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Housing policy for the poor: revisiting UDHA and CISFA

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The enactment of two pro-poor housing legislations in the 1990s—the Urban Development and Housing Act (UDHA) of 1992 and the Comprehensive Shelter Finance Act (CISFA) of 1994—led to major changes in government policy in housing the poor. From a highly centralized and heavily subsidized policy in the 1960s to the 1980s, the government moved to a market-oriented and participative approach to housing. In particular, UDHA promoted strategies such as localization of housing, public-private sector partnership, and beneficiary-led approach to resettlement. It also recognized the rights of the poor to adequate relocation sites when evicted and enhanced the acceptability of usufruct and leasehold rights as secure tenure instruments for housing finance.

On the other hand, CISFA authorized regular funding for the key programs under UDHA. It introduced strategies toward the development of the capital market by strengthening state-established housing finance entities such as the Socialized Housing Finance Corporation (SHFC), the Housing Guarantee Corporation (HGC), and the National Home Mortgage Finance Corporation (NHMFC). The subsidy program of government also expanded beyond interest rate subsidies to include land grants and below-market sale of land, tax exemptions, housing material subsidy, and other forms of entitlements.

Despite these positive reforms, however, housing for the poor have yet to move in

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terms of scale and sustainability. Why this problem persists is the subject of this *Policy Note*¹ which assesses the accomplishments in government housing programs for the poor and examines the issues and gaps relating to the UDHA and CISFA that may have affected their various programs' performance.

Key housing programs for the poor: what have been accomplished?

The National Shelter Program (NSP) is the government's banner program to address housing for the poor. The NSP consists of several programs intended to increase the housing stock for households in the lowest 50 percent of the population through policy interventions in housing production, regulation, and financing. The program classifies housing for the low-income population into socialized and economic housing. Socialized housing units are valued at less than P300,000 (US\$6,000)² and are targeted to the poor or low-income households up to the 30th income percentile. On the other hand, economic housing units are valued at greater than P300,000 up to P2 million (>US\$6,000 to US\$40,000) and are targeted to families from the 30th to the 50th percentile. The four key programs under the

¹ This *Note* draws insights from consultations on the review of UDHA and CISFA undertaken by the Housing and Urban Development Coordinating Council (HUDCC) and key shelter agencies.

² US\$1= P50

³ Ateneo University School of Policy. Based on National Statistics Office (NSO) data, the "700,000 informal settlers" refer to national data. Other surveys, however, show that there are more than 700,000 informal settlers in Metro Manila alone.

NSP that cater specifically to socialized housing are described in Box 1.

How have the programs performed? Looking at the accomplishments of the various NSP socialized housing programs, it can be said that the current housing efforts remain inadequate. For the period 2005–2010, for instance, the housing sector shows an acute housing shortage estimated at over one million units. This estimate, however, is probably even grossly underestimated since other surveys report that there are over 700,000 households in informal settlements in Metro Manila alone for the same period.³ Majority of the backlog consist of the housing needs of informal settlers and slum dwellers, households in danger areas, and the homeless. The housing shortage is evident in urban areas because of the high land cost and lack of supply of land for housing. In fact, for the period up to 2010, the total estimated housing need will require about 4,393 hectares of land (HUDCC 2007).

As seen in Table 1, the estimates on housing shortage barely improved during the period 2001–2010. In terms of housing targets, they only meet one-third of the total housing need while in terms of actual accomplishments, they barely cover the housing backlog. The NSP has only delivered 26 percent, on the average, of its target or less than 10 percent of total housing need and actual accomplishment for socialized housing has also only been about 26 percent of the backlog. The housing backlog is expected to

Box 1. Key housing programs for the poor

(a) *NHA Resettlement Program.* The Resettlement Program is administered by the National Housing Authority (NHA). It involves the acquisition and development of large areas of raw land into serviced home lots or core housing units. The areas are provided basic facilities such as schools, potable water, and electricity while dislocated households are given livelihood opportunities. Each relocated family is entitled to P160,000, of which P100,000 covers for the land cost and P60,000 for the housing unit. The land cost is a loan package with interest rate of 6 percent payable in 30 years while the housing unit cost is part grant (P25,000) and part loan (P35,000) with zero interest payable in five years.

