On average for approximately every 80 repayments a new loan could be offered of a similar size. With a starting capital of 10 billion VND 1000 loans could be made initially, this would reach nearly 4,000 households after 10 years. This type of scheme is more capital intensive and more expensive than a micro finance scheme; again it is unlikely to reach the poorest households.

5.4.4 Community funds

Community fund are of increasing importance in providing low income communities the financial ability to improve housing and infrastructure in their area. They are similar to microfinance schemes, and often contain a micro finance component. However, unlike microfinance the emphasis of such funds is subsidized lending and poverty reduction rather than the self sustainability of the fund. They often also seek to invest larger sums in infrastructure at the community level. In a similar way to microfinance schemes they seek to leverage social capital and household savings but also act to disburse government or donor funds for community infrastructure improvements.

These kinds of funds have enjoyed a number of advantages:

- They build capacity and social capital
- They are responsive to the infrastructure needs of the community
- Strong ownership amongst the community and effective use of funds
- Community control and management of the funds minimizes the opportunities for rent seeking and misuse of funds.
- Offer an alternative mechanism by which funds can be made available to the lowest income groups.

Fund structures and interventions differ widely but there is a growing consensus about the important role they can play in funding urban upgrading and housing for even the poorest groups through incremental and core housing provision.

In the Danang context an underdeveloped civil society means that the community organizations which can make use of these kinds of systems most effectively do not exist. There are, however, precedents for similar types of organization in microfinance projects and community development projects in rural areas (such as the commune development budgets

granted for rural infrastructure improvements in the World Bank funded NMPRP and CBRIP, both of which have designated 'commune development budget' components, findings from these components could usefully inform the design of community funds in the current context). These use existing institutions such as commune and village administrations and mass organizations, but unless the operation of these is sufficiently participatory and transparent it is not clear that such a mechanism could work. However, based on the international successes, and the extension of similarly structured funds elsewhere in the country this option should be examined in more detail.

Box 5.2: CLIFF, India

The Community-Led Infrastructure Finance Facility (CLIFF) was set up in India to support the work of the National Slum Dwellers Federation-Mahila Milan-SPARC Alliance. CLIFF channels funds from official donor agencies to support community processes in ways that allow far more decision-making at the grassroots level. The financing facility provides loans, guarantees and technical assistance to support a range of upgrading projects, including community-led high-rise developments in crowded areas (so housing can be improved without displacing anyone), a variety of new housing projects and community-managed resettlement programmes. Around US\$10 million is available for bridging loans to kick start large infrastructure, upgrading and resettlement projects, with the funding recovered from government agencies. This financing facility is also seen as a pilot from which to draw lessons for setting up comparable facilities in other nations. It is unusual in that it provides funding for projects that are developed locally, on a larger scale than is usually available to NGOs and people's organizations and in a form that helps leverage funds from other groups and, where possible, to recoup the capital for reinvestment. This has been supported with fund from the World bank, SIDA and DfID and the model has been successfully replicated elsewhere.

Source: EAP Sustainable development on the urban fringe, World Bank 2007, draft report

Box 5.3 : The Baan Mankong Programme, Thailand

The Baan Mankong programme in Thailand involves city-wide slum and squatter upgrading, integrating all actors into the process, with poor communities participating in city-wide surveys and joint planning for solutions. Baan Mankong is the first of its kind in that it's a nationwide upgrading project that has been managed by the people, with Government agencies no longer being the sole planners and construction managers. Baan Mankong established pilot projects for community organizations to learn from. Linkages are also created between poor communities in different parts of the city, allowing them to share experiences, exchange ideas, witness change in areas through pilot schemes, and reducing rent seeking by facilitating solidarity and awareness among the urban poor. Baan Mankong also encourages city authorities to see squatter settlements as normal parts of the city, Baan Mankong channels government funds in the form of infrastructure subsidies and housing loans to poor communities, with a goal of targeting 300,000 households in 2000 poor communities in 200 cities within 5 years, representing half the urban poor in Thailand. Baan Mankong is also supported by the Community Organizations Development Institute (CODI), which has created 950 community saving groups, which operate in 53 out of the 75 provinces in Thailand, offering housing loans and technical support to 6,400 households, as well as grants for small improvements in infrastructure and living conditions to 68,208 families. To date, more than US\$25 million had been provided in small loans, and over half had been fully repaid. This success has allowed CODI to expand beyond urban communities, to now also cover 30,000 rural community organizations.

Source: EAP Sustainable development on the urban fringe, World Bank 2007, draft report

Box 5.4: Fondo Nacional de Habitaciones (FONHAPO), Mexico

FONHAPO is a state institution which developed a strategy that enabled it to reach the bottom 60 to 70 percent of the population. To do this it provided loans to intermediate

organizations, public and private (such as financial institutions and development trusts, and social (such as cooperatives). Five types of housing project were financed, sites and services, incremental housing, home improvements, finished dwellings and distribution of building materials. FONHAPO, in contrast to other housing institutions, favored partial housing solutions over finished dwellings.

FONHAPO offered a flexible range of credit packages, including small loans, on a large scale. The value of loans was expressed in terms of multiples of the local daily minimum wage (DMW). The maximum being 2000 minimum wages (US\$6000 in 1988). The amount of the loan depended on the income of the household head. Those earning less than the minimum wage could be loaned up to 1200 times DMW, those earning 1-1.5 time the DMW could loan up to 1600 DMWs and those earning between 1.5 and 2.5 DMWs could loan a maximum of 2000 minimum wages. The credit limits for the services were 600 DMW for sites and services, 2000DMW for incremental housing 1150 for home improvements and 2000 for finished housing.

A 10-15% deposit was required from households. An initial subsidy of 15 -25% was offered on the value of all loans. A further 15% was offered for prompt repayment. This implied a subsidy of up to 40% on some of the smaller loan packages. The number of repayments was calculated on the basis of a maximum monthly repayment of 25% of the borrowers monthly income. These repayments were calculated in terms of percentages of the minimum wage, and payments would escalate in line with changes in the minimum wage which in turn meant that the real value of the loan repayment kept in line with inflation. Over all the average subsidy to borrowers was estimated to be around 50%, meaning that the repayments from two loans could finance another borrower. Between 1982 and 1988 just over 10% of new dwellings financed by the public sector could be attributed to FONHAPO, using just 4% of their available funds. This was managed by giving priority to smaller loan packages for core houses and site and services and private housing organizations.

Source: Financing urban shelter, UN HABITAT 2006

5.5. FUNDING OPTIONS FOR NEW UNITS

The composition of the residual housing and resettlement need and, that generated by newly formed households and in migration imply quite different housing finance needs. For households whose dwellings were identified in the demand projections as inadequate they often have significant assets, either in the form of land or savings. In these cases, and where upgrading an existing dwelling is simply not an option, mortgage finance or leasing may be an answer. For newly formed households and in migrants who are unlikely to have any land or savings mortgage financing is unlikely to be an answer, rental accommodation or some form of leasing arrangement is more likely to provide a long term answer.

5.5.1. Mortgage finance

In the past two decades there has been a trend in developing countries for governments to encourage homeownership. To this end government schemes have often been adopted to offer preferential financing to influence consumer choice and encourage home ownership. Demand side, market based financing mechanisms have been promoted to allow access to mortgage finance and home ownership for a greater proportion of households coupled with reductions in subsidies elsewhere in the housing sector and deregulation of markets. This trend has been driven by two major factors, the first is macro economic pressures to cut government spending, and the second is the ineffectiveness of past mechanisms to supply housing directly by the state.

Mortgage financing in Vietnam faces a number of significant institutional barriers before an effective mortgage market is able to emerge, these issues include:

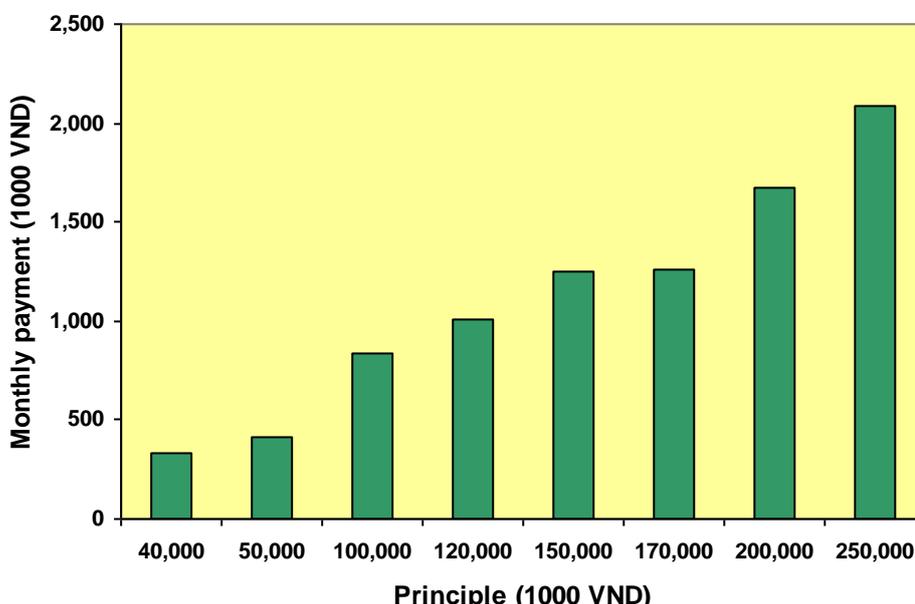
- The extension of formal tenure or at least the extension of forms of tenure security that is acceptable to financial institutions as security loans.
- Better functioning legal system which can limit the risk of loan default on the part of the borrower by being able to foreclose on property more easily.

- Improved risk assessment at banks
- Mortgage insurance
- Secondary mortgage market to supply long term capital needed by financial institutions to allow them to extend long term loans.

For these reasons mortgage financing is unlikely to be widely available or a viable option for housing finance in Vietnam in the near future, especially for lower income groups. It should however, be considered as a long term goal and is fundamental to a healthy and properly functioning property market.

In many of the unit costs in this chapter mortgage financing options have been used as a benchmark. However, this was mainly in order to stress the shortfall LIH face in managing to pay for even relatively small mortgages. For example, a mortgage covering construction costs only of 100 million VND for a household of 4 people would almost certainly exceed the maximum level of savings a household in the bottom two quintiles would have. Moreover, LIH often have irregular incomes which are not amenable to regular mortgage repayments.

Figure 5.2 : Monthly mortgages repayments over 20 years at 8% APR



There maybe a case for extending the reach of mortgage financing, governments in a number of countries have offered tax incentives¹⁴, subsidized interest rates and other incentives. For example, over 20 years 100 million VND loan borrowed at a rate of 8% would require repayments of around 863,000VND/month, a subsidized rate offered at 5% would imply repayments of around 660,000VND/month. However, the costs of such interventions over the period of the loan should be fully considered in this case is over 42 million VND, including the cost of the capital this amounts to over 84 million VND.

