How Sri Lanka is tackling housing finance problems

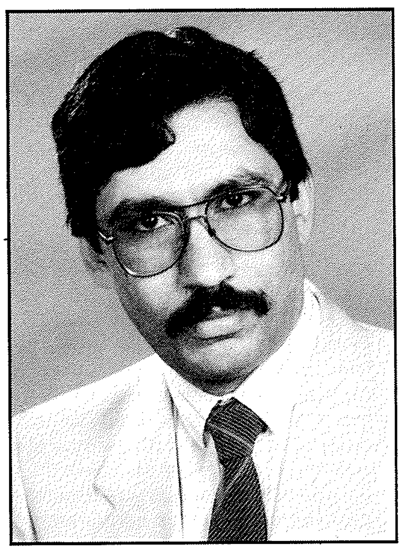
Babar Mumtaz explains the effects of the Million Houses Programme

BETWEEN 70 and 80% of total house-building investment in Sri Lanka is provided by the households themselves. A 1966 Central Bank study found that 65.7% of private investment in housing came from the households' own funds and only 4.3% was through loans from banks. Some 18.6% was through loans from other sources, 3.1% through sales of assets, and 8.3% from grants, etc.

In a poor country like Sri Lanka this obviously reflects not so much the financial strength of the households as the inability of the formal financial systems to meet households' needs, in particular those with low incomes. With almost 80% of the population living in rural areas, incomes are irregular, and a quarter of all those with incomes earn less than Rs5,000 ($185) a year.

For the majority of rural households, building with traditional materials has meant a relatively small requirement for cash. Walls and floors can, in the main, be made from locally available materials which the household can readily transform into mud-blocks and mortar. The cash is required for the roof (roofing sheets or tiles and the supporting timber), for doors and window shutters and for paying for professional work by the local 'baas unehe' (master builder).

Though small as a percentage of the total value of the house, these cash requirements are nevertheless crucial, and their absence has prevented households from even considering, let alone attempting, construction.



By providing small loans for various types of needs, the Million Houses Programme — described below — is acting at the catalyst that is making house construction an activity within the grasp of lower income households.

The Million Houses Programme and housing finance: the financial package

The Million Houses Programme generalised the different needs of households to produce a series of alternatives, called the Housing Options Loan Package (HOLP) ranging from Upgrading (of house or lavatory) to a New House (consisting of an incremental or core house and individual services), and from a series of individual Utilities (improvement to, or installation of, a well, lavatory or electricity), survey and other fees to Sites and Services (in schemes with communal or individual services with or without core houses).

Each of these packages has an upper limit, ranging from Rs300 for a lavatory to Rs16,000 for a core house in a Sites and Services scheme. Small loans, up to Rs7,500 ($277), at 3% interest (larger loans have higher interest rates) are repayable over periods between five and 15 years. Loans are made available in four stages relating to construction, with each preceding stage inspected and certified by the Housing Authority's officers.

Delivering finance

The Million Houses Programme was decentralised to each of Sri Lanka's 25 districts, each headed by a district manager (DM) of the National Housing Development Authority (NHDA). The DM was responsible for the final selection of applicants and for disbursing and recovering loans. Each district was subdivided into gramodaya manadalas, or village voluntary societies, comprising representatives of all (registered) voluntary societies operating in a particular village.

The gramodaya manadala draws up a list of eligible applicants to be forwarded to the DM. This is aimed at eliminating political bias or favouritism while allowing for local conditions and circumstances to be taken into account. In return for good performance, the gramodaya manadalas were promised extra funds to allow them not only to put forward more

→ 36

←34

applicants, but also grants to carry out other development work in the village.

Each gramodaya manadala was to put forward the names of 10 households that met the selection criteria (low income, proof of need/enterprise, no previous loans, no other house) to the district manager. With 4,300 eligible gramodaya manadalas in Sri Lanka, this gave a total of 43,000 housing loans, and the total funds available for the rural housing sub-programme in 1984, Rs200 million, were divided equally among them to give an average loan figure of Rs4,650 ($170) per household.

However, with most DMs unable or unwilling to delegate, decentralisation stopped at the district level. During the first year, most DMs had little time for anything else but signing loan applications and authorising payments. In some of the larger districts, the DM was dealing with 100 authorisations a day.

Recovering finance

Most of the initial effort had gone into devising the HOLP and procedures for selecting applicants and generally handling the loan-disbursement side of the Million Houses Programme. Relatively little thought was given to the loan recovery procedures.

The responsibility for collecting repayments was given to the Special Services Officer, the lowest level of government official. Each SSO is responsible for two villages and would have to collect 20 loan repayments for each year of the programme every month, a total of perhaps 200 payments, and this would leave him with no time for any of his other regular functions.

The Programme also suffered initially from a lack of emphasis on repayments. Whereas there were many officials and individuals who wanted to be associated with the selection procedure and be seen to be helping households get loans, there was no such enthusiasm for identification with recoveries and repayments.

