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Rethinking Institutional Reforms in the Philippine Housing Sector

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Philippine Institute for Development Studies
Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

Rethinking Institutional Reforms in the Philippine Housing Sector

Marife M. Ballesteros

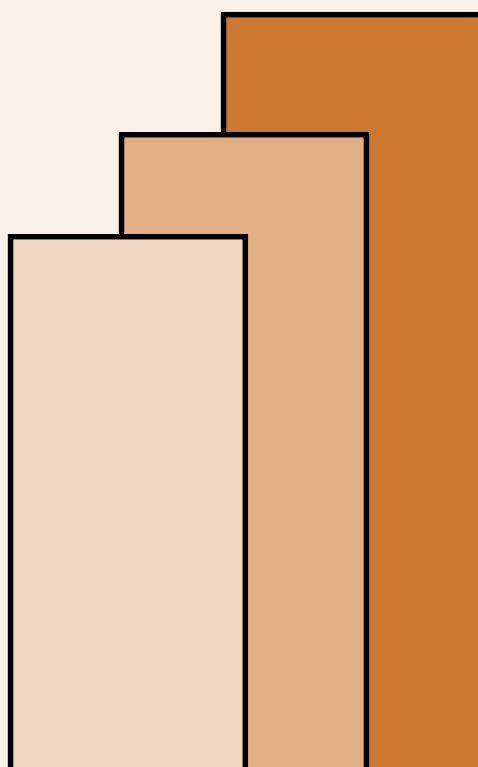
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Rethinking Institutional Reforms in the Philippine Housing Sector

Marife M. Ballesteros

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 focused 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 suggests that the efficient functioning of the land and financial markets is a necessary condition for 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. On housing finance, government should re-adopt the financial reform concept developed in 1997 with assistance from the World Bank that calls for a clear separation of subsidy mechanisms from transactions in housing finance and to take initial steps to reduce subsidy that goes to high and middle-income housing markets. These reforms would also warrant reforms in the governance structure of housing delivery. Complete devolution of housing delivery functions to the local government is necessary. On the other hand, national government concerns will primarily be on providing the policy environment and housing subsidy management. These concerns may only require the creation of a corporate organization rather than a Department of Housing and Urban Development.

Keywords: housing, institutional reforms

RETHINKING INSTITUTIONAL REFORMS IN THE PHILIPPINE HOUSING SECTOR

Marife M. Ballesteros¹

I. Introduction:

Government strategies on housing 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 effectively implement these strategies. 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.²

However, 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.³ Only 45.8% of households in urban areas have access to the community water system and at least 13% of urban households lack source of potable water near their homes. Moreover, one out of five poor households (i.e. families at the bottom 40%) have no toilet facility. In Metro Manila, the premier urban center in the country, about 76% of the total housing stock does not comply with current regulations.⁴ Only about 50% of municipal solid wastes are collected.

Why have the reforms failed to achieve the desired improvements on housing in the Philippines? Recent studies identified institutional issues as the primary constraint in housing. These institutional constraints include legal and regulatory problems specifically in the land and financial markets and poor or unclear incentive structure in the organization of the housing market.⁵

¹ Research Fellow, Philippine Institute for Development Studies. The author is grateful to Ms. Maureen Ane D. Rosellon for her excellent research assistance.

² For instance, public retail mortgages exposure in the Philippines, including developer guaranty amount to about 4.5% of GDP for the period 1994-1999. A. Duebel (2000) Separating Homeownership Subsidies from Finance: Traditional Mortgage Market Policies, Recent Reforms and Lessons for Subsidy Reform. *Land and Real Estate Initiative 14*. Urban and Local Government Sector. The World Bank.

³ National Statistics Office, Family Income and Expenditure Survey (FIES) 2000

⁴ Based on survey done for the UNCHS in 1990. UNCHS and World Bank Housing Indicators Table, 1993.

⁵ Asian Development Bank (2002) An Overview of the Philippine Housing Sector. Manila: Asian Development Bank; Asian Development Bank (2001) Institutional Strengthening of Housing and Urban Development Sector. Final Report. Manila: ADB; G. Llanto and A. Orbeta (2001). *The State of Philippine Housing Programs: A Critical*

The intention of this paper is to highlight and expand on these institutional issues and examine to what extent has these issues 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.

II. 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 higher degree of urbanization exists relative to the rates warranted by their degrees of industrialization.⁶ The country subscribes to this overurbanization phenomenon. There has been a considerable high degree of urbanization in the country but such levels have not been matched by high per capita income as well as shift of labor employment from low to high productivity areas.⁷ Rapid urbanization tend to produce large shifts in demand of 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.⁸ 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

Look at how Philippine Housing Subsidies Work. Manila: Philippine Institute for Development Studies; Asian Development Bank (2000) Development of Poor Urban Communities Project, Draft Final Report. Manila: ADB; World Bank (2000) Housing the Underprivileged through Slum Upgrading: The Philippine Experience. L. Rebullida (1999). *Housing the Urban Poor: Policies, Approaches, Issues.* Diliman: UP Center for Integrative and Development Studies. M. Ballesteros (2002) Dynamics of Housing Demand in the Philippines: Income and Lifecycle Effects. *Research Paper Series 2002-01.* Makati City: Philippine Institute for Development Studies.

⁶ G. Payne (1977) *Urban Housing in the Third World.* New York: Leonard Hill.

⁷ A.M. Balisacan (1994). *Poverty, Urbanization and Development Policy: A Philippine Perspective.* Manila: University of the Philippines Press.

⁸ G. Llanto and M. Ballesteros (2002). Integrating Land Issues into Poverty Reduction Strategies and the Development Agenda: Philippines. Paper presented in the Regional Workshop on Land Issues in Asia. Phnom Penh, Cambodia, June 4-6, 2002.

property rights, issuance of required development permits 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. The above conditions in 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.⁹ Average annual housing price appreciation in the Philippines (i.e. Manila) was computed at 32% per year, the highest among other major cities in Asia.¹⁰ 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 sq m. This price rises by 2.5-3.0 times when the same land is zoned for urban use. It rises further by 5.3-6.7 times the zoned land price when such area is developed.¹¹ 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 investment. 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 make loans only to the high-income households to minimize risk.¹² The low to middle-income households, on the other hand, have been largely dependent on government social security funds but these funds are limited and cater mainly to households in the formal sector. It is thus not surprising that 93% 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 (see Appendix 1). The problem is that these financing sources are not only limited but also irregular because they are not linked to formal institutions and markets.¹³

The rental housing market also has not developed partly due to legal impediments. For instance, the rent control law has provided restrictive policies

⁹ P. Strassman and A. Blunt (1993) Land, Income Mobility and Housing: The Case of Metro Manila. *Journal of Philippine Development* 20(1).

¹⁰ 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%, 18%, 6% and 14%, respectively. UNCHS (1993) Housing Indicators Table. United Nations Centre for Human Settlements and the World Bank.

¹¹ *Ibid.*

¹² R. J. Struyk and M. Turner. (1986) *Finance and Housing Quality in Two Developing Countries: Korea and the Philippines*. Boston: The Urban Institute Press.

¹³ B. Ferguson (1999) Micro-finance of housing: a key to housing the low or moderate-income majority? *Environment and Urbanization*, 11 (1), p. 185-189.

on tenant eviction and unclear provisions on maintenance costs.¹⁴ In addition, building standards for rental housing is absent or not strictly enforced. These conditions have discouraged the development of the rental housing market. Also, government's bias towards homeownership has aggravated the problem.

III. Trends in Government Housing Strategies

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

- Production: This component entailed 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 include 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.
- Finance: The shelter finance system is operated 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.
- Regulatory: 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.¹⁵ 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 to the rental law.

The NSP's main objective is to increase the housing stock for households in the lowest 50% of population. The mechanisms employed to achieve this objective are as follows: (a) direct production of housing units by 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 of these strategies is that there are inherent imperfections in the organization and structure of the housing and mortgage markets and thus government

¹⁴ M. Ballesteros (2002). Benefits (Losses) of Rent Control in the Philippines: Empirical Evidence from Metro Manila. Research Paper Series (forthcoming). Manila: Philippine Institute for Development Studies.

¹⁵ 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.

intervention is warranted.¹⁶ 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 focused 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.¹⁷ 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, NSP remained the key housing agenda of government. The program's objective as well as mechanisms to achieve that objective remained enforced to date. The reforms undertaken on the program, in the past 25 years, focused largely on the organization of program rather than content.

Initially, the government adopted a highly centralized system of operating the program. This was done through the creation of a Ministry of Human Settlements (MHS) in 1978, which provided the umbrella organization of all shelter agencies that have evolved since the 1950s.¹⁸ These agencies include the following:

- (1) National Housing Authority (NHA), in charge of social housing production specifically upgrading of sites and services;
- (2) Human Settlements Development Corporation (HSDC), also into shelter production and New Town and Estate developments;¹⁹
- (3) National Housing Commission (NHC), supports the HSDC and NHA in shelter production;
- (4) Human Settlements Regulatory Commission (HSRC), regulate subdivision development and socialized housing construction;

¹⁶ For theoretical arguments on government intervention in housing a summary is provided in E. Angeles (1985) *Public Policy and the Philippine Housing Market*. PIDS Monograph Series No. 7. Manila: Philippine Institute for Development Studies.

¹⁷ W.P.T Silva (1993). *Land Use Conversion in the CALABARZON Areas*. FAO Report.

¹⁸ 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, Presidential Assistance on Housing and Resettlement Agency (1973), Tondo Foreshore Development Authority (1974), Inter-agency Task Force on Nabacaan, Misamis Oriental Relocation (1973), Central Institute for the Training and Relocation of Urban Squatters (1974), Sapang Palay Development Committee (1973); Human Settlements Regulatory Commission (1976); National Home Mortgage Finance Corporation (1979); Home Development Mutual Fund or Pag-IBIG Fund (1978); BLISS Development Corporation (1977); Human Settlements Development Corporation (1978); Ministry of Human Settlements (1978). These agencies were rationalized into nine key agencies upon adoption of the National Shelter Program. Angeles (1985), *Ibid*.