Other factors which should be borne in mind when considering subsidizing mortgages is that these subsidies will tend to go to middle income groups, any use of funds to target these groups should not divert resources from those groups most in need.

Well run mortgage facilities are important to the health of housing supply systems although they generally fail to reach the poor. Mortgage financing important in providing shelter for upper income and upper middle income households who might otherwise claim the shelter opportunities of lower income households (we see this in Hanoi for example).

5.5.2. Private sector rental housing

¹⁴ For example as used in the UK

Probably the most realistic solution to the housing requirements of LIH and especially the inflow of migrants is rental housing. This may be provision in the state or the private sector. In practice, rental housing already has a large role to play in offering accommodation to migrant workers in most large Vietnamese cities¹⁵. This is almost certainly true in Danang too; in the future this demand can only increase.

Although a few industrial enterprises have invested in accommodation for factory workers this has not yet occurred in Danang. Most provision is still in the household sector. For provision of rooms in private households' financial provision could be made to allow household extensions of rooms to let. As in models used elsewhere, loans could be conditional on meeting the requirements of an inspection to ensure the new accommodation was of a minimum standard, repayments could be charged on the basis of some portion of the rental payment. There is also the possibility of extending grants to very low income households to extend their dwellings. In both cases funding could be linked to community level upgrading programmes. These interventions also have the advantage of offering households an additional income earning opportunity.

Experience from attempts to promote the building of private sector developments for migrants by granting land for development have so far not been successful in Danang as the expected rental return from such accommodation is too low. Moreover, even if such accommodation was available, landlords may be unwilling to let units to low income groups who may not always be able to pay rent on a regular basis. If such accommodation is viable it is likely to be most suitable for migrant workers in regular work.

In recent years governments have moved away from the direct production and management of rental housing for low income groups to the provision of funds to households themselves, which allows them to choose accommodation and stimulates demand in the private sector for low income housing. A similar scheme which has been successful in the Europe has been the formation of a public body which sublets privately owned rental accommodation. The government agency pays the landlord guarantees the rent but also ensures compliance with minimum standards. LIH can access the property at subsidized rates. This system stimulates private demand by minimizing the risk to the landlord of non payment of rent and transaction costs.

Box 5.5: Social Rental Agencies in Belgium

Belgium's social rental agencies, developed in the 1980s have been successful throughout the country in developing a means of providing private rental property to LIHs. These agencies aim to act as a buffer between landlord and tenants. The agencies lease property and re-let it to underprivileged or vulnerable individuals or families. They guarantee the owners the rent and also provide supervision. For problem tenants they organize social support if required.

Social Rental Agencies were founded by a great number of players including: voluntary welfare services, local authorities and statutory social welfare agencies. Notwithstanding their still limited experience and market impact, they have acquired legitimacy among the landlord associations. Social rental agencies have been successful and now there are 68 agencies managing 2,100 dwellings working throughout the country.

Source: UN HABITAT Rental Housing: An Essential Option for the Urban Poor in Developing Countries, 2003

Although such interventions minimize government investment capital needed in the short term they are likely to be expensive in the medium to long term. However, such provision may provide solutions for households in dire and immediate need, such as the 3,000 homeless households identified by DoLISA in 2006¹⁶.

¹⁵ Action Aid 2005, Migrant workers in Vietnam

¹⁶ This is one role which could be taken by a reformed HMC, consideration of this and other measures is addressed in chapter 7.

5.5.3. Public sector rental housing

The provision of publicly owned rental housing as already practiced to some extent in Danang is possibly the most realistic option for many LIH who require new dwellings and, in future years, migrant workers.

This is not likely to be a cheap solution but there are a number of options to ameliorate the cost of provision.

- Danang has successfully generated revenues through land redevelopment. Given more careful planning and the adoption of more realistic design standards the city could, in the future, generate significant funds from the private sector in the sale of development rights related to these developments. However, care would have to be taken in ensuring that any new development were sufficiently sensitive to market demands and that land was not used for speculative purposes.
- Reasonable rental charges that cover maintenance and administration costs and the amortization of capital should be introduced. Management of the housing stock could be performed by an independent body or private company.
- Wherever possible households should be required to pay bonds to minimize risk of non payment.
- Households should be fully educated about tenancy obligations.
- There should be a separation between compensation packages offered and the allocation of rental accommodation. Linking the two has discouraged tenants from paying rents

Those who cannot afford homeownership or private sector rents need shelter through public rental housing. Social housing is subsidized housing. Housing subsidy is a financial credit to the occupier and can often constitute an important part of the national housing finance system.

Governments shifted away from direct construction and management of public housing and have reduced housing stocks, using large scale transfers to occupiers in some cases.

5.5.4 Housing leasing

In recent years, many governments have become interested in leasing programmes. Leasing combines the advantages of renting and owning. Instead of all the rental payments going to the landlord, part of the payment goes towards eventual purchase of the house. This arrangement satisfies the need of many households to rent at the beginning of their lives and to move on to become home owners later in life. Such an arrangement maybe particularly suitable for households with regular incomes but who lack the savings to put down a deposit on a house. In the last 10 years or so a number of countries in south America have adopted such schemes including Chile, Columbia and Brazil. Box 4.6 gives a brief description of the leasing scheme adopted in Chile.

Box 5.6: House leasing programme in Chile

The leasing programme was designed to help households with an urgent housing need but with insufficient savings for a deposit. The family signs a 15 or 20 year contract with a financing company. The monthly payment includes two components: the rent and a savings contribution. By the end of the contract, the accumulated savings and the interest earned on those savings provide the funds to purchase the house. This system differs from an ordinary mortgage insofar as the finance company continues to own the house until the final payment is made. To encourage residential mobility the tenant can transfer the house to another family and take out a new agreement for a different home. These lease purchase agreements involving private leasing companies received government assistance through subsidies covering between 5% and 8% of final cost, disbursed in up to 240 installments as households pay off their lease purchase agreement.

The scheme faced some skepticism from financial institutions, by 1998 had 88,000 savers. Households have also not been keen to take up the option. Problems also exist for the state in that this scheme implies a long term budgetary commitment to the subsidy offered over 15-20 years. If the scheme became very popular it may well cause budgetary issues in years to come.

Source: UN HABITAT Rental Housing: An Essential Option for the Urban Poor in Developing Countries, 2003

In the Danang context such a scheme could be used for plot or apartment purchase, it could be adapted to provide for newly formed households and in migrants who face similar shortfalls in savings. In the medium term such a scheme would almost certainly require large scale support from the state. Such a scheme would probably be viable for households in the second income quintile who were in permanent employment, but would be unlikely to reach the very poorest groups except in the long term.

5.6 INTEGRATING SAVINGS, COMPENSATION AND HOUSING FINANCE

For certain groups in Danang, including regular employees of larger companies, workers in industrial zones and state employees, a compulsory savings fund similar to the CPF of Singapore could be used as a method of funding public housing. This would encourage savings, allow the pooling savings for construction of relatively large scale integrated developments, provide a source of stable long term housing finance, and ensure households and employers alike contribute to long term housing needs in a prudential and equitable manner.

While this model is clearly not a 'cookie cutter', the notion of compulsory savings and its use for housing finance should be examined in greater detail. Other options around the same basic framework could also be considered, such as:

- Integration of the scheme into the resettlement and compensation process, compensation payments could be made directly into an interest bearing account, used as a refundable bond for rental or mortgage down payment¹⁷.
- Borrowing could be subsidized at different rates depending on household needs and loan size.
- Flexible payment patterns into the fund could be allowed for households, again the fund functioning as a bond for rental agreements.
- For self employed low income groups the government could subsidize their savings through topping up their contributions in much the same way as employers.

While such a scheme would not satisfy any immediate need a city wide fund is certainly possible in the future. Perhaps developing a pilot scheme for government and industrial zone employees would help establish its feasibility. The success of public saving schemes have not been limited to Singapore, Japan's FLIP has been very successful in mobilizing funds for such investments (despite the long term negative macro economic impact in some cases).

¹⁷This may have the advantage of separating the right to compensation as households perceive it from the allocation of rental housing which has caused subsequent difficulties in encouraging tenants who received housing in this way to pay rent.

Box 5.7: Singapore's CPF and housing purchase

Singapore's home ownership scheme was introduced in Singapore in 1964. It is a non profit making programme with the aim of providing public housing for a large section of the population whose housing needs are continually not met by the private sector. The scheme has several novel characteristics:

- 1) The scheme provides self contained dwelling units of a relatively high quality containing both toilets and kitchens. The scheme offers housing loans at a modest interest rate of 6.4% for a period of up to 20 years.
- 2) Central to the success of this scheme has been the use of compulsory savings from the Central Provident Fund (CPF), the use of savings from this fund to purchase flats is allowed. Employees were required to make a contribution of 25% of their gross monthly income, another 25% being contributed by their employers – thus employers are often indirectly providing financing for their employees flats.
- 3) The legislative context means that no owner of a flat under the scheme can be disposed of his ownership as a result of bankruptcy, thus a family will always be assured of shelter even if the face of financial shocks.
- 4) Since 1974 the scheme was extended to provide housing, not only for low income groups but also middle income groups.

The Singapore Housing and Development Board (HDB) which constructs these flats receive a significant subsidy from the government every year to finance its operations, for example in 1984 it received 121 million USD.

Initially the requirement for cash down payments meant the scheme spread slowly, however, after CPF funds were permitted to be used to finance flat purchase sale of flats accelerated. The PRF savings can be used to cover the 20% down payment as well as the remaining 80% of the purchase price which can be paid in installments through the HDB housing loan scheme. Since 1981 mortgage insurance has been mandatory though the Home Protection Insurance Scheme.

Initially, to discourage speculation HDB owners wishing to sell their flats could only do so at the purchase price minus the depreciated cost of improvements. This was relaxed in subsequent years, households being allowed to sell at market price but only after three years and vendors were debarred from future purchases for one year. These restrictions have been amended periodically to account for changes in the real estate market.

Source: Wong and Yeh, Housing a Nation: 25 Years of Public Housing in Singapore, 1985

5.7 CONCLUSION

In this chapter, we have sought to look at a range of issues relating to financing urban shelter for low income groups in the city, from this discussion a few salient points frequently emerge:

- For the lowest income groups mortgages, loan finance, micro finance and leasing will not be affordable. Their accommodation will need to be subsidized in some form by the state – which will involve a net redistribution of wealth.
- One key source of housing need is resettlement; this should only be a last resort. If suitable grants and small loans are made available for home improvement along with infrastructure up grading, households can over time develop much better accommodation. Resettlement also has many hidden costs which are not visible in the short term but may well cause difficulties over time.
- In addressing low income housing need the government needs to find ways of not just providing housing itself, but encouraging the private sector to invest capital in housing and giving LIHs themselves different housing options which will enable them to find the best solution to their housing needs themselves.

