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Is government really solving the housing problem?

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Is Government Really Solving the Housing Problem?

by

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Is Government Really Solving the Housing Problem? +

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Abstract

Informal housing arrangements, substandard structures, congestion, and land use conflicts characterize the urban housing problem in the Philippines. The record suggests that the response of the State, especially its reliance on below-market priced mortgage loans, has aggravated rather than helped solve the situation. If the housing problem is to be solved, government needs to rethink its role in housing finance, delink housing social assistance from finance markets, and turn its attention to fundamental supply side and urban governance issues.

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Is Government Really Solving the Housing Problem?

Toby C. Monsod

The number of housing units grew by 30 percent in the 1980s and 35 percent in the 1990s. Despite the rapid growth, there continues to be a significant unmet need for improved and additional housing. 31 percent of the 14.9 million occupied units in 2000 were dilapidated, 35 percent did not have durable roofs or external walls, and 40 percent had a floor area of less than 20 square meters. For the period 2005 to 2010, official estimates pegged this unmet need at around 2.2 million units.¹ The need to house another 1.5 million new households over the same period was also anticipated.

Is government really solving the housing problem? The short answer is no, not quite. While rapid urban and population growth have intensified supply shortfalls in affordable and quality housing, so have well-intentioned but inappropriate State policies. In order to begin to solve the housing problem, there needs to be a fundamental shift in the State's approach.

I proceed as follows. Sections 1 and 2 discuss why and how governments typically intervene in housing markets and achievements and costs of our national housing policies to date. Strategic issues that need to be confronted are discussed in Section 3 and ways forward in Section 4.

1. Housing and the State

A functioning housing market is one where households can translate their notional demand for quality housing into effective demand at market prices, and where the supply of housing is responsive to that demand. Housing, unfortunately, is prone to significant market failures, especially noticeable at the bottom end of the housing market. On the supply side, investments are relatively risky due to the 'irreversible' nature of housing, inherent uncertainties, and the long gestation periods involved in its production.² Without a complete set of insurance markets mediating these risks, private markets tend to underinvest in new construction, maintenance, or upgrading giving rise to neighborhood decline, slums or segregation. There is also the problem of slow adjustment in the housing system, manifested by market prices adjusting much more rapidly than quantities, among others. Housing markets are, in a sense, 'suppliers' markets characterized by either excess demand or excessively high market prices.

On the demand side, investment expenditures on housing are 'lumpy' relative to the budget of an average household and typically require financing. Without proper credit

¹ By definition, this includes units to replace housing located in danger zones and other reserved areas (based on an April 2000 survey of squatters per region by the National Housing Authority); new housing to decongest doubled-up households; units for structural or tenurial upgrading, and housing for the homeless.

² This section synthesizes insights from Stahl [1985], Arnott [1987], Whitehead [2003], Hoek-Smit and Diamond [2003].

information and property market information however, suppliers of credit are not typically able to serve all segments of the housing market profitably, particularly at the lower end. Failures in the housing finance market are often at the heart of the problem of delivering standard quality housing to moderate and low-income households (Hoek-Smit 2004).

Market failures provide an economic rationale for both State intervention and social provision. But redistribution goals may also motivate State action such as when worker's housing is promoted to compensate for low wages or slum improvement programs are undertaken to alleviate poverty (Hoek-Smit 2004). There is also a "merit good" argument which is based on a political value judgment about what minimum standards of housing the population should have. This is reflected in the concept of "housing need" as distinguished from "housing supply" and "housing demand" (Todt 1985). The strongest political case for intervention and social provision in housing has been in terms of a direct and effective means of ensuring minimum housing standards and redistribution rather than efficiency (Whitehead 2003).

Finally, the strategic role of housing in the economy may also drive policy. Linkages to the larger economy include those associated with investments, output, employment - the so-called multiplier effects - as well as those which have to do with housing finance and its contribution to growth.³

While the existence of market failures and inequities provide a-priori economic reasons for government intervention, they do not by themselves justify it however. The practical case for intervention should depend on whether the market failures are large enough to matter and to the chances of government action actually overcoming those failures (Whitehead 2003) – otherwise the cost of government failure can easily outweigh the cost of the original market failures themselves. Once the practical case is made though, interventions consist of regulations, taxes and subsidies, or the direct provision of goods and services. Of all the types of housing subsidies, housing finance subsidies, or subsidies, which relate to the way in which housing assets are paid, are among the most prevalent.⁴

2. Housing policy to date, achievements and costs

National housing policy has, at least in rhetoric, been driven by a concern for the welfare of low-income urban households. During the 1st quarter of the 1900s, housing policy was embodied in an effort to "clean-up" Manila, which was beset by sanitation problems and overcrowding.⁵ Interventions at the time included slum clearance programs, the

³ WB [1993]. There are also fiscal effects, which are associated with the taxation and subsidization of housing, and the impact of housing markets on the labor market.