¹⁹ The agency was also in charge of the following: (1) standardization of building components and systems; (2) materials stockpiling; (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).

- (5) National Pollution Control Commission (NPCC)
- (6) National Environmental Planning Council (NEPC)
- (7) Housing Finance Corporation (HFC), provide mortgage insurance or guarantees to encourage private banks and financial institutions to grant housing loans on easy terms of payment.²⁰
- (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.²¹

Towards 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, HUDCC has limited powers over the shelter agencies since its main task is to coordinate the shelter agencies in the implementation of the National Shelter Program. The reorganization also reduced the number of key shelter agencies from nine to five agencies, 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 towards a participatory approach in which the concepts of "tripartism", self-help housing, and community housing have become popular (**Figure 2**).²² The participatory approach also led to a prioritization of programs. In the 1970s, completed and medium-rise housing were the major programs adopted. These programs provided 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 this scheme, the government (represented by the NHA) tie-up with private landowners, developers, contractors and other national and local government agencies for low-income shelter production.²³ 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:²⁴

²⁰ The HFC was patterned after the US Federal Housing Administration. It was created in 1950 but commenced operations only in 1956.

²¹ The HDMF was created primarily for housing investments. It was initially managed by GSIS or SSS but was later transferred to NHMFC (Presidential Decree 1530 of 1978 and Executive Order 538 & 527 of 1979). In 1980, an HDMF Corporation was established to solely manage the Fund (Presidential Decree 1752 of 1980).

²² The Philippines has had a long history of centralization in the housing sector. Since the 1930s to the 1980s, the direct role of the national government in housing production and finance has been pervasive. Angeles, 1985, *Ibid*.

²³ Under the centralized scheme, the private sector are purely contractors in government housing programs and the bidding process has become a ground for corruption. Angelo Leynes (1992) *Contribution of Public/Private Partnership to Enabling Shelter Strategies: The Experience of the National Housing Authority in the Philippines*. A Paper Prepared for the United Nations Centre for Human Settlements. Manila: National Housing Authority.

²⁴ A. Leynes (1992) *Ibid*, p.32

- a. 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.
- b. 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.
- c. 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 requirement assumed by both developer-partner and NHA.
- d. 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 NHA's participation limited to the extension of technical assistance (e.g. assist in obtaining development permits).
- e. Landowner is the local government unit with NHA providing the full financial requirement for the development and housing construction and assuming marketing aspect with the infrastructure aspect contracted out to a private sector developer who is considered as a partner to the joint venture.
- f. 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 financial requirement assumed by both developer-partner and NHA.
- g. Land is privately owned and 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.

Figure 1
National Shelter Program

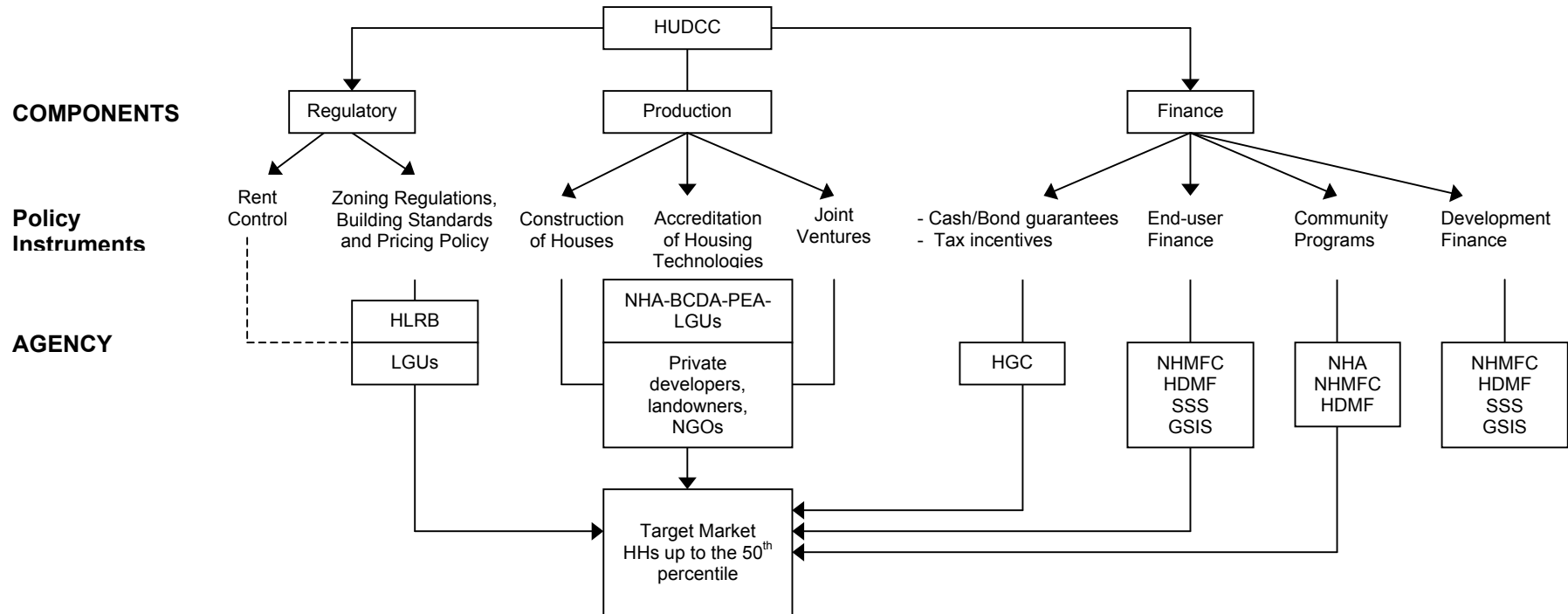
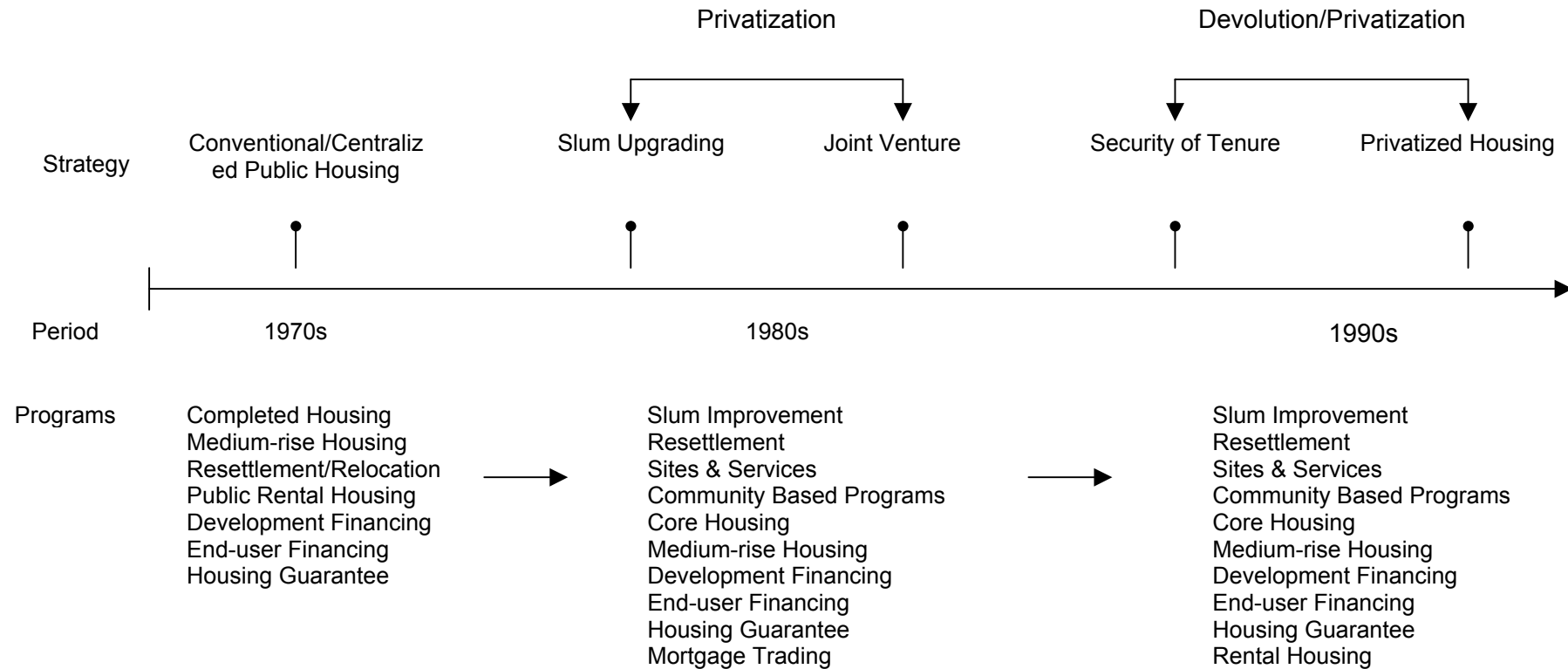


Figure 2. Decentralization of Housing Strategies



In the case of informal settlements, on the other hand, slum-upgrading projects became a priority. Slum upgrading required intensive community and beneficiary participation in the design and implementation of projects. In the following 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.²⁵ Government also explored possibilities of improving the secondary mortgage market.²⁶ In the case of informal settlements, community-based housing strategy was widely supported. The strategy differed from the conventional slum upgrading or sites and services programs in that the projects are initiated and implemented by the communities themselves. It also applies the principle of incrementalism: beneficiary families start repayments at relatively low level in return for tenure rights, and, as and when 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, to wit: 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 and while the strategy is similar, loan features may differ. Except for GLAD, which draws funds from contributions of HDMF members, funds for the other programs are sourced from government coffers. In particular, the CMP enjoys the biggest share in government funds and support from the urban poor.

The move towards 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 that laid the groundwork for a decentralized regime in the country and the devolution of housing and urban development functions to local governments. This law mandated local governments to undertake housing developments and take the lead in land use planning in their respective jurisdictions. Permits and licensing of land developments in the local area, which was a task assigned to the HLURB has

²⁵ The move was to issue an executive order requiring concerned government agencies (e.g. DENR, DA, HLURB, DAR, DILG) to implement issuance of housing permits and licenses within prescribed time-periods.