To some extent the vast slums of other developing country cities are a testament to the inequity of their wealth distribution, one which current day Danang is yet to display. This is an issue which Danang is in the fortunate position of being able to address before it really occurs.

6. INSTITUTIONAL ASPECTS OF LOW INCOME HOUSING

6.1 INTRODUCTION

Equally important in the successful design of a low income housing delivery system is the development of institutions which function in a cost effective, transparent and fair manner. As low income housing is a social service the development of efficiently functioning organizations faces a number of issues which seriously compromise the achievement of its aims and damage the whole administration of the structure:

- Housing provision for low income groups is often provided with an explicit, or implicit subsidy. This in turn means that housing provision is rationed, which leads to the opportunity for misallocation of resources or rent seeking (such as when housing goes to those who are not in need¹⁸).
- State housing organizations face soft budget constraints, which may compromise efficient financial management.
- Conversely, as arms of the government administration they are sometimes prone to political interference in their operating, which can impair their role.
- State housing institutions often have a dual role, as landlord and as housing provider to low income groups; this can mean they face a serious moral hazard problem in the collection of rents.

This section deals with strategies for addressing each of these problems and making housing administration fulfill its role more effectively, with particular reference for the development and future role of HMC in Danang

6.2 LOW INCOME HOUSING ALLOCATION

6.2.1. Developing criteria for low income apartment allocation

As mentioned in the phase I report, there was no information or transparent criteria available on the manner in which new apartment units had been allocated to the wide range of housing need included in the Housing Proposal and other newly constructed projects. As a result, there is no information about what is proportion of these completed units had been occupied by identified poor (or priority) households or households scheduled for resettlement.

Taking all outcomes of chapters 2, 3– Phase 2 and suggested housing condition criteria in chapter 6 – Phase 1 into consideration, the project establishes eligible criteria for targeted LIH apartment allocation based on both *income level and housing minimum standards*. Anyone who meets income criterion and one of these 5 housing minimum standard criteria will be eligible for targeted group of housing allocation:

1. Households which have income below the threshold of *560,000 VND/person/month*¹⁹
2. Households which live in housing built in environmentally vulnerable areas, danger zones or locations which represent a serious public health or safety hazard (this condition notwithstanding the fact that all of Danang is vulnerable to periodic damage from typhoons and flooding). This includes housing built in the following areas:
 - Low-lying flood-prone areas
 - Steep or otherwise unstable slopes
 - Under or close to power transmission lines
 - Within or in close proximity to hazardous or polluting industrial activities, waste disposal sites
 - On or close to major highways and railways etc

¹⁸ This is a particular issue when housing is in short supply in general, such as in Hanoi.

¹⁹ Defining low income households – Phase 2, Chapter 2.2

3. Households with over crowded conditions:
 - Total floor space of *less than 40m²*
 - Floor area *less than 9m²/person*
 - More than *3 persons* per room.

4. Households who live in poor quality housing that represent a potential health and/or safety hazard²⁰. Such housing includes dwellings which:
 - Are structurally unstable or non-weather proof;
 - Are built mostly of non durable materials such as temporary, salvaged, seriously degraded or potentially flammable materials;
 - Have inadequate ventilation and natural light.

5. Housing without direct access to minimum standards of basic public infrastructure and services:
 - No clean water supply with easy access
 - Adequate sanitation
 - Adequate drainage
 - Adequate solid waste disposal
 - Minimum standard road/footpath access

6. Housing which does not have secure tenure:
 - Temporary housing
 - Housing in areas designated for redevelopment
 - Illegally constructed housing
 - Housing built in areas designated for other uses

In fact, the number of households that are eligible for housing allocation is normally higher than housing supply capacity. Therefore, a housing allocation waiting list should be established by marking all criteria and ranking households on the waiting list.

6.2.2 Allocation process

Until now, housing allocation process includes two stages:

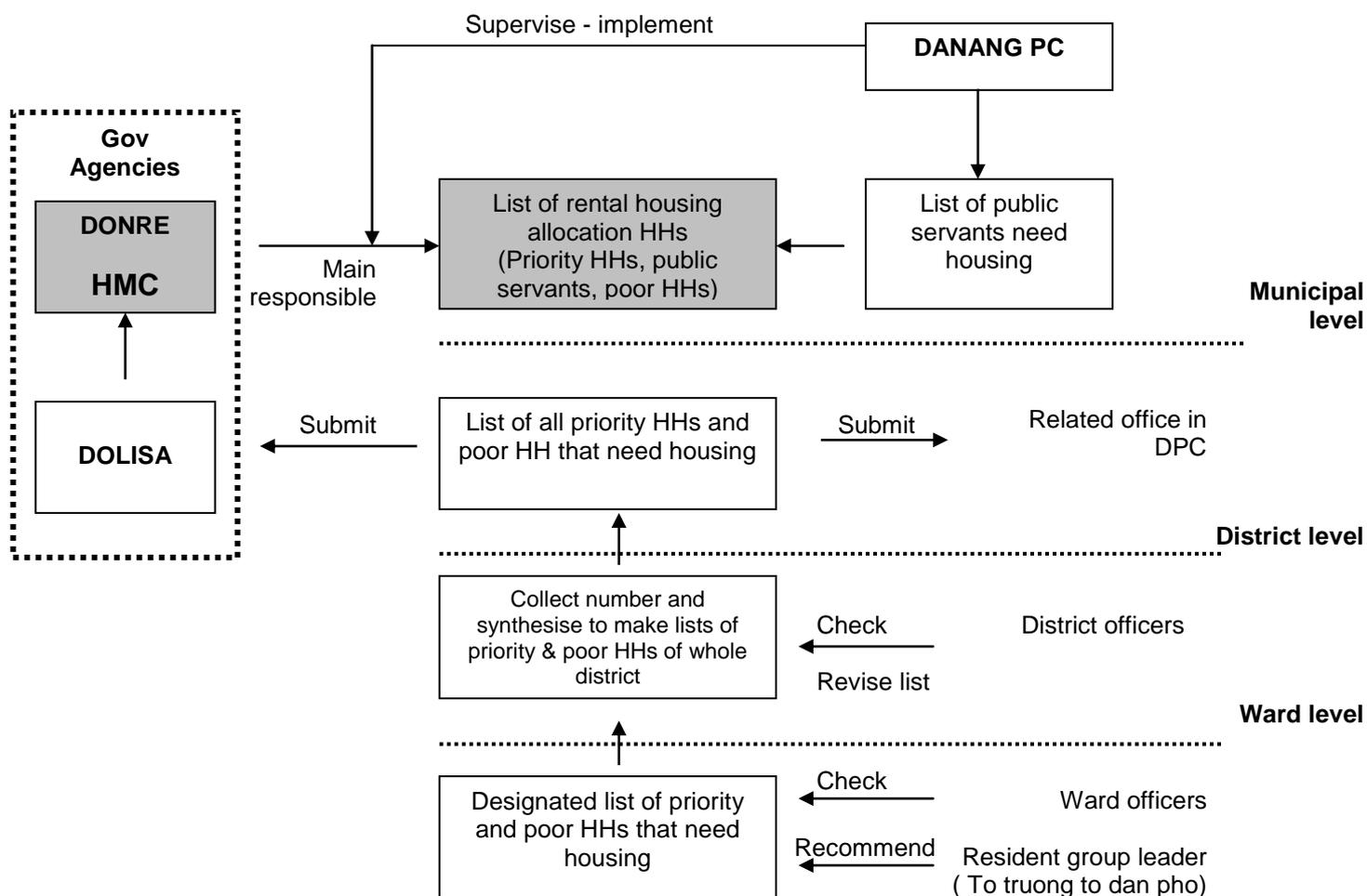
Stage 1 - Process at local administrative level: Commune/ ward officers collect data and list of poor households and policy favoured families that need housing. The list of poor and policy favoured households is designated by resident group leaders (*Tổ trưởng tổ dân phố*). After checking at commune/ward level, this list will be sent to district people committee. District officers will collect all the number of poor and policy favoured households of all communes/wards and make a list of the whole district.

Stage 2 - Process at related departments and municipal administration level: DOLISA has the total number and lists of poor households and policy favoured households that need accommodation and send it to Danang people committee (DPC) and HMC. The HMC will be in charge of making waiting list of allocating rental housing mostly for policy priority households, public servants and some poor households who needs accommodation under the supervision and implementation of DPC (See Figure 6.1)

However, it is the fact that most of newly built apartments are mainly allocated to resettled households and some public servants without clear criteria for allocation. The process of choosing households for waiting list was not publicly informed or announced.

²⁰ Dwellings defined as “temporary” will be a subset of this group

Figure 6.1 : Diagram of current rental housing allocation process in Danang



Therefore, it is necessary to suggest for a change in housing allocation process by:

- Identifying targeted group of low income households that need housing must follow new criteria proposed in section 7.2.1
- Criteria and process to make housing allocation waiting list must be public to all grassroots levels and to all people
- Households who meet requirement criteria can apply directly to HMC with certification of local administrative level.
- Local administrative level is in charge of careful checking of housing allocation subjects follows housing allocation criteria
- HMC must make public waiting list for housing allocation. The number and ranking of households on the waiting list should be announced on public media or newspapers for all people to know.
- LIH have a right to give recommendations and criticism to local administration and HMC about housing allocation process.

6.3 ISSUES WITH HOUSING MANAGEMENT COMPANY

One of the key issues identified in the ToR and which keeps emerging though discussion with various stakeholders and the consultancy team is that what the future role for the HMC in low income housing provision in Danang is. HMC current role has been examined in detail in the

first stage report, to recap. HMC manages the public building stock in Danang, including both housing and other non-housing buildings. Regarding housing stock, essentially this role involves the collection of rents, the maintenance of the public housing stock and the sale of old stock.

Subjectively, HMC does not have a role in funding, planning or building any of the public housing stock, nor in the allocation of units. Therefore, the limited functions of HMC make it difficult to manage housing stock and sustainably maintain it in the future. Moreover, HMC lack technical resource that support for management and maintenance process.

Objectively, it is evident from the fact that HMC is facing three major difficulties: i) HMC cannot be active in financial resource ii) resident's awareness of living in public housing is not very good; and iii) unclear housing management legislation.

Firstly, although figures were not available to corroborate this, HMC reportedly has problems in ensuring the payment of rents. According to Mr. Nguyen Cong Lang -Director of the HMC, it is difficult to collect rental fees from public housing households, especially those live in old public apartments (built before 1980s) and in resettlement apartments. Consequently, HMC seems to have difficulty keeping the housing stock properly maintained since only 40% of the rental fees are planed to spend on administration and maintenance. Among this amount, only 5% is at their disposal for maintenance; the remained 35% is stocked at Municipal special account and can only be used if HMC sending request to DPC for fund allocation if some big repair or maintenance are required. At present there is not routine maintenance schedule and any maintenance is performed on an ad hoc basis. As a result much of the public housing stock is in a seriously dilapidated condition.