(b) *Community Mortgage Program.* The Community Mortgage Program (CMP) is a mortgage financing program which enables urban poor squatter communities to purchase the land they occupy or to purchase land where they choose to resettle. The beneficiaries of the loan program are organized associations of slum dwellers. CMP loans have a maximum credit per household of P120,000 for highly urbanized cities and P60,000 to P80,000 for other urban or urbanizing areas. The loan has a term of 25 years at a subsidized fixed interest rate of 6 percent. The program was first administered by the National Home Mortgage Finance Corporation (NHMFC) in 1988 but was later managed by the Socialized Housing Finance Corporation (SHFC), an NHMFC-formed subsidiary in October 2005.

(c) *Presidential Land Proclamations.* The government pursues the regularization of tenure of informal settler families occupying public lands through the issuance of Presidential Proclamations declaring parcels of public lands open for disposition to qualified beneficiaries. Presidential land proclamations can be done through various issuances such as Presidential Proclamations (PP), Executive Orders (EO), Memorandum Orders, Administrative Orders, and Deed of Conveyance usually between government agencies and are planned and coordinated by the Housing and Urban Development Coordinating Council (HUDCC).

(d) *HDMF Housing Loan Program.* The Home Development Mutual Fund (HDMF) is a social security fund collected from mandatory contributions of workers and their employers as well as from voluntary contributions of those in both the formal and informal sectors of the private sector. The HDMF aims to encourage its members to achieve homeownership through mortgage financing and the private sector to build socialized housing projects by making available a finance program for low-income households. HDMF housing loans have a maturity from 5 to 30 years, with interest rates varying on the basis of the amount of the loan applied for.

worsen further under the scenario of worsening poverty situation and fast urbanization of metro cities.

Reasons behind the shortfalls

What has hindered the outreach and sustainability of the NSP programs for the poor?

First, resettlement costs are increasing. Resettlement projects are highly subsidized, with subsidies consisting of the housing

finance component, site development costs, and livelihood programs. And local governments of affected cities and/or the receiving or host local government units (LGUs) usually have limited funding and are highly dependent on the national government for both logistic and fund support.

Second, most LGUs are opposed to using their locality as relocation sites. The identification of relocation site is a key consideration for the success of resettlement projects and the

Table 1. Housing accomplishment, targets, and NSP accomplishment

	2001–2004 (in housing units)	2005–2010 (in housing units)
Housing backlog	1,872,747	1,170,798
Housing need	3,637,704	3,756,072
Housing target ^a	1,200,000	1,146,000
NSP ^b (actual)	311,819	302,716
a. Resettlement	49,680	124,619
b. Land proclamation	196,640	85,958
c. Community Mortgage Program	49,943	49,336
d. Socialized HDMF	15,556	42,803

^ahousing targets from KSA based on budgetary allocation

^brefers to direct housing outputs from resettlement (including slum upgrading, core housing and sites, and services), CMP and land proclamations, and HDMF finance for socialized housing. Socialized housing component estimated from total HDMF end-user finance based on loan values and housing cost of P300,000/unit.

receiving LGU identified should be willing to take in the migrants. However, the receiving LGUs are not often keen to accept the migrants consisting mostly of poor families because of the LGUs' limited social services and economic opportunities in the locality as well as the cost implications of the maintenance of the relocation sites upon turnover.

Third, there is difficulty in identifying beneficiaries of government housing programs. Census tagging of beneficiaries for resettlement is a tedious process due to the unabated increase of potential beneficiaries magnified by the presence of professional squatters and syndicates. Income segregation among the affected households is also difficult to implement and thus, subsidies may not have been well-targeted. It has also been difficult to track down the awardees of housing units due to the lack of a monitoring system.

Fourth, the turnover of lands proclaimed as socialized housing sites can be quite legalistic. For some proclaimed lands, transfer of rights to beneficiaries and development are delayed by the legal process and valuation issues. There is also a lack of financing for the development of these lands.