²⁶ A bill to create a secondary mortgage institution in the country is being deliberated in Congress.

been devolved to the local managers. The Code also provided 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 provided local governments more participative role in slum improvement, resettlement and in solving the problem of squatting.

The current organizational arrangements in the housing sector are shown in **Tables 1 and 2**. It is noted that the 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, cities 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. Issuance of subdivision permits for socialized housing is still with the HLURB. Also, 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 works leaving only the task of operations and maintenance to the local governments.

On the other hand, there are constraints that prevent LGUs from taking on full responsibility over housing. A major problem is the limited source of supply of LGU funds. LGUs are mainly dependent on internal revenue allotment (IRA) and there are institutional constraints to debt financing and real property taxation.²⁷ The latter may not be feasible in poor LGUs because properties in the area are of lower value.²⁸ 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 whereby constituents would have a difficulty holding local governments accountable for housing and urban development problems that may arise in the locality. Local government would also remain dependent on the central government agencies and make them less responsible in curtailing squatting problems in their area. The mayors would also be

²⁷ Llanto, Manasan, Lamberte and Laya (1996) *LGU Access to Private Capital Financing*. Makati City: Philippine Institute for Development Studies.

²⁸ Under the property tax law, properties valued at P170,000 or below are exempted from paying real property tax. In poor LGUs there are very few properties that is valued above this.

encouraged to act as lobbyist before the central government for housing funds or grants rather than as individuals ultimately responsible for specific functions.

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 and middle end 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 and such scheme tend to be inefficient. Subsidies should not only be transparent but also consistent. Given limited funds, the most effective and well-targeted housing subsidy program should be considered.

The institutionalization of peoples' organizations and non-government organizations is another major development in housing. Prior to the 1990s, these organizations have been 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 through funds from private and international donors offer bridge-financing facilities to housing communities (e.g. equity financing for CMP). Also, NGOs offer services for layout and design of site and housing (see *Appendix 2*). Community-based programs have raised a need, which apparently cannot be adequately supported by government housing programs, by the formal financial markets or by the business sector.

Table 1. Housing Production: Who does what currently?

ACTIVITY	HUDCC	NEDA	HLURB	DENR	DAR	DOJ	NHA	BCDA/PEA	DPWH	LDC	LGU	Developer/contractor	NGO/Association	Individuals
POLICY:														
National	•	•									•			
Local														
PLANNING AND APPROVAL:														
<i>Feasibility/Land</i>			•							•	•			
<i>Clearances before dev't:</i>														
Preliminary approval			•											
Environmental				•										
Conversion					•									
BP220			•											
Land use/building permit											•			
Cadastral survey			•											
License to sell			•											
Title issuance						•								
DEVELOPMENT:														
Infrastructure							•	•	•		•	•		
Open market housing ^{a/}							•	•			•	•		•
Medium-cost housing ^{b/}							•	•			•	•	•	•
Low-cost housing ^{c/}							•	•			•	•	•	•
Socialized housing ^{d/}							•	•			•	•	•	•
Slum upgrading							•	•			•	•	•	•
Resettlement							•	•			•	•	•	•
ESTATE MANAGEMENT:														
Open market housing							•	•					•	•
Medium-cost housing							•	•					•	•
Low-cost housing							•	•					•	•
Socialized housing							•	•			•	•	•	•
Slum upgrading							•	•			•	•	•	•
Resettlement							•	•			•	•	•	•

Source: ADB (2001) Institutional Strengthening of Housing and Development Sector, Final Report.

^{a/} As defined under the "Implementing Guidelines for the Multi-Window Lending System" HUDCC, September 2000)

this refers to housing packages with a selling price of P2M – 5M

^{b/} Housing packages with a selling price of P500,001 – 2M

^{c/} Housing packages with a selling price of P180,001 – 500,000

^{d/} Housing packages with a selling price of <P180,000 + CMP

Table 2. Housing Finance: Who does what currently?

ACTIVITY	GOVERNMENT										PRIVATE SECTOR		
	NEDA	DOF/Central Bank	HUDCC	Local Governments	NHA	NHMF	HGC	HDMF	GSIS and SSS ^a	GFI (Banks) ^b	Commercial Banks/Fis	Rural and Thrift Banks	Insurance Companies
HOUSING FINANCE POLICY, PLANS, MONITORING AND REGULATION:													
Policy advice	•	•											
Plan/policy formulation													
Policy Implementation (coordination, monitoring, evaluation, development)			•										
DELIVERY:													
<i>Savings mobilization</i>													
Contractual								•	•	•	•	•	
Individual/Voluntary													
<i>Development finance:</i>													
Open market housing					•	•		•	•	•	•	•	
Medium-cost housing				•	•	•		•	•	•	•	•	
Low-cost housing				•	•	•		•	•	•		•	
Socialized housing				•	•	•							
Resettlement				•	•	•							
<i>Home buyers finance:</i>													
Open market housing					•	•		•	•	•	•	•	•
Medium-cost housing					•	•		•	•	•	•	•	
Low-cost housing					•	•		•	•	•	•	•	
Socialized housing					•	•							
Resettlement					•	•							
<i>Credit guarantee:</i>													
Open market housing							•						•
Medium-cost housing							•						•
Low-cost housing							•				• ^c		
Socialized housing							•				•		
<i>Secondary mortgage market operations</i>													
Manage/operations						•							
Funding						•							
Subsidy administration & implementation					•	•	•						
<i>Rental housing</i>													
Social				•	•								
Other										•	•		

^a Social Security System (SSS), and Government Service Insurance System (GSIS).

^b Development Bank of the Philippines (DBP), Land Bank of the Philippines. (LBP) and Phil. National Bank (PNB).

^c LGU guarantee corporation which was founded in 1997 by BAP and DBP.

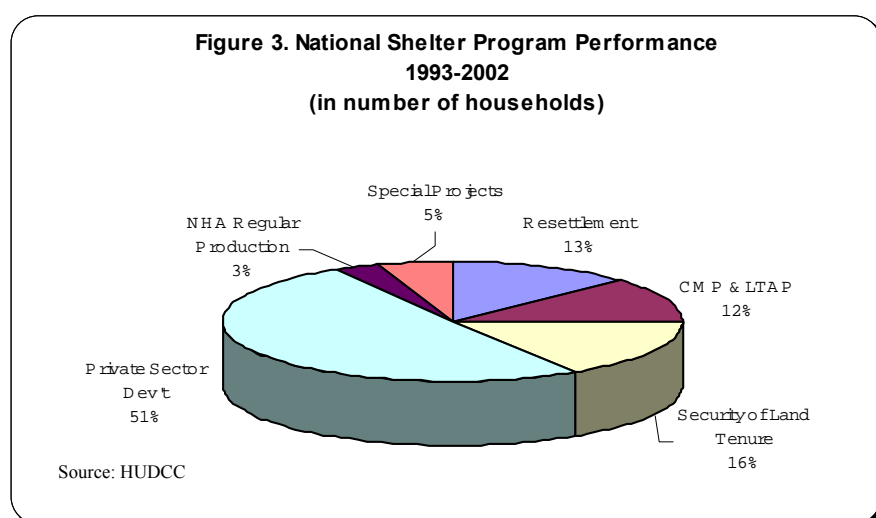
Source: ADB (2001). Institutional Strengthening of Housing and Urban Development Sector, Final Report.

IV. Performance of the Housing Sector

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

A. 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%) 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% of the households benefited from the NHA resettlement program while 12% of households from community based programs (e.g. CMP, LTAP). About 16% of households gained ownership of land (i.e. security of land tenure) through presidential proclamations of public lands for socialized housing.



Private Sector Dev't = HDMF, GFIs (LBP, SSS, GSIS, DBP) programs

Security of Land Tenure = (A & D) public lands provided to 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

In most years, NSP accomplishments have exceeded targets.²⁹ However, the impact of these accomplishments has been insignificant representing less than 1% of the total estimated housing need of about 3.8 million for the same period.³⁰ Also, 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 fifteen years (**Table 3**). Moreover, housing quality remains poor. From 1985 to 2000, the proportion of poor households connected to the community water system did not change. As of 2000, about 36% of poor households are still dependent on peddled water or water sourced from springs, rivers and rain (**Table 4**). Toilet facility is also limited. Less than 50% of poor

²⁹ 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.

³⁰ For every 6-year period, HUDCC comes up with an estimate of housing need that consists of housing backlog plus new households. Based on the estimates of housing need 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.

households have water-sealed toilet facility and one of every five poor households have 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.

Table 3. 'Trends in Housing Conditions, All Households

	Philippines			Urban			NCR		
	1985	1991	2000	1985	1991	2000	1985	1991	2000
Proportion of HH in Informal Settlements*	2.0	2.3	3.1						
% 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 2 or more nonrelated members	0.2	-	0.3	0.4	-	0.4	0.1	-	0.5

Source of basic data: FIES

* HH who occupy lots/housing w/o consent of owner

Table 4. Trends in Housing Conditions, Poor households*

	Philippines			Urban			NCR		
	1985	1991	2000	1985	1991	2000	1985	1991	2000
Proportion of HH in Informal Settlements**	2.4	2.6	4.1						
% Urban	4.4	3.7	6.2	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 2 or more nonrelated members	0.1	-	0.1	0.1	-	0.1	-	-	-

Source of basic data: FIES

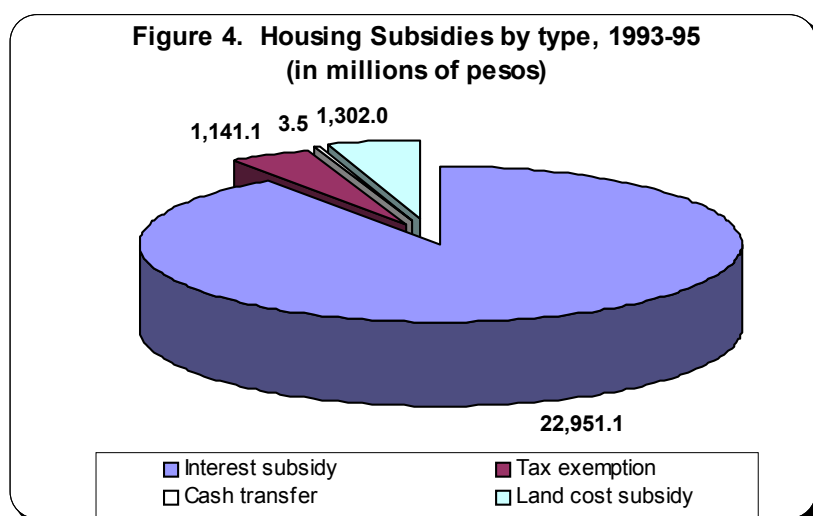
* Households below poverty threshold

** Households who occupy housing w/o consent of owner

B. Incidence of housing subsidies³¹

There are four general types of subsidies in housing: interest rate subsidy, land cost subsidy, tax exemption and cash transfer. The interest rate subsidy represents an implicit subsidy or income transfer because the borrower 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 shows that the bulk (90%) of subsidies to the housing sector for the period 1993-95 consist of interest subsidies provided through end-user and development financing programs (**Figure 4**). In particular, the United Home Lending Program (UHLP) carries the largest subsidy.³² 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 constitutes 5.1 percent of total subsidy for 1993-95. This is followed by tax-exempt subsidies obtained from HGC guarantees (4.5%) then cash subsidies (0.4%).



