Innovative structures for financing housing and slum infrastructure

FIG - UN Habitat

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Banking made easy

- Get a Credit Card on your boarding pass
- Get a home loan sitting at home
- Get a personal loan pre approved if you have a loan
- If you have a home loan and personal loan you can even get a few more credit cards – life time free

Then why does this happen?

Banking made slightly uneasy

- There is boarding pass (no identity proof)
- There is no home loan (No address proof)
- Most of the time – you pay even to save
- And many times – you really pay quite dearly
- An emergency loan – A local money lender may help
- A home loan – Are you drunk early morning?

Source: India census, 2001

Why Banks and HFCs continue to miss them?

- Perceived “too risky”
- Smaller value of transactions – high operating costs
- No documentary address/identity proof
- No formal sources of income, no credit history
- No clear titles
- Longer tenure exposures
- No viable models to capture cost, risk and compliance requirements
- Despite high competition there is other good business available – so why should we get into it?

Source: India census, 2001

Why MFIs miss them?

- Higher degree of difficulty
- Difficult to create groups, peer pressure etc.
- Long term loans
- ALM issues
- Cost – not sustainable in long-term
- Good for improvement loans

Source: India census, 2001

Are there immediate and easy solutions?

- Housing solutions are always long-term
- No one stop solutions
- Free market solutions – good to discuss, no body knows where they come from.
- Localised solutions – always possible – even though scale is an issue
- Subsidy/free housing – Not a stand alone solution – however any viable solution will continue to have a component of both

Few examples I know

- SPARC – Slum housing - Mumbai
- SPARC – Urban sanitation - Mumbai
- JHC – Slum Housing – South Africa
- Kudumbashree – Community housing model

SPARC – Mumbai Housing Model

Pre-requisite

- Urban land available for rehabilitation
- A good TDR market – TDR (Transferable Development Rights) is the right to construct more for a given land area – in simple terms extra Floor Space Index (FSI) which is tradable

Stakeholders

- NGO – SPARC – who clears the encroachments, develop the land and construct the building
- Owner of the land
- Current inhabitants of the land
- Government – who in turn represents slum dwellers whom free housing has been promised
- Bank – which finance the project

The arrangement

Land owner	TDRs – saleable
Inhabitants of the plot	Free Housing
Government	Free Houses for allocation
NGO/Developer	●Free TDRs for sale ●Free component of housing
Bank	Secured by: ●Charge of NGO's share of TDRs ●Additional part guarantees - USAID
Amounts	Project size – USD 20 to 30 Million Bank exposures – USD 3 to 4 Million

SPARC – Mumbai Sanitation Model

- Project size – USD 10 Million
- To construct over 300 toilet blocks (6400 seats)
- Bank funding – USD 1.50 Million (by way of guarantees)

Structure

- Escrow mechanism with Municipality
- Letter of Comfort from Homeless International
- Capital costs – funded by Municipality
- Running cost – community funded

Kudumbashree – Community Housing Model

- Using government machinery to create Community Organisations
- Build aggregation, capacities and there fore reduce costs and risks
- Bank then lend based on their own credit assessment
- Government facilitates Bank linkage with the community
- Individual loans – up to USD 2500
- Over 15 Banks currently participate
- Over 100,000 houses financed
- Very high repayment rates

What makes up for lack of collaterals

- Community organisations
- Strong underlying community support
- Credibility and execution competencies
- Ability to manage complex variables
- What can go wrong – how can you make preventive measures?
- Few good people - reputation

JHC – South Africa - Rental Housing Model

- To refurbish a relatively older building and lease to clients
- Loan component – Up to 60% of the project cost
- Equity component – Up to 40% - comes as grant
- Both loan and building maintenance paid for from rental receivables
- Almost 100% track record on rent collections

Key learnings

- No single solution
- None of the models are exclusively driven by free market
- None of the models are exclusively driven by subsidies either
- Any workable solution will have a combination of both

Enablers

- Bridge Funds
- Partial Guarantees
- Sensible use of grants as revolving funds/bridge funds
- Using subsidies and Government Participation in capacity building

Thank You

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