

# Rethinking Institutional Reforms in the Philippine Housing Sector

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Philippine Institute for Development Studies  
Sunan sa mga Pagaaral Pangkaunlaran ng Pilipinas



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*Marife M. Ballesteros*

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# Foreword

The Philippine Institute for Development Studies (PIDS) celebrated its silver founding anniversary in 2002. In this connection, various activities were held to highlight the contribution and significance of policy research in governance as well as to commemorate more than two decades of providing competent research.

One of these activities is the Perspective Paper Symposium Series where the PIDS research fellows presented a perspective of the development and evolution of issues and concerns over the past 25 years in their respective fields of specialization such as infrastructure, banking and finance, science and technology, human resources development and labor markets, competition policy, poverty analysis and housing development. The 11 papers covered most of the themes in the PIDS research agenda and presented reviews of specific policy issues from where policy debates can proceed with greater focus.

Such outputs, however, are best disseminated in book formats so as to widen the reach of the excellent observations, analyses and recommendations put forward by the Institute's inhouse pool of researchers. Thus, the Institute presents 11 commendable titles under the *Perspective Paper Series* as its contribution to Philippine policy research.

It is with confident expectation that this *Series* will provide the essential answers to the concerns and gaps in various policy issues which the Institute has been trying to address in the last 25 years.

This book answers the question why housing reforms failed to achieve the desired improvements in housing in the Philippines. Its review of trends in government housing strategies shows that while many problems in housing are linked to institutional barriers in the land and financial markets, government reforms simply focus on operational and program-specific issues. These reforms may be needed but they can only be effective if basic institutional issues are first addressed. The book posits that the efficient functioning of the land and financial markets is necessary to the efficient functioning of the housing market, requiring government to undertake major reforms in land regulations and land administration infrastructure, including the implementation of an effective real property tax system.



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# Abstract

Why have housing reforms failed to achieve the desired improvements in housing in the Philippines?

A review of trends in government housing strategies shows that while many problems in housing are linked to institutional barriers in the land and financial markets, government reforms simply focus on operational and program-specific issues. While these reforms may be needed, they can only be effective if basic institutional issues are first addressed.

The paper posits that the efficient functioning of the land and financial markets is necessary to the efficient functioning of the housing market. This requires government to undertake major reforms in land regulations and land administration infrastructure, including the implementation of an effective real property tax system. As far as housing finance is concerned, government should re-adopt the financial reform concept developed in 1997, with assistance from the World Bank, which calls for a clear separation of subsidy mechanisms from transactions in housing finance. It should also reduce subsidy for high- and middle-income housing markets. These measures would specifically require reforms in the governance structure of housing delivery and a complete devolution of housing delivery functions to the local government. On the other hand, national government concerns should revolve around providing the policy environment and housing subsidy management. Toward this end, developing a corporate organization, not a Department of Housing and Urban Development, is necessary.



# 1

## Introduction

Government strategies on housing have evolved into an extensive list of policy instruments that include direct production, pricing policies, security in land tenure, tax and credit incentives, financial subsidies and innovations, zoning and building regulations, and rent controls. In the last 25 years, government has also undertaken reforms to implement these strategies effectively. A major reform is the shift from a highly centralized system of operation to a decentralized and participative approach to housing. Aside from these reforms, government has probably spent substantially more on housing subsidies than on any other welfare program in the country.<sup>1</sup>

Despite the reforms and considerable resources committed to housing, very little improvement has been observed in the housing condition of the country. There is a widening gap between demand and supply of decent housing, specifically for the low- to middle-income households. The number of families in slum and squatter colonies is rising specifically in key urban areas.<sup>2</sup> Only 45.8 percent of households in urban areas has access to the community water system and at least 13 percent of urban households lack potable water source near their homes. Moreover, one out of five poor households (i.e., families at the bottom 40 percent) has no toilet facility. In Metro Manila, the premier urban center in the country, about 76 percent of the total housing stock does not comply with current regulations.<sup>3</sup> Only about 50 percent of municipal solid wastes are collected.

Why have the reforms failed to achieve the desired improvements in housing in the Philippines? Recent studies have identified institutional issues as the primary constraint in housing. These institutional constraints include legal and regulatory problems, specifically in the land and financial

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<sup>1</sup> For instance, public retail mortgages exposure in the Philippines, including developer guaranty, amount to about 4.5 percent of GDP for the period 1994-1999 (Duebel 2000).

<sup>2</sup> National Statistics Office (2000)

<sup>3</sup> Based on survey done for the UNCHS in 1990; UNCHS and the World Bank (1993), Housing Indicators Table.

markets, and poor or unclear incentive structure in the organization of the housing market.<sup>4</sup>

This paper seeks to highlight and expand on these institutional issues and examine the extent to which these issues have been addressed. The paper then identifies major areas of institutional reforms that have yet to be undertaken.

The paper is organized as follows: Section 2 provides a conceptual framework of the housing market in the country. Section 3 reviews the major trends in government strategies for the housing sector. Section 4 presents the performance of these strategies and derives lessons from the experience. The last section suggests directions for institutional reforms in the future.

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<sup>4</sup> Refer to the following materials: Asian Development Bank (2000, 2001, 2002); Llanto and Orbeta (2001), World Bank (2000); Rebullida (1999); Ballesteros (2002).

## 2

# The Philippine Housing Market in Context

The housing problem in the country is manifested in various forms—the proliferation of informal housing arrangements (e.g., squatting, ownership of structure with no lease on site); the poor quality of dwelling and infrastructure services; the growth in room letting, creating enormous congestion; unregulated housing and zoning; and land use conflicts.

Two major conditions contribute to this situation: one, overurbanization; and two, relatively inelastic supply, specifically at the lower end of the housing market. Overurbanization has been defined as a stage where a higher degree of urbanization exists relative to the rates warranted by their degrees of industrialization.<sup>5</sup> The country subscribes to this overurbanization phenomenon. There has been a considerable high degree of urbanization in the country, but this has not been matched by high per capita income as well as shift of labor employment from low to high productivity areas.<sup>6</sup> Rapid urbanization tends to produce large shifts in demand for housing, frequently outstripping supply while low per capita income would mean a high ratio of unit housing cost to income.

On the other hand, the relatively inelastic housing supply aggravates the housing problem. Supply side constraints arise primarily from problems in the land and financial markets. The land market has been inefficient because land administration and management is weak in various aspects: legal and regulatory framework and land administration infrastructure.<sup>7</sup> Land laws in the country are inconsistent and society's preferences regarding land uses are not clearly defined. Land administration infrastructure is also poor and inadequate. Information about land ownership, location boundaries, actual land uses, and land values cannot be provided systematically. Thus, sale and transfer of property rights, issuance of required development permits

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<sup>5</sup> Payne (1977)

<sup>6</sup> Balisacan (1994)

<sup>7</sup> Llanto and Ballesteros (2002)

and licenses, and land tax collection are constrained by bureaucratic inefficiencies and political maneuverings. Significant revenues from real estate property cannot be collected. Often infrastructure investments can neither be made nor maintained because costs are not recovered. These conditions of the land market encourage the development of informal land markets, undermine infrastructure developments, increase the cost of servicing land for urban development, and result in high rate of increase in land prices.

The high appreciation of housing prices has been attributed to high rate of increase in land prices.<sup>8</sup> Average annual housing price appreciation in the Philippines (i.e., Manila) was computed at 32 percent per year, the highest among other major cities in Asia.<sup>9</sup> On the other hand, the cost of servicing raw land increases to five times its amount. Consider, for instance, the following: On the outskirts of Metro Manila, the price of raw agricultural land is P60 per square meter. This price rises by 2.5 to 3.0 times when the same land is zoned for urban use. It rises further by 5.3 to 6.7 times the zoned land price when such area is developed.<sup>10</sup> Comparatively, the Philippines has the highest land multiplier in Asia.

The limited sources of long-term funds in the country also restrict the supply of housing. Financing is paramount in housing investment because housing services are “lumpy” and ordinarily households do not have sufficient cash for such investments. Expanding the availability of housing finance would thus augment effective demand and stimulate housing developments. In the absence of long-term finance, the large demand for housing is not translated into effective demand. As it is, the banking system has been reluctant to hold long-term mortgages as assets because of the poor match in maturities between mortgages and sources of funds. Banks thus extend loans only to high-income households to minimize risks.<sup>11</sup> The low- to middle-income households, on the other hand, have been largely dependent on government social security funds, which are limited and cater mainly to households in the formal sector. It is thus not surprising that 93 percent of owner-occupied houses in the country have been built through an incremental building process based on savings and financial support from relatives and friends (Appendix 1). The problem is that these financing

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<sup>8</sup> Strassman and Blunt (1993)

<sup>9</sup> Annual rate of change of house prices was measured as an annual average of the percentage increase in house prices over the five-year period 1986-1990. These years correspond to a boom in the real estate industry in the ASEAN region. The rate of change in housing price in Bangkok, Hong Kong, Singapore and Kuala Lumpur in the same period was 26 percent, 18 percent, 6 percent, and 14 percent, respectively. United Nations Centre for Human Settlements and the World Bank (1993), Housing Indicators Table.

<sup>10</sup> United Nations Centre for Human Settlements and the World Bank (1993), Housing Indicators Table

<sup>11</sup> Struyk and Turner (1986)

sources are not only limited but also irregular because they are not linked to formal institutions and markets.<sup>12</sup>

The rental housing market also has not developed, partly due to legal impediments. For instance, the rent control law has provided restrictive policies on tenant eviction and unclear provisions on maintenance costs.<sup>13</sup> In addition, building standards for rental housing are either lacking or not strictly enforced. These conditions have discouraged the development of the rental housing market. In addition, government's bias toward homeownership has aggravated the problem.

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<sup>12</sup> Ferguson (1999)

<sup>13</sup> Ballesteros (2002)

# 3

## Trends in Government Housing Strategies

The National Shelter Program (NSP) represents the Philippine action agenda for housing (Figure 1). The program has three key areas that contain the various policy instruments in housing, namely, production, finance and regulation.

The production component entails the development of site or service homelots and the construction of residential buildings for low- to middle-income households. The functions related to production are the following: (1) ensuring a continuous supply of housing construction, which includes accreditation and franchising of private developers, constructors, fabricators, and suppliers who shall directly participate in the actual construction of identified housing projects; and (2) accreditation of housing technologies.

The shelter finance system operates under four major schemes—guarantees and tax incentives, development financing, homebuyers or end-user financing, and community-based financing. Funds are mainly sourced from budgetary appropriations and from savings of pension funds members.

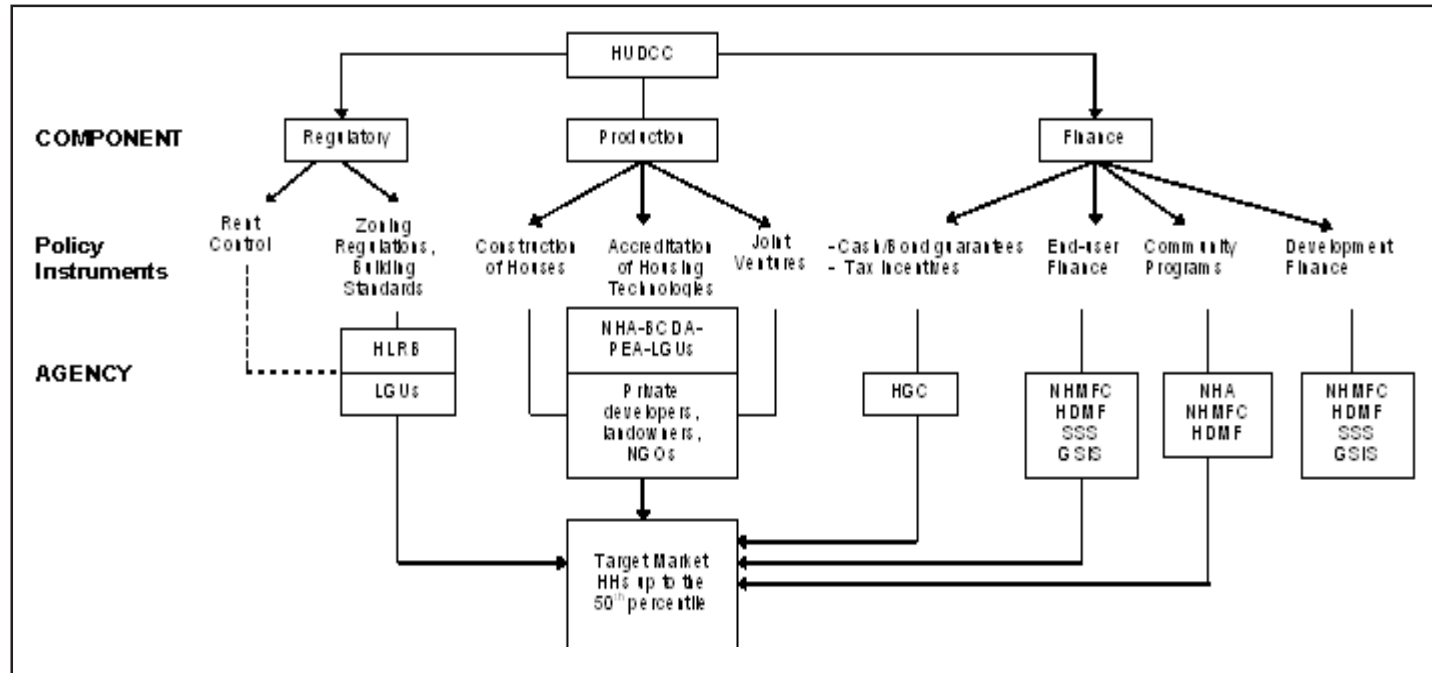
The regulatory component involves a continuous rationalization of building standards and regulations governing housing construction and subdivision development, including real estate trade in the country.<sup>14</sup> The other regulatory component is the rent control law, which has been adopted to protect tenants from unreasonable increases in rental prices and eviction. Unlike land developments, however, no agency specifically monitors compliance with the rental law.

The NSP's main objective is to increase the housing stock for households in the lowest 50 percent of population. The mechanisms employed to achieve this objective are as follows: (a) direct production of housing units by

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<sup>14</sup> Two basic laws are of importance: one, Presidential Decree 957 (1976) governing housing developments in open or competitive markets; two, Batas Pambansa 220 (1982) governing economic and socialized housing developments. This law provided the basis for defining the boundaries of socialized viz open-market housing.

Figure 1. National Shelter Program



government; and (b) provision of public funds for development or end-user financing to entice the private sector to produce “socialized” housing. The theoretical argument for these strategies is that there are inherent imperfections in the organization and structure of the housing and mortgage markets and thus government intervention is warranted.<sup>15</sup> On the other hand, these approaches are mainly stopgap measures since the institutional constraints in the housing market, as earlier discussed, are not being addressed. Moreover, these approaches tend to be unsustainable because they are not linked to private sector funds.