Source: Llanto, Gilberto M. and Aniceto C. Orbeta, Jr. 2001. *The State of Philippine Housing Programs: A Critical Look at How Philippine Housing Subsidies Work*. Makati City: Philippine Institute for Development Studies.

³¹ This section is taken mainly from the study of housing subsidy. G. Llanto and A. Orbeta, 2001.

³² The UHLP is an end-user financing program that is managed by NHMFC. Funds for the program comes 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 institution like LBP managed their own housing lending program.

Those who benefit from these subsidies are the individuals or households who are beneficiaries of the housing programs as well as economic agents who benefit from the tax exemption and other receipts related to housing. Analysis of the income profile of the beneficiaries of housing programs specifically housing finance programs shows that higher income households (or the non-poor) 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, CMP has the most number of low-income beneficiaries but middle-income families comprise the bulk of households that benefit from the subsidy.

Table 5. Incidence of the Housing Subsidies (% of Total Beneficiaries)

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

^{a/} 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. *The State of Philippine Housing Programs: A Critical Look at How Philippine Housing Subsidies Work*, Makati City: Philippine Institute for Development Studies

^{b/} Data based on income of 900 household beneficiaries of CMP, GLAD and LTAP Programs in NCR, Rizal, Lucena City, Laguna. Survey was done in 2001. Income groups were classified based on NCR poverty threshold 2000.

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. By simply looking at the loan amortization tables of HDMF, GSIS and SSS, majority of pension fund members will not qualify for a loan even at subsidized rate. For instance, HDMF monthly amortization schedule shows that at a minimum housing cost of P150,000, only households with annual incomes of P150,000 or higher can avail of a loan equal to P150,000 even at a subsidized interest rate of 9% (**Table 6**). This implies that 77% of households in the country are unable to avail of loan from the formal sector. The proportion is lower for urban households (54.5%) and for households in NCR (34%).

Table 6. Average Housing Expenditure and Loan Amortization

Income Class	Monthly Housing Expenditure*						Housing Loan (Formal Sector) ^{a/}			
	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

*Source of basic data: FIES 2000

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

An 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.³³ In 1983, while 82.43% of sample members have monthly incomes of P1,000 and below, only 10% of members (or those with incomes of P1,700 or higher) can afford to borrow a P50,000 loan.³⁴ A similar situation may exist at present since the higher proportion of potential HDMF borrowers in 2000 mainly reflects the inflation effect on income.³⁵

The result further shows that households in informal settlements are not necessarily poor households. There have been a rising proportion of non-poor households in informal housing settlements and this may be partly due to the high cost of housing specifically in urban areas.³⁶ 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 certainly, too poor to take on any loan may thus be “pressured” to waived their rights for the community to achieve its objective. Moreover, the CMP as it stand, does not offer much to low-income renters neither to improving the basic infrastructure for the poor.

C. 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 National Housing Authority shows a collection efficiency rate of 40% for programs that provide only serviced plots and 26% 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 they thought is the housing demand of 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 tend to delay payment, not pay or would want more subsidies.³⁷

³³ E. Angeles 1985

³⁴ The situation is worst if actual average household expenditure of 10.13% in 1983 is used. In this case, only those households with monthly incomes of P4,141 or higher are qualified to borrow.

³⁵ This means that if the monthly amortization of P419 for a P50,000 loan in 1983 is 25% of monthly income, the proportion is only about 10% in 2000 but then, the cost of housing in 2000 is substantially higher.

³⁶ M. Ballesteros 2002

³⁷ J. Roumasset (1988) Decentralization and Local Public Goods: Getting the Incentives Right. *Philippine Review of Business and Economics*

Table 7. Loan Recovery Indicators

Program	CER (%)	PAR ^{a/}	Simplified PAR ^{f/}
NHA Programs ^{a/}			
Lots Only	40		
Resettlement	74		
Slum Upgrading	25		
Sites and Services	53		
LTAP ^{b/}	55	0.43	0.58
Housing Units	26		
Core Housing	23		
Medium Rise Housing	29		
CMP ^{c/}	70.53	0.37	0.61
UHLP ^{d/}	61.68		

a/ as of end 2001

B/ as of Nov. 2001

C/ as of Sept. 2001

D/ 1998 figure, program was suspended in 1996

E/ PAR = value of loans in default for at least 6 months

total outstanding balance

f/ Simplified PAR = total number of loans in default for at least 6 months

total number of active accounts (total number

of accounts less accounts foreclosed or under litigation)

Source of basic data: HUDCC, NHA, NHMFC

Comparatively, programs involving lots only performed better. Resettlement and sites and services programs have collection efficiency of 74% and 53%, respectively. Slum-upgrading programs of the NHA, however, have a low collection efficiency rate of only 25%. This has been attributed to the earlier upgrading programs of NHA that was highly centralized.³⁸ 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 showed a total collection efficiency rate of 65% as of end 1999 (**Table 8**). The experience with these World Bank projects showed that initial efforts at cost recovery in all completed projects have been disappointing.³⁹ However, intensive campaign drive improved collection efficiency. NHA has developed and enforced some sanctions for critical 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.⁴⁰

³⁸ World Bank (2000). *Housing the Underprivileged through Slum Upgrading: The Philippine Experience*. Washington: The World Bank

³⁹ World Bank 2000, Ibid

⁴⁰ Ibid, p.18.

Table 8. Collection Performance in World Bank-Assisted Projects, 1999

Project Sites	Total Amount Due (in million P)	Actual Collections (in million P)	Collection Efficiency (%)
Tondo Foreshore			
- Residential	22.795	14.191	62%
- Commercial/Industrial/Inst'l	7.019	6.022	86%
- Social Loans (HML/SBL)		1.193	
Total Tondo	29.814	21.406	68%
Dagat-Dagatan			
- Residential	61.037	53.272	87%
- Commercial/Industrial/Inst'l	50.781	45.027	89%
- Social Loans (HML/SBL)	1.337	0.463	35%
- Institutional Accounts	3.129	0.026	1%
Total Dagat-Dagatan	116.284	98.788	85%
ZIP Sites			
Bagong Barrio			
- Residential	23.011	15.185	66%
- Social Loans	0.684	0.173	25%
Total Bagong Barrio	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%
Landless Barangka			
- Residential	1.572	1.258	80%
- Social Loans	0.004	0.049	1225%
Total Landless Barangka	1.576	1.307	83%
Leveriza	1.103	0.562	51%
Maricaban			
- Residential	3.279	1.014	31%
- Social Loans	0.654	0.020	3%
Total Maricaban	4.318	1.091	25%
San Martin de Porres			
- Residential	6.282	1.819	29%
- Social Loans	0.052	0.006	12%
Total San Martin de Porres	6.334	1.825	29%
Tangos	1.881	1.430	76%
Tramo Lines	1.492	2.571	172%
Total World Bank Projects	272.453	176.435	65%

Source: World Bank (2000) Housing the Underprivileged through Slum Upgrading: The Philippine Experience.

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 has been 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.⁴¹ Some borrowers were non-existent and some 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 to borrowers who are not eligible and/or to produce substandard housing.⁴²

The official collection statistics for community-based programs such as the CMP and LTAP is relatively better than completed housing or sites and services programs (see Table 7). CMP performed better than LTAP in terms of CER. However, overall situation of both programs is not that good. Overdue payments show that 61% of CMP accounts and 58% of LTAP accounts (i.e. community accounts) are at least six months overdue. This implies that 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, it is not difficult to suspect that the sustainability of the program is 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 to 2001, government allocated P 4.4 billion for the program but so far, only 44.5% 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 on the program. This implies a low turnover rate or that 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 likely have trouble making new loans.

⁴¹ NHMFC Board Committee Findings 1995.

⁴² G.Llanto and A. Orbeta, 2001.

Table 9. CMP Fund Releases and Utilization Rate, 1995-2001

	CISFA Funding a/ Schedule (5 years)	GAA b/	SARO c/	NCA d/
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	5,988.590	2,715.340	1,959.830
Take-out as % of GAA/SARO/NCA		34.7	76.5	106.0

A/ Comprehensive and Integrated Shelter Financing Act

B/ General Appropriations Act

C/ Special Allotment Release Order (funds committed)

D/ Notice of Cash Allocation (actual amount released)

Several reasons have been cited for low-collection.⁴³ On a program level, the penalties for delinquency are noted to be weak. Penalties are charged by the NHMFC on payments overdue from community associations but in most cases, 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.⁴⁴ It was not until the end of 1999 that NHMFC has taken bolder steps on delinquent accounts. As of 2001, NHMFC has foreclosed 6 community accounts and placed 147 accounts under litigation (NHMFC September 2001). However, as of this writing, NHMFC has yet to take over the properties that have been 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 & 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 the community officers. Moreover, although originators sign a warranty undertaking that entitles NHMFC to sell the loan to the Originator in the event of collection performance below 80%, this warranty is not comprehensive but limited to cases when 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

⁴³ Based on various studies on the CMP. See M. Lee (1995) *The Community Mortgage Program: An Almost Successful Alternative for some Urban Poor*. *Habitat International* 19 (4); Faith Cacnio (2001) *Microfinance Approach to Housing: The Community Mortgage Program*. PIDS Discussion Paper Series No. 2001- 27. Manila: Philippine Institute for Development Studies; Planning and Development Collaborative International (PADCO), Inc. (1993) *Assessment of the Community Mortgage Program*. USAID Project.