⁴ Hoek-Smit [2009]. Some examples of housing finance subsidies are subsidies to research, information, and collection; below market rate housing loans and insurance products; direct government provision in financial intermediation at the primary or secondary market, and regulatory controls on prices or credit allocation,

⁵ This review of policies up to the 1970s relies heavily on work by Ocampo ([1976] and [1978]) and NEDA documents.

enforcement of new sanitation and building codes, and the establishment of experimental health-social centers called ‘sanitary barrios’. In the 1930s to the 1950s, the pre-war Filipino legislature supported the acquisition, development and resale of landed estates (e.g. Diliman) and housing (e.g. Vitas tenement housing) on behalf of labor, which expanded in the 1960s and 70s when a programmatic distinction was made between (i) *social* housing (e.g. slum clearance, rental tenement construction and resettlement projects) built by government and funded by appropriations; (ii) *economic* housing, financed and built by government, and (iii) government financing of privately-owned housing. Housing was recognized as a strategic economic activity and a number of public housing corporations were established to catalyze housing development and financing markets.

Reports indicate that waste and inefficiency characterized these early public programs however. Social housing initiatives such as tenement projects were not successful due to poor design and construction, poor collections and poor sanitation. Resettlement, the cheaper alternative, was likewise problematic: the lack of urban jobs, the costly commutes, and the lack of basic services led to high attrition rates in major resettlement sites, e.g. over 50 percent in 5 years in Sapang Palay and Carmona. Economic housing had similar location and cost problems so that, despite discounted housing loan rates, it was primarily middle income and not lower-income households who qualified for economic housing.

Today, housing policy is embodied in a national shelter program (NSP) that features a “total systems approach to housing finance, production and regulation”⁶; an interacting network of housing agencies led by Housing and Urban Development Coordinating Council (HUDCC), namely the National Housing Authority (NHA), to produce shelter for the bottom 30 percent; the National Home Mortgage Finance Corporation (NHMFC), envisioned as a US-style secondary mortgage market institution; the Home Guaranty Corporation (HGC), to provide guarantees and other incentives; the Housing and Land Use Regulatory Board (HLURB), to regulate land use planning and housing development; and the Social Housing Finance Corporation (SHFC), a subsidiary of the NHMFC, created to undertake social housing programs for low-income households, formal or informal, including the Community Mortgage Program (CMP) and the Abot-Kaya Pabahay Fund (AKPF); and three contractual savings institutions - the Home Development Mutual Fund, also known as the Pagibig Fund, the Social Security System (SSS), and the Government Service Insurance System (GSIS) – “to ensure that the funds required for long-term housing loans are available on a continuous and self-sustaining basis” (E.O. 90). Its overall goal thru the years has been to increase the access of target households to decent, affordable and secure shelter, where target households have been defined as those in the first three (“bottom 30 percent”), or first four (“bottom 40 percent”), or first five (bottom 50 percent) income deciles living in urban or both urban and rural areas and “secure shelter” has been defined as a house, a lot, or both. Apart from its role in the poverty alleviation program of government, a ‘multiplier’ effect of

⁶ Executive Order 90, series of 1986. E.O. 90 reiterated the National Shelter Program first formulated in 1978.

16.6 has also been cited to justify increasing budgetary allocations for housing or lowering interest rates on government housing loans.

Accomplishments of the NSP as of October 2010 are presented in Tables 1 and 2. From 1987 to 2010, around 2.25 million households received housing units that were built, financed or insured with public support, representing about 49 percent of the official target and 30 percent of the estimated backlog for the period. Of the 2.25 million households, about 21 percent were assisted thru direct production; 13 percent thru land proclamations; 10 percent thru community-based mortgage finance; and the remaining 56 percent thru individual mortgage finance and retail guarantees.

**Table 1: Estimated Backlog, Targets and Householdsⁱ served 1987 to 2010
(In '000s)**

	1987-92	1993-98	1999-00	2001-04	2005-10	TOTAL
Estimated Need ⁱⁱ	3,376	3,724	3,362	3,600	3,756	
Backlog (in year 0) ⁱⁱⁱ	1,182	2,225	1,139	2,069	1,171	
Target	627	1,200	478	1,200	1,146	4,651
HH Assisted	278	653	146	495	682	2,254
% Target	44.4	54.4	30.6	41.3	59.5	48.5
% Backlog per year	23.5	29.3	12.8	23.9	58.2	29.6

Source: Author's computations. Base data:

1987-1992: MTPDP 1987-92. Backlog is as of 1988 and is computed at 35% of estimated need based on share of backlog to total need for urban areas. HH assisted based on HUDCC accomplishment matrices for 1987-92

1993-2010: HUDCC matrices for 93-98, July 1998-December 1999, July 1998 – 2000, and Accomplishment Report 2001-2010 as of October 2010

Notes:

i. "Households" is an attempt to correct for any double counting

ii. Backlog + new HH

iii. Defined by HUDCC to include units with double occupancy (urban & rural); units for tenure, infra or structural upgrading; units for replacement due to danger area/infra area/for eviction or demolition; homeless.