The regulatory component of the program has also been narrow in scope. Regulation mainly focuses on building standards while land use and environmental measures have been inadequate. A national land use plan does not exist and land use standards are based on city or town plans that are technically insufficient to guide land use allocation.<sup>16</sup> Moreover, environmental standards are unclear and enforcement of environmental laws is weak. It is only in recent years that land use and environmental concerns are seriously given attention.

From 1978 to the present, the NSP has remained the key housing agenda of government. The program’s objective as well as mechanisms to achieve that objective remain in force today. The reforms undertaken as part of the program, in the past 25 years, have focused largely on the organization of program rather than content.

Initially, the government adopted a highly centralized system of managing the program. This was done through the creation of a Ministry of Human Settlements (MHS) in 1978, which served as the umbrella organization of all shelter agencies that had evolved since the 1950s.<sup>17</sup> These agencies include the following:

1. National Housing Authority (NHA), in charge of social housing production specifically upgrading of sites and services

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<sup>15</sup> For theoretical arguments on government intervention in housing, a summary is provided in Angeles (1985).

<sup>16</sup> Silva (1993)

<sup>17</sup> From 1950s to 1960s there were two major housing agencies in existence, the People’s Homesite and Housing Corporation (PHHC) and the Home Financing Corporation (HFC). The former was tasked with the development of sites for housing, slum clearance and resettlement while the latter was created to undertake a program of mortgage insurance to encourage private banks and financial institutions to grant housing loans on easy terms of payment. In the 1970s, 11 housing offices were created: 1) Presidential Assistance on Housing and Resettlement Agency (1973); 2) Tondo Foreshore Development Authority (1974); 3) Inter-agency Task Force on Nabacaan, Misamis Oriental Relocation (1973); 4) Central Institute for the Training and Relocation of Urban Squatters (1974); 5) Sapang Palay Development Committee (1973); 6) Human Settlements Regulatory Commission (1976); 7) National Home Mortgage Finance Corporation (1979); 8) Home Development Mutual Fund or Pag-IBIG Fund (1978); 9) BLISS Development Corporation (1977); 10) Human Settlements Development Corporation (1978); and 11) Ministry of Human Settlements (1978). These agencies were rationalized into nine key agencies upon adoption of the National Shelter Program (Angeles 1985).



2. Human Settlements Development Corporation (HSDC), also into shelter production and New Town and Estate developments<sup>18</sup>
3. National Housing Commission (NHC), supports the HSDC and NHA in shelter production
4. Human Settlements Regulatory Commission (HSRC), regulates subdivision development and socialized housing construction
5. National Pollution Control Commission (NPCC)
6. National Environmental Planning Council (NEPC)
7. Housing Finance Corporation (HFC), provides mortgage insurance or guarantees to encourage private banks and financial institutions to grant housing loans on easy terms of payment<sup>19</sup>
8. National Home Mortgage Finance Corporation (NHMFC), acted as a secondary market for housing mortgages
9. Home Development Mutual Fund (HDMF), a provident savings fund maturing after 20 years.<sup>20</sup>

Toward the end of the 1980s, a rationalization of the shelter agencies was undertaken. The Ministry of Human Settlements was dissolved, and in its place, the Housing and Urban Development Coordinating Council (HUDCC) was organized. Comparatively, the HUDCC had limited powers over the shelter agencies, since its main task was to coordinate the shelter agencies in the implementation of the NSP. The reorganization also reduced the number of key shelter agencies from nine to five, to wit: NHA, NHMFC, HDMF, HSRC and HFC. The HSRC and HFC were renamed as the Housing and Land Use Regulatory Board (HLURB) and the Housing Guaranty Corporation (HGC), respectively.

From a highly centralized scheme, government moved toward a participatory approach in which the concepts of “tripartism,” self-help housing, and community housing have become popular (Figure 2).<sup>21</sup> The participatory approach also led to a prioritization of programs. In the 1970s, completed and medium-rise housing comprised the major programs adopted. These

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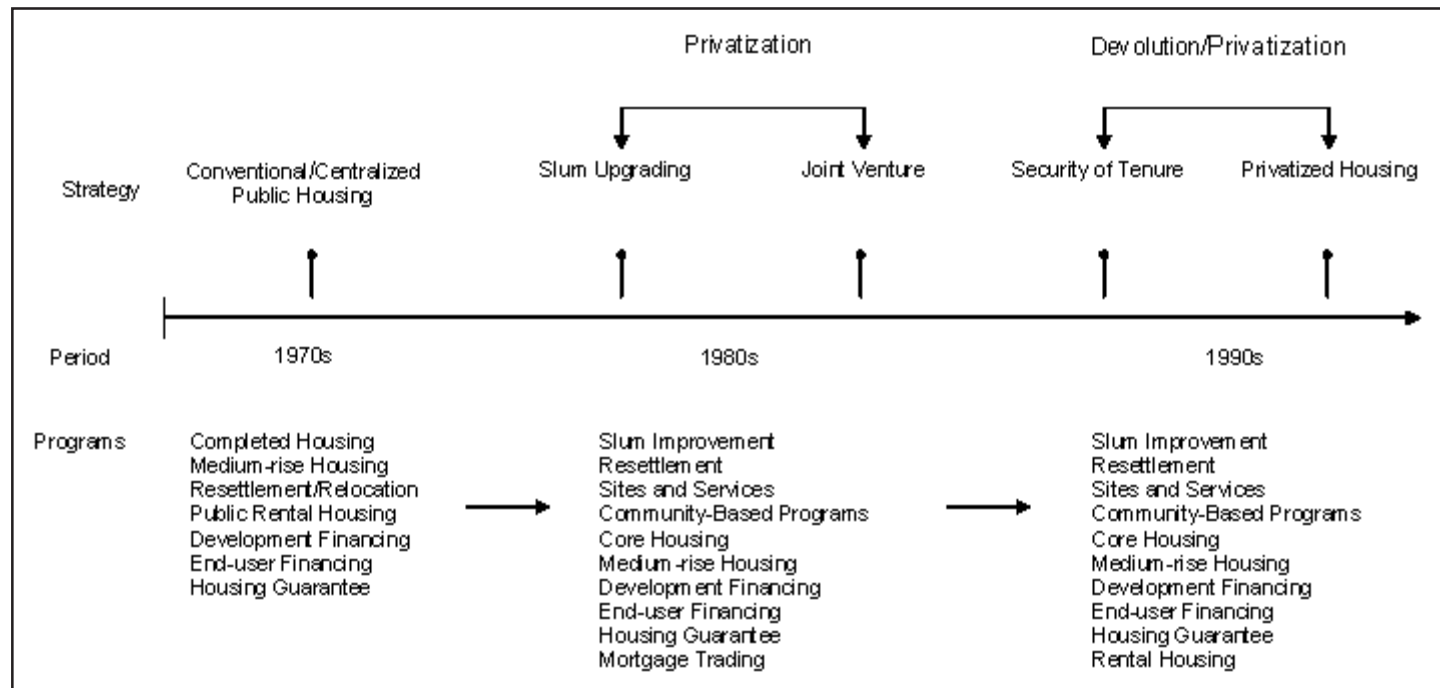
<sup>18</sup> The agency was also in charge of the following: (1) standardization of building components and systems; (2) materials stockpiling; and (3) establishment of regional fabrication centers. To undertake these activities, HSDC was given power of eminent domain and borrowing power (i.e., can issue bonds or contract domestic or foreign loans, credits or indebtedness).

<sup>19</sup> The HFC was patterned after the US Federal Housing Administration. Created in 1950, it commenced operations only in 1956.

<sup>20</sup> The HDMF was created primarily for housing investments. It was initially managed by GSIS or SSS but was later transferred to the NHMFC (Presidential Decree 1530 of 1978 and Executive Orders 538 and 527 of 1979). In 1980, an HDMF Corporation was established to solely manage the Fund (Presidential Decree 1752 of 1980).

<sup>21</sup> The Philippines has had a long history of centralization in the housing sector. From the 1930s to the 1980s, the direct role of the national government in housing production and finance has been pervasive (Angeles 1985).

Figure 2. Decentralization of housing strategies



programs developed lots and fully built houses, financed through national government housing funds. In the case of squatters, the popular scheme was relocation or resettlement. The participative approach formally started around the 1980s with the adoption of joint venture schemes under the NSP. Under these schemes, the government (represented by the NHA) ties up with private landowners, developers, contractors, and other national and local government agencies for low-income shelter production.<sup>22</sup> The arrangement involves the sharing of resources, expertise, risk and profits between or among partners. Liabilities and exposure are also shared based on the extent of the partner's contribution in the venture. The types of partnership that have developed through the years are the following:<sup>23</sup>

- The NHA is the landowner and the private sector developer or the construction company-partner assumes all aspects of development, housing construction, and marketing, including full financing of cost.
- The NHA is the landowner and assumes additional financial equity with the private sector developer or the construction company-partner, undertaking land development, housing construction, and marketing, including the residential financial requirements.
- The private sector landowner-partner owns the land and the private sector developer or construction company-partner assumes site development, housing construction, and marketing with the financial requirements assumed by both developer-partner, and the NHA.
- The land is privately-owned and the private sector developer or the construction company-partner assumes all aspects of development, housing construction, and marketing, including full financial requirement, with the NHA's participation limited to the extension of technical assistance (e.g., assistance in obtaining development permits).
- Landowner is the local government unit with the NHA providing the full financial requirement for the development and housing construction, and assuming marketing, with the infrastructure aspect contracted out to a private sector developer who is considered as a partner to the joint venture.
- The local government unit owns the land and the private sector developer or the construction company-partner assumes all aspects of development, housing construction and marketing, with the

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<sup>22</sup> Under the centralized scheme, the private sector serves as purely contractors in government housing programs, where the bidding process has become a ground for corruption (Leynes 1992).

<sup>23</sup> Leynes (1992)

financial requirements assumed by both developer-partner and the NHA.

- Land is privately owned and the NHA provides cash equity contribution with local government unit assuming partial funding and in addition, the development and housing construction and marketing, if no private developer assumes the development, housing unit construction and marketing with financial contribution.

In the case of informal settlements, slum-upgrading projects became a priority. Slum upgrading required intensive community and beneficiary participation in the design and implementation of projects. In the succeeding years, slum upgrading shifted from the integrated approach (i.e., physical land improvements combined with land tenure regularization) to focus principally on tenure regularization. This shift was in line with the move toward greater privatization and devolution of housing concerns in the 1990s.

Greater privatization under the NSP meant increased participation of the business community (i.e., developers) and households in housing. Government continued to encourage the business community to invest in housing development, specifically for low-income households through additional funding for development and end-user financing, and by minimizing bottlenecks in zoning and building regulations.<sup>24</sup> Government also explored possibilities of improving the secondary mortgage market.<sup>25</sup> In the case of informal settlements, the community-based housing strategy was widely supported. The strategy differed from the conventional slum upgrading, or sites and services programs, in that the projects were initiated and implemented by the communities themselves. It also applied the principle of incrementalism: beneficiary families start repayments at a relatively low level in return for tenure rights, and, if they can afford it, incrementally add other shelter improvement (e.g., communal services and/or individual home improvements).

Several community-based housing programs have been created, namely, Community Mortgage Program (CMP), Group Land Acquisition and Development (GLAD) Program, Community Land Acquisition Support Program (CLASP), and the Land Tenurial Assistance Program (LTAP). The programs are implemented by different housing agencies. While the strategy is similar, loan features may differ. Except for GLAD, which draws funds from the contributions of HDMF members, the other programs source their funds

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<sup>24</sup> The move was to issue an executive order requiring concerned government agencies (e.g., DENR, DA, HLURB, DAR, DILG) to implement the issuance of housing permits and licenses within prescribed periods.

<sup>25</sup> A bill to create a secondary mortgage institution in the country is being deliberated in Congress.

from the government coffers. In particular, the CMP enjoys the biggest share in government funds and support from the urban poor.

The move toward privatization in the implementation of the NSP also led to increased responsibility given to the local governments. Under the centralized regime, local governments functioned largely as an administrative arm of the central government housing offices. Although they are elected officials, they have limited accountabilities even on squatter or informal settlements in their localities.

Two major laws support the greater role given to the local governments. One is the Local Government Code of 1991, which laid the groundwork for a decentralized regime in the country and the devolution of housing and urban development functions to local governments. This law mandates local governments to undertake housing developments and take the lead in land use planning in their respective localities. Issuance of permits and licensing of land developments in the local area, which was a task assigned to the HLURB, have been devolved to the local managers. The Code also gives local governments the authority to access the private capital market through issuance of bonds for development projects (e.g., municipal housing bonds).

The other law supporting devolution is the Urban Development and Housing Act of 1992, which accords local governments a more participative role in slum improvement, resettlement, and solving the problem of squatting.

The current organizational arrangements in the housing sector are shown in Tables 1 and 2. Key shelter agencies have specific mandates with respect to their roles in production, finance and regulation. However, while the legal mandate for the local government's role in housing is in place, functional responsibilities between the central and local government have not been clearly defined in some areas of housing development. For instance, the central, provincial, city, and municipal governments may simultaneously undertake low-income housing production. These agencies are also engaged in the production of low- and middle-income housing.

In the land development phase, permits for subdivision developments have been devolved but not for socialized housing development. Issuance of subdivision permits for socialized housing is still with the HLURB. In addition, issuance of licenses to sell is still with the central government. In terms of urban development services, although municipal governments have the legal responsibility to provide water supply, sewerage, urban roads and power distribution, central government agencies may also intervene in the provision of these services. Central governments may at times take on the responsibility for municipal capital work, leaving only the task of operations and maintenance to the local governments.

On the other hand, certain constraints prevent LGUs from taking on full responsibility for housing. A major problem is the limited source of supply of LGU funds. LGUs are mainly dependent on internal revenue allotment (IRA) and most contend with institutional constraints to debt

Table 1. Housing production: who does what today?

Activity	HUDCC	NEDA	HLURB	DENR	DAR	DOJ	NHA	BCDA/PEA	DPWH	LDC	LGU	Developer/Contractor	NGO/Association	Individuals
Policy														
National	<input type="checkbox"/>	<input type="checkbox"/>												
Local											<input type="checkbox"/>			
Planning and Approval														
<i>Feasibility/land clearances before development:</i>			<input type="checkbox"/>							<input type="checkbox"/>	<input type="checkbox"/>			
Preliminary approval			<input type="checkbox"/>											
Environmental				<input type="checkbox"/>										
Conversion					<input type="checkbox"/>									
BP220			<input type="checkbox"/>											
Land use/building permit											<input type="checkbox"/>			
Cadastral survey			<input type="checkbox"/>											
License to sell			<input type="checkbox"/>											
Title issuance						<input type="checkbox"/>								
Development														
Infrastructure							<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>		
Open market housing <sup>a</sup>												<input type="checkbox"/>	<input type="checkbox"/>	
Medium-cost housing <sup>b</sup>							<input type="checkbox"/>	<input type="checkbox"/>				<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Low-cost housing <sup>c</sup>							<input type="checkbox"/>							<input type="checkbox"/>
Socialized housing <sup>d</sup>							<input type="checkbox"/>							<input type="checkbox"/>
Slum upgrading							<input type="checkbox"/>				<input type="checkbox"/>			<input type="checkbox"/>
Resettlement							<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>			
Estate Management														
Open market housing												<input type="checkbox"/>	<input type="checkbox"/>	
Medium-cost housing								<input type="checkbox"/>				<input type="checkbox"/>	<input type="checkbox"/>	
Low-cost housing							<input type="checkbox"/>							<input type="checkbox"/>
Socialized housing							<input type="checkbox"/>				<input type="checkbox"/>			<input type="checkbox"/>
Slum upgrading							<input type="checkbox"/>				<input type="checkbox"/>			<input type="checkbox"/>
Resettlement							<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>			

<sup>a</sup> As defined under the Implementing Guidelines for the Multi-Window Lending System of the HUDCC (September 2000), this refers to housing packages with a selling price of P2M–5M.