⁴⁴ See PADCO, 1993 and Lee 1995, *Ibid*.

below 80%. 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 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 the land may not be possible. It may also result in the rise of recalcitrant households (non-joiners), which aggravates non-participation or non-cooperation. 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.

D. Private Sector Participation in Housing

Government recognizes the importance of the private business community in housing development in the country. In particular, government has employed “carrot and stick” to schemes to entice 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 have been formed under the NHA joint venture program for the period 1987 to 2001 (**Table 10**). In more than fifty percent of these arrangements, the contribution of NHA is mainly technical assistance. Technical assistance 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 NHMFC on buyer’s financing and facilitation for developmental financing.⁴⁵ Moreover, NHA also facilitates transactions related to other government agencies such as securing land conversion clearance, approval of permits and licenses and the utilities companies.

It is noted that “technical assistance” has become a standard provision for all types of venture arrangement.⁴⁶ Given the highly bureaucratic permit system, the delays in the release of payment from NHMFC and in finding the beneficiary that will qualify for mortgage financing under NHMFC, this technical assistance provided by the NHA significantly reduces the transaction costs of the private sector. These costs are often not reflected in the sharing of profits because such

⁴⁵ NHA has mortgage commitment lines under government lending program (e.g. UHLP, MLW).

⁴⁶ A. Leynes 1992.

costs are mostly translated in terms of time. For instance, it takes an average of one year to obtain approval of permits and licenses.⁴⁷ It takes another year before beneficiaries' loans can be released or taken out by 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 for the bureaucratic problems. However, these bureaucratic problems are institutional issues and unless these issues are addressed, investments in low-cost housing will remain unattractive.

Table 10. NHA Joint Venture Projects, 1950-2001

Year	NHA Contribution				Total No. of Projects
	Land	Land + Cash	Cash	Technical Assistance a/	
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	3
1999	-	-	-	1	1
2000	1	-	-	2	3
2001	-	-	-	3	3
Total	38	5	17	71	131

Source: NHA

a/ Technical Assistance pertains to NHA assistance in project packaging and engineering works. This also includes access to financial services of gov't institutions, facilitating approval of permits and licenses and marketing assistance

" - " – none or zero

The primary strength of joint venture thus 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.⁴⁸ *First*, NHA sometimes 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 when delays are caused by changes in policy of other shelter agencies. NHA has no control over the other agencies. *Fourth*, in the

⁴⁷ M. Ballesteros (2000). *Land Use Planning in Metro Manila and the Urban Fringe: Implications on the Land and Real Estate Market*. Discussion Paper 2000-20. Manila: Philippine Institute for Development Studies.

⁴⁸ A. Leynes 1992.

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 has been the main developer of socialized housing, i.e., house and lot packages with maximum selling price of P150,000. There were a few private sector developers who ventured into economic housing (houses with selling price above P150,000 but not more than P375,000) but this was done on an irregular basis (**Table 11**). After 1990, a greater participation of private sector in socialized and economic housing development is observed. Three factors may have contributed to this development: *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 end user 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% of the total project cost of non-socialized 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.⁴⁹ However, it is noted that the developments in the sector correspond to the economic developments that occurred between 1990 and 1998. The period 1992 to 1996 has been one of high growth and 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 crises and the real estate industry has been severely affected by this crisis. The decline thus may also be attributed to the more conservative investments of banks in real estate because of the crisis.

⁴⁹ Philippine Daily Inquirer, ___, 1997

Table 11. Private Sector Participation in Low-cost Housing, 1981-2001
(in number of H & L or Lot only units)

Year	Socialized Housing ^{a/}	Economic Housing ^{b/}	RA 7279 ^{c/}	Total	
				No. of Units	Share to Total Residential Dev't. ^{d/} (%)
1981				-	-
1982 ^{e/}		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 ^{f/}			-	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 ^{g/}	46,644	55,629	30,031	102,273	41.7
1997 ^{h/}	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

^{a/} Housing packages with selling price of P180,000 and below.

^{b/} Housing packages with selling price of P180,000 to P375,000. In 2000, maximum selling price was increased to P500,000

^{c/} Represents compliance to the UDHA law although non-socialized housing developers may simply Buy units from developers engaged in socialized housing development.

^{d/} Excludes RA 7279

^{e/} From 1982 to 1986 developments were mostly serviced lots

^{f/} Operationalization of the UHLP. From 1987 to 1990 figures include both socialized and economic housing.

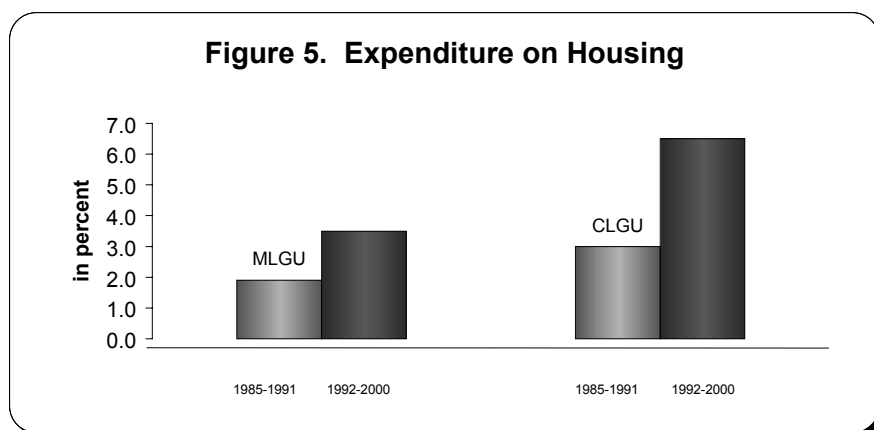
^{g/} Refusal of SSS, GSIS to commit funds to UHLP due to non-performing loans; In April 1996 Resolution 12 was approved resulting to a shift to multi-window lending.

^{h/} Mid-1997 Asian currency crisis.

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

E. 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% of total expenditure prior to 1992 to about 7% after 1992 (**Figure 5**). This amount comes primarily from internal revenue allotment and grants.



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

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 housing projects.⁵⁰ 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 on the CMP.

Table 12. Community Mortgage Program (CMP) Collection Efficiency Rating, * by Originator and Type of Project (as of September 2001)

Originator	On-Site %	Off-Site %	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)
Total	73.3 (598)	60.7 (116)	70.98 (714)

() figures in parentheses represent number of accounts

Source of basic data: NHMFC

⁵⁰ 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).

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

- a. 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;
- b. LGU owns the land while financial requirement is shared with NHA. Development is contracted out to a private developer;
- c. LGU owns the land and undertakes the development of site and housing construction while NHA provides the financial requirement; and
- d. 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% 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. 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 of 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.

Table 13. LGU Joint Ventures with NHA and Private Sector

Year	LGU Contribution				Total No. of Projects
	Land	Land + Cash Equity ^{a/}	Land + Development	Dev't + 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

^{a/} development contracted out to private developer

Source: NHA

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% of the total income of cities and 0.5% for municipalities in the period 1981-1992.⁵¹

⁵¹ G.Llanto, R. Manasan, M. Lamberte and J. Laya, 1996.

An interesting development, however, is that LGUs have tap 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 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 not only been provided 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 bonds for socialized housing projects and its initial ventures have been a success.⁵²

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*
Legaspi City	Jan. 1995	26	2	15	P 191,483.11	Redeemed	HGC
Claveria, Misamis Oriental	Apr. 1995	20	2	19	P 215,000.00	Called account. Investors were paid by HGC. With pending case against Gov. Antonio Calingín for collection	HGC
Puerto Princesa, Palawan	Dec. 24, 1997	20	2	180-day T-bill rate + 2.5	P 150,000.00	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	P 180,000.00	Redeemed	LGUGC**
Puerto Princesa, Palawan	Feb. 2002	320	5	91-day T-bill rate + 2.5	P 180,000.00	(new project)	LGUGC

* Home Insurance Guaranty Corp.

** Local Gov't Unit Guaranty Corp.

Note: Interest excludes guarantee and underwriting fee

Sources: HGC and LGUGC

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. The MDF has control over a sizable amount

⁵² There are 21 BAP member banks involved in the guarantee corporation. BAP accounts for 51% of ownership of LGUGC while the rest (49%) are from DBP.

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.⁵³ These same constraints could have been the reason why very few LGUs are unable to access or avail 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 hold-out on LGU deposits are the very important loan security for private banks. *Third*, the need 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% of the regular income of the 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% 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 that of the 38 informal sites in the city, 30 communities have "regularized" their tenure through the CMP (**Table 15**). This represents about 88% 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.⁵⁴ The strategy advocates "tripartism" for housing development in the city. Tripartism is a proactive and dynamic interaction between the peoples'

⁵³ Llanto, Manasan, Lamberte, Laya, 1996.

