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Regional Project on Pro Poor Housing Finance in Asia and the Pacific

United Nations ESCAP
Economic and Social Commission for Asia and the Pacific
National Housing Bank
(Wholly owned by the Reserve Bank of India)
UN-HABITAT

A Compendium of Select Countries of Asia Pacific Region

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EXECUTIVE SUMMARY

Access to adequate housing is a key issue in Asia and the Pacific. More than 500 million people or 45 percent of all urban residents of the region live in sub-standard housing (in slums and squatter settlements). UNESCAP has launched a regional project on Pro-Poor Housing Finance in Asia-Pacific Region. The project includes preparing and publishing country reports on the state of pro-poor housing finance in five Asia Pacific countries viz. India, Thailand, Indonesia, Sri Lanka, and Mongolia. The project also aims at preparing a comparative analysis, which also briefly covers Pakistan, Bangladesh and Philippines, and documents pro-poor housing finance best practices and innovations. The initiative also aims to establish a regional network on housing finance for the region.

There has been a rise in urbanization, slum population, temporary dwellings and the overall housing shortage over the years in India, Thailand, Mongolia, Indonesia and Sri Lanka.

The National Governments in all these countries have launched pro-poor housing and housing finance programs, and are directly involved in a number of initiatives which attempt in solving the housing shortage of the poor.

The stakeholders of the housing sector in these countries include the Government which frames and formulates policies and at times also provides housing, the public sector institutions which act as 'provider' of houses as well as the 'financer' for houses, private sector construction companies/developers which act at the supply side of housing,

Financial l institutions enable the demand side as they provide housing loans to the individuals for the purchase/construction of houses. Microfinance institutions/CBOs/NGOs act as the demand aggregators and international donor institutions like Asian Development Bank (in case of Mongolia) who by their technical assistance assists in shaping the housing finance system, and last but not the least the individuals who fuel the demand side of housing.

The difficulties in developing a fully functional pro-poor housing finance regime in these countries are many, some of which may be listed as: (i) target segments who are neither fully aware of such programs nor are properly serviced, (ii) cumbersome titling/registration processes more so in low income segments, and at times are also unreliable thus leading to questionable securities against finances; (iii) lack of long term sources of fund, (iv) absence of specific regulatory regime, (v) poor/nil credit histories (Credit Bureaus), and underwriting standards for micro-housing finance; (vi) absence of well developed secondary mortgage markets; and (vii) absence of a single national level institution catering exclusively to the housing needs of the poor. Innovations in providing pro-poor housing finance in these countries include the Housing Microfinance Program of National Housing Bank in India, *Ger* area project sponsored by Japan Fund for Poverty Reduction (JFPR), The Women's Bank program in Sri Lanka, Baan Mankong program in Thailand, Subsidized Home Mortgage program in Indonesia and micro-housing finance program of Tameer Bank and Kashaf Foundation in Pakistan.

A regional network in Asia and the Pacific linking institutions across the entire spectrum of housing finance, promoting/undertaking research and analyses of innovative practices in pro-poor housing finance is needed. This network will encourage training and capacity building activities, better exchange of information and advocate pro-poor housing finance issues. For this purpose, UNESCAP is considering to jointly work with South Asia-Pacific Housing Forum recently set up at National Housing Bank, New Delhi, India

The recommendations that emerged for increasing access to housing finance for the poor in these countries include the need for risk mitigation in the form of title insurance. A need is also being felt for a credit guarantee fund, presence of credit bureau, alternative forms of collateral, arrangement for consumer finance education, technical assistance for construction, creation of a national level affordable housing fund, community centric approach and strengthening of laws related to recovery of housing loans. Since pro-poor and housing micro finance needs a specific corporate culture and mindset, the existing housing finance institutions have failed to respond to the financing needs of pro-poor housing segment. Therefore, it is also observed that national level specialized pro-poor housing finance institutions are needed to provide an extensive and comprehensive service to the housing needs of the poor people in these countries.

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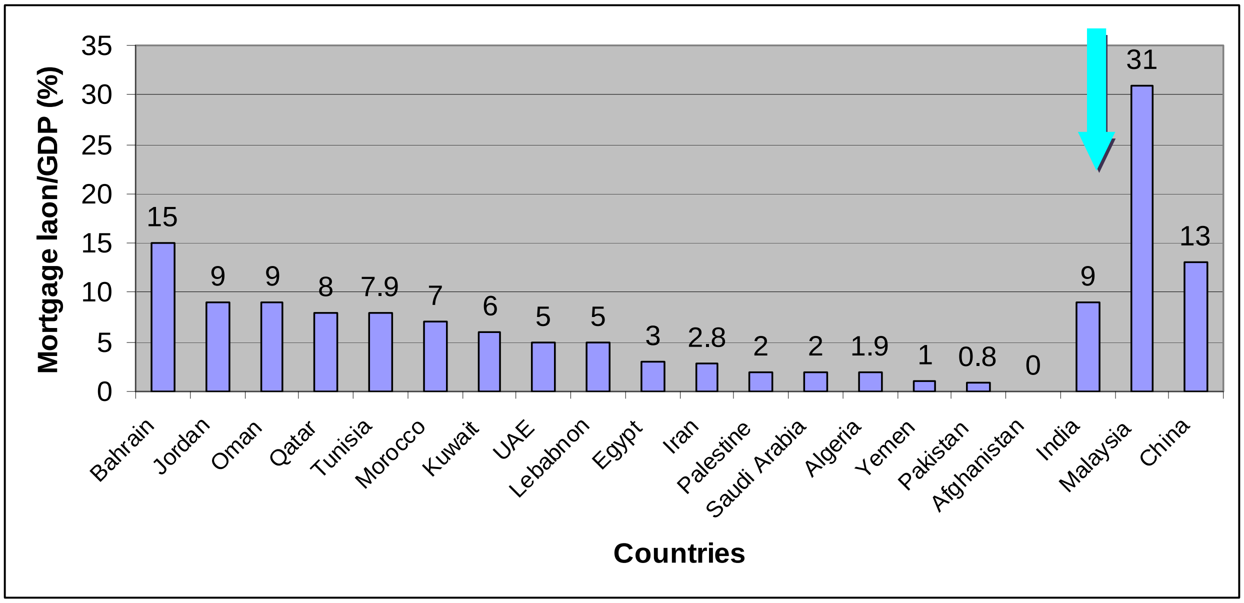
CHAPTER 1: PRO-POOR HOUSING AND HOUSING FINANCE, A PRIMARY ISSUE

Housing is a basic and fundamental right of every individual. Housing provides shelter and space for households to live in privacy, security and dignity. It also provides a point of reference through which they can access other services and utilities. Access to housing is a key social determinant to ensure social status and well-being of the households. Providing adequate housing to the citizens of a country is an essential component of Millennium Development Goals.

Housing is also a key driver of a country's economy. While in the western world about 270 industries are linked to housing, it is estimated that nearly 40 plus industries have a direct linkage with the housing and construction sector, in the countries under consideration for this study. It is a labor intensive industry providing employment to both skilled and unskilled workers. A slowdown in the housing markets can translate into slowdown in capital and labor markets, leading to an overall slowdown of the economy. A well functioning and well governed housing market is crucial for economic prosperity of a country, in view of its critical role in GDP growth. (See the role of Mortgage Debt to GDP Ratio and economic development of different global economies, Fig-1)

Figure 1: Size of the Housing Finance Industry
(outstanding mortgages as a share of GDP)



Source: IFC Presentation on PMRC Pakistan, November 2009.

For the purpose of review and analysis, the housing sector could be further subdivided into:

Market Housing: Market Housing is that segment where demand is generally met by the market forces, and no state intervention or support is needed to promote the supply. This is generally the demand originating from the high end of the population, where affordability is not an issue, and the developers bring housing supplies purely on commercial considerations. This relates to upper-middle and high end of the population, and has a relatively much smaller share on overall housing shortage.

Social Housing: Social Housing is that segment where demand and the backlog is substantial, and the market forces do not come forward to meet this unsatisfied demand, since it is not commercially attractive for the developers. A state intervention, by way of promoting land supply, fiscal incentives, and subsidies may be needed to promote the supply. The Pro-Poor housing is at the bottom of this pyramid, which shares the major share of the housing shortage, and affordability remains the critical issue.

Adequate housing is a major issue in the Asia and Pacific region. Over 500 million people or 45 percent of all urban residents of the region live in sub-standard housing, in slums and squatter settlements. With rapid urbanization, and compounding of existing backlog, the picture is likely to be gloomier over the next 15 to 20 years. This is compounded by the ever deteriorating affordability of the lower-income segment. The rapid urbanization, affordability, and absence of organized and adequate supply are resulting in development of illegal habitat, slums and squatter settlements.

One main factor contributing to the rising real estate prices, and adversely affecting the affordability is the rising price of land, and the scarcity of serviced land in the suburbs /outer circles of the cities.

Apart from exorbitant cost of land, there are many other factors damaging the housing affordability among the poor and economically weaker segments (EWS) of the society. Some of these factors are: total absence of or poor infrastructure in outskirts of cities where land prices could be affordable, absence of residential infrastructure, rising cost of building materials, and absence of large scale builders with low cost construction technologies, *etc*. Addressing these issues will indeed bring down the cost of houses within affordability range. These issues have only recently drawn the attention of the governmental agencies as well as of the multilateral agencies. The current study on Pro-Poor Housing by UNESCAP is one of such initiatives.

Yet, in foreseeable future, the low income/low cost housing would remain an unaffordable basic need of the downtrodden and poorer segments, until government sponsored, comprehensive programs are launched for pro-poor housing .The issue has assumed alarming dimensions, and solutions have to roll down from political sloganism, to the planners "drawing Boards" for " on ground" execution.. These pro-poor programs should also address the issue of availability of finance in wider horizon with easy access and at affordable cost.

OBJECTIVES AND DIMENSIONS OF THE PRO-POOR HOUSING PROGRAM

In order to provide access to housing finance to a larger section of Economically Weaker Segments (EWS) and Low Income Groups (LIG), the institutional linkages between regular and housing micro-finance institutions need to be established. These formal housing finance institutions need to develop some institutionalized linkages with the community-based organizations running some housing finance programs. This, on the one hand would enable the microfinance and community-based institutions to expand their coverage, and on the other would enable the formal sector institutions reach markets that were hitherto too risky or altogether inaccessible for them. To address these issues, UNESCAP has initiated a regional project on Pro-Poor Housing Finance.

OBJECTIVES

The objectives of the project are:

To review the state of the housing finance system with a focus on pro-poor housing in six identified countries of the region, that are India, Thailand, Indonesia, Sri Lanka, Pakistan and Mongolia(“the region”). More countries from South-Asia-Pacific region may join the program in the future.

To bring together the formal and community-based housing finance institutions on a common platform to identify, replicate and upscale innovative approaches in pro poor housing finance;

To bring out a compendium on housing finance based on country reports on the state of housing finance, and innovative experiences in housing finance for EWS and LIGs.

To strengthen the capacity of governmental and non-governmental policy makers staffing order to develop policy framework and implement pro-poor housing finance programs

Promote a regional knowledge sharing forum by establishing a regional network on housing finance institutions and stake holders.

Target Group

The Target group for the project comprises the Government agencies, housing finance institutions, civil society organizations and community-based organizations in Asia and the Pacific.

Implementation Strategy

The implementation strategy for the project includes:

Developing and publishing Country Reports on the State of Pro-poor Housing Finance in India, Indonesia, Mongolia, Sri Lanka and Thailand as well as a Comparative Analysis of Pro-poor Housing Finance in Asia and the Pacific.

Convening of National level Workshops in each country to receive comments/suggestions from all the stakeholders on the country reports.

Strengthening regional networks and linkages between regular housing finance by financial institutions, the micro-housing finance and community based institutions through regular meetings of the regional and national expert group. The knowledge sharing would also use multi-stakeholder workshops, and virtual information sharing portals.

Capacity Building of housing finance stakeholders both through face-to-face as well as online trainings.

Promoting innovative approaches to pro-poor housing policies, programs and practices through regional policy dialogues between the stakeholders.

Management Arrangements

The project is managed by the United Nations Economic and Social Commission for Asia and the Pacific (UN-ESCAP) in partnership with the National Housing Bank of India (NHB) and the United Nations Human Settlements Programme (UN-HABITAT). It is being conducted in collaboration with participating national organizations and institutes in participating countries.

Sequence of Events in the Project

Sr. No.	Event/Date/Place	Purpose and Objective
1	**Convening of the Regional Policy Dialogue** **January 30-31, 2008 at New Delhi, India**	A brainstorming meeting organized by NHB and UNESCAP comprising senior officials of each of the seven country-level institutions and experts in pro-poor housing finance. Agenda was to discuss the need for the establishment of a regional network on pro-poor housing finance.
2	**First Meeting of the Country Reporters** **January 31-Feb 1, 2008 at New Delhi, India**	To review and finalize the draft guidelines for preparation of the country reports.
3	**Second Meeting of the Country Reporters** **March 18-20, 2009 at Chiang Mai, Thailand**	Peer-Review of first drafts of the country report and discuss the preparation of the regional comparative analysis. The meeting also finalized the time frame for the next steps of the program, particularly the national workshops, networking needs and options.
4	**National Workshop on Pro Poor Housing Finance**	
a.	Thailand August 30-31, 2009 at Bangkok, Thailand	Understand and outline the key challenges in providing finance for Pro-poor Housing, review and finalize the draft country reports and discuss the outline of the regional level initiatives.
b.	Indonesia August 5, 2009 at Jakarta, Indonesia	
c.	Mongolia September 17-18, at Ulan Baatar, Mongolia	
d.	India October 29-30, 2009 at New Delhi, India	
5	**Regional Meeting of Housing Finance Institutions** **October 15, 2009 at Bangkok, Thailand**	Discuss the formation of a regional network on pro-poor housing finance and launch of Special edition Government Housing Bank (GHB) Journal on pro-poor housing finance

COUNTRY OVERVIEW

CHAPTER 2: GENERAL SITUATION AND HOUSING CONDITIONS

GENERAL SITUATION

The housing shortage in the Asia-Pacific region is generally analyzed from the aspect of Urban housing, since the people living in the rural areas, generally do not face any land scarcity, and therefore find affordable housing solutions. The factors contributing to urban housing and housing shortage are:

- Urbanization rates
- Population Growth rate
- Depletion of existing stock, and
- Changing size of persons per household (a cultural phenomenon)

Over the last five decades, Asia has seen some enormous urbanization and demographic changes. One of the most dramatic changes of all has been the movement of people from villages to cities. The percentage of people living in Asian cities and towns, as compared to total country populations, is increasing rapidly. In 1950, about 232 million people lived in urban areas, which represented about 17% of Asia's total population. In 2005, Asia's urban population had risen to 1.6 billion people, or about 40% of the region's total population. There is no doubt that as the Asian region continues to develop, the level of urbanization will increase. The United Nations estimates that urbanization in Asia between 2005 and 2010 will increase at the rate of about 2.5% each year. At this rate, about half of Asia's total population will live in urban areas by the year 2025, and by 2030, it is expected that 54.5% of Asia's population will be urbanized. This means that by 2030, one out of every two urban residents in the world will be in Asia.

The state of urbanization in the countries which were part of the project varied from one another. In **India**, the share of urban population in the total population was 27.8 per cent as on 2001. In **Indonesia**, 48.3percent of the total population was living in urban areas as on 2005.. More than 36 per cent of the population lives in urban areas in **Thailand**.

About 59 per cent of **Mongolia'**s population has been classified as urban with more than half of the population living in the capital, Ulaanbaatar. In **Sri Lanka** the process of urbanization has been rather slow with less than 20per cent of the population living in the urban areas, with only the areas close to the capital, Colombo, showing higher urbanization trends. In **Pakistan,** the percentage of urban population to the total population of the country stands at 37per cent, and is projected reach 50 per cent by the year 2030.

Table 2.1: Urbanization and Population Growth Rates

	Total Population (mn) 2007	Population Growth % 2007-2015	Urban Population (mn) 2007	Urban Population % of Total	Urbanization Growth %	GDP Growth Rate % 2000-07
India	1,125	1.3	329	29	2.5	7.8
Pakistan	162	2.1	58	36	3.3	5.6
Sri Lanka	20	0.3	3	15	0.2	5.3
Thailand	64	0.5	21	33	1.6	5.3
Mongolia	26	1.0	1.5	57	1.3	7.5
Indonesia	225	1.0	113	50	4.3	5.1
Bangladesh	158	1.6	42	27	3.7	5.7

Source: World Development Indicators 2009.

There have been significant developments in the countries over the years both in the political and economic fields. India has been regarded as among the world's fastest growing economies with average growth rate of 9 per cent over the past four years. Indonesia has emerged strongly from the aftermath of the 1997 financial crisis. With the war ending in Sri Lanka, the prospects of growth in economy are looking brighter. The economy of Thailand is the second largest in Southeast Asia after Indonesia, while the mineral deposits in Mongolia have attracted sustained Foreign Direct Investment flows. **Pakistan** has also been showing a good GDP growth rate till recent past (6 per cent in 2007, 6 per cent in 2008) and is now showing some strain due to internal and external factors.

In 2007 **Sri Lanka** recorded a growth rate of 6.8 percent in 2007, 6.3 per cent in 2008,(Source: World Development Indicators 2009), thereby moving to a higher growth path from the historical average of 4-5 per cent. Current per capita income is around US $ 1600. The economic growth is mainly driven by the performance of industry and service sectors which recorded a growth of 7.2 per cent and 8.3 per cent respectively in 2006.

Indonesia's estimated Gross Domestic Product (GDP) growth rate was 6.1 per cent in 2008 (6.3 per cent in 2007). The GDP for 2007 is US$408 billion {US$1,038 billion Purchasing Power Parity (PPP)}. In 2007, estimated nominal per capita GDP is US$1,812, and per capita GDP at PPP was US$4,616. The upsurge in economic growth during 2007 also improved the welfare of the population. This was indicated in per capita income that reached $1,946 in 2007, up about 17 per cent over 2006. In addition, the economic growth generated employment for approximately 4.5 million new entrants to the workforce, bringing open unemployment down from 10.3 per cent in August 2006 to 9.1 per cent in August 2007.