However evidence again suggests that these numbers have been accompanied by high fiscal and quasi-fiscal costs and distributional inefficiencies, especially from the housing finance side.

Housing finance

Government housing finance interventions have typically featured under-priced housing loans and guaranty products, with discounts dependent on loan sizes as well as other non-market-disciplined policies for funding and underwriting.⁷ Such a regime has led to at least three crises of insolvency and/or illiquidity for NHMFC - in 1985, 1992 and 1996, when it brought about Php 42 billion in funds borrowed from the Pagibig, SSS and GSIS with it⁸ - and at least one liquidity squeeze for HGC in 1998 from which it has yet to

⁷ See Llanto and Orbeta [2001] for a complete discussion.

⁸ Llanto and Orbeta [2001] estimate that subsidies amounted to about Php 25.4 billion over the period from 1993-1995 alone, of which 90% were off-budget implicit subsidies related to the mortgage lending programs. In another estimate by the World Bank [1997], tax revenues foregone on HGC cash and bond

recover.⁹ The incidence of subsidies has also been highly regressive: At the time of their respective crises for instance, the NHMFC and HGC portfolios indicated that higher-income borrowers captured nearly 75 percent of interest subsidy flows, almost 90 percent of subsidies associated with arrears under the major lending programs (in effect, lower-income members of SSS, GSIS and Pagibig were subsidizing higher-income members), and 80 percent of cash and bond guarantees (i.e. representing guarantees which covered medium-cost housing) (WB 1997).

Table 2: Households assisted and cost (in Millions) by key program, 1987- 2010

Key Program	1987-2000			2001-2010			1987-2010		
	HH	Cost (M)	Ave Cost/H	HH	Cost(M)	Ave Cost/H	HH	Ave Cost/HH	Change in Ave Cost/HH (1985=100)
Production									
Resettlement	146422	8089	55245	154800	18981	122616	301222	89868	24.1
Core housing	0			6971	115	16497	6971	16497	
Slum upgrading*	52809	1566	29653	32271	58	1797	85080	19087	-74.5
Sites and Services*	30598	2358	77058	15733	441	28030	46331	60409	-85.2
Special Projects	26550	2235	84171		0		26550	84171	
Land Proclamation	0			302031	nd		302031		
Finance									
Community Mort	105692	2867	27130	113780	5574	48990	219472	38463	-7.3
Primary Mort	544197	104624	192254	401242	195619	487534	945439	317570	17.4
Retail Guaranty	170585	80113	469637	150430	129058	857927	321015	651593	-3.0
Total	1076853			1177258			1	0	

Source: Author's computation. Base data:

1987-1992: MTPDP 1987-92. Backlog is as of 1988 and is computed at 35% of estimated need based on share of backlog to total need for urban areas. HH assisted based on HUDCC accomplishment matrices for 1987-92

1993-2010: HUDCC matrices for 93-98, July 1998-December 1999, July 1998 – 2000, and Accomplishment Report 2001-2010 as of October 2010

Notes:

- i. NHA production of units under medium-rise buildings and completed housing is counted under the financing program that provides mortgage loans to its buyers. "Other housing assistance" (e.g. tenurial assistance, technical assistance, home improvement, etc) is excluded.
- ii. Prior to 1997, mortgage financing was under NHMFC. From 1997 onwards, it was under PAGIBIG. Other GFI end user accounts (LBP, SSS, DBP, GSIS) are not counted here but total 26,348 units between 2001-2010.

guarantees were six and eight centavos for every peso covered, respectively, and total fiscal and quasi-fiscal costs inclusive of recapitalization of NHMFC and provisioning requirements for the pension funds amounted to P55.4 billion.

⁹ In its 2008 Annual Audit Report on the HGC, the Commission on Audit observed that "HGC's growing losses and deficits had continuously impaired the Corporation's financial capability, casting doubt on its financial capability to carry out its mandate..." (Part II, A. Observations and Recommendations, p. 28)

The Pagibig Fund bailed out NHMFC in 1988 and again in 1997 and now anchors government's housing finance program. A mandatory housing provident fund with some 7.5 million members, it has grown to be the biggest single source of home financing in the country, accounting for 45 percent of the aggregate portfolio for residential real estate loans as of the end of 2009.¹⁰ While the quality of the NSP mortgage portfolio is far superior under Pagibig than it was under NHMFC, social subsidies continues to be implicit and regressive, as indicated in Tables 3 and 4 and Figures 1 and 2 below. Table 3 and Figure 1 show the present value of subsidies embedded in Pagibig below-market rate mortgages and how they increase in absolute value terms and as a percentage of the principal the larger the size of the housing loan and the deeper the interest rate discount, respectively. These subsidies are borne ultimately by Pagibig's own lower-income, self-employed, member-savers, who do not qualify for housing loans, but who bear the burden of interest subsidies and default leakages¹¹ thru lower returns on their mandatory contributions.¹² Table 4 and Figure 2 compare the average return on Pagibig's investment portfolio with that of government bonds over the period from 2003 to 2008, illustrating the possible foregone earnings on members' contributions.

