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Is government really solving the housing problem?

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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 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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1. Introduction

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.Thirty-one 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 2005-2010, official estimates pegged this unmet need at about 2.2 million units.[1] The need to house another 1.5 million new households over the same period was also anticipated.

[1] HUDCC data. By definition, this includes units to replace housing located in danger zones and other reserved areas, new housing to decongest doubled-up households, units for structural or tenurial upgrading, and housing for the homeless.

Is the government really solving the housing problem? The short answer is no, not quite. While rapid urbanization 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.

This paper proceeds as follows. Sections 2 and 3 discuss why and how governments typically intervene in housing markets and the achievements and costs of our national housing policies to date. Strategic issues that need to be confronted are discussed in section 4 and ways forward in section 5.

2. 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.[2] 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. 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. The slow adjustment in the housing system makes housing markets "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 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. There

[2] This section synthesizes insights from World Bank [1997], Hoek-Smit [2004], Stahl [1985], Arnott [1987], Whitehead [2003], Hoek-Smit and Diamond [2003], and Todt [1985].

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'. 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 that 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. The practical case for intervention should depend on whether the market failures are large enough to matter and on the chances of government action actually overcoming those failures—otherwise the cost of government failure can easily outweigh the cost of the original market failures themselves. Once the practical case is made, however, 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 that relate to the way in which housing assets are paid, are among the most prevalent.[4]

3. 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 first 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 clearing programs, the 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 prewar Filipino legislature supported the acquisition, development, and

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[3] World Bank [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]. Housing finance subsidies include subsidies to research, information, and collection; below-market-rate housing loans and insurance products; and direct government provision in financial intermediation, among others.

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

resale of landed estates (e.g., Diliman) and housing (e.g., Vitas tenement housing) on behalf of labor, which expanded in the 1960s and 1970s when a programmatic distinction was made between (a) *social* housing (e.g., slum clearance, rental tenement construction, and resettlement projects) built by government and funded by appropriations; (b) *economic* housing, financed and built by government; and (c) 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.

However, reports indicate that waste and inefficiency characterized these early public programs. 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—for example, more than 50 percent in five 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 housing.

Today, the housing policy is embodied in a national shelter program (NSP) that features a "total systems approach to housing finance, production and regulation"[6] and an interacting network of housing agencies led by the 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 guaranties 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, 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 Pag-IBIG 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

[6] Executive Order (EO) 90, series of 1986. EO 90 reiterated the National Shelter Program first formulated in 1978.

and self-sustaining basis" (Executive Order 90). Its overall goal through 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"), 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 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, about 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 through direct production; 13 percent through land proclamations; 10 percent through community-based mortgage finance; and the remaining 56 percent through individual mortgage finance and retail guaranties.

Table 1. Estimated backlog, targets, and households[a] served, 1987-2010 (in 000s)

	1987-92	1993-98	1999-00	2001-04	2005-10	Total
Estimated need[b]	3,376	3,724	3,362	3,600	3,756	
Backlog (in year 0)[c]	1,182	2,225	1,139	2,069	1,171	
Target	627	1,200	478	1,200	1,146	4,651
Households 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: Medium-Term Philippine Development Plan (MTPDP) 1987-1992. Backlog is as of 1988 and is computed at 35 percent of estimated need based on share of backlog to total need for urban areas. Households assisted based on HUDCC accomplishment matrices for 1987-1992.

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

Notes:
[a] "Households" is an attempt to correct for any double counting.
[b] Backlog + new households.
[c] Defined by HUDCC to include units with double occupancy (urban and rural); units for tenure, infra or structural upgrading; units for replacement due to danger area/infra area/for eviction or demolition; homeless.

