

Innovative Shelter Finance Mechanisms – an Overview



**ERSO Expert Workshop
Stockholm, 21/22 April 2008**

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Outline

1. Background: Resolution GC21/10 Provisions on Innovative Shelter Finance Mechanisms
2. Defining Innovative Human Settlements Financing (HSF) Mechanisms
3. Challenges Facing Human Settlements Financing
4. A Structure for Documenting Innovative HSF Mechanisms
5. Examples for Innovative Mechanisms implemented in Different Regions
6. Practical Examples by different Actors
7. Conclusions

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1. Mandate of Resolution GC 21/10

- ❖ To field-test experimental
 - (1) **reimbursable seeding operations** and
 - (2) **other innovative operations**for financing for the urban poor for housing, infrastructure and upgrading through community groups, including where there is an expectation of repayments mobilizing capital at the local level;
- ❖ To
 - (3) **strengthen the capacity of local financial and development actors**to carry out those operations and to support the capacity of the United Nations Human Settlements Programme to enhance those operations;

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2. Defining Innovative HSF Mechanisms

What is “Innovation” in relation to Human Settlements Financing Mechanisms

- ❖ Innovative Mechanisms for Shelter Finance are:
 - Methods to encourage the private financial institutions to engage in low-income housing projects
 - Schemes Governments/NGOs/CBOs can use to reach a greater number of low-income households
 - Processes to ensure that low-income households have access to financial services
- ❖ Documentation of Innovative Financial Mechanisms intends to provide inspiration and guidance for actors such as the private sector, governments and Non-profit sector.

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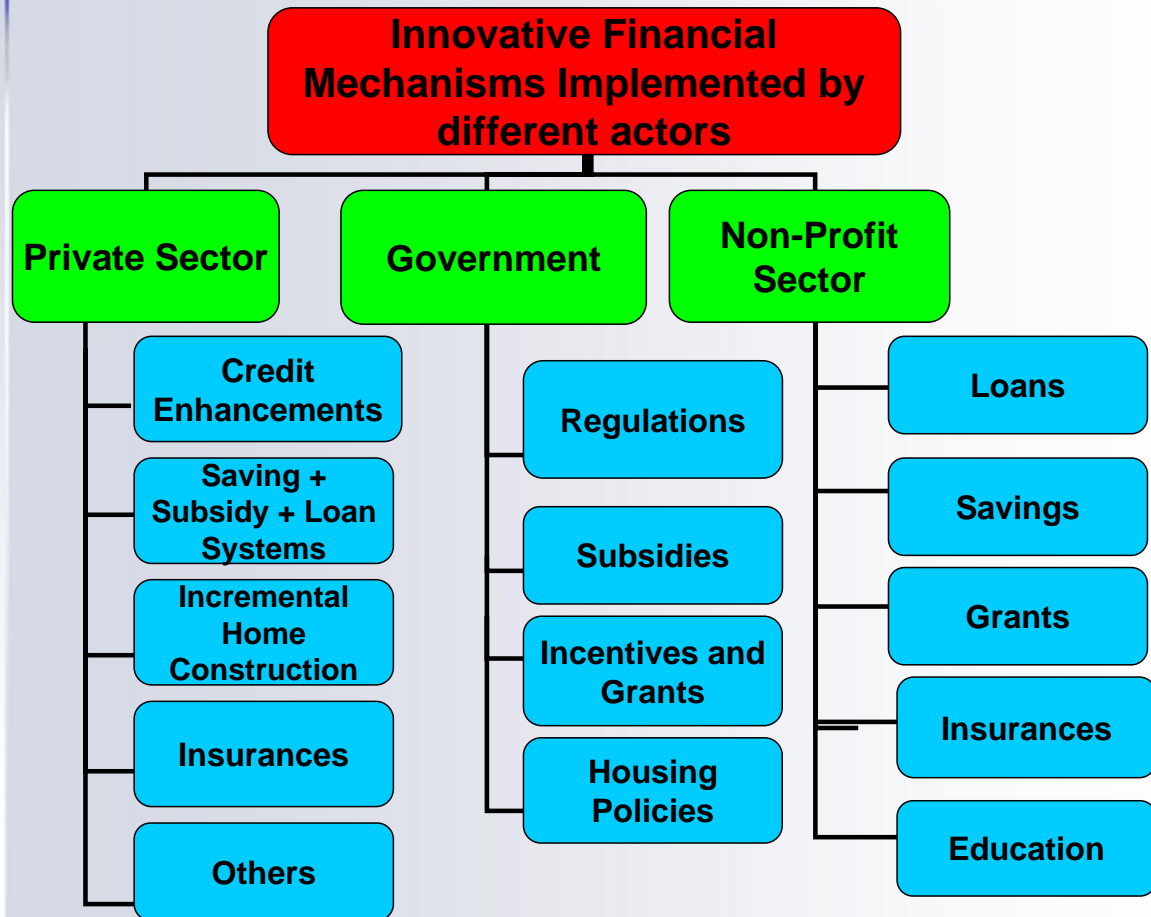
- ❖ Reimbursable operations:
 - Actions involving lending and borrowing, i.e. Loans
- ❖ Other innovative financial mechanisms:
 - Other actions that do not include repayment, e.g. insurance mechanisms, guarantees, grants
- ❖ Technical assistance in the context of shelter financing:
 - Actions to strengthen the capacity of development actors and the end users, e.g. legal support, management facilitation, education and training.