Table 3. Subsidy implicit in below-market priced housing loans of the Pagibig Fund

	<i>Loan</i>		<i>Subsidy</i>	
	Amount	Interest rate (%)	PV (i)	As a % of Principal
PAGIBIG (ii)	300,000	6	120,596.80	43.84
		4	177,067.40	59.02
		3.5	187,645.3	62.55
	750,000	7	267,536	35.67
		5	387,295	51.64

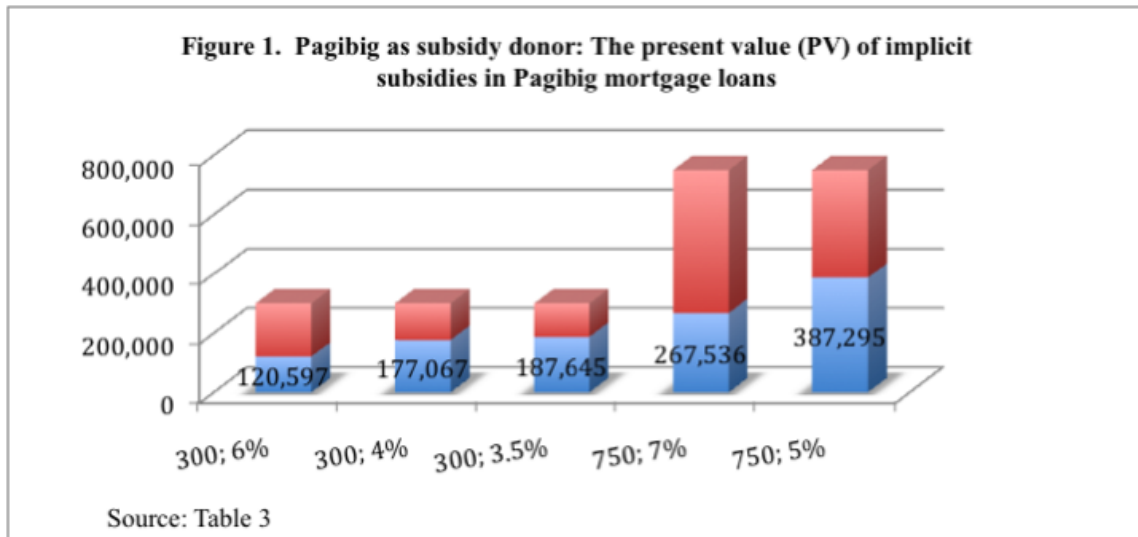
Source: Author's computations. Notes: (i) Assumptions: market rate fixed at 11%; discount rate 10% (ii) PAGIBIG 30 year mortgage loans are at 6%, 7% and 10.5% for amounts 300,000 and below, 300,000 to 750,000, and 750,000 to 2 million, respectively. An additional 2 per cent discount on the applicable interest rate is given to housing loan borrowers who pay on time.

The table shows how the present value of implicit subsidies increases in absolute value terms the larger the size of the housing loan. Also, the deeper the interest rate discount, the larger the implicit subsidy as a percentage of principal.

¹⁰ Testimony of OIC Emma Faria to the Committee on Banks, Financial Institutions and Currencies, October 7, 2010.

¹¹ Non-performing mortgage loans reached 24% of mortgage loans outstanding and non-performing sales contracts receivables amounted to 13% of sales contracts outstanding in 2008, according to the annual audit report of COA. In 2005 these figures were at 30% and 18% percent respectively.

¹² Housing provident funds are essentially long-term saving schemes that operate through mandatory contributions (Chiquier 2009). What a Pagibig Fund member finally receives after 20 years depends on both his/her total contribution and the investment performance of the fund.



Further, the last decade has seen private mortgage lending move steadily down market, driven in large part by favorable macroeconomic conditions. Yet Pagibig continues to seek an *expansion* of its own lending operations. This raises the question of whether end-user financing represents the optimal way for Pagibig to comply with its mandate “to invest not less than seventy percent of its investible fund to housing” (P.D. 1752 as amended) and, more critically, whether or to what extent Pagibig has deterred rather than encouraged the development of private mortgage markets. Pagibig enjoys significant legal and regulatory privileges under the law (R.A. 9670), among others, mandatory contributions, the privilege to deduct loan payments from salaries, tax exemptions, a general government guarantee. It is unlikely that private lenders can or have been able to compete with such preferential conditions.