Secondly, it can be stated that many households who live in public housing do not aware much of their responsible for paying monthly rental fees for periodic housing maintenance and other related services. This problem is connected to the historical legacy which HMC inherited and current housing policy in the city. In the past public housing provision was fully subsidized and tenants were not required to pay rents. Therefore, many households are not accustomed to paying the rent and relied on Government support.

With recent legislative changes tenants have been required to pay rents. Current housing provision also causes problems with gathering rent. Recent provision of public housing that built since 2000, practically all has been provision for either government employees or resettled households. In the latter case, households who do not qualify for a resettlement plot are given a long term allocation of a unit in public housing. These households are often very poor. As a result of the means of housing acquisition many households regard this accommodation as a right rather than a service they should pay for and are unwilling to pay. To compound this, in many cases to sweeten the resettlement package households were given a rent holiday for three years, bolstering the notion they have that they should not be required to pay rent.

Finally, the legal situation pertaining to these households is unclear. It is evident that resettlement legislation (since 2004) stipulated that households must be provided with accommodation which is at least as good as that they had prior to resettlement, it is not clear from this legislation whether or not HMC would legally able to evict households for non payment of rent. Even in the *decision number 59/2004/QD-UB* about "*Regulations of using and managing apartment blocks in Danang city*" there is no regulation to oblige tenants to pay rental fees on time or strict punishment for people who do not pay or did not pay on time. Therefore, HMC also faces a severe moral hazard problem as if people who did not pay the rent were forced to move it would be very likely that they would not be able to find suitable accommodation elsewhere.

6.4 OPTIONS FOR IMPROVING THE FUNCTIONING OF HMC

There are three main options for reform of the HMC, dissolution of the company, maintaining its current, rather narrow, remit but focusing on trying to make it function better, and expanding its remit and possibly changing its organizational makeup.

6.4.1 Dissolution of HMC

The limited functions of the HMC could be devolved to the district level. Along with a better developed policy on the supply of public housing this may make public housing more responsive to local needs. With an increasing stock of public housing it may also make management easier. District level public housing agencies could also have an increased function not only collecting rents and conducting maintenance, but allocating housing units, offering advice to households on suitable building techniques (especially, for example, on constructing storm proof building), allocating grants to LIHs to assist in incremental upgrading. Another advantage of this kind of structure is that district level housing agencies could be compared against one another to assess performance this would help to make them function in a more efficient and accountable way.

6.4.2 Improve current functions

The second option is to maintain HMC's current remit and position in the administrative structure but attempt to improve its performance. A few ways of approaching this have already been mentioned.

- Firstly, adopt a transparent set of rules for housing allocation and ensure that it is publicly available, along with this establish a waiting list for public housing.
- Secondly, better assess households ability to pay rent, if they are unable to they should be given housing support made payable to the HMC (possibly through DoLISA). In turn, HMC *should implement strict regulations* about enforcing payment and move to evict tenants which do not pay. To act as a counter -balance this process should also have provision for appeal to an independent body (probably an administrative tribunal).
- Thirdly, HMC should be paid for its services (by Government), not through a portion of its remittances. Although, some element of performance related pay or bonus should be introduced for employees who perform well.
- Fourthly, government buildings managed by the HMC should be made to pay market rents for inner city locations.
- Fifthly, households who are allocated a public unit through the resettlement and compensation process should not be given direct compensation payments. Payments instead should be placed in a compulsory savings fund which will yield interest of (at least) a market rate. The use of these funds could be limited in their use (for example, for housing, medical services, etc). A portion of these funds could be held in bond to ensure payment of rent.

These are some preliminary suggestions which could go a long way towards making the HMC function more effectively under its current remit.

6.4.3 Expanding the functions of HMC

Another option is to expand the functions of HMC. This would significant changes on the part of the organization.

Firstly, HMC should be service provider and financially self – sustain in order it can be more active in using finance generates from their services. Therefore, apart from the role of managing public common space in public buildings or public apartment blocks, HMC should has a role of utilizing public common space to make profit from these kinds of space. For example, in the *decision number 59/2004/QD-UB* about “Regulations of using and managing apartment blocks in Danang city”, HMC is responsible for managing common spaces as parking place, ground space, infrastructure, communication space... Then, HMC can utilize these spaces for commercial or business activities (let ground floor out to restaurants, shops; renting out community common rooms for wedding or special events...) to generate profit for HMC's operation and contribute to housing maintenance fund of HMC. For public commercial housing that have both commercial spaces and residential area for LIHs, HMC should be responsible for managing commercial activities and services to make more profits that

contributes to housing maintenance and administration. As a result, HMC will not have to rely on Government support or revenue from rental fees as recent time. In line with this, Gov will subsidy directly to low income tenants without subsidizing to HMC.

Secondly, HMC should have more function in terms of training and raising residents' awareness about community participatory in public housing. As we mentioned in section 6.4, one of the most difficulties that HMC is facing is that residents' perception of their responsibility to pay rental fees is not good. Many households do not want to pay for the rent that causing unsustainable public housing maintenance. Then HMC should:

- Establish core resident groups of each public buildings act as bridge between residents and HMC and facilitate actions related to building maintenance and management.
- Organize trainings or workshops to raise residents awareness of contributing in building maintenance and management
- Organize education campaigns to encourage community participation

One option is along side its current role to move into a role similar to that of social rental agencies as in Belgium who act as guarantors for rents and also ensure privately offered accommodation meets certain minimum standards. This may be an option in particular for those most in need such as the 3,000 homeless households identified by DoLISA. Options of other services which could be offered are similar to those suggested in 7.5.1.

HMC should become a professional service provider, orienting to function at market mechanism: that means, provide good service at reasonable cost. To do this, HMC should act with its own initiative and focus to make efficient operation. Therefore, it is proposal that managing non-housing stock should be separated from HMC's function; making its focus on management of public housing stock only. This orientation can be further adjusted toward the direction that a Public Housing Corporation should be established with mission of constructing and managing public housing stock at large scale and in a systematic manner. This Corporation can be developed from the existing Danang Housing development and Investment Company. HMC with managing function, can be a subsidiary company of this corporation.

7. POLICY- RECOMMENDATION

7.1. INTRODUCTION

Achieving good living condition and adequate shelter for all is always a goal of any cities, particularly cities in developing world like Danang, and this goal is not easy to attain in short term. For any city, two preconditions that help to achieve this goal are (1) a workable housing policy framework and (2) a well-established shelter delivering system

This chapter widens the scope of the study to recommend overall policy orientation for Danang to improve overall housing delivery system, including policies related to land use planning and management and macro finance solution. It then proposes low income housing policies in particular, including the provision of in short and long term.

7.2. ESTABLISH INTEGRATED, WORKABLE HOUSING POLICY FRAMEWORK

A workable housing policy must point out realistically current housing issues, their magnitude as basic to develop strategies and actions needed to overcome the issues, so as to find resources and institutional solutions to implement those strategy and actions. Failing to identify housing issues (in term of quantifiable needs and effectives demands) would lead to adopting ineffective solutions.

In most of developed countries, history of housing policies has pasted several stages; each stage has different problems in nature thus need different intervention. It is usually started with a period of housing shortage (in Europe and Japan after WWII), when total number of household was more than total number of housing units. Housing policy in this period thus focused on quantity so as to provide cheap housing units as quickly as possible. The second period started when housing shortage has been overcome (total number off HH less than total number of housing units). Housing policy therefore focused on improving housing condition by setting higher housing standard for new construction. It is followed by period when not only housing standards but also living conditions were on focus, and housing needs were diversified. This period usually involve actions such as demolish low quality, low standard housing stocks and rebuild with higher quality and higher level of comfortable. It then comes to period when housing stock is developed fairly well in both quantity and quality. Housing policy tends to focus on removing widespread housing subsidizing (market mechanism for groups in higher brackets of the social ladders), concentrating public support to groups inaccessible to housing (poor and low-income groups), encouraging housing ownership to avoid financial burden on maintenance and management, and other regulative incentives: regulating housing prices in general to meet affordability; regulating housing construction industry, tax....In fast growing economies, it may take 2 or 3 decades to achieving good housing condition quantitatively and qualitatively.

7.2.1. Adjusting Housing Policy Framework to suite the nature of housing issues

The Danang Housing Proposal 2005-2010 and the slogan of “having job – having home – having civil lifestyle” in Danang – has set up goal and framework for housing development in the city. There is different approach to identify Danang’s housing needs and demand adopted in this study and in the proposal. This leads to different identification of scale and natures of housing issues, thus leading to different ways of policy intervention. The Danang Housing Proposal 2005-2010 has defined total housing needs in Danang is 25,271 units and will be provided in forms of new units (either apartment units or single houses on plots). This study, against, has shown much large magnitude and different nature of housing issues in Danang, as compared with those defined in the Proposal.

It is suggested that in the next few years (until 2010), the housing policy framework in Danang should be revised to the direction that indirect intervention focusing on financial tools rather than construction tools should be seriously considered, given the limited public resources in Danang. Indirect intervention would be more desirable, instead of focusing on providing new units as stated in the Danang Housing Development proposal. Other than providing ready made public apartment units, options of funding mechanism such as grant, micro finance, community funds, loan and mortgage would be more effective.

This study also suggests housing types and standards for the LIHs. It is advisable that Danang should consider adopting these housing standards and consider housing standards for other groups. Housing standards are important as guidance or basic for management of housing activities by both formal and informal sectors.

Of course, it is desirable to develop more formal housing provision structures that providing large-scale, high-standard housing in comprehensive urban development package rather than relying on incremental provision approach by people. However, condition for this in Danang (so as to other cities in developing world) hasn't been ripe yet. In the next stage (2010 – 2015 or 2020), it may be envisaged that Danang's economy grows quickly together with increase of migrants working in formal economic sectors, accelerated urban development, increase GDP per capita and thus reducing number of LIHs, more formal housing provision approach should be targeted and possible in Danang. Housing development should be treated more than just a social welfare but a strong sector of the economy, a construction industry.

7.2.2 Integrating Housing Policy with wider socio-economic and environmental policy framework

A fundamental principle in formulating realistic housing policy is its interdependence on overall macroeconomic, environment and social development policies. There are many evidences showing strong relationship between economy and housing development. Results of several studies on housing demand in developing countries (Burns and Grebler, 1977, Follain, Lim and Renaud, 1980, Ingram, 1984, Jimenez and Keare, 1984) have shown that household's expenditure in housing will increase when income increase, yet at lower rate (commonly 0.4 to 0.6 times). One the other hand, when compare different housing markets, the higher GNP per capita, the larger GNP's proportion investing in housing. That means, during the course of economic growth, investment on housing as a part of GNP increases at higher rate than the increase of household's spending on housing as part of their income. The proportion of housing investment in GNP is 2% in most low-income countries, while it is 6 – 8% in middle-income countries. Households in low-income countries spend as little as 5 – 10% of their income for housing whiles it is 25 – 30% in middle income countries. This does mean that economic growth is probably the most effective way to improve housing condition.