- ❖ Frequent constraints private financial institutions are facing in relation to offering financial services for the Poor:
 - Liquidity (insufficient capital available)
 - Risk of non-repayment
 - Transaction costs (loans are too small)
- ❖ Key challenges innovative HSF mechanisms are seeking to address are:
 - Profitability and affordability in low-cost housing construction
 - Ensuring low-income households are targeted by financial interventions
 - Access to financial services from private financial institutions for low-income households



4. A Structure for Documenting Innovative HSF Mechanisms



5. Examples for innovative Mechanisms implemented in Different Regions

- ❖ **Asia**
 - Comprehensive Revitalization of Urban Settlements – China
 - Craigingilt Housing Scheme – Sri Lanka
- ❖ **Africa**
 - Banque De l'Habitat du Senegal – Senegal
 - Community-Led Infrastructure Finance Facility – Kenya
- ❖ **Europe**
 - Eco-City of Sarriguen – Spain
 - Fawas-Prevention of Homelessness –Austria
- ❖ **South America**
 - Bamboo Foundation – Costa Rica
 - Gualeguaychu - Argentina
- ❖ **North America**
 - The Almena Idea – USA
 - Choice Today Program - Canada



6. Selected Practical Examples from the Private Sector - India

❖ ICICI Bank – India

- The model is based on loan contracts that are entered into directly between bank and borrower. Loans are not reflected on the balance sheet of the MFI yet it continues to service the loans until maturity. The bank relies on the MFIs field operations for collection and supervision
- Purpose of the Partnership:
 - To separate the risk of the MFI from the risk inherent in the microfinance portfolio;
 - To provide a mechanism for banks to incentivize partner MFIs continuously, especially in a scenario where the borrower entered into a contract directly with the bank and the role of the MFO was closer to that of an agent
 - To deal with the inability of MFIs to provide risk capital in large amounts, which limits the advances from banks, despite a greater ability of the latter to provide implicit capital

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Practical Examples from Private Sector – Kenya

❖ Jamii Bora – Kenya

- A Microfinance Institution (MFI) which gives small loans as start-capital for small businesses. The model is based on the idea that members have to save in order to borrow and can borrow twice as much as he or she has saved. Jamii Bora also offers Life and Health insurance for members.
- Purpose of the Model:
 - To allow the lowest-income households access to a financial institution
 - To reduce risk to their operation by offering insurance to members
 - To help households to develop a mentality of saving

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❖ Urban Development Project– Tamil Nadu

- Started as a housing loan & grant program and is now managed by an asset management company, a joint venture between the Tamil Nadu government and private investment companies. Grants for poverty-oriented investments, such as slum upgrading and cost of resettlement, are also handled by the asset management company and it provides technical assistance to municipalities in improving their own financial management. The government's share is to eventually be reduced.
- Purpose of the Project:
 - To bring private-sector expertise to the management of the project
 - To draw on private sector funds to expand the funding available to the loan & grant program and other low income housing projects