In **India,** the GDP (PPP) during 2007-08 amounted to US $1.16 trillion and the annual GDP (PPP) growth rate as per 2008-09 advance estimates was 7.1 per cent. India's huge population has a per capita income of $1089 in nominal terms as per 2007 estimates

In **Thailand,** GDP for 2008 is estimated to be USD 270 billion and grew at about 2.6 per cent. The GDP per capita is estimated to be USD 4,072. The Fiscal Policy Office, Ministry of Finance, projects that the Thai economy will contract at -2.5 per cent per year in 2009 due in large part to the severe contraction of major trading partners' economies

The **Mongolian** economy has enjoyed robust economic growth, low inflation and rising foreign investment with the GDP growth rate increasing from 4.3 per cent in 2002 to 9.5 per cent in 2008. Despite the strong growth during 2002-2006, the country remains relatively poor, with an estimated per capita GDP of $1,075 in 2006.

Pakistan's GDP (PPP) for 2008 was USD 427 billion, and real growth rate was 2.7 per cent. For the country's involvement in war on terror and internal uncertainties, the economy remained under stress for quite some time now, and inflation rate in the country has been at 20.3 per cent which is much higher than what was at 7.6 per cent. The GDP per capita income (PPP) of the country was at USD 2,500 in 2008.

Table 2.2 gives the Key indicators for the five countries.[1]

Country	GDP at PPP 2008 (current international dollars, million)	Gross Domestic Savings (percent of GDP) at 2008	Money Supply (M2) Percent of GDP at 2008	Government expenditure on housing and community amenities (percentage of GDP)	Mortgage Debt/GDP*
India	3361295	37.7 (2007)	89.4 (M3)	1.2	4.9
Mongolia	9401	35.7	37.8	1.0 (2007)	-
Thailand	546420	33.2	109.3	0.3	15.5
Indonesia	908368	30.6	38.0	0.2 (2004)	2.1
Sri Lanka	92031	14.1	34.5	0.7	-
Pakistan**	427300	14.3	9.6	--	0.8

* *Size of Housing Finance Sector expressed as average mortgage debt over GDP measured over 2001-2005. Source: Warnock, V. C. and Warnock, F. E., "Markets and Housing Finance" Working Paper 13081, National Bureau of Economic Research, Cambridge, Massachusetts, 2007.*

** *Source of Pakistan statistics: SBP Annual Report 2008-2009.*

HOUSING CONDITIONS

One out of every three people living in cities of the developing world lives in a slum. UN-HABITAT estimates reveal that in 2005, more than half of the world's slum population resided in Asia, followed by sub-Saharan Africa, Latin America and the Caribbean. In Asia, slum prevalence varies from a high of 43 per cent in Southern Asia to a low of 24 per cent in Western Asia, while in Latin America and the Caribbean, 27 per cent of the urban population was classified as living in slum conditions in 2005. A slum household is defined as a group of individuals living under the same roof lacking **one or more** of the following conditions: **access to improved water; access to improved**

1 Key Indicators for the Asia and the Pacific, Asian Development Bank, August 2009.

sanitation facilities; sufficient living area (not more than three people sharing the same room); structural quality and durability of dwellings; and security of tenure.[2]

Most of the urban poor in Asia are workers employed in the 'informal sector'. They are generally employed in small businesses, petty shops, hawking/vending goods, working as domestic servants and doing other chores in the neighborhoods, *etc*. The poor prefer to live close to their workplace, as they want to save on transportation and other costs. The suburban localities, which could be otherwise affordable by the EWS, may not have transport arrangements for commuting to the workplaces in the cities. Such remote localities in the suburbs may not be equipped with the residential infrastructure like water, electricity, sewerage, and basic health and education facilities. It has also been observed that the poor often use their house for their income generation activities (self-employment). Statistics show that the informal sector's share in Asia's overall GDP is as high as 31 per cent.

In urban and suburban areas, the lack of residential and communication infrastructure is a major factor contributing to development of slums and illegal habitat. A majority of the poor lives in slum and squatter settlements because formal housing options are unavailable. The irregular nature of their income compels them to save on housing costs by occupying land close to their place of work/downtown. This habitat is generally illegal, and overcrowded and inhabitants live with very basic and minimum residential infrastructure. Generally they do not possess any legal/mortgageable documents which cut them off from formal credit from the financial institutions.

In **India,** as per census 2001, the total housing stock was 249 million units out of which 29 per cent (72 million) were in urban areas and 71 per cent (177 million) were in rural areas. A growing population and sustained urbanization have kept the available housing stock under increasing pressure. Majority of the households live in permanent or semi-permanent houses. In terms of ownership status, majority of the households in rural areas own the houses while the trend for acquiring houses is on the increase in the urban areas. Housing shortage in urban areas at the beginning of 2007 was about 24.71 million units

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2 State of the World's Cities 2008/2009, UN-HABITAT.

and is likely to go up to 26.53 million units by 2012. Ninety nine percent of the shortage in the urban areas pertains to the Economically Weaker Sections and Lower Income Groups. The slum population in India has increased from 26 million in 1981 (16.3 per cent of total urban population) to 61.8 million (21.6 per cent of total urban population) in 2001. In fact in some metropolitan cities, the proportion of the population living in slum and squatter settlements is much higher.

In **Thailand,** because there is no significant housing backlog and very few people are squatting, the housing stock should ideally equal the number of households, which is 18 million of dwellings. The typical Thai dwelling is a detached dwelling made of permanent materials supplied with tap water, electricity, and sewage disposal on dweller owned land. As per National Statistical Office's 2000 census, about 73 per cent of Thai households own their dwellings, 9 per cent live in mortgaged, 11 per cent live in rented homes, 5 per cent of the households live in rent-free accommodations, while 1 per cent pay-in-kind for their rental housing. About 94 per cent of dwellings are made of permanent materials; cement or brick 28 per cent, wood and cement or brick 20 per cent, and 48 per cent of the dwellings are made of other hybrid permanent materials. About 97 per cent of households have flush-toilets, squat-toilets or flushing squat-toilets. Water, electricity and sewage (septic tanks) are installed and used in more than 95 per cent of the households. 47 per cent of the households obtain piped water from taps while other households use wells or rainwater. About 480,000 households live in 1,726 slums throughout the country (estimated 2.4 million people).

Urban areas in **Mongolia** present two very different and distinct patterns of residential development. The first involves planned areas based on Soviet-style planning practices and featuring multi-family housing surrounded by vaguely defined open space. The second involves "temporary" *ger* areas, characterized by long strips of large, unserviced plots with wide roads on at least two sides, which now dominate urban growth. Currently 49.1 per cent of the country's population is living in apartments and housing units whereas remaining 50.9 per cent of the population is residing in *ger* dwellings. In the capital city of Ulaanbaatar, 78.2 per cent of the households live in conventional housing whereas 21.8 per cent of the households live in *ger* areas. In rural areas where around

29.5% of the total households reside, only 10.1 per cent of the households live in conventional housing whereas 50.9 per cent live in *ger* areas. Estimates indicate that approximately 520,000 or 20 per cent of the population inhabit structures meeting standard hygiene and sanitary requirements and connected to basic infrastructure such as water, sanitation and heating. This figure implies that approximately 2 million reside in dwellings that do not meet modern living standards. According to the Ministry of Construction and Urban Development (MCUD), the urban households have an average of 4 people per household. If it is given that 2 million people live in substandard structure and there is an average of 4 people per household, it can be inferred that the present approximate need for housing units meeting standard hygiene and sanitary requirements is 500,000 units. Based on this basic demand approximation there remains a significant unfulfilled demand for housing.

In **Indonesia**, the great majority of households occupy a single/non-attached dwelling unit and the total housing stock is approximately 54 million housing units of which approximately 24 million are in urban areas. The rapid growth of the urban population in Indonesia creates a growing need for housing. Statistics show that 7.5 million households do not own a house and about 14 million units of existing housing stock are sub-standard. Besides, 17.2 million families live in approximately 10,000 slum areas covering 54,000 hectares. According to National Socio Economic Survey 2007, percentage of households that occupied their own houses was 78.22 per cent. The BPS Housing and Settlements Statistics 2007 has indicated that as far as access to infrastructure is concerned in urban areas, the biggest source of clean water is water pump well, while in rural areas the major clean water source is protected well. The electricity usage in urban areas has reached out to more than 97 per cent of households while in rural areas it has reached to around 82 per cent.

In **Sri Lanka** the census conducted by the Census and Statistics Department in 2001 estimated the total number of housing units in the country at 4,687,157. The classification in terms of types of houses consists of single house, attached/annex, condominium/flat, slum/shanty and line room houses, which are normally prevalent in the estate sector. Being a mainly rural country, single houses are predominant and account for 91 per cent of the houses in the country. Even in urban areas, there are a significantly higher percentage of almost 80 per cent single houses. Slightly more than 89 per cent of the houses are owned by occupiers. Around 5 per cent of the houses are those provided by the government or the corporate employer. The wall types used are categorized from brick wall to cement block, cabook/stone, wattle and cadjan. For the entire country, some 76 per cent of the walls are made of brick walls or cement blocks and around 15 per cent of the houses are made of very poor quality walls. For the entire country, approximately 78 per cent has cement flooring while almost 4 per cent has tiled or similar flooring. This would mean that approximately 82 per cent of houses have basic floors. In the country, only 18 per cent of the flooring is poor quality. Almost 79 per cent of the houses in the country have tile or asbestos roofing. Close to 13 per cent use metal or similar materials. Only around 8.5 per cent use cadjans and related poor quality material. A study conducted by the Asian Development Bank in 1993 estimated the demand for new housing in Sri Lanka at 5 per cent of the existing units. The actual number of new units constructed in 1993 was an estimated 159,000. Based on the above estimation of new units being 5 per cent of existing stock, the new housing units being built in the country must currently be around 230,000.

The Central Bank, in its annual report for 2003, estimated the current shortfall in housing units at 400,000. The report further stated that the shortfall would increase to 650,000 by 2010, highlighting the need for greater financing in this sector. According to the 2004 Central Bank Annual Report, annual demand for new houses is increasing at the rate of 80,000 –100,000 units per year. This seems to be on the conservative side compared to the earlier ADB study. However, what the report reveals is that if the shortage is forecasted to increase, while the yearly demand is not being met, it seems that, only about 65- 70 per cent of the annual demand could at best be met. These estimates were prior to the December 2004 tsunami. It is estimated that the tsunami completely destroyed some 65,000 housing units. Another 44,000 houses were partially destroyed. Therefore, the demand for new houses is very significant.[3]

[3] Development of a Sustainable Low Income Housing Finance Programme in Sri Lanka. A study for UN-HABITAT Slum Upgrading Facility, January 2006.

In Pakistan, while the government prepared a National Housing Policy (NHP-2001) on housing as early as in 2001, yet no worthwhile steps have been taken in housing sector to implement and materialize these policies either by the government itself or by any other agency. The NHP-2001 estimated the housing backlog to be around 6 million units by 1998. The current estimates of the housing backlog are anywhere between 7.5-8.0 million. The yearly addition to the housing stock (new construction) is about 300,000 units while the incremental demand is around 700,000 units per year, leading to a yearly addition to the backlog of around 400,000 units. As a result, housing shortage is increasing in the country. The only specialized mortgage financing institution, the House Building Finance Corporation (HBFC), operating in the public sector, has a business focus of meeting the housing needs of the less privileged class of the country – the low, lower middle and the middle income people – with such slogans like "providing shelter for shelterless people". However, being in the public sector the institutions role in the overall context is marginal.

On the other hand, encouraged by increasing tendency of consumer financing and increased liquidity position of commercial banks since the start of this decade, the commercial banks took the plunge in housing finance under the garb of consumer financing. The central bank of the country namely State Bank of Pakistan has played a key role in driving commercial banks into housing finance. The housing finance provided by these commercial banks' housing finances are characterized by three features: one, the commercial banks target only the highest segment of the society which may not be more than 10 per cent of the total population; two, the commercial banks generally avoid financing for construction of new units, effecting mainly exchange of properties from one hand to another; and three, commercial banks consider mortgage financing with the mindset of consumer financing and operating in the safe heavens from the security aspects of the titles. The HBFC, having its sphere of operations in the entire country has a greater knowledge of issues relating to titles and real estate records in Pakistan. Due to the absence of long term liquidity, the commercial banks are plagued by tenor mismatch. However, the State Bank of Pakistan is setting up a long term liquidity facility institution (Pakistan Mortgage Refinance Co.) with the technical assistance of IFC.

The huge urban shortfall of 2.5 million units (out of the total backlog of 7.5 million units in the country) can be possibly eliminated if the Government works on a 20 years perspective plan in the housing sector. The Government has recently announced a program to promote construction of One Million housing units per year. However, no tangible steps have been taken on the ground to ensure delivery as per the plan. A major part of the existing urban shortage is in the low income, EWS of the society. This presents a major challenge to the planners, and a great opportunity for the financial sector. Pakistan's mortgage loan ratio to its GDP stands at a pathetic 0.8 per cent, which is very minimal, which could easily be targeted to reach at 5-6 per cent in next five years.

CHAPTER 3: HOUSING POLICIES AND PROGRAMS OF THE GOVERNMENT

With regard to meeting the housing requirement for the poor, the following observations emerge from the comparative analysis:

The National Governments in these countries have been taking various measures over the years in meeting the housing needs for the poor through various programs, missions, etc.

The National Governments in these countries are consciously responding to the need to provide pro-poor housing solutions. The pro-poor housing initiatives form a major part in their policy formulation.

The National Governments in these countries have adopted a whole gamut of solutions including development and provision of serviced land, programmed subsidies, be it on interest-rate or for infrastructure, fixing targets in terms of new constructions, participatory approaches in planning, etc.

NATIONAL LEVEL HOUSING POLICIES AND PROGRAMS OF THE GOVERNMENTS

In **India** the first National Housing Policy was formulated in 1988. These Policies were revised with several initiatives in 1994 and 1998. It was, however, observed that all these policies were generic in nature and were applicable to both rural and urban areas. Considering the increasing rate of urbanization and the proliferation of slums and their shelter requirements, the first ever urban area specific National Urban Housing and Habitat Policy, 2007 was announced in December 2007, which envisages specific focus on EWS/LIG segments in urban areas.

The housing shortages for the urban poor have been sought to be tackled broadly through the following strategies:

Launch of Special Missions such as the current Jawaharlal Nehru National Urban Renewal Mission (JNNURM) across 63 cities in the country. One of the sub-missions called Basic Services to the Urban Poor (BSUP) serves to provide a garland of 7 entitlements/services – security of tenure, affordable housing, water, sanitation, health, education and social security – in low income settlements in the 63 Mission cities. Such missions are implemented by the Government owned institutions like Municipal Corporations, Housing Boards, etc.

Special Schemes/programmes targeting subsidy to the poor and vulnerable groups like Indira Awas Yojana (IAY), etc. IAY is a cash subsidy scheme for rural Below Poverty Line (BPL) families for construction of dwelling units on their own, using their own design and technology. Funding under the Scheme is provided by Centre and the State in the ratio of 75:25

Loan assistance to governmental agencies/beneficiaries at below-market interest rate for housing and at normal rate for housing/ infrastructure through the National Housing Bank (NHB) and Housing and Urban Development Corporation (HUDCO). NHB provides project finance assistance to public agencies, public-private partnerships, joint ventures, NGOs, etc. Loans have been provided for slum improvement/redevelopment and low cost housing under NHB's Special (VDS) Fund to some of the agencies. NHB has also recently launched the Rural Housing Fund wherein financial assistance is provided to Regional Rural Banks and Housing Finance Companies. This financial assistance from NHB is provided at very attractive rates for onward lending to the weaker sections of the society for construction/purchase/renovation of houses. The Housing and Urban Development Corporation Ltd (HUDCO) was incorporated in 1970 as the first Government led initiative focusing on social aspects of housing and utility provision. HUDCO used to earmark more than 50 per cent of its housing finance portfolio for the Economically Weaker Sections (EWS) and Lower Income Groups (LIG).

Interest Subsidy Scheme for Housing the Urban Poor (ISHUP).The Scheme provides for interest subsidy of five per cent per annum on the loan amount of up to Rs. 1 lakh for the economically weaker section and lower income group in the urban areas for acquisition/construction of houses. The primary lending institutions viz. Commercial Banks and Housing Finance Companies are the implementers of the Scheme.

Commercial Banks and Housing Finance Companies, over the years, have also launched several housing products targeting the poor.

In **Thailand,** the Royal Gazette dated May 29, 2008 has approved the National Housing Strategy and established the National Housing Policy Committee. One of the major responsibilities of the National Housing Policy Board is to oversee the formulation of long term national comprehensive housing policy rather than relying on individual Government policies.

The Thailand Government has two major programs with different approaches. The National Housing Authority (NHA) offers the Baan Eua-Arthorn (BEA) program and Community Organizations Development Institute (CODI) offers the Baan Mankong (BMK) Program.

BEA is a new community housing program enabling lower income households to have homeownership in new communities with social and personal security. The BEA program targets households with monthly incomes of Thailand Baht (THB) 15,000 or less. The Government subsidizes THB 80,000 of the total THB 470,000 cost. This subsidy pays for onsite infrastructure and is deducted from the costs resulting in a THB 390,000 selling price. NHA borrows the remaining fund from Banks for construction. No down payment is required and buyer may apply for housing loan with the Government Housing Bank (GHB) or Government Savings Bank (GSB). NHA will guarantee the loan repayment for the first 5 years.

The BMK's objective is solving settlement and tenure security problems for low-income communities countrywide. The concept of BMK is not to tackle each slum's problem individually but to look at collective problems on a city-wide scale. At initial stages, low-income groups work closely with their local governments, professionals, government agencies, universities and NGOs to survey all the communities in their individual cities and then plan an upgrading process to improve all low-income communities of the city.