Fifth, housing finance programs have limited outreach. While the CMP has benefited urban poor households and those in the informal sector, funds are insufficient for scale-up operations. The CMP relied primarily on budgetary appropriations which, for some years, were not made available to the program. And while its collection performance at an average of 73 percent may have exceeded other programs catering to poor households, said collection has declined over time (UN Habitat 2009). To address the issue of outreach, the Localized Community Mortgage Program (LCMP) was developed by the SHFC but said scheme has its own limitations.⁴

⁴ The Localized Community Mortgage Program (LCMP) provides an Omnibus Commitment Line (OCL) of P50 million to qualified partner LGUs. An LGU qualified for an LCMP is extended an OCL based on the social housing projects for urban poor communities shown in the Comprehensive Shelter Plan (CSP) of the LGU. The SHFC provides up to 75 percent of total costs while the LGU shoulders the remaining 25 percent as counterpart contribution. The LGU contribution may be in any of the following: (a) land owned by the LGU to serve as site of the project; (b) co-financing of the lot acquisition; and (c) site development of residential units or medium rise residential buildings (MRRBs). The scheme is envisioned to create a multiplier effect on CMP funds; unfortunately, this has not happened because most LGUs are also asset- (i.e., land) and fund-constrained.

On the other hand, the HDMF Socialized Loan Program has limited impact on the poor inasmuch as membership to the Fund is more suited to those in the formal sector or the salaried workers. Majority of the poor, however, have informal income sources. Another limitation is the support by the HDMF of the socialized sector through a cross-subsidy scheme whereby gains from shelter and short-term multipurpose loans of the medium- and high-end sectors are used as cover for the subsidized operations. This scheme implies that the Fund maintains a limited portfolio for the socialized sector. On the average, for instance, the share of socialized housing to the total loan portfolio of the HDMF for the period 2004–2007 was about 6 percent while the share to shelter finance amounted to 13 percent for the same period as can be noted in Table 2.

Housing finance is thus seen to be the most challenging issue so far. On the one hand, annual public expenditure on housing has

been very limited at approximately less than 0.1 percent of the gross domestic product (GDP) on the average, one of the lowest in Asia (Table 3). And on the other hand, the Philippines has one of the lowest mortgage penetration ratios (Figure 1). Private sector funds have not been considerably tapped and the entry of housing microfinance has been limited, partly by the continued policy on interest rate subsidy.

UDHA and CISFA assessment: issues and gaps

While the poor performance of the NSP is not entirely due to the inadequacy of UDHA and CISFA, there are policy issues and gaps arising from these laws that are critical to the effectiveness of NSP housing for the poor. These are as follows:

Selection of beneficiaries of housing subsidy. A year after the approval of the UDHA, the LGUs were required to identify and register all beneficiaries for socialized housing in their

Table 2. Socialized housing portfolio, HDMF, 2004–2007

	Socialized ^a Loan Value	Low-cost ^b Loan Value	Total Loan Takeouts		% Socialized Housing to	
			Shelter Finance ^d	Total Loans ^e	Shelter Finance	Total Loans
2004	2.689	12.098	16.32	31.11	16.5	8.64
2005	2.422	12.869	17.26	35.80	14.03	6.76
2006	1.860	14.236	17.75	43.43	10.48	4.28
2007 ^c	2.492	12.642	26.1	52.60	9.55	4.74

^a Socialized housing refers to loan amount not more than P300,000/applicant.

^b Low-cost housing refers to loan amount greater than P300,000 but less than P2 million.

^c Data for socialized and economic housing are for Jan–Sept 2007; data for total take-outs are for Jan–Dec 2008.

^d Shelter finance includes both end-user finance and institutional finance. The bulk of shelter finance (i.e., 90%) is end-user financing.

^e Total HDMF loans include short-term, multipurpose loans, and shelter finance.

Source: HDMF Annual Reports

Table 3. Average annual public expenditure on housing, 2000–2007

Country	Public Housing Expenditures (percent of GDP)
Singapore	2.089
Nepal	1.482
Mongolia	1.206
Indonesia	1.012
Sri Lanka	0.758
Thailand	0.742
Malaysia	0.383
Bangladesh	0.354
Philippines	0.089

Source: Asian Development Bank in Habito (2009).

Figure 1. Mortgage penetration ratio



Source: European Mortgage Federation (2007) and Asian Development Bank (2007).

respective locality. The HUDCC, on the other hand, was to design a system for beneficiary registration to assist the LGUs. A list of 464 LGUs was selected to test the system and 320 of them submitted inventories in 1994 consisting of 842,642 beneficiaries. After this initial effort, however, the LGUs no longer conducted registration since normally, they have no incentive to develop databases of information except for those needed for electoral and tax purposes. Thus, the list or identification of program beneficiaries is often *ad hoc* and politically dependent.