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❖ Techno Propio – Peru

- This product was created as a result of past programs limitations in reaching low-income segments. It has a lower interest rate and longer repayment periods. There is down payment of 10% with a direct subsidy of US\$3600 for an \$8000 home. The remaining amount is financed as a mortgage loan through a private financial institution at a market-based interest rate
- Purpose of the Product:
 - To reach the low-income segments of society
 - To reduce risk to private financial institution by providing subsidy
 - To ensure affordability by providing subsidy

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❖ Program of Mutual Aid & Self-Mgm't – Brazil

- The program involves:
 - the municipal gov't serves as the financing agent and guiding force of the program
 - Community-based organizations as the promoters and implementers
 - NGOs as advisors
- The experience has led to a housing bill to expand the project to a national level as an alternative housing policy
- Purpose of the Programme:
 - To use all partners areas of expertise to ensure successful implementation
 - To ensure that the community has a voice within the program

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❖ uTshani Fund – South Africa

- The government offered financial and institutional support to banks and private contractors. The private contractors could obtain a maximum subsidy of R15,000 for construction, including infrastructure and services. Saving schemes and a community-managed revolving fund were set up in many informal settlements.
- Purpose of the Fund:
 - To attract the private sector to participate in housing related services for low-income households
 - To build capacity of low-income households
 - To provide a saving mechanism for low-income households to enable the use of micro-loans and the start of income-generating activities

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❖ Urban Community Development Office – Thailand

- Was created by the government to support community-based organizations. The Office provides loans, small grants and technical support to community organizations. It also encourage the development of community groups.
- Purpose of the Office:
 - To increase the opportunities for low-income households to get funding for housing projects
 - To help communities create a networks to facilitate the funding that individuals can receive and to more easily secure land tenure



❖ Foundation for Habitat and Housing – Mexico

- A legally registered non-governmental organization created by the Cooperative Housing Foundation (CHF) provides housing microfinance to low-income populations with incomes between two and eight times the minimum wage. Loans are mainly used for incremental home expansion and rebuilding rather than new construction
- Purpose of the Foundation:
 - To deliver loans of larger amounts that given by most MFIs with longer terms and lower interest rates
 - To provide personalized service (loans) to individual households, Loans are based on the estimated cost of the improvement and the borrowers repayment capacity and the applicants' monthly loan payment cannot exceed 1/3 of their net monthly household income



❖ Mahila Milan – India

- A women’s group developed a simple and inexpensive house model that offers flexible forms of housing. The community must work and save together to ensure that the loan finance is used only for the essential investment to ensure replicability.
- Purpose of the Group:
 - To educate and capacity build the community on savings and finances
 - To give the community control of their own housing options
 - To build trust and pride amongst the community



❖ Centre for Housing Initiatives – Poland

- The Cooperative Housing Foundation helped create and train 32 local NGOs throughout Poland. In each location, they work with local governments to help develop new housing delivery strategies, facilitate financing, and provide technical support to small cooperatives and others. They help families, banks, architects, private developers and local officials interact and produce quality, affordable housing.
- Purpose of the Centre:
 - To build capacity amongst local NGOs to deal with the housing issues facing their country
 - To provide technical assistance to all stakeholders to ensure proper implementation



7. Conclusions

- ❖ Innovative Shelter Finance Mechanisms are found in different regions and applied by different actors, but all mechanisms focus on making human settlement financing options available for low-income households
- ❖ Establishing partnerships between different actors in many different forms seems to be the most popular and most successful option for reaching low-income households. Working together can
 - Minimize risk
 - Use each partners expertise to its full potential
 - Reach a wider audience



Implications for ERSO

- ❖ ERSO is just one of the options available and hopes to reach a niche market that is as yet underrepresented
- ❖ To address the outlined challenges of Low-income Shelter Finance, ERSO intends to:
 - test mechanisms for the mobilization of domestic resources for low-income shelter solutions
 - encourage, induce and enable existing domestic housing sector financial institutions to expand the range and scope of existing financial services for low-income housing, related infrastructure and human settlements upgrading