<sup>b</sup> Housing packages with a selling price of P500,001–2M

<sup>c</sup> Housing packages with a selling price of P180,001–500,000

<sup>d</sup> Housing packages with a selling price of <P180,000 + CMP

Source: ADB (2001)

**Table 2. Housing finance: who does what today?**

Activity	Government										Private Sector		
	NEDA	DOF/Central Bank	HUDCC	Local Governments	NHA	NHMFC	HGC	HDMF	GSIS and SSS <sup>a</sup>	GFI (Banks) <sup>b</sup>	Commercial Banks/FIs	Rural and Thrift Banks	Insurance Companies
<b>Housing Finance Policy, Plans, Monitoring and Regulation</b>													
Policy advice		<input type="checkbox"/>											
Plan/policy formulation	<input type="checkbox"/>												
Policy implementation (coordination, monitoring, evaluation, development)			<input type="checkbox"/>										
<b>Delivery</b>													
<i>Savings mobilization:</i>													
Contractual								<input type="checkbox"/>	<input type="checkbox"/>				
Individual/voluntary										<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<i>Development finance:</i>													
Open market housing										<input type="checkbox"/>	<input type="checkbox"/>		
Medium-cost housing					<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Low-cost housing				<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>			<input type="checkbox"/>	
Socialized housing				<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>							
Resettlement				<input type="checkbox"/>	<input type="checkbox"/>								
<i>Home buyers finance:</i>													
Open market housing										<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Medium-cost housing						<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Low-cost housing					<input type="checkbox"/>	<input type="checkbox"/>		<input type="checkbox"/>	<input type="checkbox"/>				
Socialized housing					<input type="checkbox"/>	<input type="checkbox"/>							
Resettlement					<input type="checkbox"/>								
<i>Credit guarantee:</i>													
Open market housing								<input type="checkbox"/>					<input type="checkbox"/>
Medium-cost housing								<input type="checkbox"/>					<input type="checkbox"/>
Low-cost housing								<input type="checkbox"/>		<input type="checkbox"/>	<sup>c</sup>		
Socialized housing								<input type="checkbox"/>		<input type="checkbox"/>			
<i>Secondary mortgage market operations:</i>													
Management/operations						<input type="checkbox"/>							
Funding						<input type="checkbox"/>							
Subsidy administration and implementation					<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>						
<i>Rental housing:</i>													
Social				<input type="checkbox"/>	<input type="checkbox"/>								
Other										<input type="checkbox"/>	<input type="checkbox"/>		

<sup>a</sup> Social Security System (SSS) and Government Service Insurance System (GSIS)

<sup>b</sup> Development Bank of the Philippines (DBP); Land Bank of the Philippines (LBP); and Philippine National Bank (PNB)

<sup>c</sup> LGU Guarantee Corporation, which was founded in 1997 by BAP and DBP.

Source: ADB (2001)

financing and real property taxation.<sup>26</sup> The latter may not be feasible in poor LGUs, because properties in the area are of lower value.<sup>27</sup> Another problem is the availability of land for relocation or resettlement of squatters. This is a critical concern. Low-cost rental housing is limited and finding low-cost land in highly urbanized areas is difficult. Moreover, relocating informal settlers outside the metropolis is usually counterproductive because of high transport cost and unavailability of basic services in resettlement areas. These concerns require government to revisit its land laws, infrastructure programs and the financial market.

The pattern of open-ended participation of central government agencies in housing creates perverse incentives that make it difficult for constituents to hold local governments accountable for housing and urban development problems that may arise in the locality. LGUs tend to be too dependent on national government agencies in curtailing squatting problems in their areas. Mayors also act as lobbyists before the central government for housing funds or grants rather than trying to source these themselves.

In housing finance, the government's role in the market remains that of a primary lender. Government and quasi-government institutions are the major sources of funds for end-user and development financing while the banking sector continues to cater mainly to the high-end and middle-range markets. However, there is a growing interest among commercial banks to invest in socialized housing with the creation of the LGU Guarantee Corporation (LGUGC) from the combined funds of the Development Bank of the Philippines and member banks of the Bankers Association of the Philippines (BAP). The LGUGC undertakes secondary mortgage operations and has guaranteed, among others, LGU-issued socialized housing bonds.

On the other hand, the administration and implementation of government subsidies are being handled by three national agencies (i.e., NHA, NHMFC and HGC). These agencies have different programs and strategies for providing subsidies, which tend to be inefficient. Subsidies should not only be transparent but also consistent. In view of limited funds, the most effective and well-targeted housing subsidy program should be considered.

The institutionalization of peoples' organizations (POs) and nongovernment organizations (NGOs) is another major development in housing. Prior to the 1990s, these organizations were mainly involved in community organizing, training and education. In the recent years, NGOs in particular have also provided housing communities with financing and services for site and home development. The NGOs, using funds from private

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<sup>26</sup> Llanto et al. (1996)

<sup>27</sup> Under the property tax law, properties valued at P170,000 or below are exempted from real property tax. In poor LGUs very few properties are valued above this amount.



and international donors, offer bridge-financing facilities to housing communities (e.g., equity financing for CMP). They also extend services for layout and design of site and housing (Appendix 2). Community-based programs have raised a need, which apparently cannot be adequately supported by government housing programs, the formal financial markets, or the business sector.

# 4

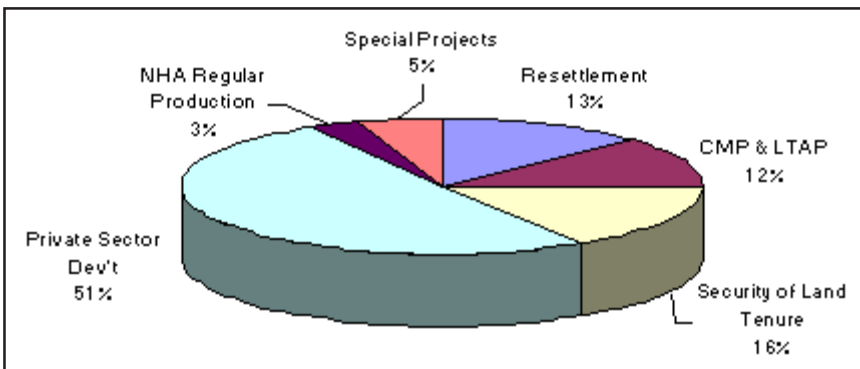
## Performance of the Housing Sector

This section discusses the effects of government strategies on the housing market and highlights the strengths and weaknesses of these strategies.

### The National Shelter Program and trends in housing quality

The focus of the NSP is homeownership. Between 1993 and 2001, about 971,000 households obtained housing ownership from the program (Figure 3). Most households (51 percent) obtained housing from developments provided by private developers and financed through the different housing finance programs (e.g., UHLP, MWLS, GFIs, PAG-IBIG). About 13 percent of the households benefited from the NHA resettlement program and 12

Figure 3. National Shelter Program performance, 1993-2002 (in number of households)



Source: HUDCC

Private Sector Development = HDMF, GFIs (LBP, SSS, GSIS, DBP) programs

Security of Land Tenure = (A & D) public lands provided to households (HHs) through Presidential Proclamation

NHA Regular Production = Slum Upgrading, Sites & Services, Medium-Rise Housing, Completed Housing

Special Projects = NGC housing program; Unprogrammed projects (e.g., by DPWH, DOTC);

NHA's CLASP, CATCH, Cooperative Housing, GIAFH, HOMA and EHAP; and others

percent of households from community-based programs (e.g., CMP, LTAP). About 16 percent of households gained ownership of land (i.e., security of land tenure) through presidential proclamations of public lands for socialized housing.

In most years, the NSP accomplishments have exceeded targets.<sup>28</sup> However, the impact of these accomplishments has been insignificant, representing less than 1 percent of the total estimated housing need of about 3.8 million for the same period.<sup>29</sup> In addition, the NSP has not been able to cope with the rate of urbanization in key urban areas. The incidence of informal settlements in these areas has been rising in the last 15 years (Table 3). Moreover, housing quality remains poor. From 1985 to 2000, the

**Table 3. Trends in housing conditions, all households**

	Philippines			Urban			NCR		
	1985	1991	2000	1985	1991	2000	1985	1991	2000
Proportion of households (HHs) in informal settlements*									
% Urban	2.9	2.8	4.0	2.9	2.8	4.0	2.9	4.0	4.3
% Rural	1.4	1.9	2.3						
Housing quality									
% With own faucet, community water system	18.8	21.7	27.7	39.2	35.2	45.8	56.3	58.5	62.2
% Using peddled water/rain/river/streams/dugwell	30.1	26.3	21.5	13.2	16.6	12.9	11.6	10.5	14.9
% Water-sealed	52.1	55.8	71.9	71.1	68.5	85.1	79.9	82.2	92.8
% Without toilet	13.0	13.8	9.1	7.1	8.7	4.6	3.2	3.3	1.0
% Makeshift housing	2.7	2.1	1.3	3.0	2.3	1.5	3.5	3.6	1.6
Crowding indicator									
% Single family	75.3	79.9	75.6	68.2	75.2	72.8	61.8	65.7	72.1
% Extended family	24.5	20.1	24.1	31.4	24.8	26.8	38.1	34.3	27.4
% With two or more nonrelated members	0.2	-0.3	0.4	-0.4	0.1	-0.5			

Source of basic data: FIES

\* HHs who occupy lots/housing without consent of owner

<sup>28</sup> Targets of shelter agencies are based on appropriations from the Department of Budget and Management and internal funds. On a program basis, the appropriations are based on the demand for a particular region.

<sup>29</sup> Every six years, HUDCC comes up with an estimate of housing need that consists of housing backlog, plus new households. Based on estimates, the housing need for the period 1993-2002 was calculated. This figure was compared to the NSP accomplishment plus housing developments from open-market housing.

proportion of poor households connected to the community water system did not change. As of 2000, about 36 percent of poor households were still dependent on peddled water, or water sourced from springs, rivers and rain (Table 4). Toilet facility is also limited. Less than 50 percent of poor households have water-sealed toilet facility and one of every five poor households has no toilet facility. Solid human wastes are often discharged directly to canals or waterways. Crowding in housing has also worsened as the proportion of housing with double and multi-occupancy has increased. While some households have obtained secure tenure, the installation of basic infrastructure has been very slow and highly politicized.

### Incidence of housing subsidies<sup>30</sup>

There are four general types of subsidies in housing: a) interest rate subsidy, b) land cost subsidy, c) tax exemption, and d) cash transfer. The interest rate subsidy represents an implicit subsidy or income transfer because the borrower

**Table 4. Trends in housing conditions, poor households<sup>\*</sup>**

	Philippines			Urban			NCR		
	1985	1991	2000	1985	1991	2000	1985	1991	2000
Proportion of HH in informal settlements**									
% Urban	2.4	2.6	4.1	4.4	3.7	6.2	6.0	10.5	9.6
Rural	1.6	2.0	3.2						
Housing quality									
% With own faucet, community water system	7.7	7.9	7.6	19.3	13.1	18.3	31.7	28.1	31.7
% Using peddled water/rain/river/streams/dugwell	40.9	36.7	35.8	19.9	27.3	21.7	16.9	21.1	30.2
% Water-sealed	34.9	37.1	46.8	50.2	45.3	62.6	63.4	62.1	78.7
% Without toilet	21.3	22.4	19.0	14.8	18.9	13.9	7.2	11.8	7.3
% Makeshift housing	4.1	3.4	2.3	6.0	4.0	3.3	10.1	11.7	6.3
Crowding indicator									
% Single family	80.0	84.2	79.4	73.3	80.6	75.8	65.1	70.7	78.6
% Extended family	19.9	15.8	20.5	26.6	19.4	24.1	34.9	29.3	21.4
% With two or more nonrelated members	0.1	-	0.1	0.1	-	0.1	-	-	-

Source of basic data: FIES

\* HHs below poverty threshold

\*\* HHs who occupy housing w/o consent of owner

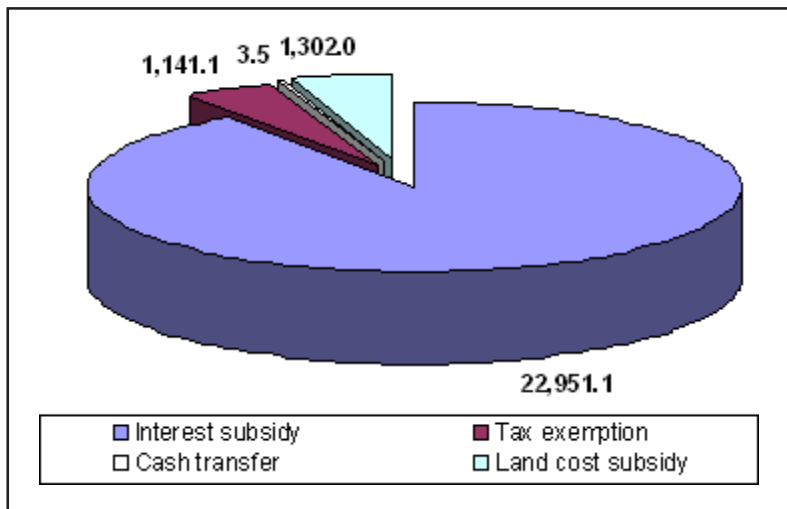
<sup>30</sup> This section is taken mainly from the study of housing subsidy by Llanto and Orbeta (2001).

pays a lower interest rate than what he would have paid in the market. The same principle applies to a land-cost subsidy and tax exemption subsidy. In the former, the beneficiary pays a lower-than-market price for the land while in the latter, income or profits of developers from low-cost housing developments is not taxed. Cash transfer refers to actual transfer of funds (e.g., grants). Aside from these programmed subsidies, loan losses from the housing programs also constitute another form of subsidy. The magnitude of subsidy due to loan losses has yet to be fully measured.

Considering the above forms of subsidy, data show that the bulk (90 percent) of subsidies to the housing sector for the period 1993-95 consisted of interest subsidies provided through enduser and development financing programs (Figure 4). In particular, the United Home Lending Program (UHLP) carries the largest subsidy.<sup>31</sup> For development-type loans, the CMP receives about 3.7 percent of the interest subsidy for the same period. Next to interest subsidies, land-cost subsidy constitute 5.1 percent of total subsidy for 1993-95. This was followed by tax-exempt subsidies obtained from HGC guarantees (4.5 percent), then cash subsidies (0.4 percent).