On the contrary, housing development can also contribute much in economic growth. In this respect, much can be learnt from Singapore, a country of very successful public housing development. In Singapore, housing policies have always been inseparable of overall national development policy. Singapore's political leaders were well aware that housing development is beyond a component of social welfare but a significant component of the Singapore's economy. (See Box 7.1 for Singapore experiences in Housing development)

In the long-run, without improvement people's incomes thanks to economic growth, it will be difficult to improve overall housing condition of the people, and the low-income in particular. Therefore, workable housing policy can not be formulated without interrelating to other socio-economical policies in a holistic system. It is advisable that, in the long run, the Government of Danang should put housing development at the center of general development agenda, linking housing policies with policies such as population and human resource development, employment generation, poverty reduction, education and health, environmental protection, financial resource mobilization and allocation, land and infrastructure, urban and rural planning etc... Housing

market should be supported, and housing industry should be developed so as to contribute into local economy and as tool to attain social targets.

Housing policy should be developed with cross-sectoral approach wherein the Government of Danang and various related agencies such as DPI, DOC, DoLISA, DONRE, must collaborate in working out holistic strategy and implementing actions rather than simply focus on physical planning and construction. The fact that the preparation of current housing policy was responsibility of DOC – a public agency concerning only on physical planning and construction also help to explain the direct public provision approach in housing issues in Danang. For the formulation of integrated housing policies, following matters must be considered:

- Constantly monitor the impact of macroeconomic policies on housing provision systems, considering their specific linkages and taking into account possible effects on low-income groups
- Strengthen the linkages between housing policies with employment generation, environmental protection, preservation of heritage, resources mobilization and efficiency, and strengthen the stimulation of and support for sustainable economic development and social development activities
- Integrate housing policies with land policies in the ways that effectively utilizing lands as scarce resources for better housing provision system through integrate socioeconomic development planning with physical planning
- Improve other public policies, including expenditure, taxation, monetary and planning policies to stimulate healthy housing market and land development.
- Strengthen housing and property related information system. At this moment, each department is in charge of separated tasks thus holding separated set of information and data. Strong collaboration among departments doesn't exist so that necessary information is not shared and checked among departments. The study team has suffered many difficulties in collect and combining information during the Phase I. In future, make information system available will be essential in attract private sector, particularly oversea developers into the city.
- Periodically (5 year time) evaluate and if necessary, revise housing policies to reflect problems and issues of the times and consider impact of such policies on economic, environmental development and social welfare.

Table 7.1: History of Housing Policy in Japan

	1 st (end of WW2 – 1950s)	2 nd (1960s)		3 rd (1970s)		4 th (1980s)		5 th (1990s)	
		1 st HP 1966-1970	2 nd HP 1971-1975	3 rd HP 1976-1980	4 th HP 1981-1985	5 th HP 1986-1990	6 th HP 1991-1995	7 th HP 1996 - 2000	
Context	Severe housing shortage	Housing difficulty due to rapid population growth in big cities Jumping land price	Number of units exceed number of HH Jumping land price		50% hh below average standards			Quantity sufficiency 1.12unit/HH National wide: 91.9m2/unit; 122.1m2/private unit, 45.1m2/rental unit 40% of population faces roads less than 4m. Housing for Aging and aged society Long-commuting time and distance Damaged communities	
Basic concept	Promote fire-proof, medium, high-rise apartment buildings		Changing from quantity to quality Improve housing standards		Further improve housing condition and living environment Supply diversity of housing to meet diversified users		Diversify and sophisticate housing supply to meet various demand and temporary requirement Meeting targeted standard		
Target of plan	Realize “one unit for one HH”	Realize “one unit for one HH”,	Construct houses with one room per 1 person	Set up housing standards (minimum, standard, average standard)	Set environmental standard	(higher) targeted housing standard 50% of all HH above targeted standard	Improve quality of rental housing Improve housing stocks to meet requirement of aging and aged society	good housing stocks, safe and comfortable living environment Living environment for active aging society, Good housing and living env for rural areas	
Policy and legal framework	1950: building standard law 1951: Publicly-operated housing law	1963 New residential town development law 1966 : 1 st five-year housing program	2 nd housing program	3 rd housing program Minimum standard is standards that should be secured for all)		Targeted standard for high-rise apartment buildings in urban area, detached housing in rural areas			
Implementation mechanism	Large-scale construction by public bodies	New town, High-rise, high density housing, suburbanization. Mini-scale detached houses in small parcels				Partnership with land owners for housing provision			
Output (thousand units)	Plan	Total Units	6,700	9,600	8,600	7,700	6,700	7,300	7,300
		Public financed	2,700 (40%)	3,800 (40%)	3,500 (40%)	3,500 (45.5%)	3,300 (49.2%)	3,700 (50.6%)	3,600
	Actual	Total Units	6739.3	8,280	7,698	6,104	8356	7,490	
		Public financed	2565.3 (38%)	3,108 (37.5%)	3,649 (47.5%)	3,231 (53%)	3138 (37.5%)	4,053 (54.1%)	

7.3 IMPROVE HOUSING DELIVERY SYSTEM

Apart from pinpointing housing problems and housing targets in specific terms as well as short-term actions, good long-term housing policy must help to improve the whole housing delivery system to all income groups. Several suitable strategies are discussed in the rest of this chapter.

7.3.1 Supporting housing market

In many countries, markets serve as the primary housing delivery mechanism; hence their effectiveness and efficiency are important to ensure decent housing for all. The GOV of Danang must create a framework for a well-functioning, integrated housing market because trends in one segment affect performance of other segments. Then GOV direct interventions can be focused on addressing needs of the disadvantaged and vulnerable groups such

As other cities in Vietnam, even though property markets have developed following Doi moi policy in 1986, the state of market development is just at infancy. For Danang context, the Government should take some initiative to develop and adjust the housing market in order to encourage housing consumption of higher-end while limit demand of the lower end – mostly through limiting resettlement as much as possible.

At the same time, supply side should be encouraged by providing various types of dwelling for diversified incomes, more specifically: limit row-house on plot while promote high-rise and middle rise-type apartment building of various standards.

Limit lower-end housing need is also advisable to lessen the burden on government's responsibility in helping the LIHs or the poor access to housing. For Danang, it will be effective to consider the reduction of resettlement scale since Danang's urban development has triggered colossal scale of resettlement. Danang should be focused on real (as opposed to artificially created) housing need such as that generated through the replacement of obsolete public housing, the formation of new households and the accommodation of urban migrants.

There are a number of demand and supply side interventions needed to create a buoyant housing market. On the demand side these include, i) Encourage people of all incomes to increase saving for housing; ii) Encourage housing consumption, support housing ownership by reduce transfer tax, simplify housing transaction procedures; iii) Establish housing finance system, including mandatory saving mechanisms for housing, to provide housing mortgage, loan or micro finance to different incomes groups. And on the supply side; i) Transparent real estate market; ii) Transparent investment processes to attract more private sector investment; iii) Appropriate fiscal measures including taxation, tax incentives; iv) Make land available for housing development in well thought-out planning to ensure a sustainable and effective land use pattern

7.3.2. Encourage different models of housing provision:

Single housing provision model alone can not be enough and effective to meet the housing need of the people in Danang today, and to deal with new need in future, together with need to improve living standard in parallel with the level of economic growth. Along with international tendency dictated in the Habitat Agenda Goal and policies, enablement and participation in housing provision is key strategy to achieve the goal of "shelter for all". Enablement and participation imply a holistic policy to encourage effective roles of all key actors in public, private and community sectors in housing development. Different models of housing provision: public provision, market provision and self-reliant provision should all be encouraged and enabled.

As in Phase I report, in Danang several housing provision models are in place: (1) public housing provision targeting consumers like resettlement, low-income, public servants, skill workers, households in priority such as war veterans. However, most of public housing development in Danang since 2000 so far is for resettlement; (2) housing for industrial workers is supposed to be

provided in separation by individual industrial developers, (3) resettlement housing; (4) commercial residential development; and (5) people's self-help housing provision activities. Though all modes of provision with participation of various actors should be supported, each model can be adjusted to be more efficient.

For commercial housing provision

In the long run, commercial housing provided through market mechanism should play more significant role in the whole housing delivery system as explained above. This is to provide for high income groups at two upper income quintiles. Types of housing suitable to these people are villas, or town houses on plot – which is the most popular and preferable by people in Vietnam, or high-standard apartment units in high-rise buildings with elevators and other services. The last type is not yet popular in Danang due to several reasons: people preference for individual house over apartment unit, land is not as expensive and scarce in Danang as in other big cities like Hanoi or HCM city, high-rise buildings construction and management capacity is not well developed, and promoting high-rise is not yet in development policies in Danang. However, recently, the GOV of Danang has shown their interest in promoting high-rise housing market. To promote consumption of high-rise apartment units, location of the buildings is very important. For the first step of promoting high-rise apartment units, buildings should have good location: close to city center, with good surrounding view, close to commercial facilities etc.

As discussed earlier, it takes sometime for the property market in Danang becomes more buoyant to create conditions for more participation by private sector. Local government should consider various conditions to attract more resources from private sectors through:

- Organize land (development right) auctions without discrimination between public developers and private developers, so that private developers can have fair opportunities to enter housing market
- Give incentives such as land-rent exemption, tax-holiday to private developers participating in housing developments
- Private housing developers may have opportunities to access to capital at low interest rate for if they provide high-rise apartment buildings.

It is also desirable to extend market provision to middle and middle high-income, young families with stable incomes with high-standard apartment in high-rise buildings with good services and maintenances.

For self-built housing

Self-build is probably the most popular housing provision mechanism in Vietnam. Majority of housing construction activities in Vietnamese cities is by self-reliant. This mechanism has many strengths in the current context including, allowing incremental building, flexibility of options, diversified types to meet diversified needs, the utilization of informal labor, simple technology, use of local materials, and utilization of resources for housing development in the most simple way. In Danang, there is high proportion of households with land holdings. So self built housing is an option which will be available to most households in Danang at present.

For low-income groups who already hold land, the intervention should be, as mentioned in Chapter 5 is to ensure the provision of systematic infrastructure and urban services, and provide suitable financial measures (micro finance, mortgage or grants or loans) to households so that people can be "self-help" in housing provision and maintenance. The most important to this sector is to ensure security of land tenure and the existence of minimum urban services such as clean water supply, sewerage and drainage.

For self-reliant housing activities of the high-income groups, financial support to for housing construction is not an issue yet the provision of infrastructure and spatial planning in advance is significant in creating desirable living environment. If no planning and infrastructure provision in advance, then self-reliant mechanism can create residential areas where housing is good while overall living environment including access road, services, natural lighting and ventilation is undesirable, then it will be extremely wasteful and costly to improve the whole environment.