Once these city-wide plans are finalized and upgrading projects are selected, the Community Organizations Development Institute (CODI) channels infrastructure subsidies and housing loans directly to the communities through legally established cooperatives or savings groups. Government subsidies to BMK are THB 68,000 per unit. The subsidy is paid to the implementing cooperatives to be used for infrastructure improvements such as electricity, pipe, walkways, sewerage, *etc*. A part of the government subsidy is for housing renovation to reduce costs. CODI acts as program facilitator and budget administrator and provides long-term financing for land acquisition and housing construction.

In **Mongolia** during mid-1997, the Government and the Asian Development Bank (ADB) started the development of a sound legal and policy framework for the housing sector. ADB provided Technical Assistance (TA) that helped in preparing the Housing Law, National Housing Strategy (NHS), Housing Privatization Law and the Condominium Law. In 2002, ADB and the Government of Mongolia continued this cooperation through the Housing Finance Sector Program (HFSP), which provided funds for lending to partner banks to offer mortgages to low and middle income households as well as TA to build knowledge and expertise in mortgage finance in commercial banks and the government stakeholders. One of the major objectives of the Project was "to contribute to the long term objective of establishing a sustainable, market-based system for the delivery of housing finance to meet the borrowing needs of low- and middle-income households". The HFSP has significantly contributed towards establishing a sustainable, market-based housing finance system. The HFSP has had an important impact on the finance and banking sectors by introducing a new loan product, which exists in most developed countries. The Project was implemented between 2002 and 2007 and made a great contribution to set up a benchmark for housing finance in Mongolia. Under the scheme loans were issued for the purpose of: (i) Buying an apartment or house; (ii) Complete or expand an existing house; (iii). Improve or renovate apartments; (iv) Repair apartment blocks and related infrastructure; (v) Combination of construction and housing loans to build houses on serviced plots.

The Parliament had passed a Resolution in 2005 providing approval of the “40,000 Houses Program”. The objective of this Program is to increase the total national supply and finance for housing. The program’s strategies are: i) to establish new housing areas; ii) to improve housing density; iii) to upgrade the Ger areas; iv) to facilitate the development of housing and real estate market relations, and v) to support construction material production and capacity building.

In **Indonesia,** Article 28H in the 1945 amendment of the Constitution of Indonesia stipulates that housing is a basic right and therefore, every citizen has a right to live in a decent and healthy house and its living environment. In the Long Term Development Plan (RPJP : 2005-2025) goals for housing and urban development can be summarized as cities without slums, where all human settlements are supported by sufficient infrastructure, civic facilities and a housing finance system that is sustainable, effective and accountable.

The Government has taken following steps to accelerate pace of providing housing to low-income households:

National Movement for One Million Houses, with its objective to provide affordable housing and improving quality of living environment. This program was initiated by Government in 2003 to accelerate housing supply, specifically for low-income and poor households. The movement focuses on improving coordination amongst stakeholders in housing development. This involves programs for improving access to land, housing finance system, institution building and capacity building within the sector.

Subsidized Home Mortgage (KPR), a housing assistance program carried out for low income communities. This program was initiated in 1976. Initially, the scheme was known as subsidized home mortgage “KPR”, Under KPR the subsidized mortgages were distributed only through conventional banking institutions. To broaden the distribution of credit for low income households and to the faith based clients, the Ministry of Housing launched Sharia based Subsidized KPR Sharia (KPRS) schemes in 2005, to spread the scope of availability of credit to a wide spectrum of the society under Islamic principles.

For non-bankable households, the Ministry of Housing also provided the opportunity for non-banking institutions and Sharia-based cooperatives to participate in channeling housing subsidies for new construction/home improvement through the KPRS (new construction/home improvement of self-help housing loan) and Micro KPRS Sharia Subsidized program. The Subsidized Home Mortgage Program facilitates low-income community to increase their purchasing power to acquire a house from developers. The Subsidized Self-Help Home Mortgage Program provides low income community opportunities to build or renovate their houses on self-help basis with relatively big amount of loan and for relatively long tenor.

In **Sri Lanka,** after 1970, a series of significant legislative enactments were introduced to regulate the housing sector which ushered in reforms related to tenancy, rent control, house property ceiling, *etc*. These "Acts" remain an important influence even though subsequent amendments have been made. The Government has been regularly implementing public housing programmes since 1970s. In the current Janaudana Housing Programme, new houses are sought to be constructed with the enabling approach and participation of beneficiaries in direct construction. The Government is providing land, developing basic infrastructures, providing water supply facilities and erecting community buildings in places where new housing complexes are coming up. Prospective buyers of houses in these complexes are provided with housing loans at affordable interest rates. Special emphasis is given for development of skills of the dwellers of these complexes, enabling them to take part in construction activities.

In **Pakistan**, the most important step of the Government – apart from revamping and restructuring of HBFC, a specialized housing finance institution in public sector – is the formulation of National Housing Policy 2001. The State Bank of Pakistan is playing a very proactive role in promotion of housing finance, by encouraging a proactive role of commercial banks in real estate finance. The State Bank had also formed a Housing Advisory Group (HAG), which came up with a twelve point agenda to address all related issues, most importantly, promotion of low income and affordable housing and housing finance. Apart from that, the Government of Pakistan came out with various schematic announcements from time to time, mostly addressing the housing needs of low income Government employees. Many of such schemes have been completed , and some are under implementation or planning stage. The recent announcement by the Government to build One Million housing units per year is quite encouraging. However, it is yet to see much progress on the ground.

CHAPTER 4: HOUSING FINANCE SYSTEMS

The stakeholders in the housing finance market of the countries include the following:

The National (or Federal) Governments in these countries frames and formulates policies.

All the Governments have a separate Ministry for preparing and overseeing the implementation of the housing policies. However, due to political structure in different countries, the effectiveness of such central ministries varies from country to country.

Public sector institutions have a wide variety of roles in India and Mongolia, where they serve the role of 'provider' of houses i.e., they construct houses for the poor. In Pakistan federal public sector institutions like Pakistan Housing Authority have played some role in providing low income housing to the low income government employees. In nearly all countries such public sector financial institutions provide housing loans to the individuals and to the developers.

Private developers/Construction companies which form the 'supply' side of housing along with those government agencies which also construct houses.

Retail lending institutions (like housing finance companies-HFCs) which provide housing loans to the individuals, enabling them to purchase/construct the houses. They facilitate the 'demand' side of housing. It was observed that in the recent years, the commercial banks enjoy the largest market share in housing loans in all the countries, and the market share of HFCs is declining. Apart from a proactive role now being played by the commercial banks in housing finance, one reason is the scarcity of long term funding resources with the HFCs.

Microfinance Institutions/Community based organizations also have a minor though important role in the housing finance market in these countries. They serve as 'gap fillers' i.e., they serve those segments of the society which have been ignored by the formal sector financial institutions. They give away small loans for incremental housing which serve the poor well.

The individuals who form the 'demand' side of housing. These individuals could be organized in the form of community networks as in the case of Thailand or in the form of self help/joint liability groups as in the case of India, and by Grameen Bank in Bangladesh. Aggregation of demand in the form of such groups/networks helps in cost efficient, and delivery of pro-poor housing solutions.

Last but not the least, the donors also play a major role in shaping the housing finance systems as was observed in the case of Mongolia. The support from Asian Development Bank helped establish mortgage lending in the country whereas the availability of low cost funds from World Bank helped the National Housing Bank (Bank Tabungan Negara-BTN) in Indonesia in providing subsidized housing credit to the lower income segments in the country.

INDIA

Till the late eighties, the housing finance sector in **India** was dominated by informal sources. There were few takers of housing loans and practically no access or support existed in the formal sector. In 1988, the National Housing Bank (NHB) was established as a 100% subsidiary of the Reserve Bank of India, (the central bank of the country), to operate as a principal agency to promote housing finance institutions both at local and regional levels and to provide financial and other supports required by housing finance institutions. The National Housing Bank also promotes and regulates such housing finance institutions.

Since formation of this Bank in late 80s, the number of specialized housing finance institutions in both public and private sectors has increased manifold. As on date, 44 HFCs having over 1,000 branches across the country are registered with the National Housing Bank. Towards the end of 1990s, commercial banks shifted their focus from the wholesale real estate segment to retail portfolios. The policy shift of the commercial banks was partly due to sluggishness in credit market and they decided to take advantage of financial deregulations and utilization of ample liquidity available with them. The lower interest rate regime, rising disposable incomes, stable property prices and fiscal incentives made housing finance an attractive business. Further, housing finance traditionally has been characterized by low nonperforming assets (NPAs) and given the great demand for housing loans, almost all the major commercial banks plunged into the business of housing finance. This is evident from the recent surge in Mortgage Debt/GDP ratio in India, which has now gone up to 7 per cent.

At the sub-national level, the housing boards/development authorities have been involved in supply of houses through various government programs for the poor. The commercial banks and housing finance companies provide housing loans to the individuals. The National Housing Bank has been providing project finance assistance to the housing boards and the development authorities besides providing refinance to the commercial banks and the HFCs. NHB has also recently started a housing microfinance program wherein financial assistance in the form of term loans is provided to the NGOs/MFIs for providing housing loans to their members. The Housing Microfinance program seeks s to target the poor.

Commercial Banks are now gaining a large share in the market. The growth is mainly attributed to their large network, access to low cost deposits, which have helped in offering home loans at lesser rates of interest. At present the market share of the banks is of the order of 70percent and that of the HFCs is around 28 percent . An overview of the Housing Finance system is provided below:

Figure 4.1 Overview of Housing Finance System in India

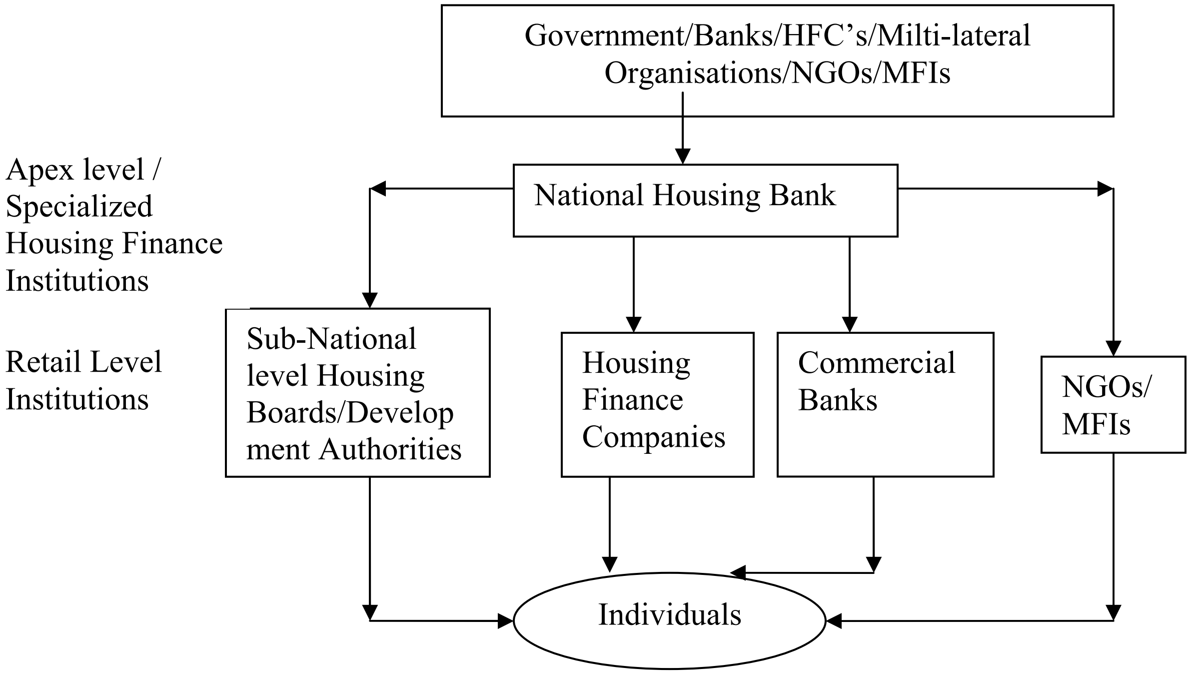


Figure 4.2 Gaps in the Demand and Supply side in Housing

<table>
<tr><th>Household Income Group</th><th colspan="2">Housing Development (Supply Side)</th><th>Housing Finance (Demand Side)</th></tr>
<tr><td>Higher Income Group
(> Rs 20,000)</td><td rowspan="2">Private Sector</td><td rowspan="5"><u>Government</u>

Housing Boards and Development Authorities</td><td rowspan="2">Commercial Banks
+
Housing Finance Companies</td></tr>
<tr><td>Upper Middle Income Group
(Rs 10,000 – Rs 20,000)</td></tr>
<tr><td>Lower Middle Income Group
(Rs 7500 – Rs 10,000)</td><td></td><td rowspan="3">Microfinance Institutions/NGOs/CBOs</td></tr>
<tr><td>Low Income Group
(Rs 3301- Rs 7300)</td><td rowspan="2">Individual Efforts</td></tr>
<tr><td>Economically Weaker Sections (≤ Rs 3300)</td></tr>
</table>

<u>Supply Side</u>

In India, the sub-national Government-owned institutions like the Housing Boards and the Municipal Corporations have been building houses over the years through various programmes for the Economically Weaker Sections and the Lower Income Groups. The supply however has not been so high, so as to mitigate the shortages. In fact in the recently announced National Urban Housing and Habitat Policy, 2007, it has been estimated that 99% of the housing shortage exists for the poor. The Private players who comprise builders and construction firms have been concentrating only on the upper segments and it is only in recent times that they have also taken to constructing houses for the poor.

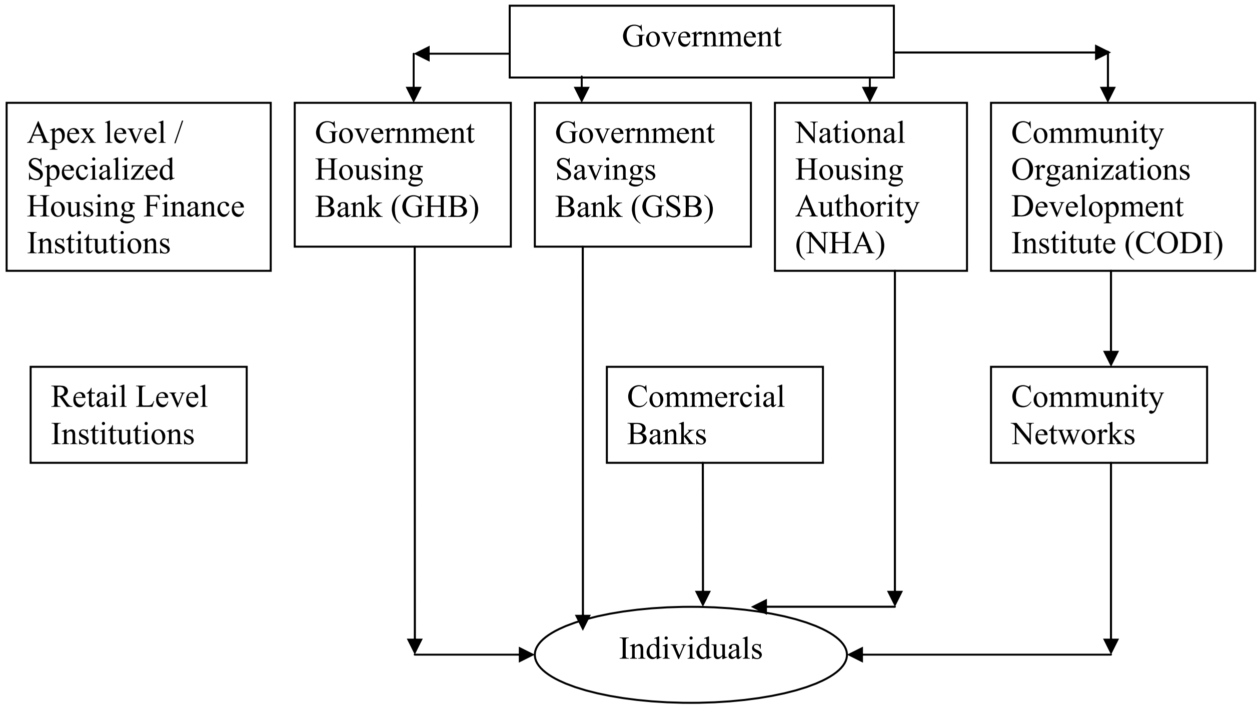
Demand Side

The commercial banks and the housing finance companies have been concentrating on the upper-middle and higher income groups. The housing loan portfolio of banks and housing finance companies for the poor has been limited. These institutions have avoided lending to the poor for various reasons like non-availability of title deeds, income-proof, irregular incomes, *etc*. NGOs/MFIs/CBOs are providing housing loans to the poor, but not on a large scale.