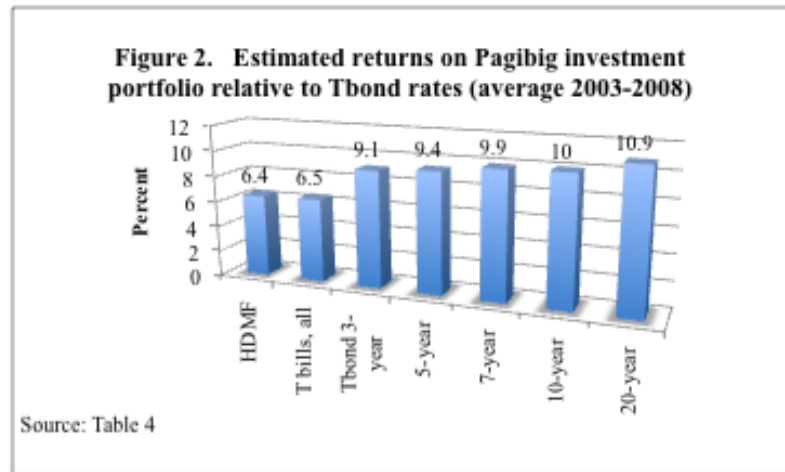
Table 4: Estimated return on Pagibig’s investment portfolio and T-bill/Bond rates 2003-2008

	2003	2004	2005	2006	2007	2008	ave
Return on Investment Portfolio	6.1	6.5	6.9	7.1	6.1	5.8	6.4
T bills, all maturities	6.7	8.1	7.5	6.2	4.2	6.4	6.5
T-bonds, 3-year	9.7	12.38	10.13	9.21	7.6	5.38	9.1
5-year	10.58	11.55	10.99	8.72	6.67	7.88	9.4
7-year	11.88	11.75	11.29	8.67	7.63	8.36	9.9
10-year	11.81	12.38	11.69	8.06	8.58	7.72	10.0
20-year	12.23	13	12.13	9.69	8.63	9.5	10.9
<i>Note: % members availing of housing loans</i>			10	9	10	10	

Source: Author’s computation based on 2003-2008 Audited Financial Statements. Investment portfolio includes loans and receivables, fixed income securities, equities, cash and cash equivalents. Foreclosed assets and items under litigation are not included under investments.

Housing production

The net impact of government on the housing production side is not well understood. While the NHA claims a production output of over 450,000 social housing units between 1975 and 1998, output numbers hide a cycle of poor pricing, weak sales and even weaker collections,



mirroring the experience of NHA’s predecessors in the 1950s and 1960s.¹³ Production inefficiency is also an issue: In 1994, the NHA completed about 12 units per employee, about one-third the rate typical to the private sector.¹⁴

Also, while there was increased capacity and interest in low-cost housing among housing developers, it is not clear whether or how the NHA has contributed to this. Just like Pagibig, the NHA enjoys preferential treatment – i.e. preferential tax treatment for mass housing developments as well as privileged access to land under the Urban Development and Housing Act of 1992 which automatically assigns all suitable, unused public lands to the NHA for use in socialized housing projects at no cost to the agency – suggesting a crowding out of private sector participation.¹⁵ Table 5 and Figure 3 below show that between 2001 and 2010, three out of ten social housing units were NHA produced or contracted.

Table 5. NHA share in social housing production

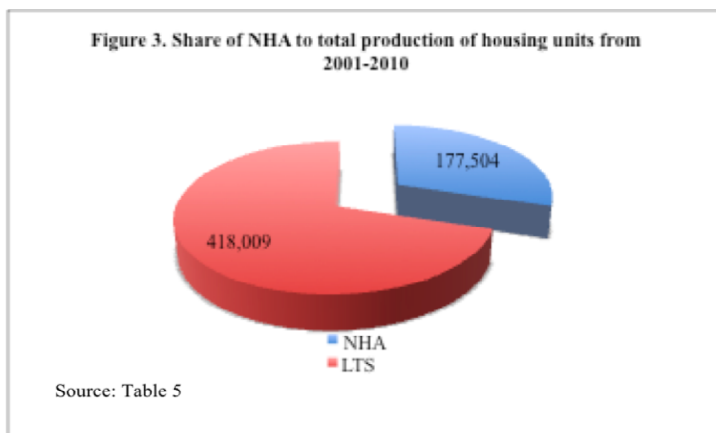
	<i>NHA⁽ⁱ⁾</i>	<i>LTS⁽ⁱⁱ⁾</i>	<i>Total</i>	<i>% Share NHA</i>
1993-1998	92471	413891	506362	18.3
1999-2000	55320	55511	110831	49.9
2001-2010	177504	418009	595513	29.8

¹³ NHA 1998 Transition Report. In 2000, NHA disposition rates (at resettlement sites) were at 14% and collection efficiency at below 40%.

¹⁴ WB [1997], Annex A, paragraph 27.

¹⁵ Murray [1983] shows, for instance, that for every additional 100 publicly constructed units, as many as 85 private units have been crowded out in the U.S. No similar study has been done on the Philippines.