Though self-reliant housing provision is the most preferable mechanism in Vietnam, and has many merits, it isn't to create optimum density and effective land use. Thus, while self-reliant activities should be encouraged in existing residential areas together with urban upgrading and redevelopment, it should be limited to certain extent to save land for more intensive development.

Public housing provision:

In principle, public housing provision is to provide low-cost, affordable housing to those can not access to housing through market such as low-incomes, middle-low income..., with different forms of government subsidies.

The question here is that in the next 5 to 10 years, to what extent should public housing cover only the poor and the low income with governmental subsidy or extend to middle and middle low-income such as public servants, industrial workers, and people with permanent job in financially sustainable mechanism with governmental support.

This housing sector is not a profitable lucrative business, but made up major housing demand in Danang in future when industrial sector of Danang growing further in the future. Large scale of housing supply to these groups requires capacity in both construction and management which is not in place in Danang in both public and private sector. Experiences in fast growing economies show that public sector take the task of providing housing for these groups. As in Singapore, in 1986, public housing accounted for 85% total housing stock where people are living in more than 585,000 apartment units in high-rise buildings; among them 66% is owner-occupied. Singapore has the largest and the most successful public housing program (in term of the proportion of population living in public housing) among capitalist cities. In Japan, public housing supply system includes local government public housing targeting the low-income and HUDC housing (a central producing body) targeting middle class laborers in urban areas. Government Housing Loan Corporation (GHLC) was established to provide individuals long-term, low-interest loans to purchase houses (600,000units/year). Compare with Singapore, productivity of public housing in Japan is much lower: accounting for only 10% of total stock produced, and about 25% to 30% financed by GHLC.

At this moment, housing for industrial workers is stipulated to be provided for by each industrial developer. This way of separated provision will not ensure common housing standard, quality of construction and maintenance. Small scale provision by each industrial developer will not allow for efficient infrastructure, services and social facilities.

Therefore, to accommodate housing for these groups, Government of Danang should integrate housing policy and urban planning: pulling housing needs for laborers in concentrated industrial areas or other places of concentrated employment into large-scale residential projects. Various development schemes of public-private partnership, with contribution of both employers and employees can be worked out based on specific conditions. Public housing program can start with rental then gradually encourage ownership, or with housing mortgage pay by installment.

7.3.3. Land use planning

Land is the principal input for housing development. Efficient land use planning and effective land management are two key condition to create orderly and sustainable urban development in general and housing development in particular.

At first, it is a widespread wasteful of land use planning development. The Master plan of Danang to 2020 indicate very low population density (6.1 persons/ha in 2005 to 9.6 persons/ha in 2020) as compared with Asian standards. If implemented therefore, this proposed spatial development strategy will have considerable implications in terms of the additional land area required (estimated at 20-30kms²) for residential development, and the investment needed for site preparation and for extending infrastructure, roads and public services to more remote low density housing areas. It will also have a potentially adverse impact on traditional settlements and agricultural lands in peripheral areas of the City.

At second, even though land development has brought considerably large budget revenue for Danang to reinvest in further urban development, land will become scarcer during the course of development, so that revenue from excessive land resource development will not be sustainable in future. This over-reliance on land use fees and rent make the administration to convert too much land. Therefore, utilizing land in more efficient and economical ways is very significant for long term sustainable development of Danang.

At third, the way residential development – the majority of urban development projects in Danang is carried out is ad-hoc, piece-meal development of small-scale, plot-type projects. Most of projects have land areas of less than 10ha. Of total 336 residential projects totalling 8,843.5 ha land, as little as one project with high-rise housing, and 25 five-storey condominiums, the remaining is plot-type development. This way of planning and development has prevented chances to create comprehensive and sustainable provision of not only housing but also living environment, including of infrastructure, urban services, social facilities so as open spaces.

These suggest much to be readjusted in land use planning in Danang. For housing development, good planning ensure effective and economized uses of land, comprehensive and sustainable provision of not only housing but also living environment, including of infrastructure, urban services and social facilities. Planning can also be a tool for attracting the participation and contribution of private sector especially in investment items supposed to be at GOV responsibility. Therefore, it is recommended that

First of all, Danang should increase effectiveness of land uses through planning. Land use planning must be reconsidered to create more compact city development:

- Exploit more fully existing land, infrastructure and public service provision already existing in inner urban areas
- Adjust the Master plan to promote high concentrated urban development in general and compact residential development in particular, encourage optimal density.
- Adopt more relevant road standards to meet future need without wasting land and incurring excessive resettlement

At second, land use planning should create chances for more comprehensive, integrated development projects with higher FAR while ensuring provision of park, play grounds, social services. The following planning policies should be adopted:

- Adjust detail planning of projects for more compact development in order to save land and infrastructure cost by limiting plot-type housing, promote high-rise housings (increase FAR), and mixing housing of various market brackets (high income, middle income and low-incomes) to create opportunities to earning living through servicing each others.

- Consider, where appropriate, land readjustment and consolidation, especially in urban peripheral areas.
- Consider where appropriate, urban redevelopment projects where lands are at strategic location while being under-utilization, or where buildings are already dilapidated such as old public housing areas.

At third, the City should consider the adoption of innovative instruments that capture gains in land values and recover public investment, for example: land bid, auction or through planning and other types of incentives to promote exchanges for infrastructure or social housing to 'development rights' (see box 7.2. for Hanoi experiences)

The dimension of sustainable development should also be taken into planning for housing development. Sustainable urban land use pattern should be ensured, by which:

- Protect ocean and coastal area, river, ecological zones, Son tra peninsula, mountains from harmful effect of human settlement and source of pollution.
- Control excessive expansion toward peripheral land for urban development
- Promote the integration of land-use, communication and transport planning to encourage development patterns that reduce demand for transport. More specifically, adjust master plan to minimize excessive road openings that create transportation demands, trigger resettlement and incur cost for infrastructure provision.
- Preserve open space and ecological areas as ecological infrastructure of the city.
- Promote mixed land use and higher density development

When choosing sites for the construction of LIH, several dimensions should be considered:

- Site that has basic infrastructure and accessible to social service (near primary school, health care center, public communication place)
- Where land price is relatively cheap
- Close to source of employment so that households have better income-generating opportunities. Suitable locations may be in new urban development areas, mixed with residential areas of other income groups, near industrial zones or business parks.
- Location should be well connected to urban infrastructure system in order to ensure the environmental quality and living quality for residents

Danang may refer to Hanoi city's experience in Box 7.2 where residential development is channeled into about hundred projects of different scales, called new urban areas.

Box 7.2: Exchange development rights to infrastructure – Experiences of Hanoi

Exchange development right for infrastructure is quite popular technique in Hanoi city. Since 2000, Hanoi has implemented its housing development strategy, with its emphasis on

- Promoting large-scale, comprehensive residential development;
- Promoting new living style in apartments and encouraging high-rise construction; and
- Promoting commercial housing production and market mechanism in housing provision.

During the last half of the decade, some dozens new urban areas have been developed in Hanoi. To support the strategy, Hanoi prepared a number of decisions as legal framework to attract developers into housing development and get their contribution in providing housing to middle and low-income groups. Basically, it is stipulated that:

- In new residential development projects, 60% of land for housing construction must be used for high-rise (9-storey up) while row-house is prohibited. Ground floor in high-rise apartment building is transferred to public management for public uses (parking, commercial and services).
- Non-housing serviced land within project (such as commercial uses, recreational uses, public facilities) must be returned to city government, specifically to DONRE, for investment auctions.
- The government will secure 20% of serviced land designated for the construction of low income housing or resettlement without refund to developers on infrastructure cost.
- 50% of total housing floor areas in high-rise buildings and 25% total floor area in low-rise housing must be sold to specific consumers introduced by the City government at stipulated cost-recoverable price.
- Only the remaining serviced land and housing stock can be transferred at market prices.

Thank to the Decree 71/2001/ND-CP on Housing Investment incentives (Oct. 5th 2001), projects with majority of land for housing (more than 60%) designated for high-rise (over 9 stories) will be enjoyed preferential condition such as: 100% land-use fee exemption is applied to land areas designated to high-rise housing; 50% exemption applied to other residential land within preferential projects; Land-use fee (of area subjected to land levy) is to be postponed until the start of sale and lease, but no later than 5 years since the lands were handed over to investors. By these conditions, the city government, in exchange development rights to developers can get:

- In-project infrastructure and services
- Serviced land for low-income housing
- With considerable stock of serviced land and floor area for public disposal; at the same time promote healthy residential development in the city.

7.3.4. Land management

Land is the principal input for housing development. Efficient land use planning and effective land management are two key condition to create orderly and sustainable urban development in general and housing development in particular. For better land use management, several policies will help:

- GOV must conduct comprehensive inventories of publicly held land and save land for future public uses as much as possible.
- Economize on public land utilization is extremely significant to minimize low cost for public investment to ensure comprehensive urban development, including housing.

- Accelerate land titling process and ensure security of land tenures as platform to formal land management
- Avoid land speculation by limiting excessive land allocation to individuals, by promote high-rise development, by other planning tools, taxation, and management.
- Based on urban planning, make the best values out of land resources through bidding development rights
- Apply transparent, equitable fiscal incentive mechanism to stimulate efficient and environmentally sound land use (land use taxation...)
- Institutionalize participatory approach to allow various stakeholders, particularly affected people in urban developments to say their voices
- Establish updated, integral property information system and make it available to all stakeholders in the market.
- Effective legal framework for market development

7.4. POLICY RECOMMENDATIONS FOR THE PROVISION OF LOW INCOME HOUSING

In previous chapters we have sought to establish LIH housing need, effective demand, discussed suitable technical standards, institutional issues, the financial mechanisms for provision of housing and overall policy for the housing sector. In this section we draw these threads together and focus on concrete policy recommendations related to the provision of low income housing in Danang.

We divide these recommendations into recommendations which can be implemented immediately or in the near future and recommendations which may become viable in the long term but for which need to be considered now. Where directly relevant suggestions have also been made about donor involvement, however, more comprehensive suggestions on donor interventions will be discussed in greater detail during the forthcoming workshop, and these will be incorporated into the final report.

SHORT TERM POLICY RECOMMENDATIONS

In the next five years or so Danang will need to address the residual need for LIH in the city as well as start to develop housing production methods which will go at least some way to meeting the increasing demand for housing driven by the burgeoning migrant population.

7.4.1. Policies to address LIH need – unit maintenance and upgrading infrastructure

Around 90% of low income households in Danang possess a residential land plot. Although the size of the land holding may vary the evidence suggests that in most cases they possess enough land to accommodate adequate housing. Of these households estimates from the HIS survey suggest that over 38,000 urban households (excluding damage caused by the recent typhoon) are in need of maintenance, structural upgrading or extension. Even in cases where housing conditions are very poor, if households have access to land, incremental upgrading is a much more cost effective solution than resettlement. Estimates suggest that around 70% of housing need in developing countries could be met through incremental upgrading. As land ownership is more common in Danang than is the case in other developing countries the potential for such incremental development is even greater.