⁵⁴ For studies on Naga City, see the following: J. Angeles and R. Torres (2000). Regional Urban Poor Programmes: The Naga City Urban Poor Sector Organizing Experiences from 1986-2000. Paper Presented in a Workshop on Human Security and Regional Development. United Nations Centre for Regional Development Nagoya, Japan, December 5-8, 2000; J. Angeles (1997) The Role of the Naga City Urban Poor Federation in the Passage of Pro-Poor Ordinances and Policies. *Philippine Democracy Agenda: State Civil Society Relations in Policy-Making*. Edited by M Wui and G. Lopez. Quezon City: UP Third World Studies Center; A. Sayos (1998) "Kaantabay sa Kauswagan" Mass Housing Strategy: The Case of Naga City. Discussion Paper 98-24. Manila: Philippine Institute for Development Studies.

organization, NGOs and the City government. This strategy has been institutionalized through City ordinances, which in effect binds the local government to recognize the partnership with local people's organization and to appropriate funds for a comprehensive and continuing development program for the urban poor.⁵⁵

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
Total	38	76	34,848	5,642
%				
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
Total	100.0	100.0	100.0	100.0

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

It is important to note that Naga City has very dynamic peoples' organization with strong ties with non-government organizations. As early as the 1970s, community organizing has already been employed in accessing basic social services and such strategy has been strengthened with the restoration of democratic institutions in 1986. The creation of the empowerment ordinance and later 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.

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 plays are crucial role in making elected officials respond to their concerns.

On the other hand, where local leadership is strong, community organization and NGOs play a supporting role rather than a dominant role in development projects. This has been the case in Marikina City.⁵⁶ Marikina has been transformed into an impressively clean, disciplined and promising city through the strong leadership of Mayor Fernando, who has held office for three

⁵⁵ City Ordinance No. 95-092 (December 20, 1995) and No. 98-033 (March 13, 1998). Fund appropriations, however, is subject to availability of funds.

⁵⁶ Taken from A. A. Karaos (2001) *Decentralization, Local Governance and Urban Poverty in Four Philippine Cities*. A Study Prepared for Urban Development Unit, World Bank. Ateneo University Institute on Church and Social Issues.

terms. The Mayor 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 still relocated. To undertake this program, a Marikina Settlements Office (MSO) was created tasked with formulating 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 seen as an integral part of the city government's vision of revitalizing the business climate in the city. Although critics believed that the city's interest was more inclined on 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, 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 regards 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.⁵⁷ Access to CMP has also been hindered by factors earlier cited.

V. Directions for Institutional Reforms in the Housing Sector

While many problems on housing are linked to institutional barriers in the land and financial markets, government 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. In the particular, the paper suggests the following directions for reforms.

A. Reforms in the Land Market

The efficient operation of the land market is a necessary condition for 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 also encouraged the development of informal land markets.⁵⁸

Poor land administration infrastructure is also another source of 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

⁵⁷ Based on site visits and interview with Marikina Settlements officials, May and July 2001.

⁵⁸ P.Baross (1993). The Operation of Informal Land Markets in Four regional Citiesw in the Philippines. Summary Report. United Nations Development Program (UNDP) and the United Nations Centre for Human Settlement.

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, caused 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 of problems concerning the establishment of legal road right of way. In the road right of way, difficulties may arise from pricing, refusal of owner to sell property or that a road right of way cannot be found.

Reforms on land taxation should also be prioritized. Although the property tax system is well designed in the country, this has not been used effectively to generate revenues and to serve as equalizing factor in the distribution of wealth.⁵⁹ Increasingly, citizens will seek to upgrade their housing and associated infrastructure in order to improve health and overall standards of living. Real property tax will provide the government the flexibility in the provision of basic services and in maintaining physical infrastructures. Efficient enforcement of property tax also nullifies the necessity of an idle land tax⁶⁰ and allows an efficient functioning of the land market.

The Land Administration and Management Project (LAMP), which was started in 1999, is currently addressing reforms in land administration in the country.⁶¹ This Project 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 it is necessary for succeeding administration to support the on-going developments.

The above real sector reforms have to be undertaken. Simply creating laws to reduced processing time, for instance, in the approval of permits or creating one-stop shop processing centers, will not work. And the failure of these schemes in the country proves that this is so.⁶²

B. Reforms in the Financial Market

The Philippines has been one of those developing countries with permanent high levels of public housing finance provision.⁶³ This strategy has

⁵⁹ G. Llanto and M. Ballesteros 2002, Ibid

⁶⁰ 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).

⁶¹ The Project is funded through the Australian International Development Aid and the World Bank and will be implemented in 15 to 20 years.

⁶² 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 search 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 non-compliance. However, major agencies were unable to provide their guidelines. Recently, EO 45 (June 2002) has been enacted with similar purpose. While some agencies have issued their implementing guidelines actual implementation of the law has yet to be undertaken.

⁶³ A. Duebel 2000

been found counterproductive and institutional reforms are necessary to link housing finance to the private capital markets.

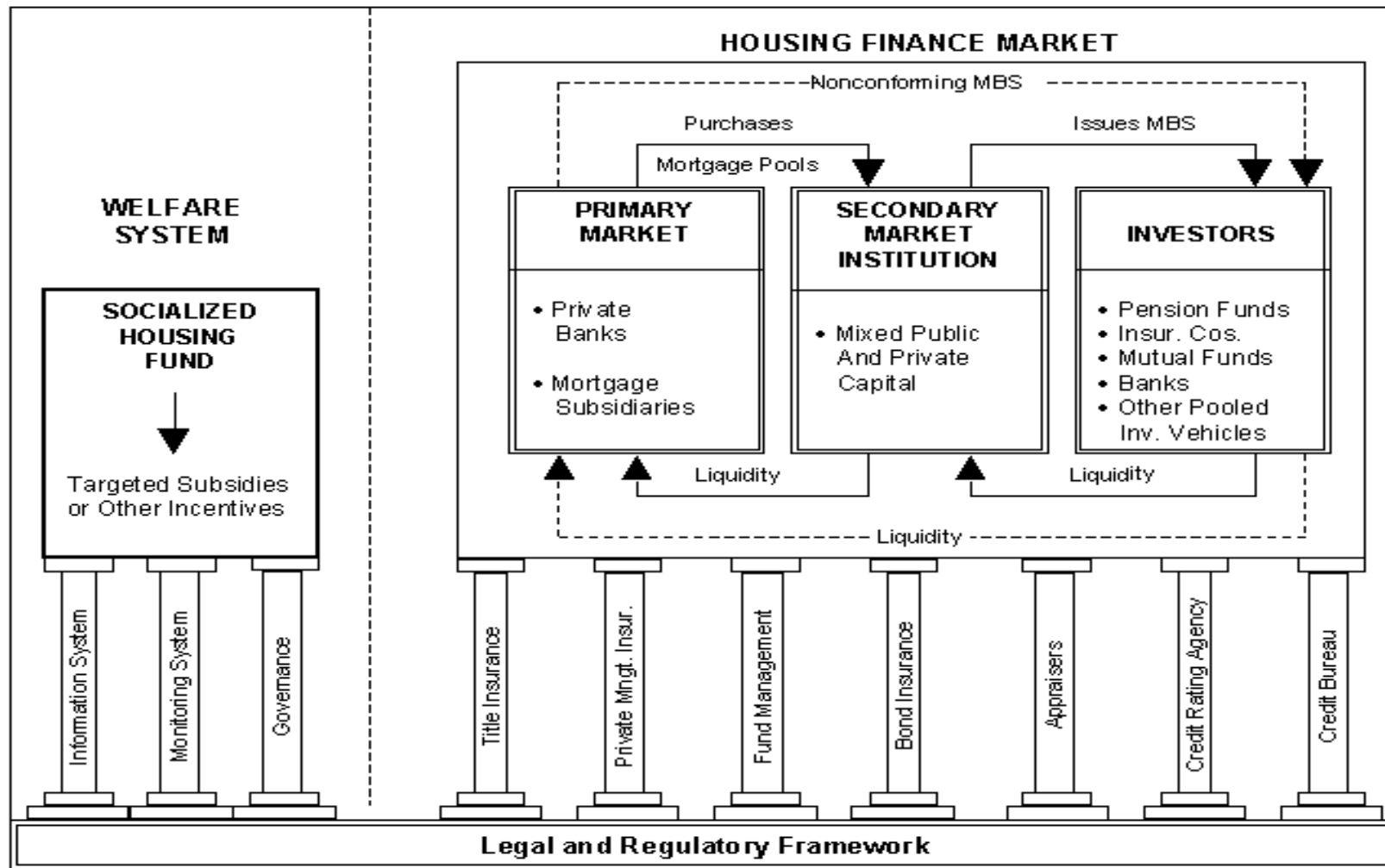
In 1997, the government with assistance from the World Bank developed a reform concept that is focused on strengthening the viable elements of the mortgage finance system (**Figure 6**). In particular, the concept calls for a clear separation of subsidy mechanisms from transactions in the housing finance market. Housing subsidies thus become part of an overall welfare system where efficient targeting is undertaken through analyzing actual borrower, property and loan data. On the other hand, government's role in housing finance transactions will 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 be able to issue conforming mortgage backed assets or securities (MBS) via sale to the secondary mortgage institutions or issue non-conforming 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. In modernizing the legal framework, for instance, there is a need to address issues and concerns on property rights specifically with regards to foreclosure proceedings, installment payments of non-performing 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 has been a significant increase in public sector risk exposure.⁶⁴ Housing policy-makers came under pressure to abolish these reforms and in October 1999, the reform has been 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 move 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 micro-finance mortgage lending, employer-based housing and cooperative-based mortgage finance. A rental housing reform program should also be pursued.

⁶⁴ *Ibid*, p.22.

Figure 6. A Vision for the Housing Finance System



Source: World Bank (1996). Housing Finance: Reforming Public Provision and Promoting Private Participation

C. Reforms on Governance Structure of Housing

The role of national government and sub-national 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. The capability of the local governments to undertake this function is thus not doubted. Some reforms, however, have to be made. An area of reform is LGUs 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) improve information structure of LGUs; (2) review regulatory framework on LGU deposits and borrowing limits; (3) provide complementary mechanism for private sector and government funding; and (4) improve 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 noted that transfer of technical knowledge through capacity building programs in developing countries are often marginalized or ignored.⁶⁵

Housing concerns that have wider geographical impact should not also 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.⁶⁶

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 with respect to 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.

⁶⁵ W. Dillinger (1994). *Decentralization and its Implications for Service Delivery*. Washington: The World Bank.

⁶⁶ See R. Mercado and R. Manasan. *Metropolitan Arrangements in the Philippines: Passing Fancy or the Future Megatrend? Managing Urbanization Under a Decentralized Governance Framework*. Manila: Philippine Institute for Development Studies and Demographic Research and Development Foundation, Inc.