Source: Author's computation based on NHA accomplishments in Table 2 and HLURB data on LTS.
 Notes: (i) NHA: resettlement, core housing, sites and services, special projects
 (ii) LTS: License to Sell issued by HLURB for social housing, including 20% balanced housing compliance



While NHA continues to claim a significant portion of social housing production, there has been a welcome movement towards alternative resettlement modalities, as demonstrated by the Railway Relocation and Resettlement Projects, which represents an opportunity for the agency to transition out of its role as direct producer and into a role

of technical support to LGUs. A Land Proclamation program, also known as Urban Asset Reform, also

looks promising. Inspired by the de Soto thesis of unlocking 'dead capital' (de Soto 2000), the program regularizes the tenure of informal settler families through the issuance of Presidential Proclamations which declare the occupied parcels of public lands open for disposition to qualified beneficiaries. Under this program, about 223,000 squatter households in NCR were allocated an average of 100 sqm each between 2001 and 2010 (Table 6). While the overall impact of the program has yet to be evaluated, suffice to say that when poor households squat on unused government land, they contribute to land use efficiency by developing that land. What settler communities build might not always be the best and higher use for that land, but at least it is always a better use and higher use than its previous state.

Table 6. Land proclamations as of October 6, 2010

<i>Region</i>	<i>hectares</i>	<i>beneficiaries</i>	<i>hectares/ben</i>
NCR	828.4	80799	0.01
CAR	88.1	3278	0.03
II	59.6	5562	0.01
III	2237.2	12850	0.17
IV	1977	23513	0.08
V	90.2	6002	0.02
VI	81.6	9152	0.01
VII	88.6	5081	0.02
VIII	7.4	770	0.01
IX	21.4	5157	0.00
X	3.1	98	0.03
XI	31.9	998	0.03
XII	22.0	1700	0.01
CARAGA	96.1	2371	0.04
SPECIAL	1232.0	66200	0.02
Total	6864.7	223531	0.03

Source: HUDCC

Excludes 28,500 hectares under Mt. Pinatubo resettlement and 20,312 hectares for an estimated 50,000 households in Lungsod Silangan, Antipolo Rizal.

Another bright spot is, and has always been, the Community Mortgage Program (CMP). Launched in 1988 to assist informal settlers and slum dwellers acquire occupied property thru non-market community loans, collection efficiency rates under the CMP have been relatively higher (77 percent versus 62 percent in pre-1997, although this has

dropped to 69 percent since 2001¹⁶); outlay per household relatively lower (at 10 percent of outlays under regular mortgage programs; refer again to Table 2); and down market penetration deeper (reaching the bottom 30 percent) compared to other housing programs of government (Table 7a and 7b).¹⁷

Table 7a. Reach of CMP program and Pagibig loans*: based on HH income

Decile	Philippines				NCR			
	Annual Income	Loan amortization as a % of monthly income			Annual Income	Loan amortization as a % of monthly income		
		CMP ** 39,000	CMP 80,000	Pagibig 300,000		CMP 39,000	CMP 80,000	Pagibig 300,000
1st (poorest)	28,175	10.70	21.9	76.6	47,302	6.4	13.1	45.6
2 nd	43,473	6.94	14.2	49.6	69,592	4.3	8.9	31.0
3 rd	54,560	5.53	11.3	39.5	83,435	3.6	7.4	25.9
4 th	66,109	4.56	9.3	32.6	99,601	3.0	6.2	21.7
5 th	79,433	3.80	7.8	27.2	118,303	2.5	5.2	18.2
6 th	94,673	3.19	6.5	22.8	142,184	2.1	4.3	15.2
7 th	116,495	2.59	5.3	18.5	172,793	1.7	3.6	12.5
8 th	150,094	2.01	4.1	14.4	215,028	1.4	2.9	10.0
9 th	210,620	1.43	2.9	10.2	293,546	1.0	2.1	7.4
10 th (richest)	435,092	0.69	1.4	5.0	583,178	0.5	1.1	3.7

Source: Author's computations. Base data: FIES 2006

* Loan terms: 6% percent for 25 (CMP) and 30 (Pagibig) years.

** Average size of CMP loan: 39,000

Table 7a shows that based on household income criteria alone, and assuming poor households can allocate up to 15 to 20 percent of their monthly income to loan amortizations, average CMP loans are likely to reach the bottom 30 percent. Pagibig loans however are not likely to.

All three programs – Railway resettlement, CMP and Land Proclamation – face challenges of course. NHA is battling the issue of National Government-Local Government assignment of functions and costs as regards relocation and post-relocation requirements, including the exclusion of these costs from the preparation and evaluation of big-ticket infrastructure projects (such the North and South Rail projects) or from the budget appropriations of key agencies.¹⁸ The CMP is dependent on budgetary appropriations and cannot keep up with demand: As of the end of 2008, it had 544

¹⁶ Data does not include foreclosed units or units under litigation. Refer to Tables 12 to 14 of UN Habitat [2009].

¹⁷ An attempt is also being made to encourage housing microfinance, although this is a tool for financing home improvement rather than for constructing housing or securing tenure (Daphnis, et. al 2009).