Those who benefit from these subsidies are the individuals or households who are beneficiaries of the housing programs as well as economic

Figure 4. Housing subsidies by type, 1993-95 (in P million)



<sup>31</sup> The UHLP is an end-user financing program that is managed by NHMFC. Funds for the program come from the combined contribution of SSS, GSIS, and HDMF. In 1996, the program was suspended and reverted back to a multi-window lending program (MWLS) whereby HDMF, SSS, and GSIS and other lending institutions like LBP managed their own housing lending program.

agents who benefit from the tax exemption and other receipts related to housing. An analysis of the income profile of the beneficiaries of housing programs, specifically housing finance programs, shows that higher-income households (or the nonpoor) are the main beneficiaries of government subsidies (Table 5). This pattern is observed even in the case of community-based programs such as the CMP. Compared to other programs, the CMP has the most number of low-income beneficiaries but middle-income families comprise the bulk of households that benefit from the subsidy.

This finding shows that it is difficult to target poor households through an interest subsidy scheme. Loans are provided on the basis of capacity to pay, which is computed as a fixed proportion of borrower's income. Based solely on the loan amortization tables of HDMF, GSIS and SSS, the majority of pension fund members will not qualify for loans even at subsidized rates. For instance, the HDMF monthly amortization schedule shows that at a minimum housing cost of P150,000, only households with an annual income of P150,000 or higher can avail themselves of a loan equal to P150,000 even at a subsidized interest rate of 9 percent (Table 6). This implies that 77 percent of households in the country are unable to secure a loan from the formal sector. The proportion is lower for urban households (54.5 percent) and for households in NCR (34 percent).

Earlier study showed similar findings. Based on a sample of HDMF members, the study revealed that the bulk of its fund members are not qualified to borrow from the fund.<sup>32</sup> In 1983, while 82.43 percent of sample

**Table 5. Incidence of housing subsidies (% of total beneficiaries)**

Programs	Income Group		
	Low	Middle	High
UHLP <sup>a</sup>	38	33	29
EHLP <sup>a</sup>	12	67	21
CMP <sup>b</sup>	39	49	12
GLAD <sup>b</sup>	17	56	27
LTAP <sup>b</sup>	27	54	19

<sup>a</sup> The income groups were classified based on the national and NCR monthly poverty income threshold for 1994. Taken from G. Llanto and A. Orbeta (2001).

<sup>b</sup> Data based on income of 900 household beneficiaries of CMP, GLAD, and LTAP Programs in NCR, Rizal, Lucena City, and Laguna. The survey was done in 2001. Income groups were classified based on NCR poverty threshold for 2000.

<sup>32</sup> Angeles (1985)

**Table 6. Average housing expenditure and loan amortization**

Income Class	Monthly Housing Expenditure <sup>c</sup>						Housing Loan (Formal Sector) <sup>a</sup>			
	Philippines		Urban		NCR		Loan Amount	Interest Rate	Loan Amortization	
	Cum. % of HH	(P)	Cum. % of HH	(P)	Cum. % of HH	(P)			25	30
under 10,000	0.2	71.30	0.1	78.15	-	-	50,000	9	419.60	402.31
10,000-19,999	2.4	117.87	0.8	155.15	0.1	263.13	60,000	9	503.52	482.77
20,000-29,999	7.9	176.27	2.5	220.02	0.2	170.38	70,000	9	587.44	563.23
30,000-39,999	15.5	246.14	5.2	305.64	0.5	636.06	80,000	9	671.36	643.70
40,000-49,999	24.6	313.59	9.4	402.38	1.1	704.23	90,000	9	755.28	724.16
50,000-59,999	32.5	387.69	14.1	484.50	2.2	628.39	100,000	9	839.00	804.62
60,000-79,999	45.4	527.18	24.0	657.39	6.4	978.14	150,000	9	1,258.80	1,206.93
80,000-99,999	55.2	773.81	34.2	913.68	14.2	1,171.75	200,000	12	2,106.44	2,057.22
100,000-149,999	71.2	1,129.95	54.5	1,284.50	34.5	1,622.66	250,000	12	2,633.05	2,571.53
150,000-249,999	86.8	1,794.35	77.4	2,026.29	64.0	2,501.12	300,000	16	4,076.67	4,034.28
250,000-499,999	96.8	3,181.16	94.0	3,517.42	88.5	4,387.70	350,000	16	4,756.12	4,706.66
500,000 & over	100.0	12,026.47	100.0	12,788.29	100.0	18,301.87	400,000	16	5,435.56	5,379.04
							450,000	16	6,115.01	6,051.42
							500,000	16	6,794.45	6,723.80

<sup>c</sup> Source of basic data: FIES 2000

<sup>a</sup> Based on HDMF schedule of loan amortization and interest for housing loan.

members had monthly incomes of P1,000 and below, only 10 percent of members (or those with incomes of P1,700 or higher) could afford to borrow P50,000.<sup>33</sup> A similar situation may exist at present, since the higher proportion of potential HDMF borrowers in 2000 mainly reflects the inflation effect on income.<sup>34</sup>

The result further shows that households in informal settlements are not necessarily poor households. There have been a rising proportion of nonpoor households in informal housing settlements, which may be partly due to the high cost of housing specifically in urban areas.<sup>35</sup> The possibility of owning land in some prime locations in the city through programs such as the CMP may also serve as an incentive for households to settle in these areas. Thus, targeting subsidies to urban poor programs such as CMP does not exclude the higher-income households from enjoying the subsidy. It may even be possible that poor households in the community will be “forced” out of the subsidy program because of the need to maintain a good performance of the loan. In programs such as the CMP, legal ownership of land is tied to the performance of the community loan. Households who are too poor to take on any loan may thus be “pressured” to waive their rights for the community to achieve its objective. Moreover, the CMP as it stands, does not offer much to low-income renters nor to improving the basic infrastructure for the poor.

### **Sustainability of the NSP**

The NSP accomplishments in housing have been obtained with great fiscal burden. Housing projects implemented by the national government have been problematic in terms of cost recovery. The recovery rate of programs under the NHA shows a collection efficiency rate of 40 percent for programs that provide only serviced plots, and 26 percent for programs that include both lot and housing (Table 7). The lower recovery rate for completed housing programs reflects the incentive problems usually associated with government providing what it deems is the housing demand among low-income households (notional demand). In most cases, the value of such housing to the beneficiary is less than what it cost government to build them. Thus, beneficiaries refuse to pay or expect more subsidies.<sup>36</sup>

Comparatively, programs involving lots perform better. Resettlement and sites and services programs have collection efficiency of 74 percent and

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<sup>33</sup> The situation is worse if the actual average household expenditure of 10.13 percent in 1983 is used. In this case, only those households with monthly incomes of P4,141, or higher, are qualified to borrow.

<sup>34</sup> This means that if the monthly amortization of P419 for a P50,000 loan in 1983 is 25 percent of monthly income, the proportion is only about 10 percent in 2000. But then the cost of housing in 2000 is substantially higher.

<sup>35</sup> Ballesteros (2002)

<sup>36</sup> Roumasset (1989)



**Table 7. Loan recovery indicators**

Program	CER (%)	PAR <sup>e</sup>	Simplified PAR <sup>f</sup>
NHA programs <sup>a</sup>			
Lots only	40		
Resettlement	74		
Slum upgrading	25		
Sites and services	53		
LTAP <sup>b</sup>	55	0.43	0.58
Housing units	26		
Core housing	23		
Medium-rise housing	29		
CMP <sup>c</sup>	70.53	0.37	0.61
UHLP <sup>d</sup>	61.68		

<sup>a</sup> as of end 2001

<sup>b</sup> as of Nov. 2001

<sup>c</sup> as of Sept. 2001

<sup>d</sup> 1998 figure, program was suspended in 1996

<sup>e</sup> PAR = value of loans in default for at least six months

total outstanding balance

<sup>f</sup> Simplified PAR =  $\frac{\text{total number of loans in default for at least six months}}{\text{total number of active accounts (total number of accounts less accounts foreclosed or under litigation)}}$

total number of active accounts (total number of accounts less accounts foreclosed or under litigation)

Source of basic data: HUDCC, NHA, NHMFC

53 percent, respectively. Slum-upgrading programs of the NHA, however, have a low collection efficiency rate of only 25 percent. This has been attributed to the earlier upgrading programs of NHA, which were highly centralized.<sup>37</sup> The design and implementation of these projects have been undertaken by the NHA with minimal beneficiary participation. In 1984, NHA adopted a community self-help approach for slum-upgrading projects that sought to reduce direct government intervention and shift the responsibility for implementation (including the level and phasing of development) to the principal stakeholders (e.g., beneficiaries and landowners). This approach showed better results. For instance, collection performance of World Bank-assisted slum-upgrading projects yielded a total collection efficiency rate of 65 percent as of end 1999 (Table 8). The experience with these WB projects showed that initial efforts at cost recovery in all completed projects had been disappointing.<sup>38</sup> However, intensive campaign drive improved collection efficiency. NHA has developed and enforced some sanctions for critical

<sup>37</sup> World Bank (2000)

<sup>38</sup> World Bank (2000)

**Table 8. Collection performance in World Bank-assisted projects, 1999**

Project Sites	Total Amount Due (in Pmillion)	Actual Collections (in P million)	Collection Efficiency (%)
<b>Tondo Foreshore</b>			
a. Residential	22.795	14.191	62
b. Commercial/Industrial/Institutional	7.019	6.022	86
c. Social loans (HML/SBL)	1.193		
Total	29.814	21.406	68
<b>Dagat-Dagatan</b>			
a. Residential	61.037	53.272	87
b. Commercial/Industrial/Institutional	50.781	45.027	89
c. Social loans (HML/SBL)	1.337	0.463	35
d. Institutional accounts	3.129	0.026	1
Total	116.284	98.788	85
<i>ZIP sites</i>			
<b>Bagong Barrio</b>			
a. Residential	23.011	15.185	66
b. Social loans	0.684	0.173	25
Total	23.695	15.358	65
Capri (Residential)	7.328	1.426	19
Coronado	0.148	0.200	135
Hulo Estate	0.889	1.288	145
Juan Luna	2.181	1.348	62
<b>Landless Barangka</b>			
a. Residential	1.572	1.258	80
b. Social loans	0.004	0.049	1225
Total	1.576	1.307	83
Leveriza	1.103	0.562	51
<b>Maricaban</b>			
a. Residential	3.279	1.014	31
b. Social loans	0.654	0.020	3
Total	4.318	1.091	25
<b>San Martin de Porres</b>			
a. Residential	6.282	1.819	29
b. Social loans	0.052	0.006	12
Tangos	1.881	1.430	76
Tramo Lines	1.492	2.571	172
<b>Total World Bank projects</b>	<b>272.453</b>	<b>176.435</b>	<b>65</b>

Source: World Bank (2000)

accounts and assigned community representatives for loan collections. One of the lessons learned in collection, for instance, in the case of Tondo Foreshore was that pronouncements or undertakings by government of providing free lots create a disincentive to previous beneficiaries to pay their housing loans.<sup>39</sup>

The collection performance of the Unified Home Lending Program (UHLP) has also been disappointing. The UHLP was established in 1988 as a centralized housing fund for SSS, GSIS and PAG-IBIG members. The fund has been managed by NHMFC, which took charge of screening beneficiaries of the program. The centralized fund is intended to facilitate home lending and allow borrowers to transact with just one agency. This scheme also made it easier for developers to transact on behalf of their buyers for loan take-out under the program. In 1996, the UHLP was suspended due to liquidity problems. Loan collection was poor and the pension funds refused to release their funds for the program. Moreover, there were reports of anomalies in the program.<sup>40</sup> Some borrowers were nonexistent while other developers submitted mortgages supported by defective documents. A principal-agent problem is evident in the program. The credit risk accrues mainly to the pension funds although they are not directly involved in approving the loans. This arrangement creates an incentive for NHMFC to be lax in approving loans. Likewise, the scheme allows developers to produce houses and earn sure income from the takeout mechanism provided by the program without credit risk exposure (except opportunity losses from delays in the takeout). The lack of credit risk creates incentives for developers to exploit information asymmetry and provide housing for borrowers who are not eligible, or to produce substandard housing.<sup>41</sup>

The official collection statistics for community-based programs such as the CMP and LTAP are relatively better than completed housing or sites and services programs (see Table 7). CMP has performed better than LTAP in terms of CER. However, the overall situation of both programs is not that good. Overdue payments show that 61 percent of CMP accounts and 58 percent of LTAP accounts (i.e., community accounts) are at least six months overdue. If this trend continues, the collection efficiency rate is likely to be declining over the years.

With the high-portfolio asset risk of the CMP and LTAP, the sustainability of the program is likely to be in danger. Capital financing of these programs is sourced from budgetary allocation. In particular, the Comprehensive Shelter Finance Act (CISFA) of 1990 supports the yearly budgetary allocation for CMP. For the period 1995-2001, government allocated P4.4 billion for the

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<sup>39</sup> World Bank (2000)

<sup>40</sup> NHMFC Board Committee Findings (1995)

<sup>41</sup> Llanto and Orbeta (2001)

program. So far, only 44.5 percent of that amount has been released (Table 9). Moreover, the rate of utilization of these funds shows that the program has mainly used up an amount equal to the capital infused into the program. This implies a low turnover rate, which means those funds have not been efficiently used. It also indicates the CMP's high dependence on government capital financing. Loan recovery is thus crucial. Otherwise, CMP, LTAP and other similar programs will find it difficult to make new loans.

Several reasons have been cited for low collection.<sup>42</sup> On a program level, the penalties for delinquency are weak. Penalties are charged by the NHMFC on payments overdue from community associations. In most cases, however, these are condoned. Communities that are persistently in default are subjected to the same sort of treatment that is expected by any delinquent mortgagee: starting with reminders, then offers of assistance, threatening letters, and finally foreclosure. The inability of NHMFC to foreclose accounts has been considered a major weakness of the CMP.<sup>43</sup> It was not until the end of 1999 that NHMFC took bolder steps on delinquent accounts. As of 2001, NHMFC has foreclosed six community accounts and placed 147 accounts under litigation (NHMFC September 2001). However, as of this writing, NHMFC has yet to take over the properties foreclosed.

Furthermore, there are no penalties given to originators of the community loan. The CMP works under a scheme of partner association whereby accredited NGOs, LGUs and government agencies (i.e., NHA and

**Table 9. CMP fund releases and utilization rate, 1995-2001**

	CISFA Funding <sup>a</sup> Schedule (5 years)	GAA <sup>b</sup>	SARO <sup>c</sup>	NCA <sup>d</sup>
Amount (in million pesos)	4,400.000	5,988.590	2,715.340	1,959.830
as % of CISFA funding		136.1	61.7	44.5
	Take-out (Mortgage Value)	GAA	SARO	NCA
Amount (in million pesos)	2,078.080	34.7	76.5	106.0

<sup>a</sup> Comprehensive and Integrated Shelter Financing Act

<sup>b</sup> General Appropriations Act

<sup>c</sup> Special Allotment Release Order (funds committed)

<sup>d</sup> Notice of Cash Allocation (actual amount released)

<sup>42</sup> Based on various studies on the CMP. See Lee (1995); Cacio (2001); Planning and Development Collaborative International (PADCO), Inc. (1993).