THAILAND

The Government Housing Bank (GHB), a special-purpose financial institution under the Finance Ministry's supervision commenced its operations on September 24, 1953. Its mission is to help secure appropriate housing finance for the general public. During its first 20 years, GHB operated both as a housing finance provider and as a housing project developer. In 1973, the government established the National Housing Authority (NHA) to take over the development of government housing projects. It transferred all GHB's and other agencies' assets, liabilities, and rights associated with land and building rents to NHA. GHB continued to extend short and long term loans to both housing project developers and the general public. Currently, 33 commercial banks operate in Thailand, out of which 17 are local banks and 16 are foreign banks. Thai commercial banks have become major providers of home loan finance since late 1980s. Today, commercial banks provide about 50% of the total new home loans each year, while GHB concentrates on middle and lower income loans (Thailand Bhat 3 million and under). The commercial banks are major providers of housing loans in excess of Thailand Bhat 3 million per unit. The Government Savings Bank (GSB) is a Specialized Financial Institution owned by the Ministry of Finance. It also participates in home loan financing for special middle and low income government initiatives. The Thai Government established the National Housing Authority (NHA) in 1973 as a state enterprise under the Ministry of Interior. In 2003, the government reorganized its agencies and the NHA was attached to the newly created Ministry of Social Development and Human Security. During the past three decades, the NHA has introduced many different types of dwelling units and services to the public. Rental apartments, condominiums, rental shop houses, government employee housing, sites and services, subdivision residential projects, new towns emergency housing, and standardized housing projects are examples of housing developments undertaken by the NHA. In addition to delivering middle to low income housing, NHA also provided housing finance via hire purchase contracts (fixed interest rate) for its own housing units from 1973 to 1990's. However, after commercial banks started their housing finance operations and offered lower floating interest rate loans, NHA's customers mostly switched to conventional housing loans, resulting in decline in hire purchase activities of NHA. The Community Organizations Development Institute (CODI) is a public autonomous organization under the supervision of the Minister of Social Development and Human Security. Its funds are used for encouraging community-based savings and loans groups and providing financial support by lending capital funds to community organizations. An overview of the Housing Finance system in Thailand is provided below:

Figure 4.3 Overview of Housing Finance System in Thailand



Situation and Gap Analysis[4]

Considering the market situation in the Bangkok Metropolitan Region, in 2005, some 41% of housing units surveyed were priced at no more than US$25,000, which is considered low-priced for low-income and lower middle-income groups. Currently there are a number of housing units offered to low-income groups. There is no shortage of affordable housing supplies. These low-priced units are worth altogether only US$1.801 billion, while higher-priced units are worth US$18.262 billion. Forty one percent of the units surveyed which are lower-priced represent only 9% of the total value, indicating that investment in low-priced housing for low-income groups do not require much resources but can have a wide effect on society.

Formal housing provisions for low-income groups are varied. There is rental accommodation for those who have no assets in the city, particularly migrants. Rental

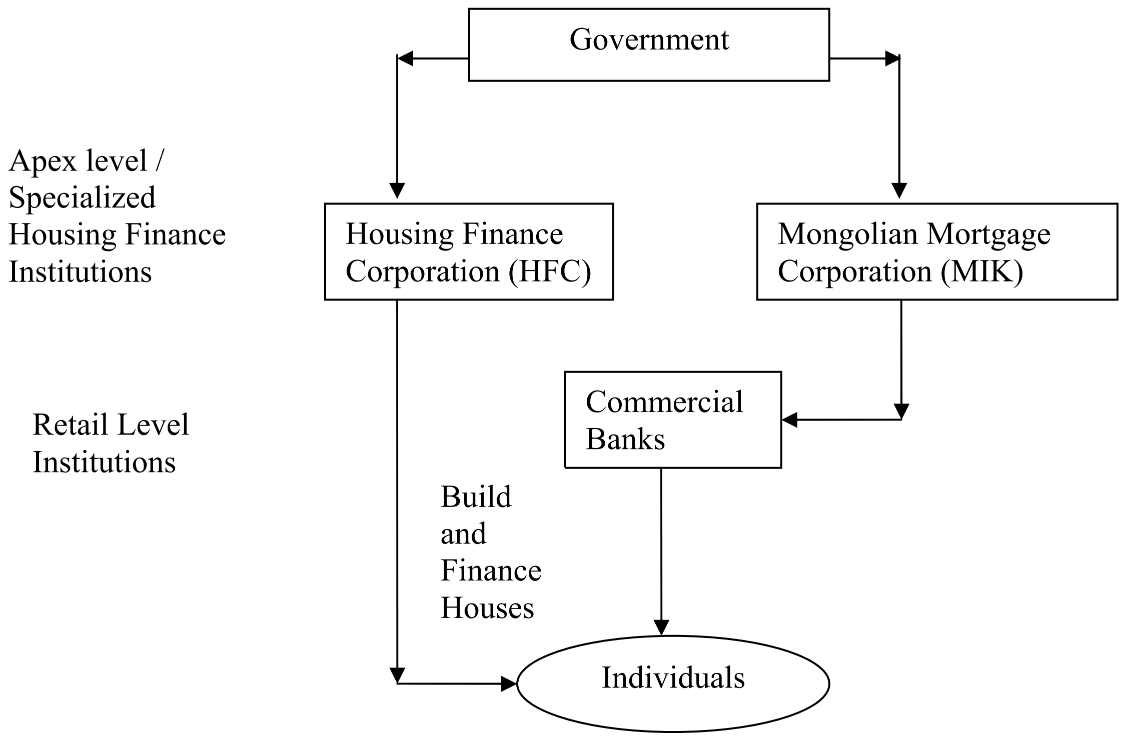
4 Housing Finance Mechanisms in Thailand, United Nations Human Settlements Programme, 2008.

housing helps accommodate a lot of low-income people. Thailand has a total slum population of 1,763,872, or some 3% of the total Thai population. This means that sub-standard urban housing in the form of slums does not prevail in Thailand. Of the total slum population, the majority (62%) are living in Bangkok alone. Some 22% are in the Bangkok Metropolitan Region (excluding Bangkok Metropolitan Administration). The remaining 16% are in other urban centers of the country. The percentage of people living below the poverty line was 10% nationwide in 2005. Most of them lived in rural areas. This means that most of the slum dwellers were not the very poor.

MONGOLIA

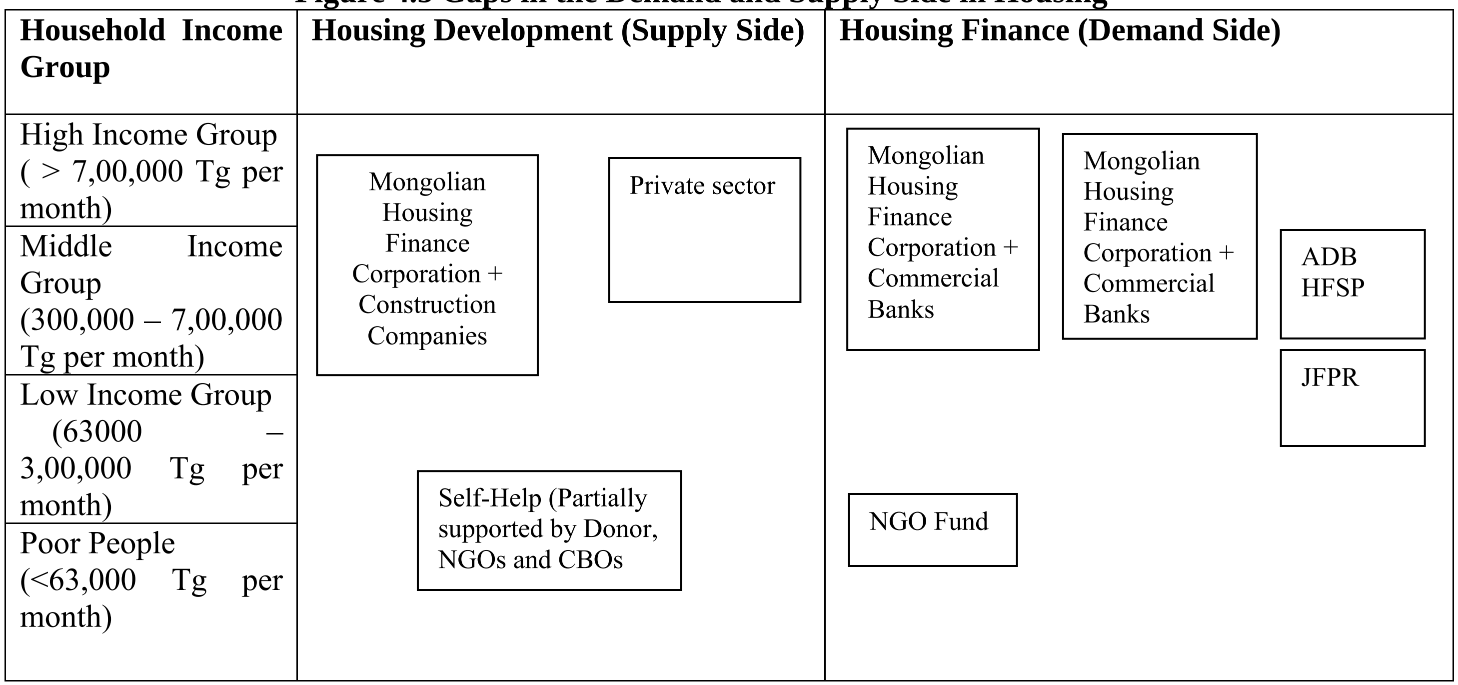
The Housing Finance Corporation (HFC), a limited liability company, was established in November 2006, based on a decree of Ministry of Construction and Urban Development, Ministry of Finance, and Mayor of Ulaanbaatar City. The main objective of the company is to implement the Government's policy and programs for provision of housing as well as to undertake mortgage lending and investment. In order to implement the completion of the 40,000 Houses Program, the major activities of the HFC will be to finance and build housing in the capital city, Ulaanbaatar and other centers. The Mongolian Mortgage Corporation (MIK) was established on September of 2006, when Bank of Mongolia (BoM) and ten commercial banks (Anod, Capital, Capitron, Golomt, Khaan, Mongol Post, Trade and Development, Ulaanbaatar City, XacBank, and Zoos Bank) signed a joint Founding Agreement to work together towards establishment of a second tier mortgage institution in private sector. The main goal of the Company is to develop primary and secondary mortgage markets by issuing and selling Mortgage-backed securities on domestic and foreign capital markets. Its other purpose is to create and ensure a smooth functioning of a long-term financing system to improve access to housing, and to promote modern urban development. Currently, 11 of the 16 commercial banks make mortgage loans in their asset book. Khan Bank, the largest bank by assets also has the largest share of the mortgage market at 30 percent, having doubled its loan portfolio in 2006. Trade & Development Bank, Golomt Bank and XacBank each have about 10 -12 percent of the market. An Overview of the Housing Finance System in Mongolia is presented below.

Figure 4.4 Overview of Housing Finance System in Mongolia



Situation and Gap Analysis

Figure 4.5 Gaps in the Demand and Supply Side in Housing



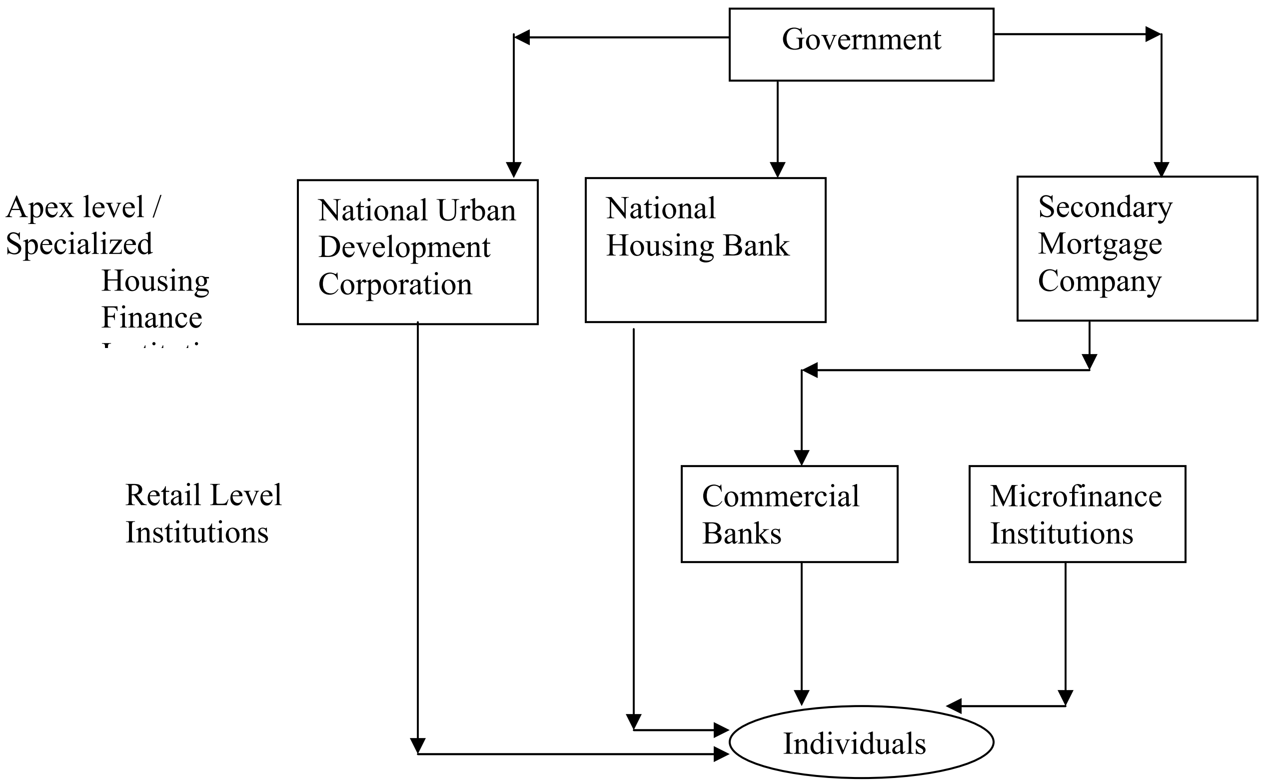
Source: Masayoshi Iwasaki, Japan International Cooperation Agency (JICA)

In Mongolia, the supply of housing primarily was by the Government and it is only recently that the private players have entered the housing supply market. Commercial banks have begun extending housing loans in the past few years after the commencement of the Asian Development Bank (ADB) project. The Housing Finance Sector is at a very nascent stage and only a few NGOs/CBOs are catering to the housing finance needs of the poor.

INDONESIA

PERUMNAS was established in 1974 as National Urban Development Corporation, with the responsibility to deliver housing especially for the middle to low income people. As the only housing and urban development corporation in Public Sector, PERUMNAS directly reports to the Ministry of State Owned Enterprise and State Ministry of Housing. PERUMNAS is providing and developing housing and human settlement in 29 provinces, 170 cities in around 360 locations in Indonesia. The Government established the National Housing Bank in 1974 (Bank Tabungan Negara or BTN) for housing development for the low and moderate-income households. BTN was appointed as a place of defrayal of Credit for Home Ownership (KPR). BTN began to expand its function for delivering subsidized housing finance to low and moderate-income households, especially delivering mortgage loan for the house built by PERUMNAS or developers. BTN received low-cost funds for financing from the World Bank, Bank of Indonesia and the Government. In 1989, BTN began to operate as commercial bank and started issuing bonds. In 2009, BTN launched its first Residential Mortgages Backed Securities (RMBS) in Indonesia and became a public listed company. Secondary Mortgage Company was established in 2005 in order to facilitate funding through securitization mechanism. Its mission is to introduce and develop secondary mortgage financing mechanism that can boost the availability of medium/long-term funds for the housing sector. An overview of the housing finance system in Indonesia is presented below.

Figure 4.6 Overview of Housing Finance System in Indonesia



Situation and Gap Analysis[5]

Table 4.1 Estimated Monthly Payment for Housing and Loan Affordability

Housing Affordability	**Rural**	**Urban**	**DKI Jakarta**	**Urban w/o DKI**
Estimated Median Income/month/2004	712,514	1,166,500	2,106,917	1,097,122
Monthly payment for Housing at 30% of income	213,755	349,500	632,075	329,140
Affordable Loan at 17%, 15 years	13,900,000	22,710,000	41,070,000	21,387,000
Affordable House/Loan + 30% down payment	19,857,000	32,443,000	58,670,000	30,553,000

As shown in the table, urban households at the median income level could afford houses in price range of Rp 32 to Rp 33 million. Houses in this price bracket are built mostly

5 Housing Finance Mechanisms in Indonesia, United Nations Human Settlements Programme, 2008.

under the special subsidized credit program now being offered through BTN. Only BTN and Regional State Banks (BPDs) make mortgage loans below Rp75 million, and few banks make mortgage loans to households whose main income earners are employed in the informal sector.

There is, therefore, a gap between the cost of a house what a median income household can afford and that of a house financed in the mortgage markets. Without finance, developers are reluctant to engage in housing projects for that income group. The absence of easy and availability of finance reduces the effective housing demand.