¹⁸ For instance, receiving LGUs usually do not have enough basic services and facilities to absorb relocatees but no budget is automatically provided for by, say, the Department of Education. Other post-relocation requirements include project maintenance and administration, comprehensive development planning, and basic community capability building and stabilization. According to NHA field directors, there is usually a 1-2 year “crisis” period as families become “formal” settlers and another 3-4 years before they are stabilized.

projects in the pipeline for enrollment, approval and examination, amounting to about Php 3.6 billion in loans for 60, 826 households. Land Proclamation seems still somewhat peripheral to the national housing strategy and is struggling with the typical titling processes as well as with mainstreaming rights-based tenurial instruments. Households are also subject to income qualification standards and, if qualified, would then have to join the CMP queue in order to pay for their parcels.¹⁹

Table 7b. Reach of CMP and Pagibig: based on employment

Income decile (per capita)	<i>Philippines</i>		<i>NCR</i>	
	CMP (% Employed)	Pagibig (% Wage & salaried)	CMP (% Employed)	Pagibig (% Wage & salaried)
1 (Poorest)	65.3	22.4	39.5	32.5
2	63.4	24.7	44.2	32.8
3	61.3	27.6	40.6	26.6
4	59.6	27.2	41.8	30.8
5	57.9	28.9	45.1	30.0
6	57.3	31.8	51.3	37.0
7	55.7	32.1	49.5	37.4
8	55.1	33.4	51.4	36.6
9	58.1	37.8	56.0	40.9
10 (Richest)	61.5	44.7	62.1	49.4
Total	59.5	30.9	53.6	39.9

Source: Author's computations. Base data: FIES 2006, July 2006 LFS

Pagibig requires that borrowers are wage and salary earners while CMP requires that a borrower is employed. Given this, Table 7b shows that based on an employment criteria alone, the reach of Pagibig is at best one-third of households in middle- and lower-income deciles.

3. Strategic issues

If the goal of the State is to ensure that markets produce adequate and affordable housing for all, two issues arise from the preceding discussion. The first is the manner by which the State has so far chosen to address the “affordability” issue – which has been to maximize the output of new housing for sale at below-market prices - and, consequently, its intentions for and level of involvement in housing finance markets. As has been repeatedly demonstrated by the succession of crises in the government housing program, its approach has been costly and ineffective, with costs borne heavily by lower income members of contractual savings institutions on behalf of government. Non-market pricing and subsidized lending in the primary mortgage market has likely generated other perverse results, such as the crowding-out rather than the crowding-in of private finance and other services.

¹⁹ After proclamation, households pay for their parcels thru CMP or directly to the DENR. Some proclaimed sites are turned over the NHA for development.

Among the strategic questions that need to be answered are: Where will normal market forces gradually expand housing finance systems to increase access and where can well-targeted government intervention help accelerate rather than substitute for this process (Hoek-Smit 2009)? How can a provident fund like Pagibig best contribute to this process: as a pension fund and institutional investor, a housing lender, or a subsidy distributor?²⁰ What should be done about HGC and NHMFC and do market conditions warrant their continued existence? The reform of subsidized State housing finance institutions is a prerequisite to creating a more competitive and efficient housing finance system (Hoek-Smit 2009).

The second has to do with the level of social assistance the State wishes to allocate to housing and to de-link this from market-based transactions. There will always be households which cannot be reached by market forces even if government incentives are applied. There is also broad consensus that household subsidies, if warranted, should be on-budget and transparent rather than off-budget and implicit in below-market prices. However, where housing social assistance is ranked among the other social priorities of the State (say, as against basic education or the Conditional Cash Transfer program) has not yet been confronted, in large part because subsidized lending did not require it to be. This is not to say that increased public spending in housing is a necessary condition for better housing outcomes or lower human poverty incidence as some claim.²¹ Nor is it to say that there is a multiplier-effect argument in favor of public spending on housing relative to spending in other sectors, e.g. the multiplier effect of housing in this country is 1.93 at most (Dumaua 2010)

That said, extracting the full benefits from potential reforms in housing finance markets and subsidy systems will not be possible unless the State finally starts dealing with causes rather than symptoms of the housing problem. Specifically, the *fundamental causes* of unaffordability on the supply side – such as urban land dysfunctions, incoherent connective infrastructure and outdated planning and building standards. Unaffordability of housing is, of course, not just function of relatively high supply prices but also of relatively low permanent incomes. The latter is assumed to be the object of the more fundamental government strategy to improve living standards thru robust and inclusive economic growth however, so this discussion focuses on the former.

As has long been observed, “The housing dilemma is primarily a land problem” (Roxas 1969). The land problem is one of unclear and inconsistent land use policy and poor land administration and management.²² The absence of complete and updated cadastral

²⁰ International experience has shown that trying to juggle multiple mandates will likely entail significant trade-offs. See Chiquier [2009].