<sup>43</sup> See PADCO (1993) and Lee (1995)

HGC) assist the community for the legal origination of the mortgage. While the originators are expected to nurture and monitor the community, their role in loan collection has not been defined. Loan collection has been the sole responsibility of community officers. Moreover, although originators sign a warranty undertaking that entitles NHMFC to sell the loan to the originator in case collection performance falls below 80 percent, this warranty is not comprehensive but limited to cases where the originator has committed misrepresentation on facts of information about the community. NHMFC, however, may rescind the accreditation of the originator if the average performance of the total community loans originated is below 80 percent. Ideally, originators are the “agents” of the program. The presence of these agents should reduce the administrative costs of NHMFC in evaluating community loans and in undertaking loan collection. The limited staffing of NHMFC thus need not be a problem if the NHMFC can strengthen this relationship, specifically in collection.

Reasons for low loan recovery of CMP programs have also been traced to institutional weakness at the community level. Weak enforcement of penalties by community organizations has also resulted in poor collection. Members who are delinquent in their loans are not sanctioned. This inability to collect from delinquent beneficiaries and evict them can cause division in the group and serve as a disincentive for other members to pay their financial obligations, since obtaining a legal title to a piece of land may not be possible. It may also result in the rise of recalcitrant households (nonjoiners), which aggravates nonparticipation or noncooperation. This raises concern on the timing of loan and title individualization. Some communities have succeeded in evicting recalcitrant households, but many communities are unable to do so.

### **Private sector participation in housing**

Government recognizes the importance of the private business community in housing development in the country. Thus, it has employed the “carrot and stick” approach to getting the business community (e.g., developers) to invest in low-income housing.

#### ***Joint venture strategy***

The initial effort by government to entice private developers into the mainstream of low-income housing production was joint-venture arrangement. About 131 joint venture arrangements were formed under the NHA joint venture program for the period 1987-2001 (Table 10). In more than 50 percent of these arrangements, the contribution of NHA was mainly technical assistance. This pertains to NHA providing project packaging and engineering works (e.g., survey) and assisting in marketing. The assistance also includes an extension of financial accommodation to the partners of the program such as bridge financing, purchase commitment line with the

Table 10. NHA joint venture projects, 1950-2001

Year	NHA Contribution				Total No. of Projects
	Land	Land + Cash	Cash	Technical Assistance <sup>a</sup>	
1979-85	12	-	-	-	12
1987	2	-	-	-	2
1988	-	-	2	-	2
1989	5	1	2	-	8
1990	5	2	2	-	9
1991	4	-	4	1	9
1992	4	1	2	6	13
1993	2	1	2	6	11
1994	-	-	3	13	16
1995	-	-	-	10	10
1996	1	-	-	12	13
1997	2	-	-	14	16
1998	-	-	-	3	
1999	-	-	-	1	1
2000	1	-	-	2	3
2002	-	-	-	3	3
Total	38	5	17	71	131

Source: NHA

<sup>a</sup> Technical Assistance pertains to NHA assistance in project packaging and engineering works. This also includes access to financial services of government institutions, facilitating approval of permits and licenses, and marketing assistance.

" - " means none or zero

NHMFC on buyer's financing, and facilitation for developmental financing.<sup>44</sup> The NHA also facilitates transactions related to other government agencies such as securing land conversion clearance and approval of permits and licenses.

The provision of technical assistance has become a standard component of all types of venture arrangements.<sup>45</sup> Given the highly bureaucratic permit system in the country, delays in the release of payment from NHMFC and in finding the beneficiary that will qualify for mortgage financing under NHMFC significantly reduce the transaction costs of the private sector. These costs are often not reflected in the profit sharing, as they do not carry monetary value. For instance, it takes an average of one year to obtain approval of permits and licenses;<sup>46</sup> it takes another year before loans can be released or taken out by

<sup>44</sup> NHA has mortgage commitment lines under government lending program (e.g., UHLP, MLW).

<sup>45</sup> Leynes (1992)

<sup>46</sup> Ballesteros (2000)

the NHMFC. The availability of bridge financing and access to the commitment line of NHA with the NHMFC thus reduces the opportunity costs resulting from these delays. Clearly, the attractiveness of joint ventures mainly emanates from the provision of technical assistance to address bureaucratic problems. However, these bureaucratic problems are institutional issues, which, if not addressed, will make investments in low-cost housing unattractive.

Thus, the primary strength of joint venture is that NHA has been able to facilitate developments of its land as the private sector infuses investments into the project. This benefit, however, is outweighed by the cost and risk to government.<sup>47</sup> First, NHA ends up doing the feasibility study, packaging, and finalizing the project, which it also approves. Second, since NHA has a hand in reviewing the mortgage take-out before submitting to the NHMFC, it also shares in the accountability for accounts in default. Third, NHA also takes responsibility in cases where delays are caused by changes in policy of other shelter agencies over which NHA has no control. Fourth, in the event that the partner is unable to collect from NHMFC, NHA also suffers from defaults from the bridge financing it has provided.

### *Private sector socialized housing developments*

Prior to the 1990s, the government had been the main developer of socialized housing, i.e., house and lot packages with maximum selling price of P150,000. A few private sector developers ventured into economic housing (houses with selling price above P150,000 but not more than P375,000), but this was not done on a regular basis (Table 11). After 1990, private sector participation in socialized and economic housing development increased. Three factors may have contributed to these developments: First, the provision of tax incentives for low-income housing development. Developers who engage in socialized housing developments have been exempted from paying income taxes arising from these business ventures. Second, the creation of a Unified Home Lending Program (UHLP) for enduser financing and provision of development finance at lower-than-market interest rates. Third, the enactment of the UDHA of 1992, which required private developers to set aside 20 percent of the total project cost of nonsocialized housing developments for socialized housing investments. The effect of this law on increasing investments in socialized housing is, however, doubtful. In most cases, developers simply buy into the developed projects of socialized housing developers to comply with this requirement.

Starting 1998, however, a declining share of socialized housing developments to total residential development of the private sector has been observed. Developers attributed this to the suspension of the UHLP in 1996.<sup>48</sup>

<sup>47</sup> Leynes (1992)

<sup>48</sup> Philippine Daily Inquirer, March 10, 1998

**Table 11. Private sector participation in low-cost housing, 1981-2001**  
(in number of H & L or lot-only units)

Year	Socialized Housing <sup>a</sup>	Economic Housing <sup>b</sup>	RA 7279 <sup>c</sup>	No. of Units	Total
					Share to Total Residential Development <sup>d</sup> (%)
1981				-	-
1982 <sup>e</sup>		1,926	-	1,926	5.5
1983		12,024	-	12,024	21.6
1984		8,841	-	8,841	19.0
1985		14,212	-	14,212	37.1
1986		15,111	-	15,111	54.4
1987 <sup>f</sup>			-	14,977	33.3
1988			-	27,989	37.4
1989			-	23,660	28.6
1990			-	26,832	39.8
1991	12,677	11,032	-	23,709	29.5
1992	26,682	17,443	138	44,125	45.3
1993	41,282	15,175	1,838	56,457	45.2
1994	25,802	47,993	10,489	73,795	47.7
1995	62,860	61,851	13,128	124,711	55.3
1996 <sup>g</sup>	46,644	55,629	30,031	102,273	41.7
1997 <sup>h</sup>	58,042	55,093	58,165	113,135	43.5
1998	35,672	19,721	27,443	55,393	37.5
1999	12,271	14,258	18,211	26,529	34.3
2000	7,741	14,446	17,288	22,187	31.5
2001	10,465	17,641	15,676	28,106	29.0

<sup>a</sup> Housing packages with selling price of P180,000 and below.

<sup>b</sup> Housing packages with selling price of P180,000 to P375,000. In 2000, the maximum selling price was increased to P500,000

<sup>c</sup> Represents compliance to the UDHA law although nonsocialized housing developers may simply buy units from developers engaged in socialized housing development.

<sup>d</sup> Excludes RA 7279.

<sup>e</sup> From 1982 to 1986, developments consisted mostly serviced lots.

<sup>f</sup> Operationalization of the UHLP. From 1987 to 1990, figures include both socialized and economic housing.

<sup>g</sup> Refusal of SSS and GSIS to commit funds to UHLP due to nonperforming loans. In April 1996 Resolution 12 was approved resulting in a shift to multi-window lending.

<sup>h</sup> Mid-1997 Asian currency crisis.

Source of basic data: License-to-Sell, HLURB

However, it is noted that the developments in the sector correspond to the economic developments that occurred between 1990 and 1998. The period 1992-1996 has been one of high growth while the real estate industry has enjoyed a boom during these years. During this period, banks were also aggressive in financing real estate investments. After 1997, however, there



has been an economic decline primarily triggered by the Asian financial crisis that severely affected the real estate industry. The decline may also be attributed to the more conservative investments of banks in real estate because of the crisis.

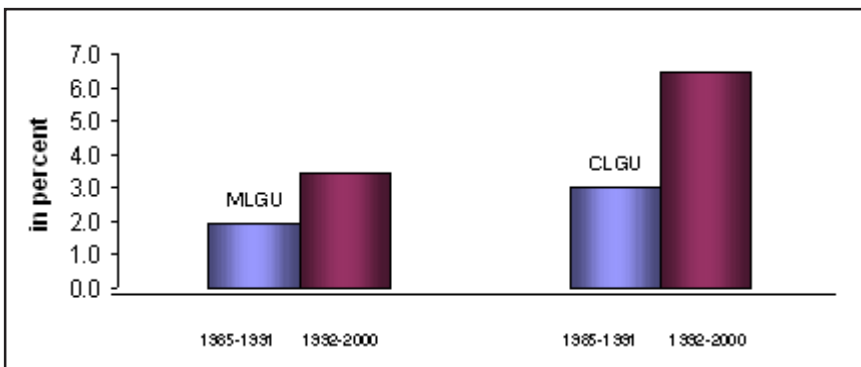
## Devolution

The passage of the local government code has provided avenues for the local governments to be more active in housing development in their respective localities. Local governments appear to have supported this responsibility, gauging from the significant increase in LGU expenditure on housing specifically among city LGUs. City LGUs actual expenditure on housing increased from 2.9 percent of total expenditure prior to 1992 to about 7 percent after 1992 (Figure 5). This amount comes primarily from internal revenue allotment and grants.

There are various schemes available to LGUs for their housing projects. Among them are the following: (1) joint venture arrangements with the NHA for low-cost housing projects; (2) land development grants from NHA for resettlement projects; (3) CMP; (4) formal development loans from the NHMFC and HDMF (e.g., LGU Housing *Pabahay* Program, Social Housing Development Loan Program); (5) development loans from government financial institutions and private banks; (6) floating of municipal housing bonds; and (7) development grants or loans from the Municipal Development Fund (MDF). Of these schemes, CMP and joint venture arrangements with NHA are the most popular.

Many LGUs have made CMP the flagship of their social housing program. Some 39 LGUs have been accredited by NHMFC as originators, which reflect LGUs capability to organize, and implement community-based

Figure 5. Housing expenditure



Source: Annual Financial Report of the Local Governments, Commission on Audit, various years.

housing projects.<sup>49</sup> The collection efficiency of LGU-originated loans is comparable to that of government housing agencies and better than NGO-originated CMP projects (Table 12). However, access to this program has been constrained by institutional barriers discussed earlier vis-à-vis the CMP.

Joint-venture arrangement is another popular scheme among LGUs for low-income housing. Four types of arrangement have evolved between LGU, NHA, and/or private developer.

- LGU owns the land and the private developer assumes all aspects of development and housing construction, with the financial requirement assumed by the developer and NHA;
- LGU owns the land while financial requirement is shared with NHA. Development is contracted out to a private developer;
- LGU owns the land and undertakes the development of site and housing construction while NHA provides the financial requirement; and
- A private landowner owns the land; the LGU undertakes development and shares part of the financial requirement with NHA.

From 1987 to 2001, 28 joint ventures were undertaken by the private sector and/or the NHA with LGUs (Table 13). In more than 50 percent of these ventures, the LGU is the landowner. These joint ventures required LGUs to share in the risk and liability for housing projects in their localities.

**Table 12. Community Mortgage Program (CMP) collection efficiency rating by originator and type of project (as of September 2001)**

Originator	Onsite %	Offsite %	Total %
NHA	82.3 (127)	79.6 (10)	82.2 (137)
HGC	76.3 (56)	80.9 (9)	76.8 (65)
LGU	76.0 (174)	65.4 (20)	74.5 (194)
NGO	65.4 (241)	56.9 (77)	63.0 (318)
<b>Total</b>	<b>73.3 (598)</b>	<b>60.7 (116)</b>	<b>70.98 (714)</b>

( ) Figures in parentheses represent number of accounts  
Source of basic data: NHMFC

<sup>49</sup> The criteria for accreditation require that the applicant is able to perform the following functions: organization and coordination, project development and management, and mortgage processing. An originator is also expected to initiate livelihood project, and provide other support services to the community (NHMFC Accreditation Criteria Circular No. CMP-001).

LGUs dealt with day-to-day implementation of the project while NHA focused on activities of national concern. A weakness of this strategy is that it creates dependency on local to national agencies and accountabilities are not clear when there is a project fall-out. The devolution law, however, has somehow addressed this weakness. In recent joint ventures, LGUs have taken the lead role for these projects.