The law also disqualified professional squatters or squatting syndicates to any housing program of government and provided the definitions for said groups. Unfortunately, these definitions are difficult to apply in the field since existing parameters are inadequate to assess sufficiency of income specifically in the informal sector. Another problem is the abandonment or transfer of awarded homelots

by the beneficiaries, the reasons for which could be due to legitimate reasons such as the lack of economic opportunities and basic services in the distant resettlement sites.

Curtailment of professional squatters and squatting syndicates. The presence of professional squatters diminishes both public and private efforts to address housing for the poor. Under the UDHA, vigilance against these activities is required from both the government and the community. LGUs are tasked to take the lead in enforcing the laws with assistance from the Philippine National Police (PNP) and the Presidential Commission for the Urban Poor (PCUP). These agencies, together with the communities, are mandated to adopt measures to effectively curtail activities of squatter syndicates. However, the enforcement of the law in terms of arrest and prosecution has been weak, partly because of the weak coordination between authorities and communities.

Eviction and demolition. The establishment of guidelines for eviction and demolition of urban poor settlements has been one of the highlights of the UDHA. The law has subsequently provided informal settlers rights to the land they occupy. On government lands, eviction and demolition are allowed but only in danger areas and for infrastructure projects. On private lands, eviction and demolition requires court order. In the execution of eviction and demolitions, adequate relocation and a humane approach are mandatory. However, there have been several cases of disregard for the law specifically in private lands. Monitoring and feedback are weak because of the absence of a central agency or quasi-judicial body which has the power to ensure compliance.

Private sector participation. One of the strategies to housing the poor is to entice the private sector to invest in socialized housing. The UDHA intends to bring this provision to fruition through a combination of incentives and regulation. The incentives are in the form of tax exemptions and financing window under the HDMF for socialized housing acquisition. On the other hand, government requires developers without socialized housing projects to set aside 20 percent of nonsocialized subdivision projects for housing programs for the poor (balanced housing requirement). The benefits from tax exemptions for developers to house the poor are not clear though while compliance to the balanced housing provision of the UDHA has not been adequately monitored especially at the local level.

Resettlement policy, basic services, and livelihood. The UDHA adopts resettlement as a major government activity specifically for households living in danger zones that include public places such as roads, sidewalks, parks, and playgrounds. However, resettlement can be costly and sites identified for resettlement have to be habitable and must have basic services available. Economic opportunities and educational facilities are also major considerations. The absence of these basic facilities, services, and opportunities will make relocation activities futile. Moreover, there seems to be a lack of coordination between the lead national agency on resettlement, the National Housing Authority (NHA), and LGUs and other national agencies. Funding is also a problem and NHA has no oversight functions over resettlement funds other than its own.

Program implementation. With the advance of decentralization in the country, the localization of shelter plans and programs inevitably follows. Thus, the UDHA is explicit in the role of local governments as the main implementer of the UDHA. The specific activities where local leadership is critical are: (1) identification of socialized housing beneficiaries; (2) identification and provision of land for socialized housing in the locality; (3) curtailment of activities of professional squatters and squatting in danger areas; (4) ensurance of the mandatory requirements for eviction and demolition; (5) preparation and implementation of shelter and land use plans; and (6) raising of funds from real estate taxes

for UDHA funding. A key issue is the readiness and political will of LGUs to undertake these roles. Most LGUs, however, lack the capacity and resources for shelter and urban management as well as have different priorities.

Public expenditure on housing. CISFA aims to strengthen, promote, and support the NSP through regular and higher annual appropriations. The law provided for an increased funding of about P38.5 billion to be released for the period 1995–2002. However, only 52 percent of the NSP direct housing funds was released (Table 4). The shortfall and delays have affected the capability of the shelter agencies to increase housing targets for the lowest income beneficiaries of the NSP. CISFA also provided for the increased capitalization of the HGC and NHMFC to

strengthen the guarantee market and secondary mortgage market, respectively. While the required capital of the HGC has been released, the NHMFC has yet to receive P1.629 billion to raise its capital to P5.5 billion. Funds were also allocated to the *Abot Kaya Pabahay* Fund which is a special liquidity fund to support borrowers, developers, and fund agencies. The fund is now managed by the SHFC, with the exception of the cash flow guaranty which is held by the HGC. The Fund is currently being cleaned up and operations are temporarily suspended.