²¹ See, for instance, Ballesteros [2009] who advocates for increased public expenditures on housing by citing regression results from Habito [2009] that for every one percent of GDP spent on housing the responsiveness of poverty reduction to GDP growth improves by 0.473 percent. However, these results only arose after excluding Thailand and Malaysia from the simple cross-country regression on the basis that they were outliers, i.e. strong responsiveness of poverty reduction to GDP growth despite relatively small shares of public expenditures on housing. The outliers may in fact demonstrate the point that regulatory reform may matter more for housing markets than increased public spending.

²² See Ballesteros [2000] for a detailed discussion.

information, the plethora of agencies involved in land administration, and the hodge-podge of laws for the classification and reclassification of land, raise transaction costs in securing, registering and transferring property rights. Land values are further driven up by “land hoarding” caused by the absence of a national standard and method for real property valuation and the poor enforcement of real property taxes at local levels. The high cost of servicing land for urban development in turn encourages informal land markets to develop. Strassman and Blunt (1993) observed “If [land] prices were as low in comparable developing countries... as much as 50% more shelter could have been built and fewer than 28 % of households would probably live under irregular tenure arrangements.”

The role of efficient connective infrastructure in making housing supply more responsive has also been overlooked. Public transportation infrastructure connects different parts of a city, guides land use and urban expansion, and allows lagging regions to participate in the growth process of leading urban centers (WB 2009). In this way, efficient transport systems widen residential location options and, thus, the housing choices for the urban poor. Yet there has been an acute under investment in such infrastructure as well as a lack of coherence in the building of existing networks, manifested in the absence of an efficient and integrated road and maritime transport system and a “missing middle” (i.e. secondary roads) in the country’s road network – resulting in, among others, pockets of internationally-oriented economic activity weakly integrated to the rest of the country (Llanto 2007).

Regulations such as zoning, construction codes and subdivision restrictions also greatly influence supply.²³ By controlling floor-to-area ratios for instance, the State controls the consumption of land, the only factor in which poor residents can outbid non-poor residents. Subdivision restrictions and construction codes, which are motivated to ensure public health, safety and basic infrastructure services in new developments, can also jack up capital costs (in exchange for less maintenance costs) to levels beyond affordable thresholds.²⁴ In short, regulations designed to ensure minimum standards may in fact have adverse effects on market access to real estate assets by the urban poor. This is not to say that planning tools are not useful. Rather, they should be thoughtfully applied. To date, there has been no audit of existing regulations and their impact on housing cost and supply.

That supply side bottlenecks have been a blind spot in housing policy speaks to the failure to understand and embed the housing debate within an explicit and coherent urbanization framework. This is also evident in the overall treatment of informal settlements where providing regularized property rights and affordable infrastructure where land is suitable for residential development seems to be viewed as a mere relief or redistributive intervention, rather than as an *efficient* way of developing urban land rapidly and on a large scale with maximum distributive effect.²⁵

²³ This section draws heavily from Ortiz, A. [1999]

²⁴ Particularly for private supply since NHA is exempted from these standards.

²⁵ Bertraud, A. (undated). The creation of a market for small parcels of land, at standards and location that are entirely demand driven, represents a large economic benefit for a city.

4. Where to begin to really solve the housing problem

This paper has argued that government's usual approach to the urban housing problem, in particular its reliance on below-market priced housing loans and, more generally, on housing finance subsidies, does not and will not really solve the housing problem. Such an approach deals with symptoms rather than underlying causes of housing market failures. What is needed instead is a reframing of the housing discussion away from simple output targets to one which focuses on how best to remove impediments and manage the housing sector so that markets are able to produce adequate and affordable housing for all. In short, a fundamental shift in the State's approach.

Implementing a shift in approach would require three initiatives: First, a reassessment of public involvement in housing finance markets, including the role of Pagibig and other government-sponsored housing finance corporations; Second, a delinking of housing social assistance from market-based transactions, making such assistance explicit and on-budget, and integrating the same with overall welfare policy; and third, a redirection of government action for housing towards fundamental supply side issues in tandem with improved urban governance. This third component involves going beyond what has been traditionally understood as the realm of the government "housing sector" and should (hopefully) motivate concrete action towards strengthening land and property market institutions and investing in domestic connective infrastructure. Indeed targeted efforts at integrating informal settlements and improving the housing of the urban poor are unlikely to work without these two pre-requisites (WB 2009).

Anchoring housing on an explicit urbanization framework will have implications on the design of institutional arrangements. For instance, the locus of urban planning may have to move downstream to regional and sub-regional levels so that rural-urban transformations can be properly observed and efficiently supported. Also, a re-articulation of "housing" functions and responsibilities between central and local governments may be required. Central government agencies would likely be better suited to legal and regulatory reform such as the articulation of land use policy, the inventory of public land and the resolution of other bottlenecks in land markets; designing administrative incentives so that effective urban planning can be realized at sub-regional levels; and ensuring the predictability and tenure neutrality of policies. LGUs would in turn be responsible for local land use management, including the implementation of real property taxes, the servicing of land for settlements and the delivery of targeted housing social assistance.

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