Table 2. Number of households (HH) assisted and cost (in millions) by key program, 1987-2010

Key program	1987-2000			2001-2010			1987-2010		
	HH	Cost (M)	Ave cost /HH	HH	Cost (M)	Ave cost /HH	HH	Ave cost /HH	Change in ave cost /HH (1985=100)
Production									
Resettlement	146,422	8,089	55,245	154,800	18,981	122,616	301,222	89,868	24.1
Core housing	0			6,971	115	16,497	6,971	16,497	
Slum upgrading*	52,809	1,566	29,653	32,271	58	1,797	85,080	19,087	-74.5
Sites and services*	30,598	2,358	77,058	15,733	441	28,030	46,331	60,409	-85.2
Special projects	26,550	2,235	84,171		0		26,550	84,171	
Land proclamation	0			302,031	nd		302,031		
finance									
Community mort	105,692	2,867	27,130	113,780	5,574	48,990	219,472	38,463	-7.3
Primary mort	544,197	104,624	192,254	401,242	195,619	487,534	945,439	317,570	17.4
Retail guaranty	170,585	80,113	469,637	150,430	129,058	857,927	321,015	651,593	-3
Total	1,076,853			1,177,258			2,254,111	0	

Source: Author's computation.

Base data:

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

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

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.

3.1. Housing finance

Government housing finance interventions have typically featured underpriced housing loans and guaranty products and the absence of market disciplined policies for funding and underwriting.[7] Such a regime has led to at least three crises for NHMFC—in 1985, 1992, and 1996, the last one involving about Php 42 billion in funds borrowed from the Pag-IBIG, SSS, and GSIS[8]—and at least one liquidity squeeze for HGC in 1998 from which HGC has yet to recover.[9] Subsidies have also been highly regressive. During the time of the NHMFC and HGC crises, higher-income borrowers captured nearly 75 percent of interest subsidy flows, almost 90 percent of subsidies associated with arrears under the major lending programs, and 80 percent of cash and bond guaranties.

The Pag-IBIG 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,[10] 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

[7] World Bank [1997]. See also Llanto and Orbeta [2001].

[8] Llanto and Orbeta [2001] estimate that subsidies amounted to about Php 25.4 billion over the period from 1993 to 1995 alone, of which 90 percent 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 guaranties 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 Php 55.4 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).

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

end of 2009.[11] While the quality of the NSP mortgage portfolio is far superior under Pag-IBIG than it was under NHMFC, subsidies continue 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 Pag-IBIG 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; Table 4 and Figure 2 compare the average returns on Pag-IBIG's investment portfolio and on government bonds over the period from 2003 to 2008, illustrating possible foregone earnings on member contributions. Subsidies are ultimately borne by Pag-IBIG's own lower-income, self-employed member-savers, who do not qualify for housing loans but who receive lower returns on their mandatory contributions due to interest subsidies and default leakages.[12]

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

	Loan		Subsidy	
	Amount	Interest rate %)	PV[a]	As a % of principal
Pag-IBIG[b]	300,000.00	6	120,596.80	43.84
		4	177,067.40	59.02
		4	187,645.30	62.55
	750,000.00	7	267,536	35.67
		5	387,295	51.64

Source: Author's computations.

Notes:

[a] Assumptions: market rate fixed at 11 percent; discount rate 10 percent.

[b] Pag-IBIG 30-year mortgage loans are at 6 percent, 7 percent, and 10.5 percent for amounts Php 300,000 and below, Phh 300,000 to Php 750,000, and Php 750,000 to Php 2 million, respectively. An additional 2 percent 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.

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

[12] In 2008, nonperforming mortgage loans reached 24 percent of mortgage loans outstanding, and nonperforming sales contracts receivables amounted to 13 percent of sales contracts outstanding, according to the annual audit report of COA. In 2005 these figures were at 30 percent and 18 percent respectively.

Table 4. Estimated return on Pag-IBIG'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
20-year	12.23	13	12.13	9.69	8.63	9.5	10.9
Note: % members availing of housing loans.			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.