There is a need therefore sustainable mechanisms to allow lower income groups to fund maintenance and upgrading of their households, and perhaps local level infrastructure are needed. Typhoon Xangsane gives a clear illustration of the need for such a mechanisms, as typhoons are likely to be an increasingly frequent occurrence the need for better maintained,

more durable housing and the need for perennial maintenance provision is clear. The typhoon damaged caused to many dwellings also serves as a timely reminder that it is better to build small and well (and incrementally) than for households to stretch resources and build large less durable buildings as they have been encouraged to do on resettlement sites.

Funds for housing maintenance and upgrading should be made available to all LIH. Options, however, are limited as the level and variability of LIH income mean that they are usually not good candidates for formal housing loans of any size. Poor infrastructure and uncertainty about the possibility of resettlement also means that they may be reluctant to upgrade their accommodation (see cross-cutting recommendations below).

The in-situ upgrading and microfinance components of the PIIP project are important ways of upgrading existing LIAs which have been used with a great deal of success in other urban areas in Vietnam such as Can Tho and HCMC. The implementation of the PIIP in situ upgrading component in the 15 LIAs will, in all likelihood, provide important lessons for housing policy in the rest of the city. Given the immanent implementation of this project, the recommendations in this section, by and large, seek to build on this framework.

Policy recommendation 1: Make provision of small grants to poor households for home materials in LIAs slated for PIIP interventions.

Grants could be made available for home improvement for priority households who are too poor to receive loans from the microfinance component of the PIIP project. Application for grants would be made by households themselves and in the short term funds allocated based on publicly available criteria, undertaken by the WU. These funds would be made available for home materials only. Grants could be made available in the form of materials vouchers redeemable at local suppliers. Although fungibility would mean that there is no way of ensuring households would not shift expenditure patterns and use the grants in unintended ways, or sell on the materials they purchased, vouchers could minimize these risks. Checks could also be performed to ensure that grants were being used properly.

In the longer term, and if such a provision proved successful, the provision could be extended to other areas. For a wider programme of grants DoLISA would be the appropriate body for allocation of these funds. In the medium to long term grants could also be offered through community funds (see recommendation 3).

Policy recommendation 2: Extend MFIs similar to those proposed in the PIIP project to other areas in the city.

If the microfinance component of the PIIP project is successful in the project LIAs it could be adapted and extended to other low income areas outside the project. Such an extension would necessarily be area based and not amenable to a city wide implementation because of the dependence of the schemes on social capital in minimizing risk. Local community institutions with adequate capacity should be used for implementation, probably in the first instance the WU. In the medium to long term, schemes could be administered (as with grants) as part of the functioning of community funds, see recommendation 3.

In the longer term, to enable the extension of these projects any MFI are likely to have to resort to capital markets as a source of funds. To enable them to do this, and to allow them to access funds at a reasonable rate the Danang city government will need act as guarantor.

Policy recommendation 3: In concert with 2, develop a framework for the formation of community funds in LIA outside the PIIP LIA project.

As discussed in chapter 4, in recent years community funds have been relatively successfully involved in a variety of urban area-based upgrading projects. They have been successful both in

mobilizing and pooling community funds, and dispersing funds which have been made available on concessional terms from government and donor sources. These integrate a range of different strategies, similar to the ways the PIIP in situ upgrading/microfinance components will in designated LIAs.

However, these funds tend to rely on well developed community groups which are representative of, and accountable to, the communities in which they operate. It is not clear that current conditions in the city would be amenable to formation of such groups. On the other hand, there has been some success in the allocation of community funds to communes in rural development programmes in Vietnam sponsored by the Bank and DfID, from which lessons could be learned.

It is recommended that one or two LIAs outside the 15 current areas be identified for the development of a community fund pilot. This could run in parallel to the PIIP project but would be managed by a board directly accountable to the community. Community meetings would be organized over a lengthy inception period to inform the community and build consensus around the concept of a community fund. The fund would be used for microfinance loans, grants to LIHs for home materials, possibly home improvement loans and community infrastructure upgrading. Without existing community groups some mechanism through which oversight could be exercised in the use of fund resources by other agencies (such as the WU) would need to be developed. Funds would be made available in the first instance by donors, if initially successful government funds could be used to extend similar schemes.

7.4.2 Policies to address LIH need – additional units

In Chapter 2 it was estimated that there is a need for 15,000 new units for LIHs within the urban area excluding resettlement housing need and typhoon damage. Over the next 14 years demand for additional units from low income groups is likely to be, on average, between 1,600 – 2,400 per annum. Given the shortage of funds available it is difficult to see how these needs can be met in the short term. As with maintenance and upgrading tackling the issue of unit provision is more about putting different policies in place which will allow the incremental development of housing mechanisms for low income groups.

To date practically all units for low income groups have been provided for resettled households. The need estimations given in the previous paragraph suggest that there is a substantial immediate need to be addressed and that even in the short term the city should be considering cost effective ways to supply housing to these groups.

Policy recommendation 4: Provide housing units on state sponsored integrated housing developments designed with donor support.

As current conditions in Danang are not conducive to large scale private residential/commercial development, it will be difficult to encourage private sector participation in the provision of housing for low income groups as part of integrated developments. It therefore falls to the government to take the lead in developing integrated developments which make provision for low income households, these can be funded in part by the sale of prime serviced plots within the development to private sector developers.

To some extent this is the strategy already adopted in Danang as large areas have been redeveloped by the state funded in a large part by the sale of development rights to private developers. However, it is often the case that within these developments design standards have been unsuitable (such as very high road ratios), and the actual demand for and the sequencing of the housing, infrastructure and amenity development has not been conducive to creating demand in the private sector for residential or commercial land in those developments. Moreover, the provision for LIH in these sites has not given proper consideration to livelihoods and household needs. For example, plots of garden land for horticulture and small scale animal husbandry should be made available to households for long term allocation at a nominal fee (as still happens

in a number of developed countries such as the UK and Japan). This is particularly important for older households who have been resettled from agricultural land or rural residential land with large gardens areas who will find it difficult making the transition to urban conditions.

Proposed new developments, such as those in Cam Le district, offer the opportunity to conduct a consultative planning process based in the city (rather than through Hanoi based institutions) involving all stakeholders and giving consideration to all groups including low income households. Investment should be sought not just from private developers but from employers (especially large employers in industrial zones) to assist in the funding. Donor support could be sought in the planning and development of these areas. This would offer a real opportunity for capacity building in terms of urban planning and investment planning and would constitute an ideal pilot for the provision of such TA.

This type of comprehensive, integrated residential development should be promoted to consumers in industrial sectors that supposed to grow in Danang. This is to avoid the current stipulated discrete housing provision separately by individual industrial employers. Employers, instead of taking responsibility in direct provision of housing for their owned workers may contribute to integrated housing development scheme through financial term into a kind of similar CPF in Singapore.

Policy recommendation 5: Provision of core starter houses on new developments, offered in swaps for inner city locations

Where households have land in the urban areas but have temporary housing or housing which is in a very bad state of repair core starter housing elsewhere in the city should be made available as a choice to households. Households could essentially trade off a more valuable land plot with inadequate housing for a different plot, usually in a less desirable location but with adequate housing and services. These plots should be made available to swap for households who do not necessarily require resettlement but wish to trade off land value for better housing conditions. Such a swap would be voluntary and perhaps only open to households in certain locations. This would have the advantage of allowing the government to gain control of more centrally located land and allow land readjustment, infrastructure development, or simply to allow the capture of rents from the appreciation of land value in these locations.

Such a swap maybe more attractive to LIH, but it could possibly be made available to other households too. Although, depending on the uptake of such a scheme, available provision of plots and core housing could be limited. Encouraging the movement of population away from core areas into new developments will not only facilitate urban upgrading but potentially accelerate the development of these areas which has hitherto been slow, which has in turn, discouraged private investment in new developments.

Policy recommendation 6: Make direct financial contributions of housing allowances to low income households, rather than subsidizing rents

Changes in the management of public housing has already meant government employees who live in this accommodation have moved from being required to pay no rent, to being required to pay rent but receiving an accommodation allowance in their salaries. For LIHs in immediate need, for example the 3,000 homeless households identified by DoLISA in 2006, it is recommended that they also be given an allowance to cover rental costs, perhaps in the form of a redeemable voucher paid to the landlord. This will allow them, in the short term, to find private rental accommodation. In the longer term, it is hoped that these households could be relocated to public housing.

For households given allocations in public housing a similar scheme should be developed. Rather than concentrating too heavily on supply side subsidies effectively administered by HMC, or the PPC in decisions on public housing allocation, DoLISA should be responsible for the allocation of

housing allowances to needy households. This in effect ensures that HMC can collect sufficient rents from households to maintain public buildings, which are themselves important assets, and sustain its finances. It would also help ensure that HMC does not face the moral hazard problem of rent non payment.

The scheme also offers households choice and by the same token could encourage private sector rental provision as rent payment is to some extent guaranteed by DoLISA, thus minimizing the risk to landlords.

As funds obtained from DoLISA would be remitted back to HMC for housing maintenance, or to the land fund for housing construction this does not simply represent an expenditure but a way to channel funds which meets the housing needs of LIH but also ensures the sustainable operation of current housing stock (something which is highly desirable in current circumstances).

Such a provision is likely to be expensive and thus, in the short term, not feasible on a large scale. In the medium term, if proper means testing and graduated payments were adopted, this could ensure that funds are targeted efficiently. In the longer term the government may also wish to consider the development of a social housing agency along the same lines as that developed in Belgium (see chapter 4).

Policy recommendation 7: Encourage construction and upgrading of rental units by the private sector

Private sector rental accommodation is already an important component of housing provision in Danang as in other cities in Vietnam. Such accommodation is usually offered by households in the form of rooms or a bed in a dormitory. Despite concerns about conditions in this sort of accommodation it offers affordable accommodation for many people and is a valuable source of income for households. In the short term the government should seek to encourage investment in the extension and upgrading of housing to provide more of this private rental accommodation. As with other housing up-grading grants for very poor households, and micro finance loans could be offered through existing organizations, such as the WU in PIIP project areas.

Another option for higher income households maybe the provision of secured loans offered at concessional rates for the provision of rental accommodation to low income groups. This is a slightly longer term option as financing arrangements and implementing organizations would have to be identified. In the case of loans it could be ensured that the provision was targeted by offering subsidies to loan installments paid off with housing the housing vouchers suggested in recommendation 6.

Other supporting policies include the payment of housing allowances to households as in 6 and the development of social housing agency which would guarantee rents and lower transaction costs in finding tenants.

