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Integrating Finance and Supply for Low Income Housing Rationale and Illustration

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Economic Challenges to Low Cost Housing projects

- **Developers**
 - **Uncertain effective demand** (access to finance = ?)
 - **High cost if small scale projects**
 - **If large scale projects:**
 - Market risk (in particular due to access to credit)
 - Misalignment with demand if subsidy driven : (frequent issues: location, jobs and transportation), resulting in ex post high vacancies and a waste of resources
- **Local builders/ artisans**
 - **Technical capacity often lacking**
 - **Legal (title) and legal formalization not a major concern**
 - **Administrative processes** (tenure certificate/title, land usage rules, building permits) **often cumbersome, slow, expensive, and prone to corruption**
- **Lenders**
 - **High transaction cost (small loans, in-depth risk assessment)**
 - **Lack of technical expertise (especially community level institutions)** to assess quality, rate local artisans, monitor building processes
 - **Correlation between poor quality and delinquencies**

Case #1: Developers' supply channel

Senegal : Partnerships Housing Cooperatives / Housing Bank

- **Housing cooperatives** = a widely spread approach to home building in Senegal
700 cooperatives, 100,000 + members
- **A government policy to encourage this sector :**
 - Priority access to PPP based land developments
 - Reduced registration charges for plots bought through coop (1% instead of 10%)
 - Technical assistance provided by the Ministry of Housing
 - Supervision :
 - Apex body (UNACCOOP-Habitat)
 - Ministry of Agriculture
- **Composition:**
 - Mostly salaried members working for the same entity (1/2 public sector, 1/4 private companies)
 - Also: 10% informal sector, and diaspora



Case #1: Developers' supply channel

Senegal : BHS' model

- BHS enters in agreements with a Coop
- Members progressively deposit their downpayments with the bank (improved conditions for a collective savings scheme)
- Pre-qualification for future loans
- BHS helps establish agreements between the Coop, land or housing developers or builders, including price discounts
- If the Coop buys a piece of land: BHS lends it the required amount. The loan will be repaid by the accumulated individual downpayments
- BHS provides credit for the construction (individual units) or purchase of the new housing units, at discounted conditions

Case #2: Owner-driven construction Ghana “Housing Support Centers”

1) Context

- Housing finance little developed – despite skilled banks and a modernized mortgage framework- in particular due to macro-economic instability and level of prices
 - About 2/3 of mortgages in \$, very high interest rates if in Cedi (28% typically), variable rates in both cases
 - Developers-led supply mainly > 80,000 \$, out of reach of most Ghanaians
- Owner-driven construction = the majority of supply, and the only affordable channel, but numerous quality and technical skills issues
- A large array of community-level financial institutions, now mostly regulated
- Micro-finance for housing recent and still small

Case #2: Owner-driven construction - Ghana

2) Habitat for Humanity “Housing Support Centers”

■ Model

- One stop-shop centered on the lending FI
- Identification and certification of local artisans , guidance on how to choose a contractor
- Pre-qualification of borrowers
- Administrative guidance (proof of tenure , building permit)
- Technical assistance if self-help (provision of standard lay-out models, advice by professionals)
- Disbursements paralleling the construction progress

■ Implementation

- Only for micro-credit (up to 2,000\$)
- 3 pilots up to now (donor-funded)
- Partners: Savings and loans and Micro-Finance Companies

Lessons: Potential of Finance as an Integrator

1) For developments

■ Up front alignment of demand and supply

- Pre-aggregation of viable demand by the financier
 - Participative process, pre-agreement on location, lay-outs, prices
- No wasted investment in idle supply

■ Scale effects

- Possibility of more favorable prices

■ Streamed lined processes

- No marketing costs
- Smooth disbursement of developers credits
- Shortening of project time frame, a key cost factor, especially in a context of high interest rates

Lessons: Potential of Finance as an Integrator

2) For owner-driven construction

■ **Help structure an often neglected approach**

- Legal tenure
- Compliance with zoning rules and building permits
- Taylor-made financing – the best environment to develop intermediate products between mainstream mortgages and micro-credit
- Building process monitoring and quality control
- Support to the formalization and capacity of local artisans

■ **Support by FIs to formal ,decent self-construction:**

- critical for combining orderly urban expansion, cultural preferences for individual homes, and affordability
- In the lenders' best interest
- Contributes to a better balance between low-income households and government and professionals in dealing with fairly complex administrative and technical issues