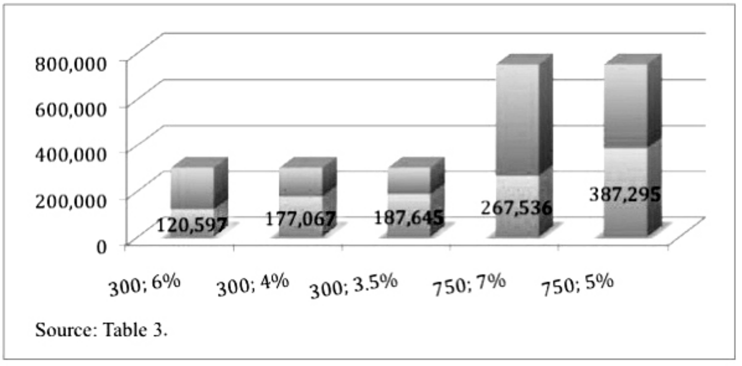


Figure 1. Pag-IBIG as subsidy donor: the present value (PV) of implicit subsidies in Pag-IBIG mortgage loans

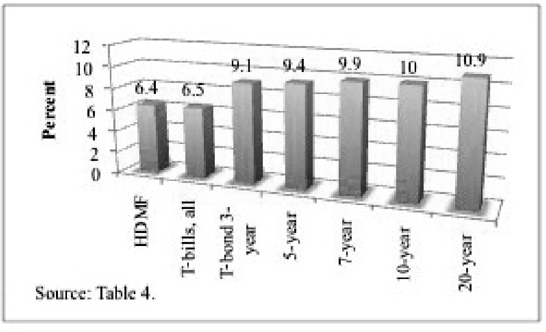


Figure 2. Estimated returns on Pag-IBIG investment portfolio relative to T-bond rates (average 2003-2008)

Further, the last decade has seen private mortgage lending move steadily down market, driven in large part by favorable macroeconomic conditions. Yet Pag-IBIG continues to seek an *expansion* of its own lending operations. This raises the question of whether end-user financing represents the optimal way for Pag-IBIG to comply with its mandate and, more critically, whether Pag-IBIG has crowded out rather than crowded in private lenders, and to what extent. Pag-IBIG enjoys significant legal and regulatory privileges, including mandatory contributions, the privilege to deduct loan payments from salaries, tax exemptions, and a general government guarantee—preferential conditions which private lenders can hardly compete with.

3.2. Housing production

The net impact of government on the housing production side is not well understood. While NHA claims a production output of more than 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, NHA completed about 12 units per employee, about one-third the rate typical to the private sector [World Bank 1997].[14]

Also, while there has been 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 Pag-IBIG, 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 it for use in socialized housing projects at no cost—suggesting a crowding out of private sector participation.[15] Between 2001 and 2010, three out of ten social housing units were produced or contracted by NHA (Table 5 and Figure 3).

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

[14] 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 United States. No similar study has been done on the Philippines.

Table 5. NHA share in social housing production

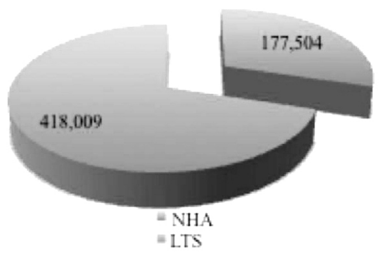
	NHA[a]	LTS[b]	Total	% Share NHA
1993-1998	92,471	413,891	506,362	18.3
1999-2000	55,320	55,511	110,831	49.9
2001-2010	177,504	418,009	595,513	29.8

Source: Author's computation.

Notes:

[a] NHA: resettlement, core housing, sites and services, special projects.

[b] LTS: License to sell issued by HLURB for social housing, including 20 percent balanced housing compliance.



Source: Table 5.

Figure 3. Share of NHA to total production of housing units from 2001-2010

While NHA continues to claim a significant portion of social housing production, there has been a welcome movement toward 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 local government units (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 that declare the occupied parcels of public lands open for disposition to qualified beneficiaries. Under this program, about 6,800 hectares were made available for disposition to around 223,500 occupying households between 2001 and 2010 (Table 6). While the overall impact of the program has yet to be evaluated, it is argued 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 and higher use than its previous state.

