



A Second Look at Institutional Reforms in the Housing Sector

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Housing has always been a priority in the list of concerns of the Philippine government. In fact, to improve the housing situation in the country, 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 has evolved and been

adopted. In addition, government has put in substantial subsidies in the housing sector, perhaps more than in any other welfare system in the country.¹

Yet, 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, especially for the low- to middle-income households. The number of families in slum and squatter colonies, in particular in key urban areas, is rising (NSO 2000). Only 45.8 percent of households in urban areas have access to the community water system and at least 13 percent of urban households lack any 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 and only about 50 percent of municipal solid wastes are collected. In Metro Manila, the premier urban center in the country, about 76 percent of the total housing stock do not comply with current regulations.²

What is the problem?

The problem is largely due to the fact that the government response has not truly addressed the concerns that give rise to the housing dilemma.

The housing problem arises from two major conditions in the country: *one*, overurbanization; and *two*, rela-

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¹*For instance, public retail mortgages exposure in the Philippines, including developer guaranty, amount to about 4.5 percent of gross domestic product (GDP) for the period 1994-1999 as noted in A. Duebel (2000).*

²*Based on a survey done for the United Nations Centre for Human Settlements (UNCHS) in 1990. Housing Indicators Table, UNCHS and World Bank, 1993.*

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tively inelastic supply specifically at the lower end of the housing market.

Overurbanization has been defined as a stage where a higher degree of urbanization exists relative to the rates warranted by their degrees of industrialization (Payne 1977). 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 incomes as well as a shift of labor employment from low to high productivity areas (Balisacan 1994). Rapid urbanization tends to produce large shifts in the demand for housing, frequently outstripping supply while low per capita income means a high ratio of unit housing cost to income.

The relatively inelastic housing supply further aggravates the situation. Supply side constraints arise primarily from problems in the land and financial markets.

The land market in the country is inefficient because land administration and management is weak in various aspects: legal and regulatory framework and land administration infrastructure (Llanto and Ballesteros 2002). 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 such that information about land ownership, location boundaries, actual land uses and land values cannot be provided systematically. Thus, sale and transfer of property rights, issuance of required development permits and licenses, and land tax collection are constrained by bureaucratic inefficiencies and political maneuverings. As such, significant revenues from real estate property cannot be collected and 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 a high rate of increase in land prices.

What about constraints in the financial market?

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 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. On the other hand, the low to middle-income households have been largely dependent on government funds, which are limited and cater mainly to the formal sector.

How has government responded all these years?

In the past 25 years, the Philippine action agenda for housing has been the National Shelter Program (NSP), primarily a homeownership program for the lowest 50 percent of the country's population. The main mechanisms employed to achieve the Program's objective are (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 for these mechanisms or approaches has been that government intervention is warranted since there are inherent imperfections in the organization and structure of the housing and mortgage markets.³ Unfortunately, these approaches are mainly stopgap measures since they do not address the basic institutional constraints in the housing market.

³For theoretical arguments on government intervention in housing, a summary is provided in E. Angeles (1985).

What types of reforms have been undertaken?

The institutional barriers or constraints causing many of the problems in housing are rooted in the land and financial markets. Government efforts, however, have been focused largely on organizational and program-related concerns. The only major reform that has been undertaken is the shift from a highly centralized scheme towards a decentralized and participatory approach to housing.⁴ This shift popularized the concepts of “tripartism”, self-help, and community housing and effected a prioritization of housing programs.

Under the centralized scheme, 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, relocation and resettlement became the common strategy adopted.

On the other hand, the decentralized and participative approach led to the rise of joint venture projects between government (national and/or local) and the private sector for low-income housing,⁵ focus on tenure regularization for informal settlements and devolution of housing delivery functions to local government units (LGUs). The housing programs, however, remained dependent on public sector funds and implicit subsidies. Government and quasi-government institutions continue to be the major sources of funds for end-user and development financing and the banking sector continue to cater to the high and middle end markets. In recent years, though, government has explored the possibility of improving the secondary mortgage market but efforts are still in the preliminary stages.

In the case of the devolution of housing delivery functions to local government, while the legal mandate for the local government’s role in housing was put in place, the functional responsibilities between the central and local government have not been clearly defined in some areas of housing development. For instance, the central, provincial, city and municipal governments may simultaneously undertake low-income housing production.