Financing housing projects through borrowing has not been popular among LGUs. LGU borrowing has never been a substantial source of LGU financing more so for development projects such as housing. On the average, LGU borrowings represent only 2.0 percent of the total income of cities and 0.5 percent for municipalities in the period 1981-1992.<sup>50</sup>

An interesting development, however, is that LGUs have tapped the private capital market for low-cost housing development. In particular, five LGUs have ventured into the bond market for housing (Table 14). Although two of the six projects undertaken failed, this development nevertheless shows a strong potential for LGU-backed socialized housing projects to be funded using private capital. The interest of the private sector to guarantee these funds is another important development in housing finance. Guarantees on LGU housing bonds have been provided not only by the HGC but also by private banks. The LGU Guarantee Corporation, which was established in 1997 as a joint venture between the Bankers Association of the Philippines and the Development Bank of the Philippines, has guaranteed two LGU

**Table 13. LGU joint ventures with NHA and private sector**

Year	LGU Contribution				Total No. of Projects
	Land	Land + Cash Equity <sup>a</sup>	Land + Development	Development + Cash Equity	
1987-93	9	2		3	14
1994	1		1		2
1995	1				1
1996	3				3
1997	3		1		4
1998	1				1
1999	0				0
2000		1		1	
2001		2		2	
Total	18	2	5	3	28

<sup>a</sup> development contracted out to private developer

Source: NHA

<sup>50</sup> Llanto et al. (1996)

Table 14. LGU housing bond issuances

LGU	Issue Date	Amount (in PM)	Maturity (years)	Interest Rate (% p.a.)	Average Selling Price (housing unit)	Status	Guarantor
Victorias, Negros Occidental	Jan. 1994	8	2	1st yr.-15.09 2nd yr.-14.08	Lot: P30,000.00 H&L: P125,000.00	Redeemed	HGC <sup>*</sup>
Legaspi City	Jan. 1995	26	2	15	P191,483.11	Redeemed	HGC
Claveria, Misamis Oriental	Apr. 1995	20	2	19	P215,000.00	Called account. Investors were paid by HGC. With pending case against government	HGC
Puerto Princesa, Palawan	Dec. 24, 1997	20	2	180-day T-bill rate + 2.5	P150,000.00	Antonio Calingin for collection Called account. Settlement of HDMF's (investor) claim is still under negotiation	HGC
Iloilo City	Apr. 20, 2001	180	3	91-day T-bill rate + 2	P180,000.00	Redeemed	LGUGC <sup>**</sup>
Puerto Princesa, Palawan	Feb. 2002	320	5	91-day T-bill rate + 2.5	P180,000.00	(new project)	LGUGC

<sup>\*</sup> Home Insurance Guaranty Corp.

<sup>\*\*</sup> Local Government Unit Guaranty Corp.

Note: Interest excludes guarantee and underwriting fee

Sources: HGC and LGUGC

bonds for socialized housing projects and initial ventures have been a success.<sup>51</sup>

Loans from government financial institutions and the MDF have also been a source of financing for LGU housing projects, although these loans have been tied to larger municipal services and infrastructure loans. In particular, the MDF is a revolving fund created in 1984. It has control over a sizable amount of resources and is currently being used as a conduit of foreign loans and grants for LGUs. This fund has been the traditional source of grants and long-term finance for LGUs.

A study by Llanto and others noted various constraints in LGUs access to capital markets.<sup>52</sup> These same constraints could have been the reason why very few LGUs are unable to access or avail themselves of financing from the private capital markets for housing projects. On bank credit access, the following major concerns have been pointed out: First, the need to improve information structure of LGUs, specifically rudimentary information on LGU financial performance and loan repayment capacity. The lack of information on LGU creditworthiness has been a deterrent to private banks to open a lending window for LGUs. Second, the need to review the regulatory framework affecting LGU deposits. LGU real estate properties devoted to public use cannot be encumbered, thus the internal revenue allotment (IRA) intercept mechanism and a holdout on LGU deposits are the very important loan security for private banks. Third, the need to provide a complementary role for private sector financing and government funding. Given the developments in LGU access to long-term private sector finance, the complementary role between GFIs and the private sector as well as the appropriate role of government funding such as the MDF have to be defined.

On LGU bond issuances the following concerns have been raised: One, the need to define a design for LGU bonds to make it competitive with other bond issuances in the market (e.g., returns, provision of tax incentives, liquidity, etc.). Two, the need to review LGU limits on borrowing. The LGU Code has limited LGU debt servicing to 20 percent of the regular income of an LGU (i.e., based on estimates of the local finance committee). However, the Code is unclear as to the consequences of debt service requirements above the 20 percent ceiling. This has to be resolved to remove any uncertainty in the continuity of payment in case there is violation. Three, the need for timely and adequate information for LGU bond ratings.

Studies on the impact of LGU housing projects for a specific city or municipality is scanty but case studies of successful LGU housing programs provide some interesting insights. The case of Naga City, for instance, shows

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<sup>51</sup> There are 21 BAP member banks involved in the guarantee corporation. BAP accounts for 51 percent of ownership of LGUGC while the rest (49 percent) are from DBP.

<sup>52</sup> Llanto et al. (1996)

that of the 38 informal sites in the city, 30 communities have “regularized” their tenure through the CMP (Table 15). This represents about 88 percent of the total squatter households in the city as of 2000. The fast pace by which these tenures have been regularized is attributed to the “*Kaantabay sa Kauswagan*” (Partners in Development) mass housing strategy of the local government.<sup>53</sup> The strategy advocates “tripartism” for housing development in the city. Tripartism is a proactive and dynamic interaction between POs, NGOs, and the city government. This strategy has been institutionalized through city ordinances, which in effect bind the local government to recognize the partnership with local people’s organizations and to appropriate funds for a comprehensive and continuing development program for the urban poor.<sup>54</sup>

Naga City has a very dynamic people’s organization with strong ties with nongovernment organizations. As early as the 1970s, community organizing had already been employed in accessing basic social services. Such strategy had been strengthened with the restoration of democratic institutions in 1986. The creation of the empowerment ordinance and succeeding institutionalization of the *Kaantabay sa Kauswagan* program have been possible because of the unity of community-based organizations and their solid stand on issues. These communities are under one umbrella called the Naga City Urban Poor Federation.

**Table 15. Low-income urban communities, Naga City**

Type of Tenure	No. of Sites	Total Land Area (ha.)	Total Population	Total No. of Families
Amortizing owners	25	56	24,918	4,153
Negotiated	5	9	4,752	792
Under negotiation	8	11	5,178	697
<b>Total</b>	<b>38</b>	<b>76</b>	<b>34,848</b>	<b>5,642</b>
<b>%</b>				
Amortizing owners	65.8	73.8	71.5	73.6
Negotiated	13.2	12.0	13.6	14.0
Under negotiation	21.1	14.2	14.9	12.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

Source of basic data: World Bank Aide Memoir on Philippine Urban Shelter and Community Infrastructure Project, May 2002.

<sup>53</sup> For studies on Naga City, see the following: Angeles and Torres (2000); Angeles (1997); and Sayos (1998).

<sup>54</sup> City Ordinance No. 95-092 (December 20, 1995) and No. 98-033 (March 13, 1998). Fund appropriations, however, are subject to availability of funds.

The solid action of organizations outside of the local government has influenced local officials to give attention to the basic services needed by their constituents, specifically the urban poor. Although the electoral process could have been the mechanism for people to influence elected local officials to work for the people, the failure of the electoral process in the country to curtail fraud makes election a weak mechanism to reward or penalize a candidate. Thus, POs and NGOs play a crucial role in making elected officials respond to their concerns.

On the other hand, where local leadership is strong, community organizations and NGOs play a supporting rather than a dominant role in development projects. This has been the case in Marikina City.<sup>55</sup> Marikina has been transformed into an impressively clean, disciplined and promising city through the strong leadership of former mayor Bayani Fernando, who held office for three terms. He was elected into office in 1992, and one of his major programs was to eradicate homelessness in the form of squatting in the city. Between 1992 and 1998, the city provided homelots and security of tenure to 13,000 families, leaving only about a thousand families for relocation. To undertake this program, a Marikina Settlements Office (MSO) was created to formulate an urban development and housing plan for the city. The MSO strategy focused on developing new communities for the urban poor and upgrading slum and blighted areas. The housing program is not only meant to improve the living conditions of the poor but is an integral part of the city government's vision of revitalizing the business climate in the city. Although critics believe that the city's interest was more inclined toward the business sector, the city's housing program did bring about an improvement in the living conditions of the urban poor. The city government, through its own funds, improved community infrastructure in all the resettlement sites with the construction of drainage systems, concreting of roads and alleys, and provision of electricity and water infrastructure development. Funds came mainly from city revenues, which grew dramatically after 1992. Unlike other cities where IRA revenues tended to substitute for local tax revenues, Marikina was able to greatly increase its locally generated revenues after 1992. The biggest increase in the city's revenues came from strict enforcement of real estate tax revenues (including idle land property tax). With regard to security of tenure, Marikina depends primarily on the CMP program. While households have been given land, some communities have yet to receive a loan from CMP.<sup>56</sup> Access to CMP has also been hindered by factors earlier cited.

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<sup>55</sup> Taken from Karaos (2001).

<sup>56</sup> Based on site visits and interview with Marikina Settlements officials, May and July 2001.

# 5

## Proposed Directions of Institutional Reforms in the Housing Sector

While many problems on housing are linked to institutional barriers in the land and financial markets, government has focused reforms on organizational and program-specific issues. Organizational and program reforms, while necessary, can only be effective if the basic institutional issues are first addressed. Hence, the paper proposes the following directions for reforms.

### Reforms in the land market

The efficient operation of the land market is necessary to the efficient functioning of the housing market. In particular, there are regulatory issues that have to be examined. There are no clear guidelines on land use and on the use of public or government lands for housing the poor. For instance, the CMP program, while it has provided a mechanism to resolve some squatting issues, has encouraged the development of informal land markets.<sup>57</sup>

Poor land administration infrastructure is also a problem. The absence of systematic information on land and real estate properties in the country increases the transaction costs in the land market and opens an avenue for corruption and “professional” squatting. Problems of getting access to CMP have been related to the weak land administration structure in the country. The absence of a national standard and method for real property valuation, for instance, causes land valuation problems. Agreement on the “right” price for a plot has stalled CMP negotiations. Negotiations have also been delayed by issues of conflicting ownership and problems concerning the establishment of legal road right of way. In this regard, difficulties may arise from pricing, refusal of owner to sell property, or failure to find a road right of way.

Reforms on land taxation should also be prioritized. Although the country has a well designed property tax system, it has not been used effectively to generate revenues and to serve as equalizing factor in the distribution of

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<sup>57</sup> Baross (1993)



wealth.<sup>58</sup> Increasingly, citizens will seek to upgrade their housing and associated infrastructure to improve health and overall standards of living. Real property tax will provide the government the flexibility in providing basic services and maintaining physical infrastructure. An efficient enforcement of property tax also nullifies the necessity of an idle land tax<sup>59</sup> and allows an efficient functioning of the land market.

The Land Administration and Management Project (LAMP), which started in 1999, is currently addressing reforms in land administration in the country.<sup>60</sup> It aims to foster efficient land markets through the development of an efficient system of land titling and administration as well as clear, transparent, and consistent land laws. Institutional change, however, is a long process and requires the support of the succeeding administration for ongoing developments.

The above real sector reforms have to be undertaken. Simply creating laws to reduce processing time, for instance, in the approval of permits or creating one-stop shop processing centers, will not work. These and other similar efforts have been undertaken in the past, without much success.<sup>61</sup>

### Reforms in the financial market

The Philippines is one of the developing countries with permanent high levels of public housing finance provision.<sup>62</sup> This strategy has been found counterproductive. Thus, institutional reforms are necessary to link housing finance to the private capital markets.

In 1997, the government, with assistance from the World Bank, developed a reform concept that focused on strengthening the viable elements of the mortgage finance system (Figure 6). The concept called for a clear separation of subsidy mechanisms from transactions in the housing finance market. Housing subsidies thus became part of an overall welfare system where efficient targeting is undertaken by analyzing actual borrower, property, and loan data. On the other hand, government's role in housing

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<sup>58</sup> Baross (1993)

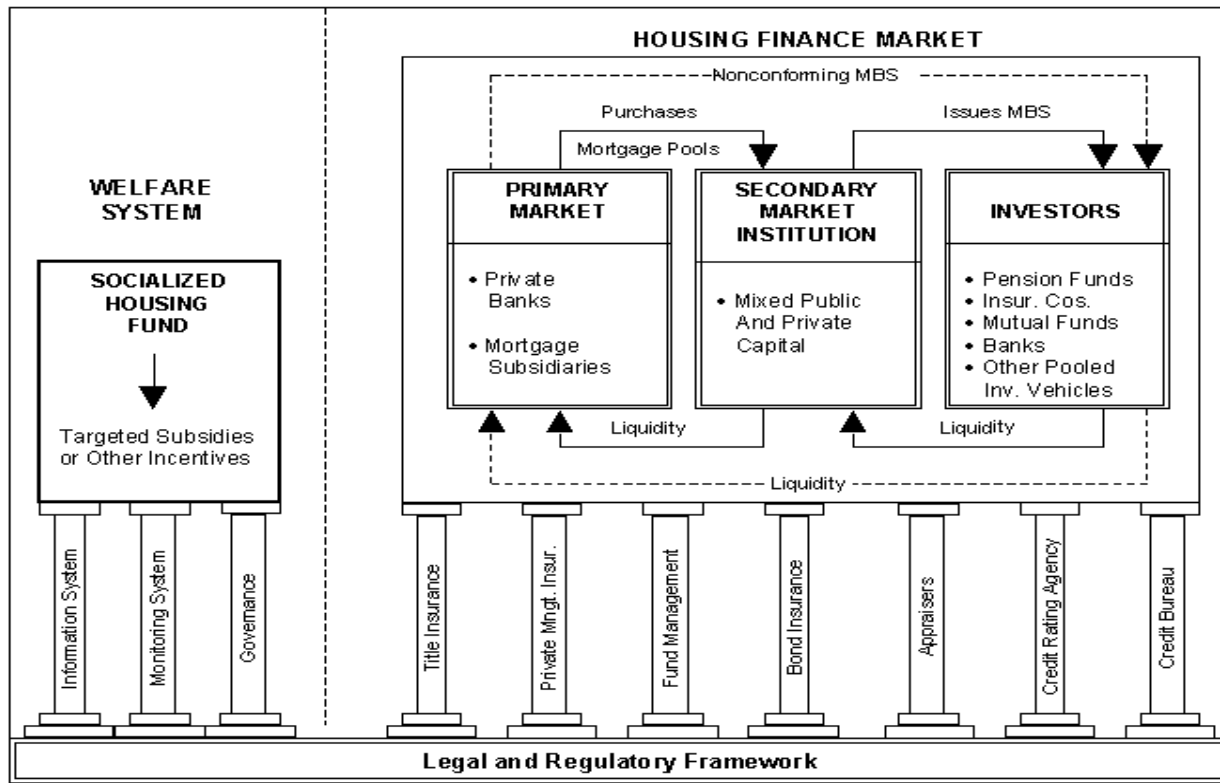
<sup>59</sup> An idle land tax has been mandated in the country to boost the land market and prevent speculation. However, only one or two LGUs implement this tax. The experience of other developing countries shows that an idle land tax has never been effective (Michael Carter, *Regional Land Issues in Asia*).

<sup>60</sup> The Project is funded through the Australian International Development Aid and the World Bank. It will be implemented for a period of 15 to 20 years.

<sup>61</sup> In response to the delays in the processing of permits for socialized housing projects, a socialized housing one-stop shop center (SHOPC) was established to facilitate processing (EO 184 of 1994). However, the scheme did not work since information on land or land use cannot be systematically searched and thus require the approving authority of higher bodies or committees. In 1998, EO 258 was enacted to require agencies involved in the approval of development permits to set time standards and include sanctions for noncompliance. However, major agencies were unable to provide their guidelines. Recently, EO 45 (June 2002) was enacted with similar purpose. While some agencies have issued their implementing guidelines, actual implementation of the law has yet to be undertaken.