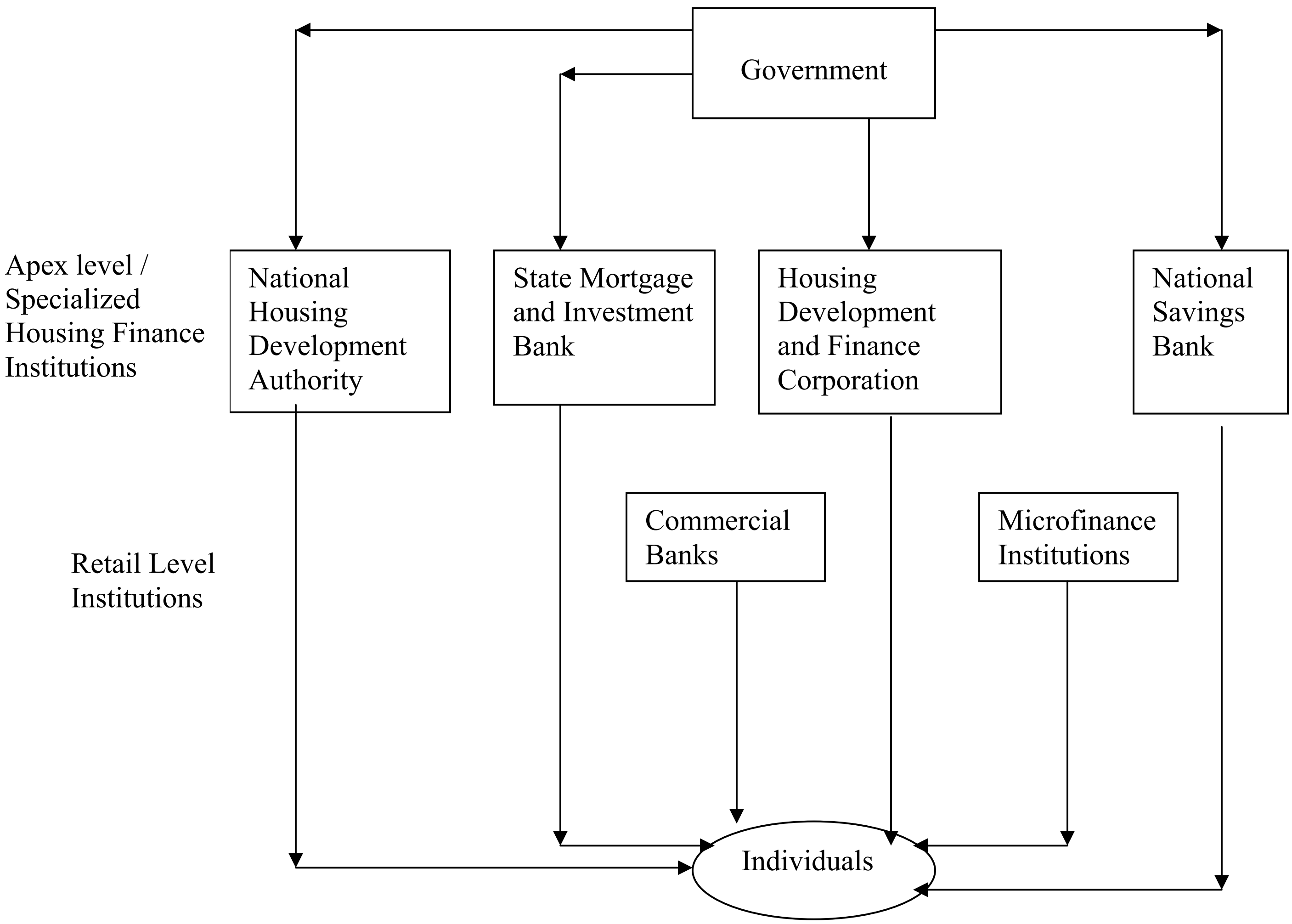
SRI LANKA

The National Housing Development Authority (NHDA) was incorporated by the National Housing Development Authority Act of 1979 to undertake Housing Development activities in Sri Lanka. Its objectives include construction of flats, houses, living accommodation and other buildings and providing housing loans.

State Mortgage and Investment Bank (SMIB) was established in 1979 by the amalgamation of Ceylon State Mortgage Bank (established in 1931) and the Agricultural and Industrial Credit Corporation (established in 1943). It has evolved to become the housing bank of the nation. Housing Development and Finance Corporation was initially incorporated as a building society in 1984. Subsequently this was converted to a corporation in 1997 and obtained status of a specialized bank in 2003 as Housing Development & Finance Corporation (HDFC) of Sri Lanka. The principal business activities of HDFC are granting financial assistance and loans for housing purposes and real estate business.

In addition the National Savings Bank (NSB), the premier savings institution in the country is a significant contributor to the housing finance market. At present these institutions account for only 15 per cent of the housing finance market. Presently the Licensed Commercial banks are the largest providers of housing finance in the country amounting to 75 per cent of the market, and the balance 10 per cent is from the Finance Companies. During the recent past, the Rural Development Banks as well as micro finance institutions have been providing limited housing finance to low income segments of the population.

Figure 4.7 Overview of Housing Finance System in Sri Lanka



PAKISTAN

In Pakistan, historically, the housing finance facility had exclusively been provided by the Government owned House Building Finance Corporation (HBFC), established in 1952, as the banks were not allowed to provide housing finance. Lately, by turn of the century, the commercial banks have also started doing business in mortgage financing actively. A major role for the purpose was played by the country's central bank. The commercial banks started their housing finance activities in 2002-2003, taking advantage of reforms and deregulations in the banking sector. With ample liquidity at their disposal, and thrust in consumer financing business, these banks were encouraged to enter the housing finance business as a part of their consumer finance operations. However the commercial banks have a business focus only on upper middle and high end of the housing finance market. They have now developed quite a considerable volume of mortgage portfolio. As of March 31, 2009, the total housing portfolio in Pakistan stands at PKR80.87 billion, out of which 80% by value belongs to commercial banks.[6]

On the other hand, out of a total of 121,368[7] borrowers on the same date, i.e. March 31, 2009, 76 per cent share in business volume belongs to HBFC showing its concentration in middle and lower-middle class of the society.

From 1952 to 1972, HBFC disbursed loans to individuals only for construction of homes in urban areas. During this period HBFC's disbursement activities were quite modest, averaging PKR18 million annually. In 1972, HBFC's mandate was expanded to housing projects, finance to housing authorities and housing corporations, and rehabilitation loans; and to undertake real estate development projects. Following this expansion of scope, HBFC's volume of originations increased significantly, averaging around PKR 500 million between 1972 and 1979. In the 1980s and 1990s HBFC was averaging around PKR1.5 billion in annual disbursements/originations. Since 2002-03 the corporation maintained a good pace in its business growth and has disbursed PKR4 billion in the financial year 2008.

HBFC being the oldest, largest and a specialized housing finance institution in the country with extensive customer base and unmatched market potential in low and middle income groups, ideally it should have been prosperous and dynamic housing finance institution of the country. Ironically this has not been the case. HBFC's outstanding portfolio has been hovering in the vicinity of around PKR 16-20 billion for the last a few years, indicating that new loan origination almost matches the amount of loans being retired/recovered.

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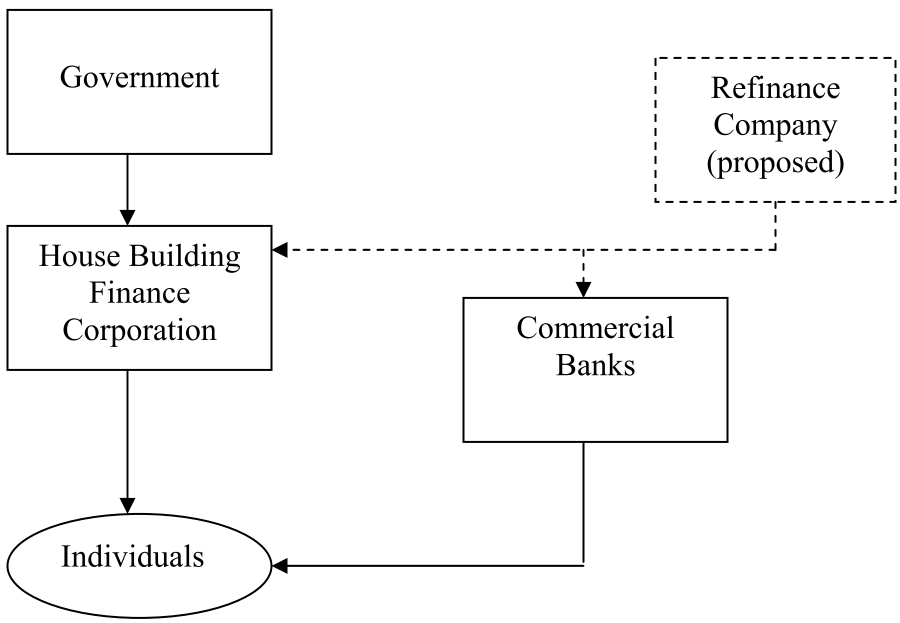
6 State Bank of Pakistan, Annual Report 2008-2009.

7 *Ibid.*

To address housing related issues, particularly to provide assistance to the economically weaker sections of the society, for which the Pakistan Government has shown its commitments from time to time, the Government took the important initiative in the beginning of this decade by announcing the National Housing Policy, 2001. The Government, over the years held number of meetings on this Policy with the stake holders, but had yet to show complete dedication to demonstrate concrete results on the ground. One reason of the slow progress in implementing the NHP-2001 is that housing is a provincial subject, and the Federal Government could not effectively push the provinces in policy implementation.

Figure 4.8 Overview of Housing Finance System in Pakistan



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CHAPTER 5: CONSTRAINTS IN PROVIDING HOUSING FINANCE TO THE URBAN POOR

The comparative analysis reveals following bottlenecks in providing accessible housing finance to the poor:

EXISTING PROGRAMS NOT 'AFFORDABLE' FOR THE POOR

It was observed that in certain countries, some of the existing programs which were in fact meant for the poor had failed to reach them.

In **Mongolia,** the Housing Finance Sector Project (HFSP) significantly contributed to establishing a sustainable and market based housing finance system. However it could not meet the total borrowing needs of the low and middle class households. The majority of moderate and low income families, earning less than MNT 500,000 per month, could not afford mortgage loans on terms of commercial bank.

In **Thailand,** in the Baan Eua-Arthorn (BEA) program which was targeted at households with monthly incomes of THB 15,000 or less, there was misunderstanding in projecting demand as well as determining who should be eligible, as there was no lower income limit The increase in interest rate from 4 per cent to 7 per cent resulted in affordability problems as the monthly payments rose from THB 1,500 per month to THB 2,500 per month. This further proved that low income people are very sensitive to rise in interest rate, and also could not manage the variable rate mortgages.

In **Indonesia,** the lack of supply of serviced land and tedious "permitting" procedures made it unprofitable for developers to use available land resources for middle and lower-middle income houses. The availability and price of serviced land, is by and large, a common factor adversely effecting property prices, and thus affordability of the poor and EWS of society.

In **India,** public sector institutions like Housing Boards and Municipal Corporations build houses for the poor. However, over the years, the supply of houses to such segments has declined. With sky rocketing land prices, the private sector are reluctant to build houses at a price that can be afforded by the poor.

In **Pakistan**, the government announced "Prime Ministers Housing Programme" in March 2008 envisaging construction of one million housing units per annum each measuring 80 to 150 sq. meters in urban and rural areas respectively. Under this program, slum areas were to be regularized and a house/apartment was to be provided to each government employee on his/her retirement. This pro poor housing program was to make housing easily affordable for the common man. However, the actual supply, under different housing schemes announced by the Government, falls too short of the target. The experience gained after the 2007 earthquake in northern areas, is being utilized to develop some low cost construction technologies and standardized modules. One such technology/module called Benazir Housing Technology is in the pilot stage. These modules developed for low cost technologies and having characteristics like energy efficiency, strength, and use of local materials. Under the module, 240 units have been built and delivered, having a total covered area of 650 sq. meters.

TITLING AND REGISTRATION PROCESSES ARE AN IMPEDIMENT

In **Mongolia,** it was observed that Land registration and titling are somewhat problematic as the process is disjointed. The titling process is also confusing as there are four sequential legal certificates.

In **Thailand**, the overall titling process needs to be improved. Large amounts of farmland are either leased from the Royal Forestry Department (RFD) or otherwise have no titles. True title deeds are only found in the developed parts of the country and account for only a part of the livable land in the country.

In **Sri Lanka,** it was observed that unless the urban poor were provided with adequate access to land, they will not be able to make use of the presently available financial facilities.

In **India,** lack of clear and marketable titles has proved to be major barriers for the poor in accessing housing finance from the financial institutions in the formal sector. These institutions are wary of lending to such segments without 'safe collateral' and it is the valid land title which serves as the collateral.

As in India, **Pakistan** also has the same issues in titling of properties, and same cumbrances in the recording and registration of titles, particularly in downtown areas of big cities, and their adjacent semi-urban areas, mostly known as having "free-hold" properties. Formal sector institutions are wary about financing in these areas, thus causing problems in easy availability of finance for deserving people. However HBFC's practical experience suggests that inspite of all such issues with the titles, its lending in those areas has never suffered due to title defects. The poor would like to protect their shelter, once they realize that it is at stake, due to non-payment.

LACK OF LONG-TERM SOURCES OF FUNDING

In **Thailand** to reach its target of 200,218 units, the Baan Mankong Program (BMK) will need additional subsidized loans of about THB 15,000 million or about THB 2,140 million annually over the next seven years. CODI's remaining capital funds are insufficient to support these future requirements. Funds from other sources must be mobilized. Currently, only THB 500 million has been committed by GH Bank and no other public or private financial institutions have shown any interest. Local banks are reluctant to join the program because they are still unfamiliar with community-based lending and its level of credit-risk. Even in the BEA program, the long-term financing mismatch has been a major reason for the project's failure in achieving its objective of providing 600,000 homes for low-income Thais in five years.

In **Mongolia**, the Housing Finance Corporation (HFC) which is implementing its program of 40,000 houses faces asset-liability mismatches, since its source of funds are short term bonds and lending is for longer periods.

In **Indonesia** also the source for long term funding is not adequate to finance the availability of mortgage loans.

In **Sri Lanka,** the major risk being faced by the lending institutions is the declining margins. Unless long term funds at moderate interest rates are made available, it would become very difficult to sustain mortgage lending. The mismatch between the long term housing loans and the short term deposits will lead to a liquidity crunch.

In **India**, access to long term funds at affordable costs, particularly for microfinance institutions, is one of the challenges for enlarging their operations for housing.

In **Pakistan**, while the commercial banks are aggressive in originating new mortgages, they use the short term funds/deposits for long term mortgage lending, thus having a clear mismatch. However, HBFC having state funding, has long term credit lines from the State Bank, and so far is not exposed to asset-liability mismatch. However, it is going to face this issue in the coming days, since the state funding is no more available to it.

NO PRIOR CREDIT HISTORIES AVAILABILITY /NON AVAILABILITY OF UNDERWRITING STANDARDS FOR THE POOR.

In **Thailand** under the Baan Eua-Arthorn (BEA) program, many buyers could not get access to housing finance because of lack of credit history. No credit ratings could be established. In fact more than 25% of the applications were rejected for financing. National Housing Authority (NHA) provided for those buyers whose applications were not approved by banks through their Hire-Purchase program which contributed to the burden of NHA.

In **Indonesia,** there are no well documented underwriting standards. Banks have their own standards to underwrite their housing loans resulting in less access to housing finance for the poor.

In **Sri Lanka,** due to the volatility and variability of their incomes, the low income groups are not entertained by most of the formal sector institutions.

In Pakistan, the State Bank of Pakistan has for quite some times been maintaining credit history of borrowers, yet it will take a long time to develop appropriate credit history, both positive and negative, of all current/prospective borrowers. Three credit bureaus are operating in the country, doing both positive and negative ranking. However the available data does not have a longer history, except for utility bills. Still, such credit references are of great help in assessing credibility of the potential borrowers, and the lenders have to rely on some other credit references.

ABSENCE OF WELL DEVELOPED SECONDARY MORTGAGE MARKETS

The absence of well developed secondary mortgage markets have acted as an impediment in making long term funds available for the growth of the housing finance market in all the countries. In **India,** National Housing Bank has done limited securitization of housing loans**.** In **Thailand** even though Secondary Mortgage Corporation (SMC) was set up for development of secondary market through securitization, it has very limited housing finance role. It has done only outright purchase of housing loans, and no subsequent securitization was done. Due to high liquidity and low deposit interest rates, commercial banks do not sell their housing loan portfolio to SMC. In **Mongolia,** the Mongolian Mortgage Corporation (MIK) was established a few years back to develop primary and secondary mortgage markets by issuing and selling mortgage-backed securities. It has recently issued the first covered bond in the country. In **Indonesia,** Secondary Mortgage Company was established to introduce and develop secondary mortgage financing system that can boost the availability of medium/long term funds for the housing sector. In **Sri Lanka**, secondary mortgage market is non-existent. In Pakistan, HBFC had issued 6 years Mortgage Bonds (Sukuk) of value Rs 1.5 billion in 2007, and the issue was well received by the financial market. The State Bank is fully conscious of this mismatch issue, and is in the process of setting up long-term facility institution with IFC's technical assistance (Pakistan Mortgage Refinance Company).

NEED FOR A SINGLE INSTITUTION CATERING EXCLUSIVELY TO THE POOR AND EWS:

The comparative analysis has revealed that in all the countries there is not a single institution which caters exclusively to the housing needs of the poor. There are a number of NGOs/CBOs/MFIs in these countries who are working with the poor. However they are not working on a large scale and are confined to limited geographical areas. In

Thailand, a study initiated by National Housing Authority recommended that the National Government should consider establishing National Housing Fund, a specialized housing finance institution that will provide home financing for low-income families. In **Mongolia,** a need was felt for an institution that is targeted to develop and upgrade housing condition of the *ger* area inhabitants. In **India,** the Government is exploring and examining the possibility of setting up of companies which could focus only on micro-housing requirement of the lower income groups. These companies could be a subset of Microfinance institutions or existing housing finance companies. In **Pakistan**, the government owned HBFC, while catering to the requirements of the middle class and moving partially to the upper middle class, in recent past floated an idea of forming a "social housing bank" for very poor and very needy people. However some concrete steps have yet to be taken for the formation of such an institution. There is a micro finance bank Tameer Bank, which has a micro-housing finance program, though on a very limited scale. Another NGO, Kashaf Foundation is also providing financial assistance to the poor, mostly under home improvement programs.

CHAPTER 6: INNOVATIONS IN PRO-POOR HOUSING FINANCE

Even though the constraints mentioned in the previous chapter have affected the availability of low cost and long term funds for the poor in these countries, there have been certain innovations which have been 'game changers' in increasing the accessibility of housing finance to the poor. These innovations are in terms of programs which were created only to target the low income groups and only those innovations have been mentioned which are capable of being replicated in the region.

INDIA

Housing Microfinance Program of National Housing Bank

National Housing Bank in India has a program on Housing Microfinance wherein financial assistance in the form of long term housing loans is extended to the NGOs/MFIs/CBOs. These institutions lend to their members who are organized in terms of Self-Help Groups/Joint Liability Groups. MFIs borrowing from commercial banks, are for a short tenor, say 2-3 years, and meant primarily for income generation and micro-enterprise development. The National Housing Bank took the lead in lending to MFIs for a longer period, thereby allowing them to meet the housing needs of their clients. Other features of the program are summarized below:

1. The eligible borrowers for Housing Microfinance (HMF) loans at present include:

Housing Micro Finance Institutions

Non Government Organizations

Not-for-Profit Organizations

2. The financial assistance is provided in the form of Term Loans for construction of new houses and repairs/upgradation of existing houses.