7.4.3 Other short term policy recommendations

Policy recommendation 8: Creation of a housing list administered by HMC or DoLISA

Even when housing benefits are provided, public housing will in all likelihood be subsidized to some degree and either cheaper or better value for money than equivalent private provision. This in turn means that public housing provision will be rationed. If the housing is rationed then there must be a means by which allocation is decided based on some assessment of need. As public housing provision in Danang is, as yet, limited and as has been made available only to government employees or resettled households such a provision has not been necessary.

However, if supply of public housing is to increase beyond that made immediately necessary by redevelopment, criteria for judging household eligibility must be decided. These should be public

and the process of allocation be open to appeal in an administrative tribunal to ensure that opportunities for rent seeking are limited.

As demand will almost certainly outstrip supply, a waiting list should be introduced, which notwithstanding exceptional circumstances functions on a first come, first served basis.

Policy recommendation 9: Housing advice office

In order to facilitate public access to available financing and housing assistance, and to advise on issues such as mortgages, technical building standards and legal matters relating to housing a housing advice office should be founded under DoC. Services should be offered to all households free of charge. Such provision could, in particular, play a valuable role in advising on housing standards and the construction of storm proof housing.

Policy recommendation 10: Limit resettlement as far as possible

As discussed at length elsewhere in this report and the phase I report, there are many reasons why resettlement should be a last resort. Resettlement in Danang in particular seems to have been focused on low income areas and thus has affected those households least able to cope with the dislocation it can cause. Efforts should be made to investigate the possibilities of in situ upgrading as in the PIIP LIAs and voluntary housing swaps which have been successful in other countries (e.g. Columbia). Where infrastructure upgrading is required the possibility of land readjustment, as practiced in Japan should be examined before it is decided to resort to resettlement.

7.4.4. Longer term policy recommendations

Policy recommendation 11: Development of a designated housing agency under DoC

At present responsibility for the housing sector, public housing and low income housing is fragmented to the remits of DoC, DoNRE and DoLISA respectively. Moreover, there is not comprehensive integrated approach towards the development of the housing sector, and more broadly the real estate sector in the city. To remedy this it is suggested that in the medium to long term Danang PPC consider placing the HMC under DoC, and in addition developing a section under DoC with a remit for developing housing sector strategy, projections and plans. In particular, this section could be responsible for assessing and making plans to address LIHs housing needs. DoLISA would retain its role in providing welfare payments and would also be required to make assessment of household's eligibility for housing assistance.

Policy recommendation 12: Compulsory saving schemes

Compulsory savings schemes could be adopted for a number of groups including workers in regular employment, especially those in industrial zones and government employees. Such a scheme would function in a similar way to the CPF scheme in Singapore. Employees and employers would both be required to make monthly contributions. These savings could be used as a down-payment on housing and as mortgage installments. This scheme would have the advantage that employers would in effect have to contribute to the cost of housing; this is described in greater detail in chapter 4.

Compensation payments could also be made into such interest bearing accounts. In the case of households who have been resettled but find themselves unable to purchase housing, they could still be offered a combination of flat allocation and compensation payments. However, the compensation payments would be made into these accounts once in such an account would only be available for certain designated uses. Funds from this account could also be retained as a bond by the landlord (HMC) to ensure payment of rent.

Policy recommendation 13: Private provision of LIH housing through ‘development gain’

As land prices in Danang appreciate the administrative control the government wields over land zoning can be leveraged to ensure provision of low income housing. To encourage private sector participation in such public-private developments, there must be adequate incentives for private investment. This can take the form of granting of development rights, planning gain and tax incentives. Contributions from the private sector can also take a number of different forms including building physical infrastructure and amenities or in the case in point the provision of housing for priority groups.

The extent that private sector will be willing to contribute to public developments will depend on the differential between ‘transfer earnings’²¹ and ‘economic rents’²² on land, or to put it more simply, the increase in value of property after development. Therefore, the amount the private sector is willing to contribute in this way is a function of the buoyancy of the property market.

This means of LIH provision is not without its irony, as it is more often than not, appreciating property prices which are one of the main factors creating problems in meeting the needs of LIHs. A detailed example of how this kind of arrangement functions in Hanoi is described in Chapter 4.

Policy recommendation 14: Fostering an healthy mortgage market

A healthy mortgage market is essential for long term development of the housing sector. As yet in Vietnam it is under developed. Tenure security in Vietnam is not dependant upon the holding of LURCs (see Kim 2004), especially in urban areas which show a much smaller proportion of households with current formal legal tenure papers than elsewhere, this issue is discussed in further detail in the phase I report, chapter 6. However, possession of current legal tenure is necessary to enable formal sector mortgage lenders to extend credit secured on this asset. In the absence of formal legal tenure documents households access to cheap mortgage finance is limited.

Formalizing already well established propriety rights to real estate holdings can allow households to unlock the value of their current real estate assets for investment elsewhere. A good proportion of this investment will go into housing development and will mean the expansion of housing stock, particularly in urban areas.

The need to unlock the value represented by real estate assets in urban areas, predominantly though the extension of mortgage lending, is one of the key motivations behind the Vietnam Land Administration Project (VLAP), funded by the Government of Vietnam, the World Bank and SIDA, and under MoNRE. VLAP seeks to extend land titling, especially in urban areas, and improve land information systems in general. VLAP is currently in its design phase but the first stages of implementation are expected to take place this year.

Whether Danang is a pilot province in the VLAP project or not it should certainly seek to learn from the implementation of this project. If reports are accurate most households do have legal tenure documents for residential land in Danang and there is steady progress in the issuance of these documents. However, where Danang could benefit from the experiences gained in the VLAP project is through improving the availability of land information and engaging in public

²¹ Transfer earning implies a value necessary to ensure the supply of a piece of land for a particular use. They are minimum payment necessary to stop a piece of land being used for the production of alternative commodity. For example, if a farmer can sell a piece of land to another farmer at 1 million VND, he will not sell for less than this to a residential developer.

²² Economic rent is a payment over and above transfer earnings. It is a payment above that which is absolutely necessary to secure the use of a piece of land for a given productive purpose. If a residential developer offers the farmer 5 millions VND for that piece of land and the farmer accepted it, then the value of 5 millions is economic rent of the piece of land.

education campaigns on mortgage finance. It should also concentrate on establishing a better dialogue between DoNRE, DoF and mortgage lenders to improve access to information on land tenure for these institutions.

Better land information and more comprehensive land titling mean nothing without an effective legal system which can ensure compliance with mortgage agreements and ensure the rights of lenders. As recognized by other studies²³, currently courts tend to recognize the right to housing of borrowers over the right of lenders to repayment of their loan. Hence, courts are reluctant to foreclose on households in default of payments. This adds considerably to the risk borne by lenders in extending mortgage finance and increases the cost of mortgage borrowing to would-be consumers.

Improvement of legal provisions on mortgage lending is underway, a change in the interpretation of this legislation at court is likely to be slower. Better social housing provision may ameliorate the adverse welfare implications of foreclosure for defaulting households and make courts more ready to consider this as an option. Compulsory mortgage insurance would also lessen risk.

Although this is not the place to discuss this in any detail another way of facilitating the development of the mortgage market is through a deepening of the financial system, this not only means encouraging household saving at banks but also developing better access to capital in general, possibly the government offering mortgage insurance and the development of a secondary mortgage market to allow access to long term international capital.

The improvement of the land administration, legal and financial sectors a healthy mortgage market implies is being driven by national level legal and institutional reform. However, especially in the field of land administration and land market management there is a lot Danang could do at the city level to improve the institutional environment and facilitate the development of the mortgage market.

²³ ADB TAXXX

8. CONCLUDING REMARKS

For low income groups housing is likely to become increasingly unaffordable

As Danang grows housing need amongst low income groups is only likely to increase, just as the ability of these groups to meet the cost of housing diminishes. Property prices are likely to outstrip growth in income amongst poorest groups as more affluent households increase the proportion of their increasingly large incomes that they are likely to spend on real estate. In this manner, increasing income inequality will be made manifest in the living conditions of poorer people. If Danang wishes to avoid the development of large squatter settlements and slums of temporary housing with poor infrastructure and services it needs to act now.

A variety of options for low income housing are needed

There are several key sources of housing need in for low income groups in Danang. The residual need for housing maintenance, the need for replacement housing units where current dwellings are clearly inadequate, future need from the formation of new households and future need from in migration. Each of groups has different characteristics and implies different housing interventions to satisfy their need. What is key to this is the very variety of interventions required from small grants and microfinance loans to mortgages and the provision of social housing. One type of provision is unlikely to fulfil all these different housing needs, part of developing a successful housing programme is to ensure that there is flexibility and choice in the system which will allow households to find the most suitable and cost effective solution for them.

Addressing low income housing need should be part of wider housing policy

Any housing production and finance mechanisms developed by government for low income households need to be part of an integrated city wide housing strategy which seeks to develop a sustainable and healthy real estate sector, and which in turn is linked and consistent with the development strategies of other sectors in the city. The city government needs to develop effective mechanisms for managing housing demand, curbing speculation, assisting the development of long term housing finance, up-grading and developing infrastructure in existing developments, and ensuring a suitable quantum and quality of urban land is available for private sector real estate development. Without effective real estate management policies in place it is unlikely that any provision for LIH can be successful. If general housing demand is not addressed higher income groups will attempt to capture shelter opportunities designed for low income groups, without demand side market regulations speculators will drive up the price of land and occupy valuable urban land without putting it into use, and without a more effective land taxation system it is difficult to see how municipal funding can be sustainable.

Mortgage finance is unlikely to be a viable option for LIH, housing ownership and mortgage finance schemes should not divert resources away from low income groups

It is doubtful that even subsidized mortgage finance will be a viable option for households in the lowest income groups. They may not have any assets for down payment and installments may be beyond their means and their incomes may be irregular. Such households are much more suitable candidates for social housing or incremental up grading micro finance loans or grants.

The next steps

The report addresses the majority of the outputs required by the ToR, there are three remaining requirements not covered by the outputs to date, namely, a workshop to present findings and gather feedback in Danang, recommendations for future TA programmes and a GIS map of public housing in the city.

The workshop has not yet been arranged but is expected to take place at the end of March/beginning of April. The workshop will be held by the consultancy team and interested parties will be invited from the city. At the present we envisage a single day workshop with two key presentations in the morning and holding a series of working groups in the afternoon.

The feedback gathered at this workshop, along with comments from the World Bank will be incorporated in the final report.

Although not included in the second phase report as was the original intention, suggestions for future TA interventions will be presented at the workshop, feedback gathered and also incorporated into the final report.

An inventory gathering available information on public housing has already been put together, together with the HIS which took a full census of this public housing; there is considerable amount of information to date. However, it has not yet been possible to acquire GIS maps to allow the mapping of the location of this housing in Danang as required in the ToR.

The final report on will be made available for comments at the end of April.