D. Program Specific Reforms

The Philippines is among the countries that adopts a diversified portfolio in mortgage financing.⁶⁷ In particular, the CMP has gained some international recognition as a noteworthy mechanism of housing the urban poor.⁶⁸ In addition, to institutional reforms mentioned above, there is 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 in 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 6 times more than water sourced from the community system.⁶⁹ 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 micro-enterprise 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 micro enterprise livelihood projects. However, collective security may not work as well in housing specifically in the case of the CMP due to the following: (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 tend to aggravate domino effect for non-payment. These issues have to be examined so that significant reforms in program requirements can be undertaken.

⁶⁷ A. Duebel 2000, p. 33.

⁶⁸ M. Lee 1995, Ibid

⁶⁹ C. David (2000). *Urban Water Pricing: The Metro Manila and Metro Cebu Cases*. Policy Notes 2000-09. Manila: Philippine Institute for Development Studies.

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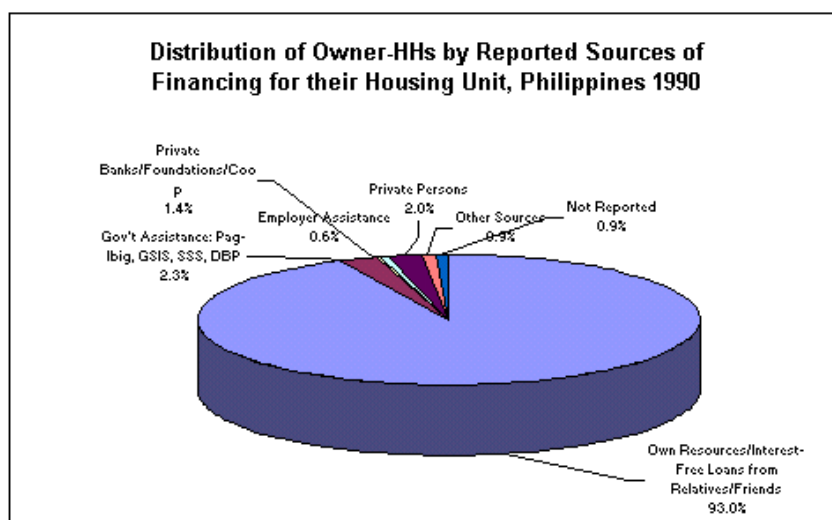
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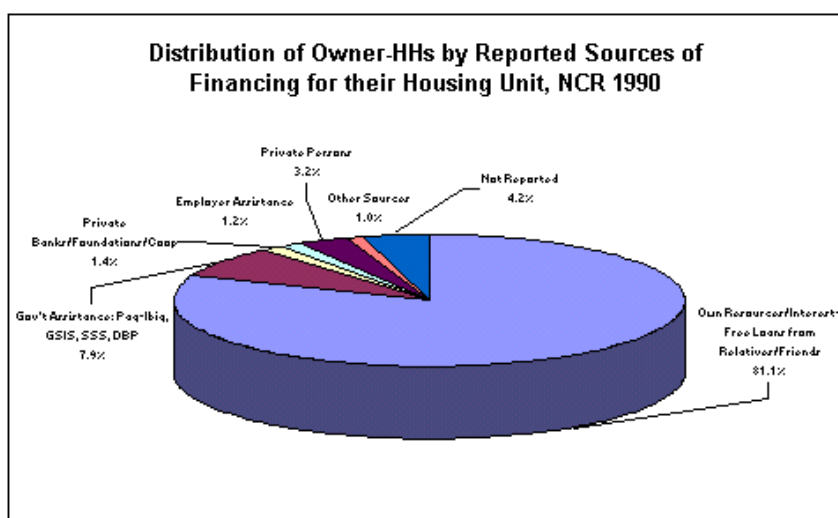
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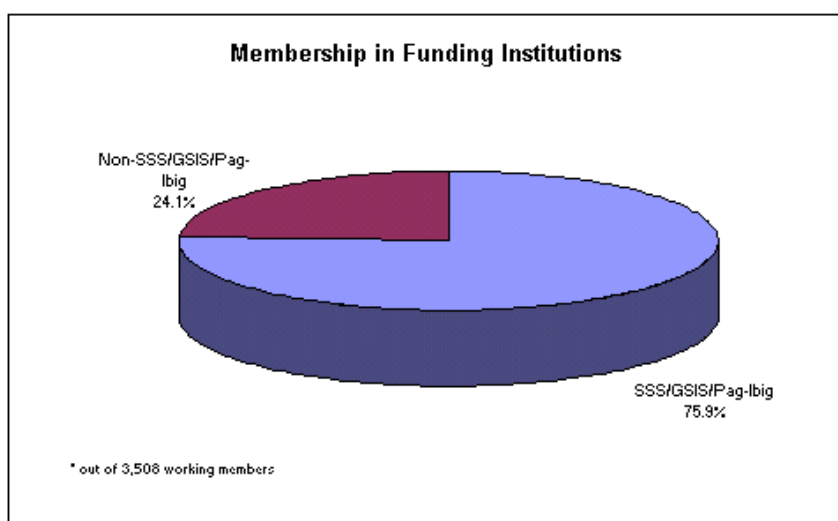
Appendix 1



Source: Census of Population and Housing 1990



Source: Census of Population and Housing 1990



Source: CREBA

Appendix Table 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 Devt Foundation (VMSDF)	ADB-JFPR & 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 & other local sources
Muntinlupa Development Foundation (MDF)	(a) ADB-JFPR & 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 & Northern Mindanao	Finance housing initiatives of the poor (land acquisition, house construction/improvement)	PUSH *
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 & 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
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 & GLAD), Individual mortgages (UHLP), Developmental loans (Abot-Kaya, SHDLP, Cooperative Housing), Community savings, Fund-raising

Source of basic information: Rebullida, Ma.Lourdes G., et. al. (1999) "Housing the Urban Poor: Policies, Approaches, Issues", Manila: UP-CIDS.

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* Fund contribution from NGOs

Appendix 3. HDMF Membership Profile, 1982

Income Level	Cumulative Percent	Housing Expenditure ^{a/} (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				

^{a/} HDMF provides loan to the extent of 25% of total income. Actual data on housing expenditure as 1980 is 10.3%

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 ^{a/}	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 Dev't 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 ^{b/} , land sharing ^{c/} , CMP; and on-site/off-site development ^{d/}	National agencies (DENR, NHA, NHMFC, HIGC, GSIS, PCUP), NGO (COPE) Naga urban poor assns.), private business foundation	P93.9 M (for 24 projects)	City budget allocated to SHARE ^{e/} (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 gov't 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)	P73.4 M (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)	(a) Direct land purchase (b) Direct selling of city-owned lots (c) Facilitate land acquisition (d) Financial assistance	NGOs that manned/operated their urban poor office	(a-e) P109.5 M (for 69 projects) * P327.9 M (actual & potential funds, City Shelter	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

LGU	Project	Approach/Strategy	Partners	Amount of Fund	Funding Source
	(c) CMP (d) Bridge Finance (Buffer Fund (e) Resettlement Program	for land acquisition (e) Financial assistance for land acquisition		Plan: 1995-2010)	revenue, counterpart funds from beneficiaries
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 ^{g/}	(a) Land banking ^{h/} (b) Containment of urban poor settlements & new illegal structures	Govt agencies, NGAs/NGOs	P9 M	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 & On-site upgrading (c) Tibungco Resettlement Project	(a) Relocation & on-site upgrading (b) CMP origination in 1988-1995, then shifted to direct financing (c) Relocation & on-site development	(a) NHA (b) NGOs, CAs, NHMFC (c) NHA	(b) P81 M (1993-99) (c) P82.5 M (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) (b) Other housing initiatives	(a) CMP origination & bridge financing, landbanking (b) Act as guarantor in land purchase transactions between	(a) Muntinlupa Development Foundation (MDF), POs	(a) P70.5 M (12 projects)	(a) City's Community Development Fund, MDF, PO, NHMFC

LGU	Project	Approach/Strategy	Partners	Amount of Fund	Funding Source
		private landowners & community associations			
Bacolod	Bacolod Housing Authority	Resettlement CMP			- budgetary requirement - NHA Programs

^{a/} Direct purchase – purchase of land from its owner by the City government.

^{b/} Land swapping – involves the exchange of an urban poor-occupied property with another of roughly equal value, preferably w/o occupants; occupants amortize the cost of their homelots to the new owner

^{c/} Land sharing – this strategy works out a mutually accepted agreement between the private landowner and the urban poor occupants

^{d/} On-site development – involves facilitation of transfer of land ownership from government & private owners to the individual occupants
Off-site development – provision of resettlement sites for demolition and eviction victims & other urban poor families who want to acquire their own lot

^{e/} 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

^{f/} Land banking – purchasing of pre-identified lands to be developed into housing sites (in San Fernando City, this started w/ government employees as beneficiaries)

^{g/} 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, Ana Marie (2001) “Decentralization, Local Governance and Urban Poverty in Four Philippine Cities”,