3. The individual HMF loan size is Rs 1,50,000 meant for new construction and Rs 50,000 for repairs and upgradation.

4. The interest rate charged is at a fixed rate benchmarked to NHB's Prime Lending Rate. Floating rate may also be extended if so desired by the borrowers.

5. The tenor of the loans can be extended and may vary from 3 to 15 years.

6. The security obtained from the borrowing agencies includes Hypothecation of Book Debts and Agreement to Mortgage. The borrowing agencies in turn follow the KYC norms for the selection of beneficiaries and take either original title deeds or any other form of security from the beneficiaries besides Group Guarantee of the concerned SHG/JLG. There is no requirement of deposition of title deeds by the borrowers in case of loans up to Rs.50,000.

7. The borrowing agencies arrange for life insurance of the borrowers besides getting the houses insured for all risks during the tenor of the loan, till the repayment of the loan and all other dues with NHB.

8. The borrowing agencies have to submit quarterly progress reports to NHB. An inspection of the projects is carried out by the officers of the Bank every six months.

9. NHB has also prescribed certain selection criteria for selection of beneficiaries which includes:

Age of the borrower should be between 18 to 55 years

Monthly household income of the beneficiaries should be sufficient to pay the EMIs comfortably.

Borrowers should have completed minimum three loan cycles with at least 95% recovery.

The borrowing agency shall lend to the SHG members at a rate not exceeding 5% over the rate charged by NHB.

Borrowers should belong to a SHG.

10. The Bank also has a comprehensive rating model which provides independent tools for the assessment of NGOs/CBOs/MFIs. The tool is designed to cover three broad parameters, which are Governance, Management and Financial Performance. There are separate weights for the three parameters and sub-parameters.

REPCO Model

The Repatriates Cooperative Finance & Development Bank Limited (REPCO) was established in 1969 by Govt. of India with the main objective of rehabilitating repatriates from Burma and Sri Lanka. REPCO Bank has three subsidiaries namely: REPCO Home Finance Limited (RHFL), a housing finance company, REPCO Foundation for Micro-Credit (RFMC), a not-for-profit organization established by REPCO Bank and REPCO Infrastructure Development Company Limited (RIDCL). RHFL while providing housing finance to the poor had faced some constraints for lending to such sections. These constraints were: Non availability of property title, income proof, house estimates/expenditure budget, scheduling repayments, delay in house construction, minimum margin contribution, abandoning of house construction in the middle and the high cost of administration in servicing such small loans. REPCO Group has therefore sought to address these issues by developing an innovative model, involving all its subsidiaries for providing housing finance to the poor which is detailed in the table below:

Table 6.1 Repatriates Cooperative Finance & Development Bank Limited Model

Subsidiary	Role	Details
Repco Foundation for Micro-Credit (RFMC)	Demand aggregation/ mobilization/ servicing of repayments	RFMC will organize SHGs involved in similar activities, provide vocational training and assist in marketing their products. The benefit of RFMC involvement could be reaped in assessing the income based on the prevailing market rates of SHG products and sales volume and RFMC would also be instrumental in providing the credit

		linkages with RHFL & REPCO Bank. Monitoring and recovery could also be done at lower cost.
Repco Infrastructure Development Company Limited (RIDCL)	Construction/Technical assistance for shelter-cum-workshed	RIDCL would systematically assess the shelter area requirement and work area requirement, provide requisite technical expertise for low cost building materials, plan the layout and finally undertake construction & delivery. One major obstacle- i.e. abandoning / delaying construction by beneficiary at times owing to diversion of funds for other productive activities – could be taken care of through RIDCL's involvement in the process. Besides, proper estimate of funds requirement could also be done as budgeting, *etc*., would be done by them.
REPCO Bank and RHFL	Financing	While RHFL will provide assistance for shelter, REPCO Bank will look after the financial assistance needed for income generating activities. Refinancing would be arranged through relevant institutions. Because of this integrated approach, initial margin requirement could also be met through family labor and locally available materials of beneficiary.

Success of the REPCO model is more guaranteed because of the integrated approach, since all the concerned institutions belong to same group, the mutual stake holding and cooperation would be much higher. In view of the integrated approach, overall monitoring would also be better, resulting in much lesser rate of default & delinquency.

Ideas That Can Be Replicated

Commercial Banks can provide long term housing loans to MFIs to ease their liquidity issues.

MFIs can provide housing loans to their members for repair/renovations as it has been observed that poor build progressively over time (progressive or incremental housing).

Loans for repair and renovations are for small amounts and therefore the monthly repayments will be 'affordable' by the borrowers.

Security need not always be land titles, and the option of Group Guarantee could also be explored (Grameen Bank Bangladesh model). It was observed from the National Housing Bank's experience that as the desire to own a home among the poor is very high(a basic need for shelter), that peer (social) pressure will be very effective in ensuring timely repayments.

The REPCO model involves three different entities targeting the poor. One entity will act as demand aggregator of the poor/servicing of repayments, one entity will provide finance and another will provide technical/construction assistance in housing. If the promoters of all the three entities are the same, as was the case of the model suggested by REPCO, then it would facilitate pro-poor housing finance.

MONGOLIA

The Government of Mongolia had requested the Asian Development Bank (ADB) to prepare, through the Japan Fund for Poverty Reduction (JFPR), an innovative poverty reduction project to pilot sustainable approaches for addressing housing-related poverty in selected *ger* areas of Mongolia's cities.

Activities: The Housing Finance component activities included (i) establishing eligibility criteria for providing housing finance for the poor and preparing selected communities in a few ger areas of Ulaanbaatar for participation; (ii) collecting savings collateral of 6 months before providing housing finance; (iii) selecting the eligible housing finance beneficiaries within the community; confirming the lending arrangements through the project implementation unit (PIU), and preparing the required documentation including the collateral, registration of the property, and repayment arrangements

Appropriate Loan Sizes for the Poor and Social Pricing: The JFPR Project applied social housing criteria by providing adequate funding size with different financial repayment conditions based on the poverty situation of the beneficiaries. The size of the housing loan, the monthly repayment schedule, and the interest rates per beneficiary group are given in the table below:

Table 6.2 Housing Finance for the Poor in Mongolia

Income group	**Formal and Non-Formal monthly household income (MNT)**	**Housing Loan size (MNT)**	**Monthly repayment (MNT)**	**Repayment period (years)**	**Interest rate (percent per month)**
Very Poor	0-50,000	100,000-200,000	5,000	3	0.50
Poor	50,000-1,50,000	200,000-500,000	10,000	5	0.60
Low-income	1,50,000-2,50,000	500,000-10,00,000	15,000 and above	5	0.75

Ideas That Can Be Replicated

- Specific targeting of low income segments
- Collecting Savings collateral

SRI LANKA

The Women's Bank

The Women's Bank is a cooperative society built, owned and operated by and for poor women in Sri Lanka. It was incorporated under the Cooperative Societies Law in 1991 as a District Society and upgraded to national level in 1998 as the Sri Lanka Women's Development Services Cooperative Society Ltd (Women's Bank). It is engaged in a mission to put the resources, ideas and support of its own members to solve their own problems using the cooperative principles of self-help and mutual aid.

The Women's Bank in reviewing the housing conditions of its membership has found that most of them did not have a decent shelter to live in. Even the houses they have are lacking in essential facilities. About 70 per cent of those houses did not have a toilet, about 50 per cent used unprotected huts as their kitchens, and very few had separate water supplies. These conditions have lead to large number of social and sanitary complications. The poor with very limited income were not willing to use their small savings to acquire these facilities. According to their social attitudes and values these were not priority areas to invest their small savings. They are used to construct their houses on incremental or progressive housing concept. As a result, toilets, kitchen and water services were the last items in their priority lists.

They first built the front portion with a living room, with a temporary hut as the kitchen, and later added to the building as and when their small savings would permit them.

Under this scenario, The Women's Bank decided to provide their members with loans for constructing kitchens, toilets & wells, *etc.*, as basic necessities to improve the quality of life of its members.

In its loan procedure, the real property collateral is not an issue. Security for loans is a combination of:

- Savings
- Group guarantee
- Group member's knowledge of the borrower
- His/her need for loan, and
- His/her repayment capacity

It has established a record recovery rate of 99+ per cent. Its individual members are poor women. Some are stable wage earners while others are self employed and unskilled casual laborers

It has experience in providing micro finance credit for the last 8 years. During this period it has disbursed loans to the tune of Rs. 56 million, which include about Rs. 19 million for housing. These loans have the following characteristics:

Loans are small, average size is Rs. 25,000/= with a maximum for Rs. 100,000/=

Loans are short term, usually for 3 to 5 years with a maximum period of 10 years.

Interest rate is determined as a cost recovery measure. As most of its activities are based on self help and mutual help basis, its overheads are negligible. Interest charged over and above the actual cost is returned to the members as interest on their savings and rebate calculated in terms of their respective transactions. Accordingly effective rate of interest is much lower than the market rate of interest.

Borrower's households income is in the Rs. 3,000/= to Rs. 5,000/= range. This income bracket does not qualify for a conventional loan.

Borrower's credibility is assessed mainly on the financial behavior rather than on collateral.

All the members have a saving and borrowing track record. Their initial borrowing starts from the Group Fund, which is a fund collected by the Group from its members on weekly basis, as their compulsory savings. Minimum contribution that a member has to save per week is Rs. 5. Number of members in a group is 5 – 10. Funds are immediately given as a loan to the neediest member of that day. Bigger loans are provided by the branches. Branches are the federations of 5 or more groups.

Continuous interaction and relationships are maintained by the groups and the branches and the centre with the borrower.

Lending procedure is simple, flexible and determined by the members themselves.

Ideas That Can Be Replicated

- Small/incremental loans for construction of toilets/kitchens, *etc*.
- Exploring alternative forms of collateral like savings, *etc*.

THAILAND

Baan Mankong (BMK)

The BMK's objective is solving settlement and tenure security problems for low-income communities countrywide. The concept of BMK is not to tackle each slum's problem individually but to look at collective problems on a city-wide scale.

In 2003, the Government mandated The Community Organizations Development Institute (CODI) to implement the BMK Program. CODI is a public autonomous organization under the supervision of the Minister of Social Development and Human Security. CODI was set up in 2000 by a Royal Decree that merged the Urban Community Development Office (UCDO), a unit attached to the National Housing Authority, and the Rural Development Fund governed by the National Economic and Social Development Board. The Thai government set up UCDO in 1992 to address the problems of urban low-income which had grown rapidly during the period of high economic expansion in 1980s-1990s. By merging with Rural Development Fund, the new body focuses on urban low-income as well as rural low-income. CODI's main objectives are to support and empower community organizations and networks in the improvement of the standard of living, raising incomes, providing housing and improving environment of their members.

At initial stages of the BMK program, low-income communities work closely with their local governments, professionals, government agencies, universities and NGOs to survey all the communities in their individual cities and then plan an upgrading process which attempts to improve all the city's low-income communities.

Once these city-wide plans are finalized and upgrading projects are selected, CODI channels infrastructure subsidies and housing loans directly to the communities through legally established cooperatives or savings groups. Government subsidies to BMK are THB 68,000 per unit. The subsidy is paid to the implementing cooperatives to be used for infrastructure improvements such as electricity, pipe, walkways, sewerage, *etc*. A part of the government subsidy is for housing renovation to reduce costs. CODI acts as program facilitator and budget administrator and provides long-term financing for land acquisition and housing construction.

BMK not only focuses on building for low income people but also takes into account social aspects of the community such as welfare and living environments. The BMK concept allows low-income communities to study their settlement's physical problems and develop their own resolution and implementation plans.

BMK has used various methods to upgrade low income settlements including:

1. On-site improvements

These projects help solve land tenure problems, improve the physical environment and basic services in existing communities with minimal adjustments to layouts or plot sizes. Community welfare programs and community businesses also benefit from these projects.

2. Re-blocking

Re-blocking is a systematic way to improve infrastructure and physical conditions in existing communities along with land tenure security. Layout of houses and roads are adjusted so that new sewers, drains, walkways and roads can be conveniently installed. These adjustments however do not interrupt a community's continuity because the total process is controlled by the community at its own pace.

3. Land sharing

Land-owners and the community agree to share the land. A portion of the land is either given, sold or leased to the community where housing is to be reconstructed. The balance is returned to the landowner for development. This model allows both parties to settle their conflicts.

The community is no longer occupied by squatters but by legal owners or land tenants. The landlords are able to further develop the land.

4. Reconstruction

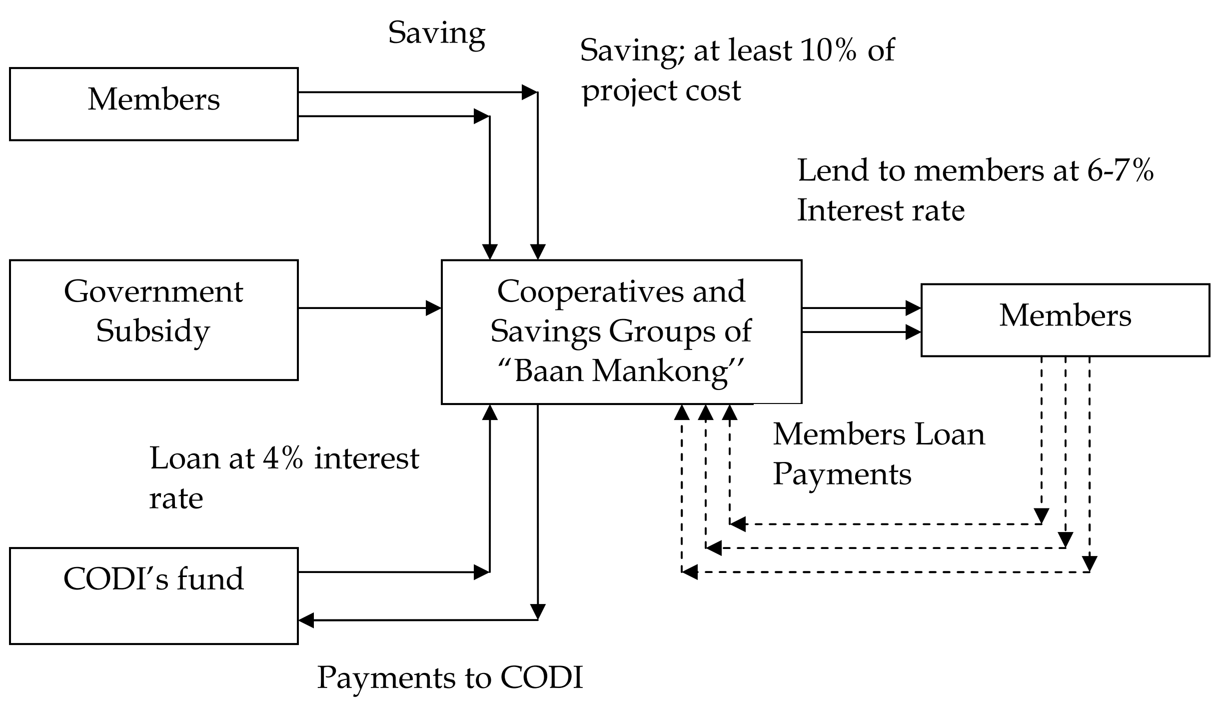
Existing communities are totally demolished and rebuilt, after the community has secured the land either under long-term leases or purchases. The land security encourages occupants to invest in new reconstruction.

5. Relocation

Occupants are relocated nearby if possible. Relocation is normally advantageous because it usually comes with housing security, through land use rights, ownership or long-term leases. Communities however face house reconstruction costs and in some cases land costs.

About 75 per cent of BMK projects are upgraded on existing land with on-site upgrading, re-blocking or reconstruction or nearby relocations. From 2003 to June 2009 the BMK project umbrella encompassed 738 housing projects throughout Thailand, benefiting 79,884 households in 246 districts.

Figure 6.1: CODI's BMK Financing



There are three main components in financing of each BMK housing project: 1) subsidy from the Government which equals THB 68,000 per family; 2) long-term loan extended by CODI; and 3) community's own savings.

Government subsidy: The subsidy is channeled through CODI to the community organizations who own the project and the community decides how to utilize this subsidy. A small amount of subsidy is also set aside for administrative expenses. Usually, most of the subsidy is used to improve infrastructure such as electricity, water supply, walkways, and sewerage. In some cases, subsidy may be allocated directly to households.

Long-term loan from CODI: For any BMK project which requires financing either for land purchase or housing construction or both, a community organization may obtain a loan from CODI up to 90 per cent of total project cost

Community savings: Prior to obtaining CODI loan, CODI staff have to ensure that the recipient community is capable of funding and managing the upgrading project. The key element is community-based savings. The saving program should be operational for at least six months and accumulated an amount not less than 10 per cent of project cost. If necessary, CODI staff would assist in applying accurate and reliable accounting system for the organization. This saving requirement determines the loan amount for each household. A member who fails to save up as committed may have to reduce loan amount and revise their housing plan.

As of June 2009, CODI approved THB 2,692 million of BMK loans to 208 community organizations, of which THB 1,795 million has already been disbursed. The outstanding loan amount stood at THB 1,515 million.

Ideas That Can Be Replicated

Community is at the center of all planning activities. Their preferences and ideas are given primary importance.

The Government institution, which in this case is CODI, channels the infrastructure subsidies and also provides loans directly to the community networks.

The Government institution works with community networks to achieve scale.

Importance of saving for housing loan is emphasized among the community.

Community networks interact with a wide variety of actors to achieve housing solutions.

The community achieves security of land tenure.

INDONESIA

Subsidized Home Mortgage program

Subsidized Home Mortgage (KPR) is a housing assistance program carried out since 1976 for low income communities. In the beginning, subsidized scheme known as subsidized KPR, was distributed only through conventional banking institutions. To broaden the distribution of credit for low income households, since 2005 Ministry of Housing launched the Subsidized KPR Sharia Schemes which are based on Islamic principles. For non-bankable households, the Ministry of Housing also opened the opportunity for non-banking institutions and Sharia-based cooperatives to participate in channeling housing subsidies for new house construction/home improvement through the KPRS (new construction/home improvement of self-help housing loan) and Micro KPRS Sharia Subsidized program.