Table 6. Land proclamations as of October 6, 2010

Region	Hectares	Beneficiaries	Hectares/beneficiary
NCR	828.4	80,799	0.01
CAR	88.1	3,278	0.03
II	59.6	5,562	0.01
III	2,237.2	12,850	0.17
IV	1,977	23,513	0.08
V	90.2	6,002	0.02
VI	81.6	9,152	0.01
VII	88.6	5,081	0.02
VIII	7.4	770	0.01
IX	21.4	5,157	0
X	3.1	98	0.03
XI	31.9	998	0.03
XII	22	1,700	0.01
CARAGA	96.1	2,371	0.04
SPECIAL	1,232	66,200	0.02
Total	6,864.7	223,531	0.03

Source: HUDCC.

Excludes 28,500 hectares under Mt. Pinatubo resettlement and 20,312 hectares (corresponding to 50,000 households) in Lungsod Silangan, Antipolo, Rizal.

Another bright spot is, and has always been, the Community Mortgage Program. Launched in 1988 to assist informal settlers and slum dwellers acquire occupied property through nonmarket 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 2001[16]); 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 (Tables 7a and 7b).[17]

[16] Data do not include foreclosed units or units under litigation. Refer to Tables 12-14 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].

Table 7a. Reach of CMP and Pag-IBIG: based on employment

	Philippines				NCR			
Decile	Annual income	Loan amortization as a % of monthly income			Annual income	Loan amortization as a % of monthly income		
		CMP ** 39,000	CMP 80,000	Pag-IBIG 300,000		CMP ** 39,000	CMP 80,000	Pag-IBIG 300,000
1st (poorest)	28,175	10.7	21.9	76.6	47,302	6.4	13.1	45.6
2nd	43,473	6.94	14.2	49.6	69,592	4.3	8.9	31
3rd	54,560	5.53	11.3	39.5	83,435	3.6	7.4	25.9
4th	66,109	4.56	9.3	32.6	99,601	3	6.2	21.7
5th	79,433	3.8	7.8	27.2	118,303	2.5	5.2	18.2
6th	94,673	3.19	6.5	22.8	142,184	2.1	4.3	15.2
7th	116,495	2.59	5.3	18.5	172,793	1.7	3.6	12.5
8th	150,094	2.01	4.1	14.4	215,028	1.4	2.9	10
9th	210,620	1.43	2.9	10.2	293,546	1	2.1	7.4
10th (richest)	435,092	0.69	1.4	5	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 (Pag-IBIG) years.

** Average size of CMP loan: 39,000.

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

Table 7b. Reach of CMP and Pag-IBIG: based on employment

	Philippines		NCR	
Income decile (per capita)	CMP (% Employed)	Pag-IBIG (% Wage & salaried)	CMP (% Employed)	Pag-IBIG (% 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
6	57.3	31.8	51.3	37
7	55.7	32.1	49.5	37.4
8	55.1	33.4	51.4	36.6
9	58.1	37.8	56	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.

Pag-IBIG 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 Pag-IBIG is at best one-third of households in middle- and lower-income deciles.

All three programs—Railway resettlement, CMP, and Land Proclamation—face challenges of course. NHA is battling the issue of how relocation and post-relocation costs can be shared by the national government and affected LGUs, including how to incorporate these costs in the evaluation of big-ticket infrastructure projects (such as the North and South Rail projects) and in the budgets of key agencies.[18] CMP is dependent on budgetary appropriations and cannot keep up with demand. As of the end of 2008, CMP had 544 projects in the pipeline for enrollment, approval and examination, amounting to about Php 3.6 billion in loans for 60,826 households. Land

[18] For instance, receiving LGUs typically do not have funds for the education of relocatee children. However, no funds are automatically provided by the Department of Education either. Other post-relocation requirements include project maintenance and administration, comprehensive development planning, and basic community capability building and stabilization.