Recommendations

As gleaned from the foregoing, a number of reforms need to be instituted if the housing sector is to be more responsive to the needs of the poor. The key areas for reform are as follows:

Table 4. Fund releases and utilization of housing programs supported by CISFA

Program	Allocation Based on CISFA	Released	Utilization	% Released	% Utilized
Resettlement Program	5,200	5,200	5,200	100	100
Medium-Rise Program	3,000	1,008	981	34	97
Community Mortgage Program	12,780	6,576	6,629	51	101
Cost Recoverable Program	2,542	468	468	18	100
Local Housing Program	3,000	640	462	21	72
NHMFC capitalization	5,500	3,870		70	
HGC capitalization	2,500	2,500		100	
<i>Abot Kaya Pabahay</i> Fund (Total)	7,000	3,404	1,598		
– NHMFC	1,500	1,140		76	
– Amortization support	1,000	760	1,106	76	146
– Development loan cash flow	500	379	491.69	76	130
– Guaranty System (HGC)	1,500	1,035		69	
– Interest subsidy and liquidity support	2,500	90		4	

Source: Housing and Urban Development Coordinating Council (HUDCC)

- Develop a reliable and sustainable poverty database system at the local level to identify beneficiaries of government housing programs. The national housing agencies should come up with clear and measurable parameters to identify these beneficiaries. At present, there are efforts by the Department of Interior and Local Government (DILG) to institutionalize a Community-Based Monitoring System (CBMS) to generate baseline information on poverty. This system can be adopted for shelter programs.
- Develop a standard system for updating the Comprehensive Land Use Plans (CLUP) of local governments and capacitate LGUs on CLUP development and updating. The CLUP is a key instrument to identifying lands for socialized housing and thus an important database for shelter planning.
- In the absence of HUDCC's oversight function over LGUs, HUDCC should develop a system of incentives to encourage LGUs to perform their roles in shelter as identified in the UDHA.
- Adopt a national resettlement policy to ensure a common framework for resettlement approaches, housing packages, and entitlement. NHA's role as lead agency in resettlement projects should be strengthened. This would require not only its stronger coordination work with various agencies but also an integration of funds of various agencies into a common fund.
- Develop a public-private partnership as a key strategy to resettlement projects, specifically for resettlement in "new towns."⁵
- Strengthen enforcement of property rights with regards to the curtailment of professional squatting and implementation of humane eviction. The Courts should impose stiffer penalties on professional squatting and LGUs and the PNP must be capacitated for more effective curtailment of squatting syndicates. The government should also harmonize the eviction and demolition provisions of the UDHA with other laws such as the Civil and Building Codes.
- Review the tax incentives scheme for shelter. The law has exempted private developers from income taxes arising from the development of socialized housing. There is a need to rationalize the tax incentive and make it more responsive to housing the poor.
- Strengthen the SHFC which administers the CMP but has limited capacity to respond to demands from informal communities due to its weak charter. The SHFC remains a subsidiary of the NHMFC; and to strengthen the SHFC and thus the CMP, a new charter, together with increased capitalization, is therefore needed.

⁵ The Pasig Rehabilitation Project, a partnership between the NHA and ABS-CBN Foundation is an example of effective public-private partnership.

- Rationalize housing subsidy and increase public expenditure on housing. Government should ensure that the design of subsidy is transparent and well-targeted. Subsidy requires financial contributions by the government. Habito (2009) estimated that for every one percent of GDP spent on housing, the responsiveness of poverty reduction to GDP growth improves by 0.473 percent.
- Revisit the purpose of the *Abot Kaya* Fund Program and reassess its relevance. The Fund can be realigned with other forms of direct subsidies to housing the poor.
- Create a favorable environment for housing finance. Subsidies through financial intermediation should be removed and the financial health of state-owned housing finance institutions must be ensured. The entry of housing microfinance institutions, including foreign-based microfinance, should be encouraged. Scale and sustainability cannot be achieved through the use of government funds but through developed capital markets. On the demand side, government may need to increase efforts in

improving the bankability of the poor through community and livelihood development programs. 

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