Subsidized Home Mortgage program has 4 sub-types:

- Subsidized Home Mortgage (Conventional and Sharia) Program
- Subsidized Self-Help Home Mortgage (Conventional and Sharia) Program
- Subsidized Self-Help Housing Micro-Credit (Conventional and Sharia) Program
- Subsidized Home Mortgage for Low Cost Apartment (Conventional and Sharia) Program

All the Schemes are granted for the family/households that have not yet benefited from housing subsidy and the house is intended to be their first acquisition. Options of subsidy scheme are: (i) Interest Only-Balloon Payment (ii) Upfront subsidy (iii) Buy down subsidy, and (iv) Subsidy for housing construction/renovation

Some requirements that have to be fulfilled in those schemes are: (i) Minimum down payment or minimum amount of savings of the debtor (ii) Minimum and maximum amount of loan/financing, (iii) Subsidy scheme, and (iv) Tenor of loan. For the self-help housing development, there are additional requirements, such as: (i) Owning certificate of land ownership or other related developments, and (ii) Building permit issued by Sub-district office or higher level institution.

Delivery System of Housing Subsidy Program:

1. According to Regulation of Minister for Finance, housing subsidy is also open for Non-Bank Financing Institution (LKNB) and Co-operatives, alongside banking institution;
2. The institutions must sign Memorandum of Understanding (MoU) and or Operational Agreement with the Ministry of Housing in order to participate in the programs;
3. The participating insitutions are fully responsible for the principle mortgage loan;
4. Subsidy will be liquidated through reimbursement process;
5. Reimbursement is conducted following the Administrative Verification performed by Ministry of Housing and Ministry of Finance,
6. The participating institutions are obliged to provide implementation reports to the Minister of Housing;
7. State Audit Authority has the right to conduct audit on the participating institutions on genuineness of subsidy delivery.

Table 6.3 Realization of Housing Subsidy Delivery in Indonesia

No.	Credit/Financing Scheme	Year 20008 (units)	Year 2009 (units)
1	Subsidized Home Mortgage	116.042	41.901
2	Subsidized Sharia Home Mortgage	4.176	1.064
3	Subsidized Self-Help Home Mortgage/Self-Help Housing Micro Credit (including sharia financing)	45.454	11.639
4	Subsidized Low-cost Apartment Mortgage	1532	-

PAKISTAN

Khuda-ki-Basti (KKB) by SAIBAN[8]

In 1987, Mr. Tasneem Siddiquie, a civil servant, who at the time was the Head of Hyderabad Development Authority (HDA), launched a micro-housing scheme titled "Incremental Developmental Housing Scheme" on the concept of incremental or progressive housing. The Scheme was initially implemented and managed by HDA, a public sector institution. Later on, an NGO that was associated with the project management was registered as SAIBAN in 1990. Mr. Tasneem Siddiquie founded SAIBAN, with an initiative to meet housing needs of very poor and very needy sections of the society who are the real candidates for micro-housing solutions.

SAIBAN launched housing schemes in Hyderabad, Karachi and Lahore based on the concept of 'Incremental or Progressive Housing. Under this Scheme, a poor and needy family is invited to personally visit the reception of KKB on site. After initial verification, the family is given a one-room temporary residence on rent at the site. Once the management at KKB is convinced of the genuineness of the family's need, they are allotted a plot on site with payment in installments. The family is then permitted to start construction on an incremental basis subject to their financial means. Technical and other support in construction is provided by the management. The ownership of the plot is conditional to living on site and is non-transferable. This prevents any speculation or misuse of the scheme.

The laid-out-plan is based on a 50:50 model, whereby 50 per cent of the land is reserved for residential plots, 30 per cent for internal roads, 15 per cent for amenity plots and 5 per cent for commercial plots. SAIBAN partly works on a Cross-Subsidy Model, since it holds 10 per cent of plots and the commercial areas to be sold at the going market rates once the Scheme is operationalized.

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8 Pakistan: Low Income Housing Initiatives: Zaigam Mahmood Rizvi.

The Schemes are adequately equipped with residential infrastructure, utilities and public transport, and have been successful enough to motivate its architects to launch similar schemes in other cities.

KKB-Hyderabad: In 1987, the first scheme (KKB-1) was allotted 190 acres of land in Gulshane Shahbaz, Hyderabad, which was subdivided into 3,180 plots of size 80 Sq. yards. Later another small size scheme (KKB-2) of 100 plots was launched in Hyderabad.

KKB-Karachi: The KKB-3 project was initiated by SAIBAN in 1999 near Surjani Town in association with Malir Development Authority (MDA). The project was implemented in two phases. Phase-1 consisted of 60 acres and Phase-2 of 40 acres, with a total land area of 100 acres. The Scheme developed 2,856 plots of 80 sq. yards each. Today the KKB-3 has a population of about 20,000 people. The average cost of the plot was Rs 40,000 wherein 25 % was to be paid in advance and the balance in easy monthly installments. The Scheme was developed in strict compliance with prevailing laws of Town Planning, with ample provision for schools, hospitals/dispensaries, places of worship, community centers, play grounds and commercial areas. The residential infrastructure was also provided right at the initial stage.

KKB-Lahore: The KKB-4 project in Lahore was started by SAIBAN in association with Acumen Fund of USA. At present it consists of 20 acres of land, and efforts are being made to procure more land in the adjoining area. The layout plan of KKB-4 is based on a community concept that is divided into blocks of 23 housing units each, and a park in the center of each block. In order to ensure greenery and conserve water, the Scheme is equipped with water recycling facilities as well.

Ideas That Can Be Replicated

The low income Schemes are generally developed in the outskirts of the cities, and therefore, it is essential to ensure that these locations are provided with basic residential infrastructure, health, education, and above all public transport.

In these Schemes of KKB, the poor are allotted only a serviced plot, with basic amenities and facilities. The construction is done, with community involvement, on the concept of “incremental or progressive” housing. Therefore, for very needy and very poor, affordability is managed through progressive construction and with community involvement. The genuineness of the clients is judged by allowing them to squat for some time and prove their credentials.

Public-Private Partnerships could be the only sustainable model.

The Governments will have to play the role of promoters and facilitators.

The financial institutions have to develop a microfinance mind-set, and a lending culture, suited to the economic and social conditions of the poor.

Box B.1

Philippines

Pro-Poor Housing and Housing Finance

To ensure the effective delivery of housing finance under the National Shelter Program and increasing home ownership among the lowest strata of society, the Social Housing Finance Corporation (SHFC), a subsidiary of the National Home Mortgage Finance Corporation (NHMFC), has been tasked to develop and administer the Community Mortgage Program (CMP).

CMP is a financing scheme to assist and enable informal settlers, slum dwellers or residents of blighted areas, in purchasing, through their duly registered community associations, the land they occupy or the land where they will be relocated. It is a requirement that the landowner is willing to sell said property to the community association.

The loan is granted in three stages – 1) for lot purchase; 2) land/site development; 3) house construction/improvement.

CMP allows a maximum loan of P120,000 (US $2890) covering the three stages for Metro Manila and other highly urbanized areas and P100,000 (US $2,409) outside Metro Manila per individual beneficiary, payable in equal monthly amortizations for a maximum of 25 years at an annual interest rate of 6%. The loan is secured by a first mortgage, on the undivided tract of land initially under community ownership of the beneficiaries. Later on, the property is subdivided with individual mortgages per beneficiary.

Land/Site Qualifications:

1. Land is covered by a Transfer of Certificate of Title and is free from liens/ encumbrances (except in certain cases), at the time of financing by SHFC;
2. Land conversion, if not yet classified as residential;
3. Written intent to sell and buy between the landowner and the Community Association;
4. With road right of way for land not bounded by public road lot;
5. Surety bond in favor of SHFC pending reconstitution of lost or damage title, if applicable;
6. Observance of the provisions of applicable existing laws;

Table 6.4 Loan Purposes and Limits

Purpose	**Amount**	
	Highly Urbanized Areas	**Other Areas**
1. Lot acquisition		
Undeveloped	PhP 80,000 (US $ 1,927)	PhP 45,000 (US $ 1,084)
Developed	PhP 80,000	PhP 60,000 (US $ 1,445)
2. Site Development	PhP 15,000 (US $ 361) per beneficiary	
3. House construction	PhP 40,000 (US $ 963) per beneficiary	
Total Loan Package	PhP 120,000 (US $ 2,890)	PhP 100,000 (US $2,409)

Borrowers

Tenants/beneficiaries shall form and register a Community Association, cooperative or condominium corporation, which shall borrow and initially own and mortgage the land. Individual beneficiaries right over the land and eventual ownership of the lot is achieved through a Lease Purchase Agreement (LPA) with the Community Association.

Eligibility of CMP borrowers:
1. Have not availed of any housing loan from GSIS, SSS, or HDMF.
2. Not a registered owner or co-owner of any housing unit

Collateral:
The very same property, which is subject of purchase, shall serve as the collateral for the loan.

Insurances:
A Mortgage Redemption Insurance (MRI) on the lives of the principal borrowers shall cover the loan extended for the acquisition of the lot and the horizontal development thereof. A Fire and Allied Perils Insurance (FAPI) shall cover the loan for Stage III, which is house construction or home improvement.

Loan Amount and Terms:
The loan can be paid up to twenty-five (25) years in equal monthly amortizations at 6% interest per annum. Until the individual titles of the lots are transferred in the names of the individual beneficiaries and the corresponding mortgages on their shares in the community loan are annotated thereon, the Association is the only borrower and shall collect from the members the monthly amortizations on their individual loan allocations. For its efforts to collect and service the loan shares of its members, the Association shall be entitled to 1% of the amount collected and remitted to SHFC.

Loan Originator:
Any community-based organization duly accredited by SHFC which may either be a local government unit; a national government agency, bureau or corporation; or a non-government organization (NGO) shall originate the loan.

The CMP loan originator shall be entitled to an origination fee equivalent to P 1,000.00 per household-beneficiary or two percent (2%) of the approved loan, whichever is lower. This fee shall be payable upon the take-out of the lot acquisition loan.

Source: Source: Social Housing Finance Corporation

Box B.2

Bangladesh

Pro-Poor Housing and Housing Finance

Bangladesh has a high population density - about 1,200 people per sq.km – and a limited area of 134,000 sq. km., which is frequently inundated during the summer months. In such difficult conditions, only 40% of housing in urban areas and merely 5% in rural areas is permanent housing. Close to half of all housing units in the country, approximately 3.3 million, are made of temporary materials instead. This non-durable housing requires replacement within 1-5 years after construction. Even among the housing defined as permanent, there are many types of dwelling places with some degree of permanency, ranging from construction with brick masonry and RCC (reinforced concrete construction) pillars to tin-roofed and tin-walled houses. The heterogeneity of housing makes it difficult to estimate construction and housing materials costs, as well as complicates the measurement of real estate price indices. The table below shows some characteristics of the housing sector.

Table 6.5. Housing Sector Characteristics of Bangladesh

	Bangladesh	Rural	Urban
Total number of dwelling units	19,020,489	15,474,566	3,545,923
Per capita floor space	54.9 sq.ft	53.5 sq.ft	62.3 sq.ft
Occupancy level	5.48 pp/dwelling unit	--	--
Proportion permanent structures	--	21 percent	46 percent
Proportion of rental unit	n.a. (Dhaka 65%)	5%	40%
Access to clean water		78 percent	42 percent

Source: Center for Urban Studies quoted by Marja C. Hoek-Smit.for UNDP/UNCHS (Habitat), 1998

The higher and middle-income groups are housed in either low-rise single-family houses, or, increasingly, in multi-family apartment buildings. The lower income households, approximately 70 percent of the urban households, are housed in a variety of house-types. Approximately half of the low-income housing units are in *bustees* (slums), informal settlements areas that include both private rental and private ownership housing, built either on privately owned land or on illegally occupied public land. Conventional tenement slums (rental and owner occupied) take up another quarter of the low-income sector. These multi-unit buildings were originally built to compliance with the code, but are presently seriously overcrowded and ill maintained. Overcrowding in these buildings has increased over the last years due to an influx of rural migrants to work in the expanding garment industry. Other categories of low-income housing include: government provided squatter resettlement camps, plots of land with basic services that are provided on a leasehold basis; employee housing consisting mostly of small apartments in high-rise complexes provided by the government; squatters who have built makeshift houses on illegally occupied public or private land; and pavement dwellers.

Supply of housing is greatly affected by the land development process in Bangladesh. The process for the entire country is centrally controlled from Dhaka, with little autonomy at the local level. The housing development process is slow and costly, due to poor preparation of master plans and the dearth of planning professionals in the Bangladesh public sector, as well as inadequate infrastructure provision, land acquisition, development and construction financing, and mortgage financing. This raises development costs and makes affordability for a large portion of the population increasingly elusive. The problem is most acute in Dhaka, where the city development authority, Rajdhani Unnayan Kartripakkha (RAJUK), suffers from administrative inadequacies, impeding more than enabling the city planning process. Yet other regional planning authorities (e.g. for Chittagong, Khulna, and Rajshahi) have even less resources and power to implement planning and development, and are barely functional. The matter is further aggravated by the scarcity of information on housing supply and shortages for urban areas other than Dhaka, preventing adequate policymaking attention to these areas.

Financing for pro-poor housing

Though Bangladesh is a densely populated country with population pressure mostly in capital city Dhaka, and port city Chittagong, and the country hovering around the least developed countries in the world, housing for vast majority of population, as well as affordable housing is as problematic as elsewhere in the region under focus here. Yet, apart from government owned Bangladesh House Building Finance Corporation (BHBFC)'s inefficient and lethargic activities in providing housing loans according to the government's policies, no other plans or policies for making houses and housing finance affordable to the common people are visible either in government sector or in private sector.

Bangladesh has earned a name in committee of the nations through the concerted acts and efforts of its NGOs in alleviation of poverty, in bringing in economic well being and some other social services like spreading of education across the country. But these NGOs are not very known for handling housing issues for the down trodden through any eye catching schemes. However, a few of the NGOs have implemented some housing plans commiserating their economic plans of enhancement of earning capacity of their members.

Among the NGOs, Grameen Bank is the one which has played quite prominent role in this category also.

As of June 2009, the Grameen Bank's housing portfolio was at US$3.3 million. The rate of repayment for all loans is 89 per cent. The cumulative number of houses financed so far is 674,435.[1] Grameen Bank introduced the "moderate housing loan" in 1984, with a maximum current loan of BDT 25,000. The micro-housing program got a considerable boost after the devastating floods of 1987 that destroyed 2 million houses in rural areas in Bangladesh, and when Grameen introduced the "*Basic Housing Loan*", which presently has a loan maximum of BDT 12,000. It targets the poorest rural households, similarly to income-generating credit. This program has remained the most popular among its target population. There is also a loan program for the purchase of small parcels of land and one for the repair of houses. The maximum amount for a homestead purchase loan is TK10,000 ($202) and the house repair loan is TK5,000 ($101). The ratio of basic housing loans to original moderate housing loans is approximately 7:1. Besides these, another kind of housing loan called "Pre-Basic Housing (PBH)" loan amounting BDT 7,500 to 8,500 has been introduced to meet the demand of house dwellers in the northern part of the country. The interest rate of housing loans is 8% per annum. The lending is via group loans, cum insurance provisions against default, death, accident, and the line. 94% of Grameen Bank borrowers are female, and women also comprise the large majority of housing loan borrowers.

There are several government programs in support of low-income housing. In 1998 Bangladesh Government started Grihayan Tahabil, a housing fund for homeless and low-income groups. This Scheme is operating in 400 upazillas over 64 districts. The funds are disbursed through a little over 400 NGOs. The current fund size is Tk.1,600 billion, of which Tk.1,144.6 billion has been disbursed as of March 2009, making it possible to construct 46,128 new houses.. A similar government program in rural areas, Asrayan, targets to provide and fund the construction of low income barrack type houses.

The challenges facing housing micro-finance programs include affordability constraints, especially for rural households, high land prices in the case of urban clients, commercial viability of the microfinance lenders, the need for new products including savings-for-housing instruments, and mechanisms limiting disaster and disability / death risk in housing lending. Careful blending of government policies, smart subsidies, planning, public-private partnerships, and technical assistance for housing micro-lending would be required to develop the low-income housing and housing finance market further. Success stories, such as the new low-income housing lending mechanisms in India, would be useful in the endeavors in Bangladesh.

Source: World Bank Report on Housing and Housing Finance in Bangladesh.

Box B.3

Afghanistan

Pro-Poor Housing and Housing Finance

Until the modern period, urban dwellings in Afghanistan were located within modest-sized walled cities, unchanged for centuries in their basic layout. It was only in the 20th century that urban centers began to spill outside the city walls and to take on characteristics associated with Western models, including high-rises, paved roads, and city services. Urban life deteriorated rapidly after the collapse of the communist regime, and a number of cities suffered severe damage to their infrastructures during the late 90's and early 21st century. By that time, few city services—electricity, water, sewage disposal—remained intact. As a result, a large number of people fled the countryside, seeking shelter from the civil war. These people remained poorly housed and, lacking a central government, were forced to rely on private means for shelter. Rebuilding the country's housing sector has been and still is one of the major tasks in national reconstruction.

Afghanistan as per the last estimate had a population of around 25 million people, which is likely to be around 37 million by 2015. More than 80 per cent of the people belong to Economically Weaker Sections, and thus a candidate for micro and low income housing and housing finance.
A large part of existing housing is in dire need of an upgrade. Informal settlements shelter 80 per cent of the population and cover 69 per cent of the residential land in Kabul. The quality of housing stock is poor, while construction standards are weakly enforced. Both public and private housing provision has been lagging even the yearly incremental demand, thus adding to the already existing shortage of 1.0 million. Most of this housing backlog is for low income category. The housing shortage issue is being compounded by the influx of returning refugees from neighboring Pakistan, and some from Iran.