This pattern of open-ended participation of central government agencies in housing therefore creates perverse incentives whereby constituents, for instance, would have difficulties holding local governments accountable for housing and urban development problems that may arise in a locality. Local governments would also tend to remain dependent on the central government agencies and make them less responsible in curtailing squatting problems in their areas. The mayors would also be encouraged to act as lobbyists before the central government for housing funds or grants rather than as individuals ultimately responsible for specific functions.

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) because of institutional constraints to debt financing and real property taxation (Llanto et al. 1998). Another problem is the availability of land for relocation or resettlement of squatters. This is a critical concern. Price of rental housing is relatively high and finding low cost land in highly urbanized areas is difficult. Moreover, relocating informal settlers outside the metropolis is counterproductive because of high transport cost and the unavailability of basic services in resettlement areas. These concerns essentially stress the need for immediate reforms in the land and financial markets.

What reforms ought to be undertaken for the housing sector?

Based on the above, the reforms that need to be undertaken are in the real and financial sectors. The efficient functioning of the land and financial markets is a necessary condition for the efficient functioning of the housing market. Reforms in the housing governance structure are also called for.

⁴The 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).

⁵Under the centralized scheme, the private sector mainly acts as contractors in government housing programs.

Reforms in the land market

* Land laws have to be examined. There are no clear guidelines on land use and the use of public or government lands for housing the poor. For instance, while security of land tenure programs (e.g., Community Mortgage Program or CMP) provides a mechanism to resolve some squatting issues, it has also encouraged the development of informal land markets (Baross 1993).

* Poor land administration infrastructure is 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. For instance, the absence of a national standard and method for real property valuation caused land valuation problems and stalled negotiations for infrastructure development or for housing programs such as the CMP. Issues of conflicting ownership and problems concerning rights-of-way have also delayed negotiations.

* Reforms on real property taxation should also be prioritized. Although the real property tax system is well designed in the country, this has not been used effectively to generate revenues and serve as equalizing factor in the distribution of wealth (World Bank 2002). 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 the maintenance of physical infrastructures. Efficient enforcement of property tax also nullifies the necessity of an idle land tax⁶ 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.⁷ 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 administrations to support the ongoing developments.

The above real sector reforms have to be undertaken. Simply creating laws to reduce processing time in the approval of permits or putting up one-stop shop processing centers will not work. The failure of these schemes in the country proves that this is so.⁸

Reforms in the financial market

The Philippines is one of the developing countries that has had permanent high levels of public housing finance provision (Duebel 2000). This strategy has been found counterproductive and institutional reforms are necessary to link housing finance to private capital markets.

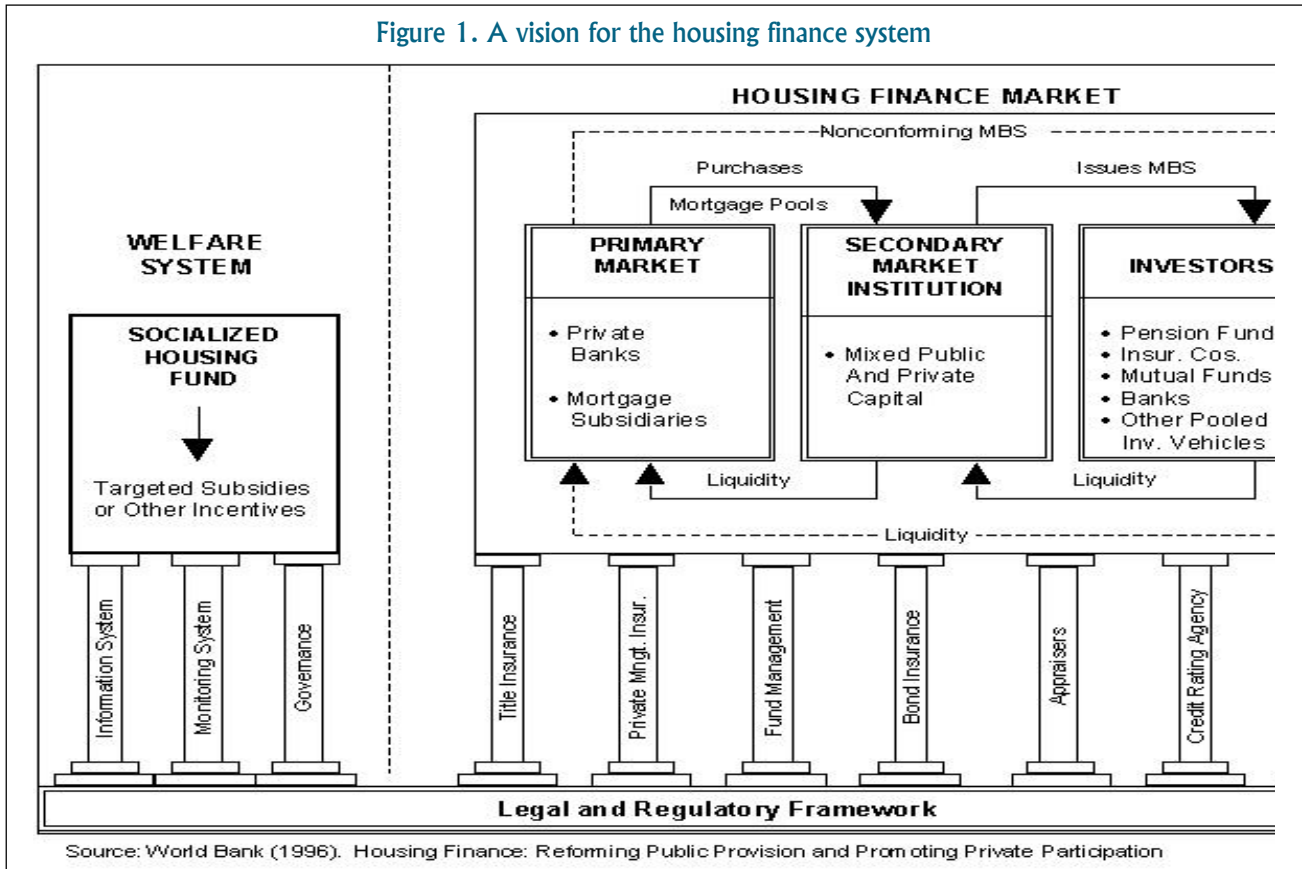
* In 1997, the government, with assistance from the World Bank, developed a reform concept that is focused on strengthening the viable elements of the mortgage finance system (Figure 1). In particular, the concept calls for a clear separation of subsidy mechanisms from transactions in the housing finance market. Housing subsidies thus become part of an overall welfare system where efficient targeting is undertaken through an analysis of 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, the Social Se-