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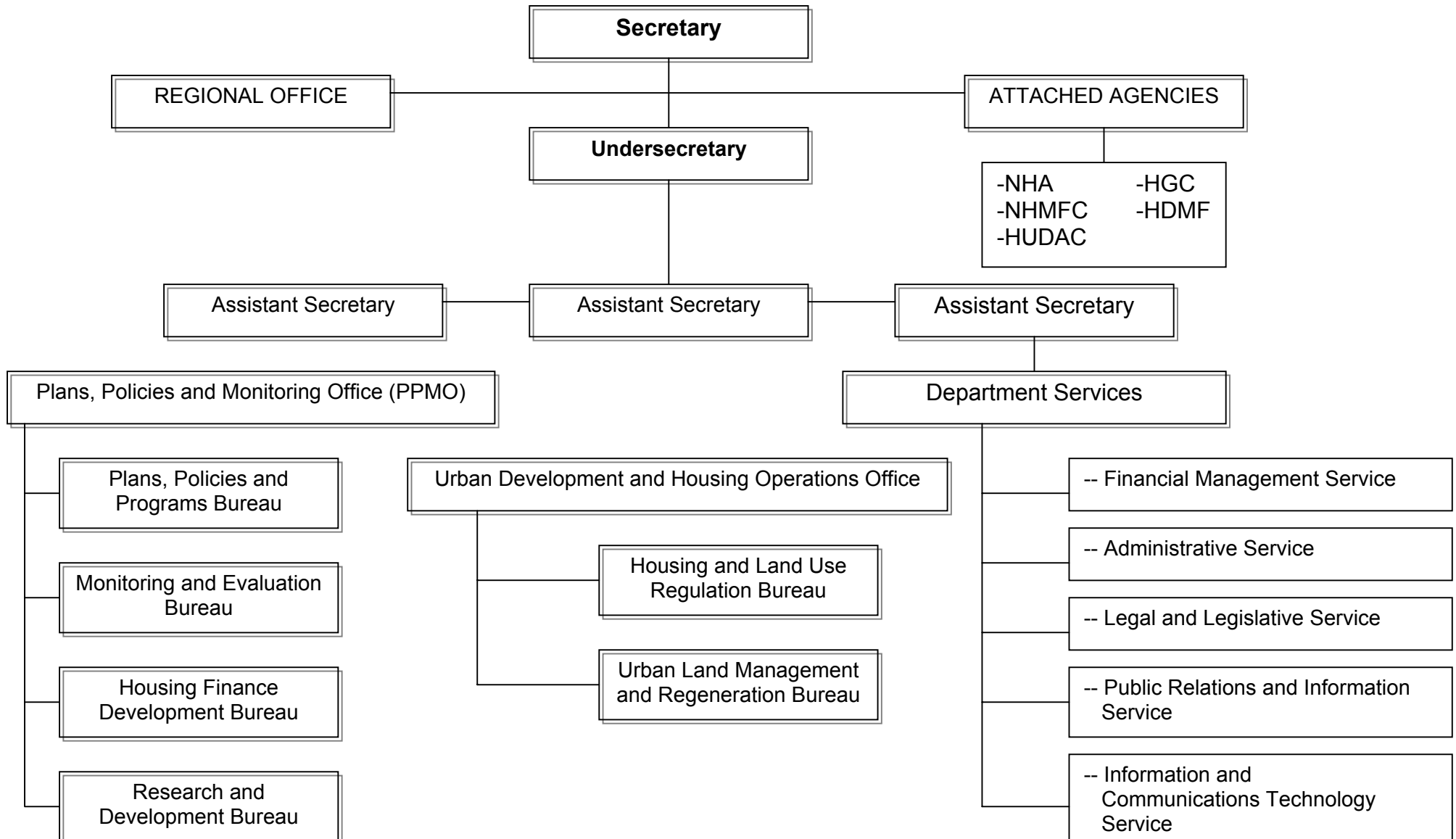
Appendix 5. Local Government Unit Pabahay Program

Project Name	Name of LGU	Location	Date Approved	Value (PM)	Unit			Status
					Lot only	H & L	Total	
Eusebio Bliss Village	LGU-Pasig	Jenny's Ave. Pasig	7/10/00	84.000	0	336	336	On-going loan repayment; Ten TCTs redeemed
General Trias Homes	Gen. Trias Employees Assn.	Gen. Trias, Cavite	1994	12.096	0	61	61	Completed & fully paid
Housing Construction Materials Loan	Gen. Mariano Alvarez Credit Coop., Inc	Dasmarinas, 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 w/ Legal Dept.
Kaunlaran Homes I	Municipal Gov't of San Juan, Bats.	Brgy. Buhay na Sapa, San Juan, Bats.	2/26/98	12.800	91	195	286	Completed & fully paid
PALARIS-FVR Housing Program	Municipal Gov't of Lingayen	Lingayen, Pangasinan	1996	4.530			39	Completed & fully paid
Palayan City Pabahay Project	Palayan City Gov't	Brgy. Tablang, Atate, Palayan City	6/21/96	15.000	0	100	100	On-going loan repayment; Individualization of accounts have been undertaken; 52 accts. w/ notice of approval
		Restructured Loan <i>Total</i>	5/4/00	1.949 16.949				
Matanao Country Homes I	Municipal Gov't of Matanao and Ryan Builders	Matanao, Davao del Sur	1997	5.000			120	Completed & fully paid
Alabel Employees Village	Municipality of Alabel, Sarangani	Alabel, South Cotabato	1/29/96	11.763	0	175	175	Completed & fully paid

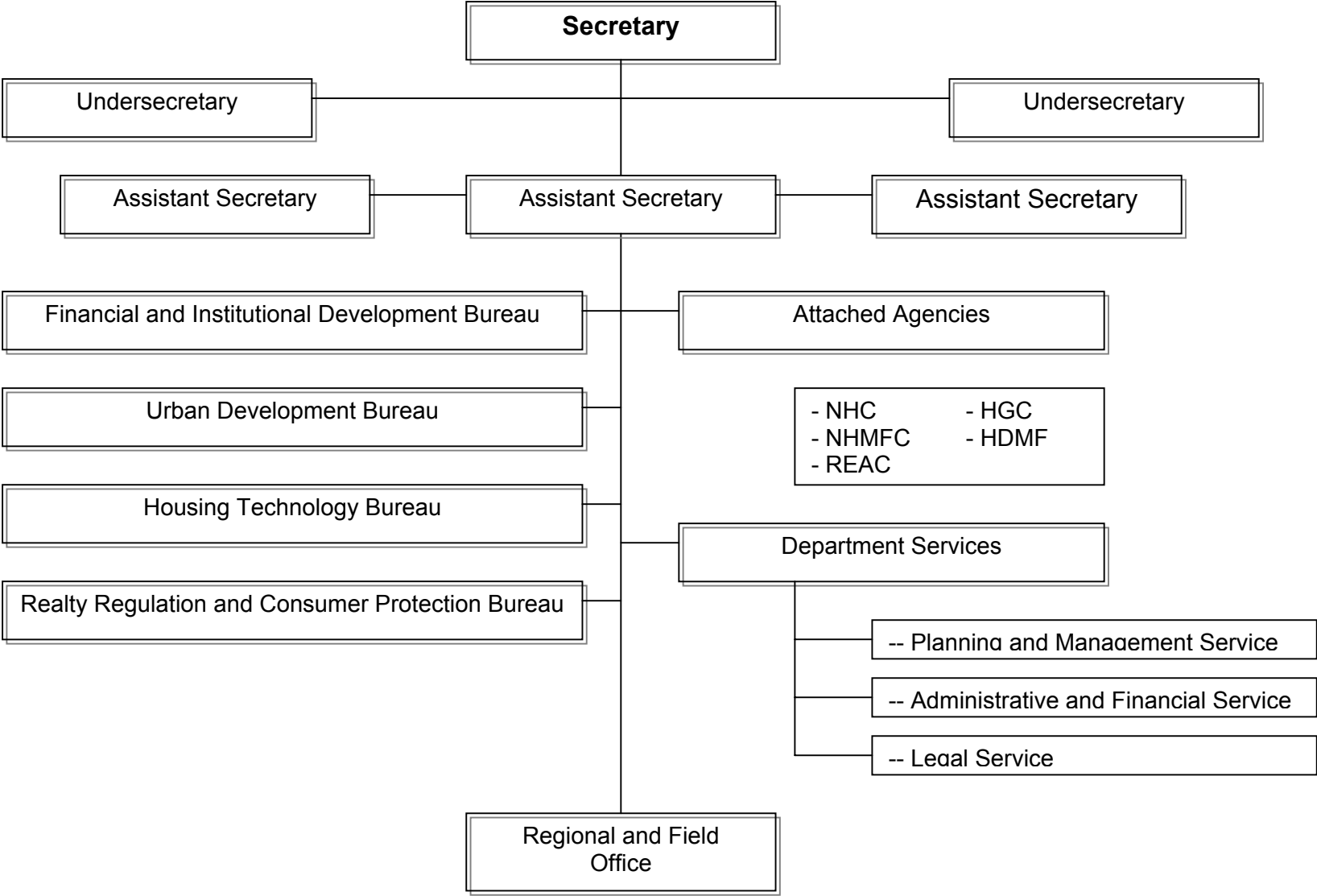
* as of June 2002

Source: HDMF

**Appendix 6. Proposed Organizational Chart of
Department of Housing and Urban Development
(Senate Version)**



**Appendix 7. Proposed Organizational Chart of
Department of Housing and Urban Development
(Congress Version)**



Appendix 8. Development Activities Under the Metropolitan Arrangements

Metro	Concern/Activity/Program
Manila	<ul style="list-style-type: none"> 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 Public Safety
CAMADA	<ul style="list-style-type: none"> Development Planning (socio-economic, 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	<ul style="list-style-type: none"> Solid Waste Management Transport and Traffic Management Tourism Water Supply
Naga	<ul style="list-style-type: none"> Development Planning Equipment Pool Program Elderly Service Emergency Rescue Enterprise Development Manpower Development and Employment Water Supply Health Services Support
Cebu	<ul style="list-style-type: none"> 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 Public Safety
Iloilo	<ul style="list-style-type: none"> Development Planning Transport, Traffic Engineering and Management Environmental Sanitation, Waste Management and Disposal System 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	<ul style="list-style-type: none"> Traffic Management Water Supply Solid Waste Disposal and Management Infrastructure Development (Roads, Highways, Seaport, Airport) Livelihood Program Health
Davao	<ul style="list-style-type: none"> Short term: <ul style="list-style-type: none"> Infrastructure Development Tourism Peace and Order Long Term: <ul style="list-style-type: none"> Industrial Estate Development Power Generation Telecommunication Mass Transport Sustainable Natural Resource Development

Source: Mercado, Ruben G. and Rosario G. Manasan. 2002. "Metropolitan Arrangements in the Philippines: Passing Fancy or the Future Megatrend? In Manasan, Rosario ed. Managing Urbanization Under a Decentralized Governance Framework, Volume 1, incorporated by Demographic Research and Development Foundation, Inc., published by Philippine Institute for Development Studies: Makati City.