These considerations and large market potential suggest a micro and low-income housing finance approach, mostly oriented towards home improvement loans. The microfinance sector, which is gaining momentum in Afghanistan, is making initial efforts to expand into low-income housing, relying on its comparative advantage of experience and knowledge of the borrowers. The sector is also uniquely suited to service women, who have limited access to formal and informal finance because of the cultural limitations and their lack of guarantees and title deeds. Potential demand in Micro and SME finance is considerable. Two institutions are attempting to address this issue; MISFA, a donor supported initiative to promote microfinance in Afghanistan, and FMFB, an MFI in the private sector.

Microfinance Investment Support Facility for Afghanistan (MISFA):
MISFA commenced its operations in 2003, with a primary objective of promoting and supporting microfinance lending and entrepreneurship development in Afghanistan. By the year 2007 it had reached to a client base of 450,000, being served through 16 NGOs. Over the years its experience suggested for the need to review policies and consolidate its operations, else the clients may become unmanageable, and poorly served. MISFA, being the apex organization in charge of development and oversight of the MFIs sector is now facilitating the consolidation process between a few partner institutions.

Consequently the client base has declined to 423,000 by June 30, 2009. Over the years weaker NGOs will be eliminated and number might drop to 10-12 NGOs. MISFA's outreach covers 26 provinces. Nearly 60 per cent of the clientele is women folk. So far under the program of MISFA, loans amounting to US$ 650 million have disbursed, with an average loan size of $330 per client. Default rate is less than 10 per cent. MISFA lending to NGOs is at 5 per cent per annum, while the NGOs lend these funds at 2 per cent per month. The average tenor of MF loans is 12 months. The MISFA MF Program has an urban outreach of 72 per cent and rural outreach of 28 per cent. The MF portfolio composition is that 63 per cent of loans are for trade and services, 9 per cent for handicrafts and manufacturing, and only 2 per cent for home improvements.

First Micro-Finance Bank (FMFB): The FMFB started its operations in 2004, under commercial banking license, with a business focus on microfinance. With an equity capital of $ 6 million, it is 51 per cent owned by Agha Khan Foundation, along with IFC, KFW and others. It starts with economic empowerment of the poor and needy through microfinance loans. The portfolio also includes the SME clients. The loan size ranges from $200 to $ 50,000.The average tenor of the loans is 12 months, with housing loans for 20 months. The target market covers individuals, Group Lending, and SME clientele. Loans to the individuals include consumption loans, and loans for trade finance, services, agriculture and mortgage finance. The FMFB has 32 branch networks and is gradually expanding its access to finance. Housing loans are primarily for home improvement, with an average loan size of $1500. It has an outstanding portfolio value of $ 45 million. The FMFB's loaning has created 2,000 jobs and has supported 10,000 employment opportunities. Its loan portfolio is very clean with less than 1 per cent Portfolio at Risk (PAR). Apart from equity FMFB's funding sources include Deposits of $ 80 million, and a Credit Line of $ 19 million from MISFA. The average cost of funds is 6 per cent and average lending rate is 20 per cent. FMFB intends to expand its housing improvement loans and is in the process of developing a Housing Microfinance Tool Kit.

Source: Meeting with Mr. Mansur Mehdi Habib, CFO, The First Micro Finance Bank, Afghanistan, on December 23, 2009.

CHAPTER 7: CONCLUSIONS AND RECOMMENDATIONS

The recommendations which emerged from the preparation of country reports and from discussions in the National level workshops in each of these countries are enumerated as under:

RISK MITIGANTS

There is a need for creation of credit risk management mechanisms which will encourage the lenders to provide finance to the poor. These credit risk management mechanisms could be in the form of

Credit Guarantee fund/Risk fund by the Government – A risk fund could be created by the National Governments either through budgetary support or borrowing from international agencies. This fund could be specifically used for guaranteeing loans to the poor by financial institutions. It is understood that the Government alone cannot be expected to provide funds for solving the housing shortage of the poor. The financial institutions/private sector also has to play an important part in these endeavors. The financial institutions/private sector has to be encouraged to cater to the housing needs of the poor. They have not been doing so at present as they do not find the poor to be creditworthy and there are issues regarding collateral as well. It is only when the Government will step in to provide a comforting hand to the financial institutions/private sector, than progress in terms of reducing the housing shortage of the poor could be achieved.

Title insurance – Security of title, and assurance of the same through concepts like Title Insurance are required to safeguard the sanctity of the collateral with the lending institutions. The insurance will provide comfort to both the lenders and borrowers that the title is and will remain free from defects. The insurance will also include protection to the lenders against damage to houses due to natural calamities.

Credit bureau- Sharing of credit information on the borrowers is also very important. As was observed, due to lack of credit histories of the poor, the financial institutions are reluctant in lending to them. They are not sure as to what are the other debt liabilities that the client may possess which may end up hurting the regular payments of the housing loans. Therefore, it is very essential that such bureaus are established wherein all the financial institutions share the information of the borrowers. Effort must be made to ensure that information is also shared online. Such an effort could prove successful only once the regulatory agencies will ensure that all the lenders contribute information to the bureau, on a regular basis.

Alternative forms of collateral- This is also a very important risk mitigant. Wherever it is time consuming to obtain title deeds of the borrowers, other forms of collateral could be explored by the financial institutions while lending to the poor. This could be in the from of compulsory savings history for say one to two years, before advancing housing loans, Self-help groups/joint liability groups giving guarantees to the lenders for the loans advanced to their members, only taking 'possession' of title deeds and not insisting on mortgaging them which could result in increase of costs for the borrower due to the stamp duty and registration charges. Alternative forms of collateral also result in savings on foreclosure charges and the delays in enforcing recovery procedures. To begin with, these forms of collateral could be used in case of loans which are provided for home repairs, renovations and involve small amounts.

Consumer finance and education- There is also a strong need for educating the poor on the finance options available and the impact on their incomes when they avail housing loans, etc. This could be achieved with the help of 'mortgage counselors' or with NGOs/CBOs who could provide counseling to the poor and make them understand the intricacies of loans. It is also important to develop a code of fair practices for all the lending institutions for providing housing loans to the poor.

Construction and Technical assistance- It would also be good idea to provide construction assistance to the poor in the form of low cost building technologies, which would result in bringing down the final cost of the house.

Creation of an "Affordable Housing Fund"

An affordable housing fund needs to be created by the National Governments in which annual budgetary allocations need to be earmarked. The other sources of the fund could include deduction in monthly earnings of employees or utilizing the already available pension fund/provident fund sources. This affordable housing fund could be utilized for the following purposes:

Providing credit guarantee to financial institutions.

Providing subsidies to the poor, which could be in the form of infrastructure, interest rate, etc.

Providing very low interest loans to financial institutions to encourage them to lend to the poor at low interest rates, albeit with conditions that the benefits have to be passed on to those groups who deserve them.

Directly financing innovative projects targeted at providing housing solutions to the poor.

Research projects/studies which will highlight the problems and prospects in housing finance for the poor.

In short there needs to be a single agency which will provide funding through a variety of ways.

Channeling Loans through Community Savings Groups

Community Savings and Credit Groups have provided important lessons for the formal sector institutions in channeling credit to the poor. They have given evidence to the fact that the poor are "bankable." The group approach to lending has created a social pressure which has replaced the need for collaterals. The community savings and credit groups have enabled greater understanding of the needs and aspirations of the community. These groups have been borrowing and lending among themselves for income generation activities which have resulted in establishment of credit histories of the members. The success achieved by the BMK program implemented by CODI in Thailand is a pointer to the fact that channeling of funds through the networks can work to the advantage of the community. As all the interventions were planned by the community themselves along with discussions with a wide variety of actors, the program was a success and the poor benefited by obtaining secure tenure of the places which they were occupying illegally. The loans were provided in bulk to community co-operatives which had numerous savings groups as members. The collateral was the land which was collectively owned by the co-operative. The lesson for the policy makers is that the poor, when provided with a catalyst, can provide long lasting solutions for themselves rather than the Government deciding on solutions and forcing them in the form of a target-led approach. The collective ownership of land acted as a kind of social pressure which made the members service their repayments regularly. Even in the Community Mortgage Programme of Philippines, the ownership of land by the community is 'collective'. NGOs, local Governments or the community federations act as legal "originators" for these community loans.

STRENGTHENING OF LAWS RELATED TO THE RECOVERY OF HOUSING LOANS

Last but not the least, strengthening of foreclosure laws and recovery procedures will also supplement the above mentioned steps. Quick recovery and disposal of non-performing loans will only persuade the lenders in lending to the poor. Right now there are extensive debates on how the recovery is very poor on Government sponsored schemes and all the initiatives taken by the Government are always seen in the same light with the result that nobody comes forward to supplant the efforts of the Government. Government alone, as discussed before, cannot meet the entire housing shortage of the poor. It needs therefore the backing of good laws which are easily implemented and less time consuming.

NEED FOR "EXCLUSIVE" OR "INTERMEDIATE" INSTITUTIONS

Apart from specific risk mitigants, a new category of institutions can also be promoted which will act as a bridge or link between the community and the formal sector institutions. This will help in reducing the transaction costs of the formal sector institutions. Instead of giving a large number of small sized loans, bulk lending could be done by the formal sector institutions to these intermediate institutions. The intermediate institutions have to however adopt flexible ways of dealing with the community. It could include working out repayment schedules according to the cash flow of the clients rather than insisting on EMIs, accepting alternate forms of collateral, give loans to groups or community networks, provide subsidies, *etc*. The idea is to adopt and develop innovative methods for loan delivery which can serve as useful lessons for policy makers. The National Governments may be encouraged to put in share capital for the starting up of such institutions or guarantee the loans taken by them from the formal sector institutions. These institutions could be managed by experts in community mobilization and informal sector lending.

NEED FOR CONTINUOUS DIALOGUE AND DISSEMINATION

It is an established fact that there cannot be a universal solution to the issues of pro-poor housing finance in any country. Hence there is an urgent need for various stakeholders to collaborate with each other and incorporate the best practices of various pro-poor models into their schemes. There is also a need for various stakeholders to focus on creating solutions which take into account the ground realities and requirements of the area and people they cater to, rather than trying to implement "universally acceptable" models. In this regard, apex level housing finance institutions viz. NHB (India),HBFC (Pakistan), BHBFC (Bangladesh), GHB (Thailand), MSMIB (Sri Lanka), MIK (Mongolia) have to play a vital role by ensuring that there is sufficient co-operation and collaboration between the various stakeholders in pro-poor housing initiatives. These institutions have to make efforts to ensure that there are frequent dialogues and knowledge sharing among the various parties. This cooperation is possible through regional conferences, workshops, seminars, *etc*. which would not only serve as a platform for sharing best practices but also in identifying gaps in their efforts. These institutions can implement innovative pilots, which could be documented into standardized modules, for the formal financial institutions. The platform will facilitate sharing the innovative mechanisms being adopted nationally/internationally with the various stakeholders and will attempt to influence thinking of the policy makers and civil society groups.

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CHAPTER 8: REGIONAL SUPPORT MECHANISM

The key areas where regional actions are needed to promote pro-poor housing finance in Asia and the Pacific are:

Norms and standard setting

Creating regional funds and institutions to promote networking

Exchange of information and experience and

To build capacities of formal and MFI/NGO/CBO based housing finance institutions.

There is a need for a regional network whose role will be to:

Link institutions across the entire spectrum of housing finance provision.

Undertake research and analyses of innovative practices in pro-poor housing finance, policy options and frameworks enabling the establishment and successful functioning of wide-spread pro-poor housing finance mechanisms in Asia and the Pacific.

Training and capacity building at all levels including virtual communication and face-to-face exchanges.

Region-wide advocacy of pro poor housing finance issues.

The regional network would not only allow for a better exchange of information, but would also offer opportunities for collaboration between various housing finance institutions.

The first activity of the Regional Project on Pro-Poor Housing Finance in the Asia and Pacific was the Regional Policy Dialogue on Pro-poor Housing Finance. It was held at New Delhi, India from January 30th to the 31st, 2008, and was organized by the UNESCAP and NHB.

The objectives of the Regional Policy Dialogue were to:

Identify and discuss critical and emerging issues in housing finance in general and financing housing for the poor in particular.

Discuss the need for information exchange and networking on pro-poor housing finance in the Asia and Pacific Region.

Participants of the Regional Policy Dialogue included chief executive officers and senior Officials from selected governments, housing finance banks and institutions and senior Decision-makers from community-based and CSO-based housing finance institutions. Representatives of UNESCAP, UN-HABITAT, the World Bank and USAID also participated in the Regional Dialogue.

Box B.4

Summary of Conclusions and Key Findings

Discussions at the Regional Policy Dialogue focused on critical and emerging issues in housing finance in Asia and the Pacific. Participants discussed various approaches to make housing finance more accessible to the poor. They agreed that providing large-scale housing finance to low-income groups was a key emerging issue in Asia and the Pacific. Prerequisites for succeeding in this immense task include reforming legal and policy frameworks in some countries and capacity building of stakeholders at national and local levels and in-depth research and comparative analysis of pro-poor housing policies, institutions and practices in others. Participants stressed that new ways had to be found to raise funds for housing finance. They agreed that the establishment of secondary markets for housing finance needed to be encouraged across the Asia-Pacific region to make local and international capital available on a large scale. They recommended creating mutual funds and investment trusts and tapping into provident and pension funds as well as into the savings of the poor themselves. Participants agreed that there also was an important role for government to play in reforming the legal and regulatory environment and in providing funds and subsidies for pro-poor housing finance. In order to establish successful pro-poor housing finance policies and mechanisms, they agreed that innovative approaches were needed. Based on initial success of pioneering housing finance institutions in Asia, the need to link formal housing finance institutions (which can raise funds) with NGO/MFI/community-based housing finance mechanisms (which provide sustained access to poor communities) was broadly acknowledged. Participants agreed that it was important to explore alternative approaches. Thus, they were strongly convinced that because individual lending to poor people was fraught with difficulties, one major approach would be lending to poor people in groups – in communities who would empower and control their members, provide social collateral and lower loan processing costs for housing finance institutions at competitive rates. Another approach that Participants agreed was proving successful was to combine low income housing issues into a "holistic package" that provided incremental loans for incremental development of infrastructure and housing. To proactively promote exchange of experiences, undertake comparative research and to build capacities, the establishment of a regional network on pro-poor housing finance consisting of both formal and NGO/MFI/community-based housing finance institutions was strongly supported. UNESCAP and NHB were requested to organize a high-level regional meeting to establish the regional network.

Key Recommendations:

1. **Common Issues and Varied Experiences**: Pro-Poor housing is a common issue with varied dimensions in nearly all the countries of Asia-Pacific region. Due to socio-cultural-economic differences among countries, the solution may not be the same. The issues are known, the answers need to be explored. The answers would have been regional, and largely home grown.

2. **Physical and Virtual Platform for Knowledge and Experience Sharing**: Each country has taken some initiatives and launched different projects to address Pro-Poor housing shortage. The outcome and experience were different, with unique lessons learned. There is a need to evolve physical and web-based platforms to facilitate knowledge and experience sharing. For example India, Indonesia, Bangladesh and some other countries have much to offer and share. It is recommended that a permanent platform is needed to be set up to promote regular Conferences/Seminars on the subject, and also proactively participate in the Web-Based Platform to continuously share their experience.

3. **Low Cost Construction Technologies**: India is currently experimenting with a few pilot projects on low cost housing with involvement of NHB/Monitor Group. There are some other developers venturing in this field. These ventures by large scale developers clearly demonstrate that now the large scale builders find low income/low cost housing a commercially attractive sector. Some mechanism is needed to promote direct networking and joint-venture arrangements between builders/developers of the region.

4. **Low Cost Construction Materials (CMI)**: Some countries, for example India and Pakistan have developed institutions to research and develop low cost construction materials using local material. There is a need to share such knowledge between the regional countries.

5. **Long-Term Funds:** The financial institutions engaged in financing Pro-Poor Housing through the platform of MFIs are generally faced with scarcity of long-

term funds. There is a need to develop long-term liquidity facility institutions to support MFIs with refinance windows for LT Funds.

6. **Product Innovation**: Some countries have experimented with innovative products like Savings and Loans, Progressive Housing Finance, *etc*. These products need to be reviewed and standardized for use by others.

7. **Policy Initiatives and Programs by different Governments**: Countries in the region have launched Programs and Policies to promote low income housing. Each policy/program had its own learning curve and there is a need to share such experiences to learn through SWOT Analysis of such policies/programs.

8. **Land bank and Provision of Affordable Serviced Land**: Rising land prices is one major obstacle in making housing affordable for the poor. By squatting on unauthorized land, the squatters manage the cost, and thus promote squatter settlements and shanty towns. There is a need that Governments should proactively acquire such lands, develop and supply such parcels of land at affordable prices. One mechanism could be Land banking.

9. **Housing Micro-Finance**: Since Pro-Poor Housing and Housing Finance is a unique mind set, which requires a unique operational model, the Governments need to promote Social Housing Banks/Micro-Housing Finance Institutions.

10. **Cooperation between UNESCAP Pro-Poor Housing Initiative and South-Asia Housing Forum**: It will be a welcome step that both the initiatives, having largely common objectives, develop on permanent basis, some avenues of cooperation so as to serve a larger population of Asia-Pacific Region on this socially critical matter.

As a follow-up to the Regional Policy Dialogue, UNESCAP had created an online discussion group on housing finance, where participants of the Dialogue and other housing-finance practitioners could continue to discuss pro-poor housing finance issues, exchange experiences and provide ideas on the modalities of the planned regional network on pro-poor housing finance. The online discussion forum was open to all and those wishing to register should visit the following link: http://www.housing-the-urban-poor.net/forum/default.asp. Basic instructions for using the online forum can be downloaded from: http://www.housing-the-urbanpoor.net/docs/Instructions_Forum.pdf.

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