⁶An 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 (Carter 2002).

⁷The Project is funded through the Australian International Development Aid and the World Bank and will be implemented in 15 to 20 years.

⁸In response to the delays in the processing of permits for socialized housing projects, a socialized housing one-stop shop center (SHOPC) was established to facilitate processing (EO 184 of 1994). However, the scheme did not work since information on land or land use cannot be systematically searched thus requiring the approving authority of higher bodies or committees. In 1998, EO 258 was enacted to require agencies involved in the approval of development permits to set time standards and include sanctions for noncompliance. However, major agencies were unable to provide their guidelines. Recently, EO 45 (June 2002) has been enacted with similar purpose. While some agencies have issued their implementing guidelines, actual implementation of the law has yet to be undertaken.



curity System (SSS), Government Service Insurance System (GSIS) and PAG-IBIG would no longer be originating mortgage loan sources. Private banks would be able to issue conforming mortgage-backed assets or securities (MBS) via sale to the secondary mortgage institutions or to issue nonconforming MBS directly to investors in the capital market.

This move would require legal and regulatory reforms such as: (a) modernization of the legal framework, (b) improvement of loan level information, and (c) streamlining and redefinition of the role of government in the primary market.

* An initial move may be in the prioritization of 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 the poor borrower information environment, highly skewed income distribution or 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 such as microfinance mortgage lending, employer-based housing and cooperative-based mortgage finance. A rental housing reform program should also be pursued.

Reforms on governance structure of housing

* In terms of governance, government should proceed with more certainty on strengthening the 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 de-

cision to devolve housing functions. However, it is important that LGUs' access to private capital markets be improved. In particular, the reforms should include: (1) the improvement of information structure of LGUs; (2) review of the regulatory framework on LGU deposits and borrowing limits; (3) provision of a complementary mechanism for private sector and government funding; and (4) improvement of the design, marketability and competitiveness of LGU bond issuances.⁹

* Housing concerns that have wider geographical impact should not be an issue against devolution. Instead, government should encourage metropolitan arrangements for activities affecting various localities. These metropolitan arrangements have been undertaken in many urban activities through initiatives of the local governments themselves and are envisioned to be the future trend specifically with the rise of megacities (Mercado and Manasan 2002).

* Finally, 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 of Housing as is being currently proposed by certain quarters. After all, most legal and regulatory impediments on housing are the concerns of the finance and environmental departments, which already exist. 

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⁹This has been extensively discussed in Llanto, Manasan, Lamberte and Laya (1998).

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