Proclamation remains somewhat peripheral to the national housing strategy and is struggling with the typical titling processes as well as with how to mainstream rights-based tenurial instruments. Households who are covered by land proclamations 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]

4. 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 crises involving housing finance agencies, the state's approach has been costly and ineffective, with costs borne heavily by lower-income members of contractual savings institutions on behalf of government. Nonmarket 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.

Among the strategic questions which need to be answered are: Where will normal market forces likely expand housing finance systems and improve access and where can well-targeted government interventions help rather than replace this process [Hoek-Smit 2009]? How can a provident fund like Pag-IBIG best contribute to this process: as a pension fund and institutional investor, a mortgage lender, or a subsidy distributor?[20] What should be done about HGC and NHMFC, and do market conditions warrant their continued existence?

The second has to do with the level of social assistance the state wishes to allocate to housing and to delink this from market-based transactions. There will always be households that cannot be reached by market forces even if government incentives are applied. There is also broad consensus

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[19] After proclamation, households pay for their parcels through CMP or directly to the Department of Environment and Natural Resources (DENR). Some proclaimed sites are turned over to NHA for development.

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

that housing subsidies, if warranted, should be on-budget and transparent rather than off-budget and implicit in below-market prices. However, how housing social assistance is ranked against other social priorities of the state (such as basic education or the Conditional Cash Transfer program) has not yet been confronted, in large part because its mode of delivery—subsidized lending—does not compel it to be. This is not to say that increased public spending in housing is a necessary condition for better housing outcomes or for lower human poverty incidence as some claim.[21] Nor is it to say that there is a multiplier-effect argument in favor of greater public spending on housing relative to other sectors.[22]

That said, extracting the full benefits from potential reforms in housing finance markets and subsidy systems will not be possible if the state continues to deal with symptoms rather than causes 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. Poor housing is, of course, not solely due to relatively high supply prices; the other side of the equation is low permanent incomes. However, policies and regulations that determine the efficiency and responsiveness of housing supply have much to do with poor housing as income levels per se [World Bank 1993] and, based on observations since the 1960s, may be the source of the most important distortions in the Philippine case.

"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.[23] The absence of complete and updated cadastral information, the plethora of agencies involved in

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[21] See, for instance, Ballesteros [2009] who advocates for increased public expenditures on housing by citing regression results from Habito [2009] that for every 1 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—that is, 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] Dumaua [2010] computes the final demand multiplier of Construction to be 1.93 at most, a far second to Manufacturing and alongside Transportation and Private Services. Its employment multiplier is .000003, ranked 5th to 7th among 11 major industries.

[23] See Ballesteros [2000] for a detailed discussion.

land administration, and the hodgepodge 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 a city's different parts, guides land use and urban expansion, and allows lagging regions to participate in the growth process of leading urban centers [World Bank 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 underinvestment 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].

Construction codes and subdivision restrictions also greatly influence supply.[24] By controlling floor-to-area ratios, for instance, the state controls the consumption of land, the only factor in which poor residents can outbid nonpoor 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. 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

[24] This section draws heavily from Ortiz [1999].

an explicit and coherent urbanization framework. This is also evident in the overall treatment of informal settlements where efforts to provide regularized property rights and affordable infrastructure are typically viewed narrowly as relief or redistribution rather than more broadly as an efficient way of developing urban land rapidly and on a large scale with maximum distributive effect.[25]

5. Where to begin to really solve the housing problem

This paper has argued that the 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 that 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 Pag-IBIG 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 toward fundamental supply-side issues in tandem with improved urban governance. This third component involves going beyond what has traditionally been understood as the "housing sector" toward involvement in the strengthening of land and property market institutions as well as the planning of 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 prerequisites [World Bank 2009].

Anchoring housing to 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

[25] Bertraud [n.d.]. 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.

subregional levels so that rural-urban transformations can be properly observed and efficiently supported. Also, a rearticulation 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 subregional 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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