<sup>62</sup> Duebel (2000)

Figure 6. A vision for the housing finance system



Source: World Bank (1996), Housing finance: reforming public provision and promoting private participation

finance transactions would be focused on developing the secondary market and credit enhancement. Institutional investors such as insurance companies, SSS, GSIS, and PAG-IBIG would no longer be originating mortgage loans; private banks would issue a) conforming mortgage-backed assets or securities (MBS) via sale to the secondary mortgage institutions; or b) nonconforming MBS directly to investors in the capital market. This move would require legal and regulatory reforms, to wit: modernizing the legal framework, improving loan level information, and streamlining and redefining the role of government in the primary market. Modernizing the legal framework, for instance, requires addressing issues and concerns on property rights, specifically with regard to foreclosure proceedings, installment payments of nonperforming MBS, and title procedures. These conditions stress the need for real sector reforms to have an effective financial sector reform.

However, this mortgage reform program has not been successful. In the following two years after the adoption of the reform, there was a significant increase in public sector risk exposure.<sup>63</sup> Housing policymakers came under pressure to abolish these reforms. Thus, in October 1999, the reform was terminated. Instead, a Presidential Mass Housing Commission was created that implemented a new subsidized mass housing program funded by the social security funds.

The paper recommends that government pursue this reform program. Perhaps an initial move is to prioritize subsidy reduction starting with high- and middle-income markets. This effort may entail finding the appropriate financial strategy to address lack of access to housing finance. Interest subsidies for low- and medium-income families may not be appropriate, given poor borrower information environment, highly skewed income distribution, or the small market for complete housing. There is also a need to differentiate between poverty issues and lack of access to finance. Rather than enforcing a mass housing market with public guarantees and subsidies, it may be more realistic to consider different financial technologies for various income groups. For instance, focusing on microfinance mortgage lending, employer-based housing, and cooperative-based mortgage finance. A rental housing reform program should also be pursued.

### **Reforms in the governance structure of housing**

The role of national government and subnational governments, specifically local government units, has to be well defined. The local government units have shown strong interest in undertaking housing developments, as noted in the rising expenditures on housing, innovations on local housing programs, and interest to access the private capital markets for socialized housing development. There is therefore no doubt about capability of the local

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<sup>63</sup> Duebel (2000)

governments to undertake this function. Some reforms, however, have to be made. An area of reform is LGU access to private capital markets. The nature of these reforms has been extensively discussed in Llanto, Manasan, Lamberte and Laya (1998). In particular the reforms include the following: (1) improving information structure of LGUs; (2) reviewing the regulatory framework on LGU deposits and borrowing limits; (3) providing complementary mechanism for private sector and government funding; and (4) upgrading the design, marketability, and competitiveness of LGU bond issuances.

Government should proceed with more certainty on LGUs authority in housing delivery, not only because of the legal mandate but because the spatial dimension of housing makes LGUs more efficient providers. Resource constraints or technical capability should not hinder the decision to devolved housing functions. These constraints do not bear on efficiency issues. For instance, success stories of LGU housing projects in the country show that the city staff is no more technically capable than the staff of LGUs with failed or inadequate housing projects. Moreover, studies have shown that transfer of technical knowledge through capacity-building programs in developing countries are often marginalized or ignored.<sup>64</sup>

Housing concerns that have wider geographical impact should not be an issue against devolution. Instead, government should encourage metropolitan arrangements for activities affecting various localities. These metropolitan arrangements have been undertaken in many urban activities through initiatives of the local governments themselves and are envisioned as the future trend, specifically with the rise of megacities.<sup>65</sup>

Governance issues on housing should deal with the above institutional problems. The creation of a Department of Housing is not critical. Most legal and regulatory impediments on housing are the concerns of the finance and environmental departments, which already exist. However, in view of the need to provide housing services to the underprivileged sector, grants or subsidies will be a major strategy in housing development. Because of the nature of grants, the national government is justified in exercising control over the use of such grants. Given this specific role, what may be necessary is the creation of an organization with a corporate personality to manage these funds rather than the creation of a Department.

### **Program-specific reforms**

The Philippines is among the countries that have adopted a diversified portfolio in mortgage financing.<sup>66</sup> In particular, the CMP has gained some

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<sup>64</sup> Dillinger (1994)

<sup>65</sup> Mercado and Manasan (2002)

<sup>66</sup> Duebel (2000), p. 33

international recognition as a noteworthy mechanism for housing the urban poor.<sup>67</sup> Notwithstanding the institutional reforms mentioned above, there is still a need to examine the incentive structure of the program that includes not only the beneficiaries but also other players such as developers, originators, and NHMFC.

Resource constraint is apparently not the only issue affecting low repayment. Evidences show that households resort to alternatives that are more expensive in the absence of conventional services. For instance, in Metro Manila, in the absence of community water connections, households resort to peddled water, which costs six times more than water sourced from the community provider.<sup>68</sup> Households also borrow from informal credit sources under a 5/6-interest scheme for construction materials.

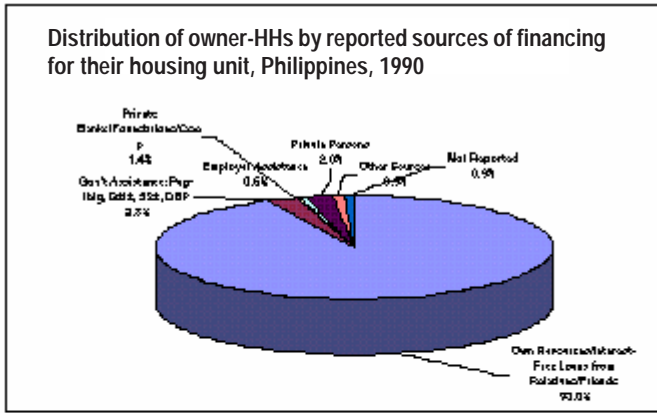
Perhaps an issue to consider under CMP is whether collective security or solidarity group dynamics work for housing. Lending to the poor through groups rather than individuals has become a well-established scheme for microenterprise activities. The literature on group lending shows that certain group dynamics (e.g., peer pressure, group solidarity) have had positive effects on repayment. These behaviors have been seen to work well for microenterprise livelihood projects. However, collective security may not work as well in housing, specifically in the case of the CMP for the following reasons: (1) longer term of housing loan; (2) highly heterogeneous households; (3) group size of about a hundred households; (4) problems of “professional squatters” and the “unitization” of land title being tied to community loan performance tend to aggravate domino effect for nonpayment. These issues have to be examined so that significant reforms in program requirements can be undertaken.

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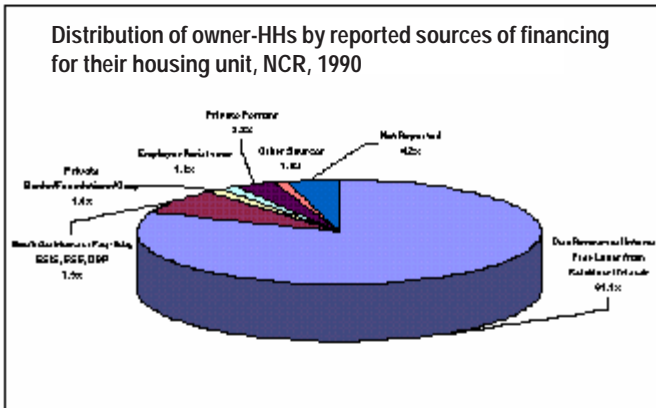
<sup>67</sup> Lee (1995), Duebel (2000)

<sup>68</sup> David (2000)

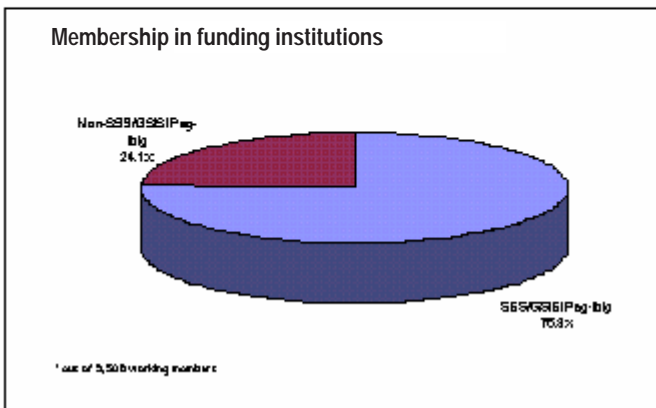
Appendix 1



Source: Census of Population and Housing (1990)



Source: Census of Population and Housing (1990)



Source: CREBA

**Appendix 2. NGO housing programs and strategies, decentralized regime**

NGO	Project/Program	Strategy	Funding Source
CO-Multiversity-Urban Poor Associates (COM-UPA)	(a) Pineda (b) Baseco (c) Parola	Community empowerment	
Vicentian Missionaries Social Development Foundation (VMSDF)	ADB-JFPR and DSWD Slum Improvement Project (on-site)	Facilitate and provide bridge financing for land acquisition and site development	Japan Fund for Poverty Reduction (JFPR), counterpart funds from VMSDF and other local sources
Muntinlupa Development Foundation (MDF)	(a) ADB-JFPR and DSWD Slum Improvement Project (off-site)  (b) CMP	(a) Facilitate land acquisition and site development; encourage savings mobilization  (b) CMP origination, financial assistance (loans)	(a) JFPR, counterpart funds from Muntinlupa City Government  (b) NHMFC, MDF
Community Organization of the Philippines Enterprise Foundation (COPE)	(a) People's Housing Alternatives for Social Empowerment (b) Naga City urban poor organizations	(a) Housing on Stilts (housing technology)  (b) Community organizing (issue-based organizing)	(a) Community savings; international donors
Philippine Undertaking for Social Housing (PUSH)	Project releases in Visayas and Southern and Northern Mindanao	Finance housing initiatives of the poor (land acquisition, house construction/ improvement)	PUSH <sup>1</sup>
Pagtambayayong	(a) Housing projects in Talisay City (b) CMP  (c) Advocacy program	(a) Finance construction of starter houses (b) Origination of CMP projects in Metro Cebu (c) Participation in advocacy works of CMP Originators, PUSH, Local Housing Boards (Cebu)	PUSH, City government, community savings, Pagtambayayong, NHMFC (CMP)
Foundation for the Development of the Urban Poor (FDUP)	(a) Project Exodus  (b) Bonanza HOA	Facilitate land acquisition and site development, develop manageable low-cost housing projects, provide housing technology, interim fund for immediate community needs	(a) NHMFC under the Abot-Kaya, international donors (b) CMP, community savings, business donors
Freedom to Build	Horatio de la Costa Homes	Facilitate and provide bridge financing for land acquisition and site development	Internal funds, NHMFC under UHLP
Philippine Business for Social Progress (PBSP)	Apitong Neighborhood Association and other various sites	Assist community in implementing housing programs; facilitate infusion of funds from member-corporation into the community	Community funds, corporate donors, international donors

## Appendix 2 (cont'd.)

NGO	Project/Program	Strategy	Funding Source
Mondragon Foundation, Inc.	Various NCR sites	Act as guarantor for CMP projects; assist in community organizing and savings mobilization	Corporate donors, international donors
Save the Children-US	BATAHAI	Facilitate land acquisition and site development	LGU fund, international donors, community savings
SLU-SVP	SLU-SVP Housing Cooperatives	Facilitate land acquisition and site development	Community savings through cooperatives, international donors, soft loans from banks
National Congress of CMP Originators	Various housing projects	Facilitate and provide bridge financing for land acquisition and site development	Grants and donations, soft loans from banks, community mortgage (CMP and GLAD), individual mortgages (UHLP), developmental loans (Abot-Kaya, SHDLP, Cooperative Housing), community savings, fund-raising

Source of basic information: Rebullida (1999); and SELAVIP Newsletter (April 2001 and October 2001), a journal of low-income housing in Asia and the world

\* Fund contribution from NGOs



### Appendix 3. HDMF membership profile, 1982

Income Level	Cumulative Percent	Housing Expenditure <sup>a</sup> (25% of Total Income)	Housing Loan		
			Loan Amount	Interest Rate	Loan Amortization (25 years)
Lowest - 250	6.68	62.50	50,000.00	9	419.60
251 - 400	21.89	62.75 - 100.00	60,000.00	9	503.52
401 - 550	55.13	100.25 - 137.50	70,000.00	9	587.44
551 - 700	69.75	137.75 - 175.00	80,000.00	9	671.36
701 - 850	77.65	175.25 - 212.50	90,000.00	9	755.28
851 - 1,000	82.43	212.75 - 250.00	100,000.00	9	839.00
1,000 - 1,150	85.54	250.00 - 287.50	150,000.00	9	1,258.80
1,151 - 1,300	87.17	287.75 - 325.00	200,000.00	12	2,106.44
1,301 - 1,450	88.30	325.25 - 362.50	250,000.00	12	2,633.05
1,451 - 1,600	89.26	362.75 - 400.00	300,000.00	16	4,076.67
1,601 - 1,750	89.90	400.25 - 437.50	350,000.00	16	4,756.12
1,751 - 1,900	90.42	437.75 - 475.00	400,000.00	16	5,435.56
1,901 - 2,050	91.10	475.25 - 512.50	450,000.00	16	6,115.01
2,051 - 2,200	91.78	512.75 - 550.00	500,000.00	16	6,794.45
2,201 - 2,350	92.10	550.25 - 587.50			
2,351 - 2,500	92.37	587.75 - 625.00			
2,501 - 2,650	92.57	625.25 - 662.50			
2,651 - 2,800	92.89	662.75 - 700.00			
2,801 - 2,950	93.04	700.25 - 737.50			
2,951 and above	95.08	737.75			
missing	100.00				

<sup>a</sup> HDMF provides loan to the extent of 25 percent of total income. Actual data on housing expenditure as of 1980 is 10.3 percent.

Source: HDMF

## Appendix 4. LGU housing program, decentralized regime

LGU	Project	Approach/Strategy	Partners	Amount of Fund	Funding Source
San Carlos City, Negros Occidental	“Lote Para sa Mahihirap” Program	Land acquisition through direct purchase <sup>a</sup>	NGOs (J. F. Ledesma and Conzuelo Zobel Alger Foundation), DECS, NHA	P3.2M (1992, initial funding) P5M (1995-1997) P6.7M (grant)	For initial funding: 20% IRA development fund of the city and of Negros Occidental, calamity fund for fire victims of Pres. Aquino; starting 1995, annual development fund (from the city’s annual budget); for grant, NHA
Naga City	“Kaantabay sa Kauswagan” (Partners in Development) Program (37 projects in 1992-1996)	Land acquisition through direct purchase, land swapping, <sup>b</sup> land sharing, <sup>c</sup> CMP; and on-site/off-site development <sup>d</sup>	National agencies (DENR, NHA, NHMFC, HIGC, GSIS, PCUP), NGO (COPE, Naga urban poor associations), private business foundation	P93.9M (for 24 projects)	City budget allocated to SHARE <sup>e</sup> (P50M, 1994-1998); assistance from a senator (P1M); credit line from any commercial bank (P10M); trust fund (from collections/proceeds from resettlement sites, sale of government properties and CMP origination fees)
Puerto Princesa City	Low-Cost Housing Program (17 housing projects)	Land acquisition through direct purchase, CMP, GLAD, public lands, land donation	National agencies (DENR, NHA, NHMFC, HIGC, GSIS, PCUP)	P73.4M (for 14 projects)	City budget, NHA, NHMFC
Cebu City	(a) City Housing Acquisition of Private Lands (CHAPEL) (b) City-Owned Lots Rehabilitation and Disposition (CORE) (c) CMP	(a) Direct land purchase (b) Direct selling of city-owned lots (c) Facilitate land acquisition (d) Financial assistance for land acquisition (e) Financial assistance	NGOs that manned/operated their urban poor office	(a-e) P109.5M (for 69 projects) *P327.9M (actual and potential funds, City Shelter Plan: 1995-2010)	National funds (e.g., NHA), Countryside Development Fund, trust fund (out of sale of city-owned lots intended for socialized housing projects of the city), local revenue, counterpart funds from beneficiaries

Appendix 4 (cont'd.)

