

AFFORDABILITY AND CREATING NEW FINANCING PRODUCTS FOR THE POOR:

A short note highlighting some of the challenges in cracking this aspect of housing in Sri Lanka.

Jockin and myself were in Sri Lanka on the 28th, 29th and 30th of July. Velleja Satya and Michael Mutter from SUF were also there. Barni, SUF's local financial consultant and Anura the architect along with Upali and the women of WDBF spent time brain storming to look at an affordable design and the challenges of financing the first housing project for Usavivatta in Morotwa. The subsequent note attempts to explain this discussion

Usavivatta is the settlement chosen for the first SUF project. The reason it got chosen was because it had the minimum land hurdles. In a collective decision taken by all the actors six months ago usavivatta was chosen for a land sharing project in Morotwa. One of the main reasons for land sharing is that the project has to pay for itself and also have the potential to be to scale up slum upgradation in Morotwa. It also has the potential for influencing housing policy in the country. SUF which is the Slum Upgradation facility housed in the UN Habitat is experimenting with private and municipal financing for slum upgradation at a city level. As part of its agenda SUF has identified a local banker who is ready to walk through this process to explore how main stream banks can possibly find ways of participating in such projects. What has come out of this process in the last year is a very interesting team of all us put together. Community from Usavivatta, WDBF, The NGO Janarukula, SDI, SUF, the banker, the architect, the SUF team and the Morotwa council (mayor) and the Ministry of urban development.

The attempt is to look at new ways of doing the business of slum upgradation. Along the way we have all had to brain storm with many issues like the transfer of land, viability of the project for the city and the slum dwellers and the issue of financing the project without it being a burden to the city or the state.

Anura who is the locally appointed architect has the challenge of trying to but in a blue print a house design that matches the affordability of the community. This is always a challenge especially if one is trying to cut down on the grant and subsidy element and move away the concept of the free house. If the council of Morotwa had its way they would just demolish Usavivatta and all their problems will be solved. The only reason why they got into this deal was because of the proposition of upgradation of Usavivatta would be financially beneficial to them as well. This is what got them to listen to us in the first place. This idea of land sharing was introduced by Jockin to the council who saw it as a way that solved everybody's issue. The process started with Usavivatta and slowly included Allavivatta as well. Since the land value of Allavivatta is much higher than Usavivatta it was decided that the residents living in Allavivatta could move to Usavivatta thereby freeing up the Allavivatta land for the council. This swap would make it financially viable for the community to take on the construction of the Usavivatta and Allavivatta houses on the Usavivatta site. Usavivatta has 50 houses and Allavivatta has another 48 houses . If these 48 to move along with the 50 houses to Usavivatta we will have to accommodate about 100 houses on 60 perches of land. (1 perch= 25 sq mts or 272 sq ft ; 160 perches = 1 acre)

Anura the architect along with a core team from WDBF and the community decided to work on the preliminary design and work out costs. What they came up with was a house cost of around 4,500 USD. What people could afford was 1.60,000 which was way below . This was a huge discrepancy. If people had 65% they could logically borrow 35% but if they had only 35% it is more difficult for them to borrow the larger sum. With this cost it was practically impossible for the arithmetic to work and for the community to be able to afford this. We had to therefore go back to the drawing board and look at ways by which we could bring down costs and work out a financing model that worked.

We looked at different ways to bring costs down

1. Making bulk purchases. Creating a material and purchase team that would do its research on cost in the market and settle for the best deal.
2. Hiring a contractor for the major works like foundation and columns, getting community contractors to look at brick laying .plastering walls and having each individual household manage their own interiors.

3. Using government tax rebates and subsidies on cement and other construction material.
4. Subsidy from city for provision of basic infrastructure.
5. A cross subsidy from the project itself in terms of selling commercial/ residential structures.
6. Look at the details of the house design and bringing cost down with decreasing house size and other elements.

This was a struggle as at one point the team decided to go back to the original plan and let usavivatta do its own plans and get Allavivatta to manage its own plan. However, it just made complete market sense to use the two projects as one as the value of one land could pay for the entire resettlement of slum dwellers on both sites.

Barni mentioned that they were in the process of having talks with the Bank of Ceylon and the interest would be 15%. He was looking at this in the conventional banking mode and said that their present savings would not allow them to take a loan from the bank. From our own past experinec inside SDI we know that a 15% interest on a loan is just way over the mark for a low cost housing model. This will have to be brought down if it has to work for the residents of this project. Through a smaill calculation it became clear that if the interest was 15% each family could get a loan of only 1, 25,000 rupess but if the interest rate was brought down to 10% they could afford a loan of 2,00,000 Rs.

While we tried to bring house cost down and were successful in doing so and brought it down to 4000USD,we also had the challenge of getting affordable external money for the project. The permutation combination of peoples contribution, grant/ subsidy, the loan component and the city's contribution all had to be fine tuned so that it worked.

We went back to how we normally calculate affordability and looked at what each family could afford as a monthly outgoing. From the savings and loans records we notice that each family can pay upto Rs. 2,500 a month which is around 50 USD approximtely?. With this affordability limit they could take a loan that they could repay in 10 years. About 13 families will not be able to afford this loan. Kanta bank has decided to wean these families and support them increase their income levels and altrrenatively give them smaller loans that they can take at lower interest and pay slowly. What became very clear that we were underestimating the community resources and what they could bring into this process to make this arithmetic work.

Jockin suggested to SUF that if they got in an amount of 50,000 pounds from DIFD and deposit it in one of the banks as a way to get the interest rates lowered.. Kanta bank has an account with People's Bank which is a government bank. They have decided to explore talking to them to see if they can give them interest at lower rates.

So if we do calculate the present formula based on affordable monthly outgoings and other community assets availble it is possible to have a house cost of 4.000 USD and may be even less.

Present Status:

House size: 300 sq ft
 No of houses: 50 + 50 (usavivatta and allavivatta)
 UNIT COST : 4000 sq ft
 2,000 as a loan
 1,000 grant
 1,000 people savings and other contribution

This arithmetic needs to be refined but it is for us to be able to fine tune on all the aspects that constituet our own preparation for such projects in the future. In a very good meeting with the community subsequently, the community understood the logic of the economics and said that they would contribute to the transit accomodation. Those who could afford would rent and those with bigger homes would accomodate families who could not afford to rent. This means that there would be zero costs for transit accomodation.

Similarly they said that they would speed up their housing savings and for those who could not afford they would find ways of looking after such families and not exclude them.

The single most important lesson is in designing any financial product for the urban poor is an understanding of the community's own resources and contribution and involvement in this process which can go a long way in creating sustainable housing finance strategies for the poor. An understanding of this aspect also makes it easier for bankers and financial institutions to design financial products that work for the urban poor. This is not rocket science and can be achieved easily if we have patience to look at some of these messy but logical ways by which communities manage their finances. It is a gap that needs to be bridged between the formal and the informal finance processes at work in today's market economy.