LGU	Project	Approach/Strategy	Partners	Amount of Fund	Funding Source
	(d) Bridge Finance (Buffer Fund) (e) Resettlement Program	for land acquisition			
Marikina City	"Squatter-Free Marikina" (homelot and relocation program)	CMP origination, direct selling of city-owned lands to beneficiaries, on-site upgrading/development	NHA, NGOs (originator), CAs	P58.6M (1994-99)	City budget (Community Development Fund from 20% IRA, and local revenues from real estate business, etc., taxes)
San Fernando City, La Union	(a) Homelot project (b) Project for squatters/urban poor <sup>9</sup>	(a) Land banking <sup>f</sup> (b) Containment of urban poor settlements and new illegal structures	Government agencies, NGAs/NGOs	P9M	City budget
Davao City	(a) Project sites for the national government's Slum Improvement and Resettlement (SIR) Program (1977) (b) Urban Land Reform Program (ULRP): Land acquisition and on-site upgrading (c) Tibungco Resettlement Project	(a) Relocation and on-site upgrading (b) CMP origination in 1988-1995, then shifted to direct financing (c) Relocation and on-site development	(a) NHA (b) NGOs, CAs, NHMFC (c) NHA	(b) P81M (1993-99) (c) P82.5M (costs)	(b) NHMFC; for its direct financing, appropriations (20% of their IRA) from the city budget under the Urban Land Reform Program (ULRP) (c) NHA, City budget
Muntinlupa City	(a) Interim Financing Facility (IFF)	(a) CMP origination and bridge financing,	(a) Muntinlupa Development Foundation	(a) P70.5M (12 projects)	(a) City's Community Development Fund, MDF, PO, NHMFC

## Appendix 4 (cont'd.)

LGU	Project	Approach/Strategy	Partners	Amount of Fund	Funding Source
	(b) Other housing initiatives	landbanking (b) Act as guarantor in land purchase transactions between private landowners and community associations	(MDF), POs		
Bacolod	Bacolod Housing Authority	Resettlement CMP			- budgetary requirement - NHA programs

<sup>a</sup> Direct purchase – purchase of land from its owner by the city government

<sup>b</sup> Land swapping – involves the exchange of an urban poor-occupied property with another of roughly equal value, preferably without occupants; occupants amortize the cost of their homelots to the new owner

<sup>c</sup> Land sharing – this strategy works out a mutually accepted agreement between the private landowner and the urban poor occupants

<sup>d</sup> Onsite development – involves facilitation of transfer of land ownership from government and private owners to the individual occupants

Offsite development – provision of resettlement sites for demolition and eviction victims and other urban poor families who want to acquire their own lot

<sup>e</sup> SHARE – housing investment program of the city; projects are on relocation of urban poor families, purchase of private properties for housing projects and upgrading of existing facilities and services for the urban poor settlements

<sup>f</sup> Land banking – purchasing of pre-identified lands to be developed into housing sites (in San Fernando City, this started with government employees as beneficiaries)

<sup>g</sup> The City of San Fernando (as of 1998) has not yet developed a continuing housing program for the poor, but is studying alternative housing approaches (construction of medium-rise housing in coastal areas, slum upgrading)

Source of basic information: Karaos (2001); Marco and Holmes (1998), Local governance and housing concerns; Quijano et al. (2001), Local government performance and compliance to UDHA: the case of Cebu City; Sayos (1998); Sayos and Fernandez (1998), The low-cost housing program of Puerto Princesa City, Palawan; Sayos and Paredes (1998), The 'Lote para sa Mahihirap' housing program of San Carlos City, Negros Occidental; Sayos et al. (1998), Local efforts in housing provision.

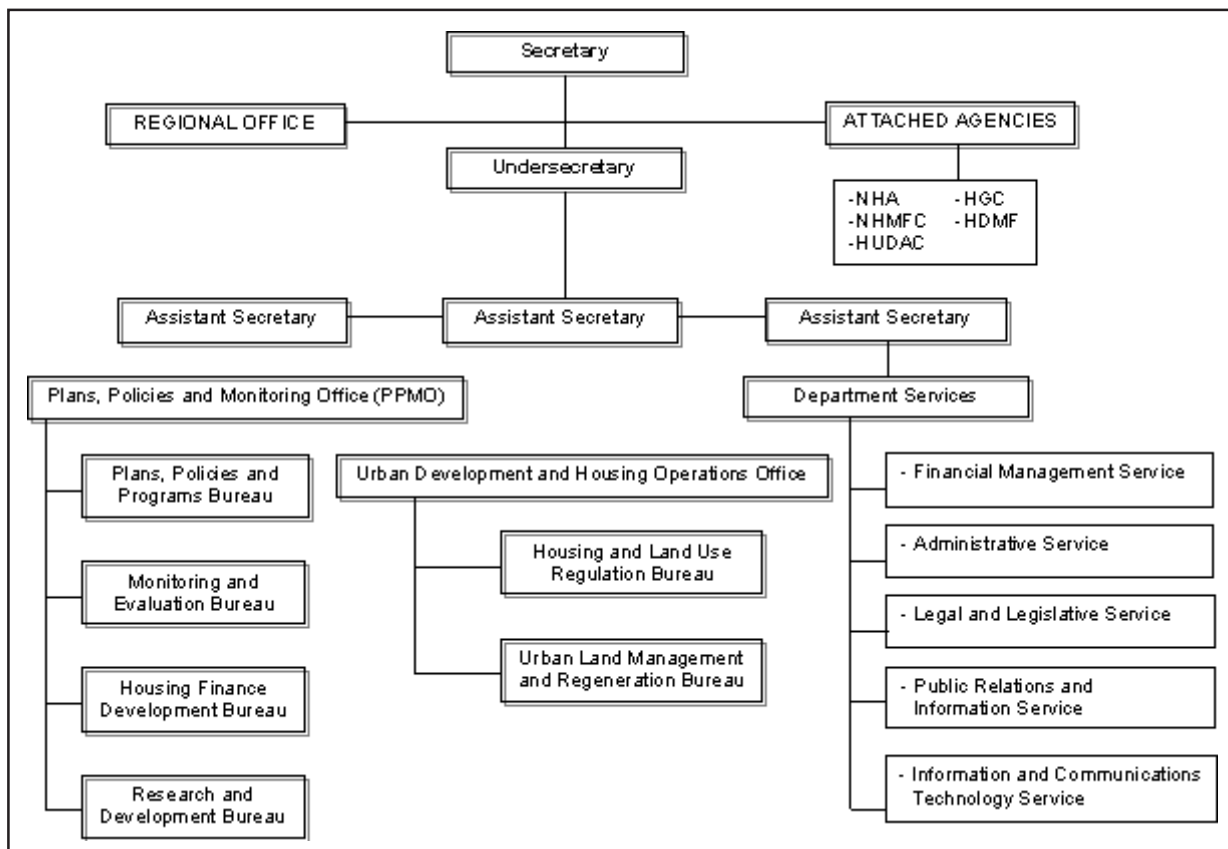
## Appendix 5. Local government unit *Pabahay* program

Project Name	Name of LGU	Location	Date Approved	Value (PM)	Unit		Total	Status
					Lot Only	H & L		
Eusebio Bliss Village	LGU-Pasig	Jenny's Ave., Pasig	7/10/00	84.000	0	336	336	Ongoing loan repayment; ten TCTs redeemed
General Trias Homes	Gen. Trias Employees Association	Gen. Trias, Cavite	1994	12.096	0	61	61	
Housing Construction Materials Loan	Gen. Mariano Alvarez Credit Cooperative, Inc.	Dasmariñas, Bagong Bayan, Cavite	2/1/95	5.000	0	1,000	1,000	Referred for legal action; preparation for petition of the collection of sum of money with Legal Department Completed and fully paid
Kaunlaran Homes I	Municipal Government of San Juan, Batangas	Brgy. Buhay na Sapa, San Juan, Batangas	2/26/98	12.800	91	195	286	
PALARIS-FVR Housing Program	Municipal Government of Lingayen	Lingayen, Pangasinan	1996	4.530		39		Completed and fully paid
Palayan City Pabahay Project	Palayan City Government	Brgy. Tablang, Atate, Palayan City	6/21/96	15.000	0	100	100	Ongoing loan repayment; individualization of accounts have been undertaken; 52 accounts with notice of approval
		Restructured loan	5/4/00	1.949				
Total				16.949				
Matanao Country Homes I	Municipal Government of Matanao and Ryan Builders	Matanao, Davao del Sur	1997	5.000		120		Completed and fully paid
Alabel Employees Village	Municipality of Alabel, Sarangani	Alabel, South Cotabato	1/29/96	11.763	0	175	175	Completed and fully paid

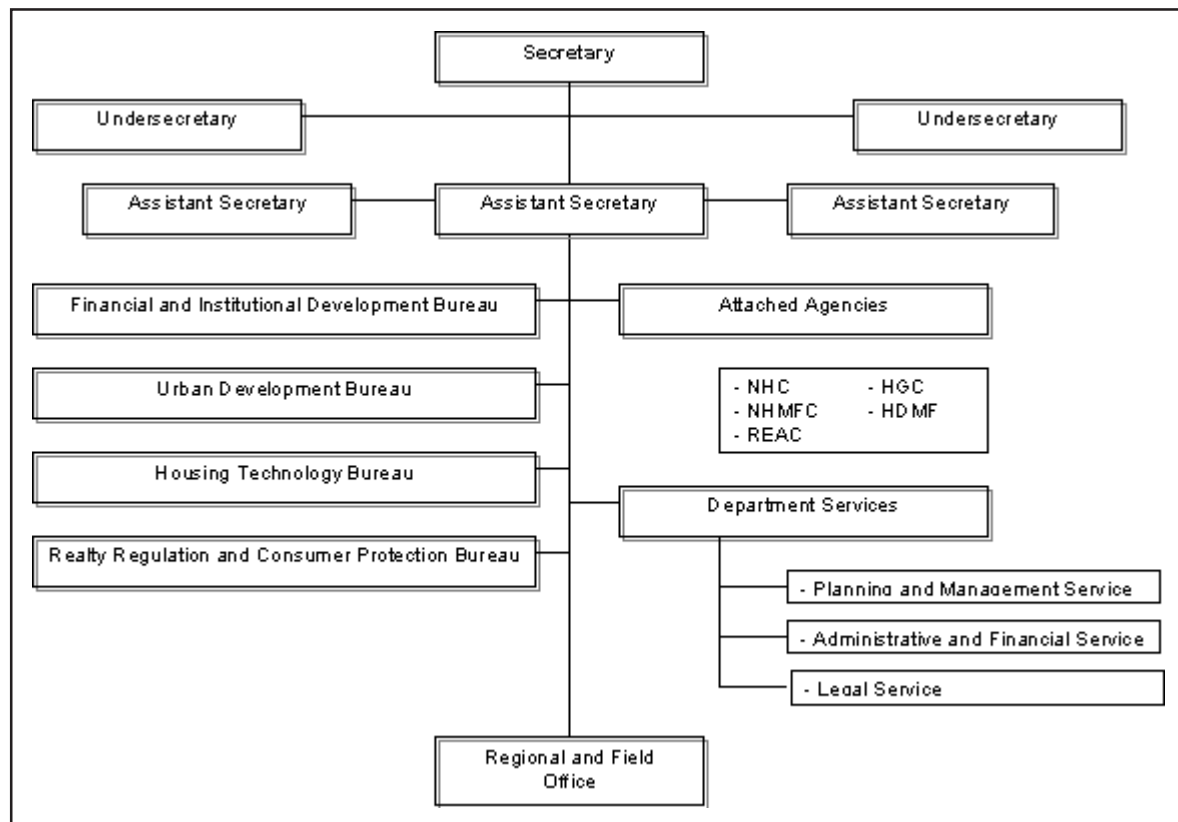
as of June 2002

Source: HDMF

Appendix 6. Proposed organizational chart of the Department of Housing and Urban Development (Senate version)



Appendix 7. Proposed organizational chart of the Department of Housing and Urban Development (Congress version)



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**Appendix 8. Development activities under the metropolitan arrangements**


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Metro	Concern/Activity/Program
Manila	Development planning Transport and traffic management Solid waste disposal and management Flood control and sewerage management Urban renewal, zoning and land use planning and shelter services Health and sanitation, urban protection and pollution control
CAMADA	Development planning (socioeconomic, land use and environment) Transport and traffic management Flood control and drainage improvement Solid waste management City/town centers upgrading Housing/resettlement Education Health Telecommunications Water supply
BLIST	Solid waste management Transport and traffic management Tourism Water supply
Naga	Development planning Equipment pool program Elderly service Emergency rescue Enterprise development Manpower development and employment Water supply Health services support
Cebu	Development planning Transport and traffic management Solid waste disposal and management Flood control and sewerage management Urban renewal, land use and zoning and shelter services Networking of economic support infrastructure Public safety, maintenance of peace and order, disaster management Trade and investment promotion
CDO	Traffic management Water supply Solid waste disposal and management

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**Appendix 8 (cont'd.)**

Metro	Concern/Activity/Program
Davao	Infrastructure development (roads, highways, seaport, airport)
	Livelihood program
	Health
	Short term:
	Infrastructure development
	Tourism
	Peace and order
	Long term:
	Industrial estate development
	Power generation
Telecommunication	
Mass transport	
Sustainable natural resource development	

Source: Mercado and Manasan (2002)

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# List of Titles

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Why have housing reforms failed to achieve the desired improvements in housing in the Philippines? A review of trends in government housing strategies shows that while many problems in housing are linked to institutional barriers in the land and financial markets, government reforms simply focus on operational and program-specific issues. These reforms may be needed, but they can only be effective if basic institutional issues are first addressed. The paper posits that the efficient functioning of the land and financial markets is necessary to the efficient functioning of the housing market, requiring government to undertake major reforms in land regulations and land administration infrastructure, including the implementation of an effective real property tax system.

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