The inevitable result of this was that while the Programme reached a remarkably large number of families, who, moreover, managed to complete the construction of their houses, the recovery of loan repayments was very low. The rural housing sub-programme (RHSP), which was targetted to reach 36,984 families through normal loans in 1984, managed to benefit 39,788 families and of these 16,092 (43%) by end 1984, and 36,640 (96% of the target) by the end of 1985, had completed construction. Against this, loan recoveries were 42.76% at the end of 1984, and in some districts less than 10% of the amounts due had been recovered.

During 1985 (with 30,136 families targeted, and 30,792 reached), both the rate of completions (55%) and recoveries (56%, still very low) showed improvements. More interestingly, the average value of the loan decreased from around Rs5,300 ($206) in 1984 to Rs3,700 ($135) in 1985, a reflection of the DMs' understanding the system and peoples' demands, leading to an increase in upgrading houses and lavatories and a corresponding decrease in new house construction.

Towards the end of 1984 the administrative problems associated with the NHDA controlling loan applications and recoveries through its own bureaucracy were becoming apparent. At a workshop in Kandy, the notion of further decentralising the process within the district was mooted, and the Kandy district manager agreed to look into the possibility of using local savings and loan associations, the thrift societies.

Using co-operatives

Thrift societies have been in existance in Sri Lanka since 1910, mobilising credit in connection with rural agricultural activities. After 1957, most other co-operative societies were merged to form multi-purpose co-operative societies, and these increasingly took over the credit-provision role, which led to a decline in thrift societies. By 1980 co-operative credit societies and thrift societies had been reduced to a quarter of their 1960 levels, limited largely to workplace related societies.

However, since 1980, there has been a resurgence following a reorganisation of thrift and credit societies on both district and national levels. In 1981, credit societies started carrying out banking functions, and, by 1985, 250 Co-operative Banks had been established throughout the country.

In 1985, when Kandy District agreed to pioneer loan administration using thrift and credit co-operative societies, the assistant district manager, (NHDA), was also the secretary of the Thrift and Co-operative Society Kandy District Union.

The performance of Kandy District in both disbursing loans and making recoveries has been remarkable. At the end of 1984, Kandy had recovered only 5.6% of the amounts due, but by the end of 1985, using thrifts, the district had recovered almost 80%.

Essentially, the thrift society administers the NHDA loans programme locally. The district manager makes over the total sums due to the members of each thrift society which then disburses them, and later recovers repayments and makes them over to the NHDA in one lump sum. This reduces the operations for the district manager by a twentieth.

In general, the thrifts in Kandy are not only working very well as far as the Million Houses Programme is concerned, they are also providing an opportunity for villages to take control over many other areas concerned with their overall development. One society, for example, is offering English language lessons free to its members as an incentive to join. Others are using funds to provide for increased employment opportunities including necessary training, especially for women.

Transferring to other areas

As a result of the successes of

Kandy District, the Million Houses Programme intends to transfer all its districts to using thrift societies during 1986-87. Thereafter, loans will be available only through thrifts. Moreover, the urban housing sub-programme will also be operated through thrift societies.

Remarkable though the Kandy experience has been, the use of thrifts as a universal solution may create situations that will pose an even greater problem than under the original system. Kandy was fortunate in having a committed and experienced assistant district manager who not only understood what the NHDA was doing, but, as secretary of the district union, was able to mobilise fully the thrift and co-operative movement. Other districts have neither such experienced staff nor such connections.

One of the strengths of the thrift and credit societies has been that they have operated on a small scale, using their own members' resources. This has resulted in a strong social commitment to encourage development. With the inflow of NHDA funds, it is likely that control will be less scrupulous. Moreover, the sudden expansion of thrift societies will pose a severe strain on providing training to the members.

While programmes of training and generating awareness have been instituted, it is unlikely that the required cadre can be put in place in sufficient time, or that it will be able to cope with the enormous workload.

A novel difference for the thrift societies will be the nature of housing loans. Larger sums of money are involved, and the loans do not of themselves generate an income or otherwise enhance the financial capability of the borrower. Finally action against defaulters tends to become emotive, and it is difficult to justify taking over the whole house when the loan or the outstanding amount may only be a small (even insignificant) portion of the value of the house. In rural areas this is further complicated by lack of buyers even if the society was to get possession.

In urban areas, the problem is further complicated, first because of the difference in rural and urban social conditions, and secondly because of the difference in the housing needs of urban households. Whereas rural societies were formed on the basis of mutual trust built up among people who have long lived side by side, the mobile nature of urban households makes this more difficult.

On the other hand in rural areas, small amounts of cash make the difference in being able to build or not build or improve a house. In such areas, shortage of cash is not so much of a problem as land. Few of the target households have access or title to land, and that is their greater need. Joining a thrift society cannot remedy this and therefore the Urban Programme needs to focus on more than just loans to individual households.

However, if thrifts are formed not among current neighbours but around new/future housing sites, with membership open to those who will eventually live as neighbours, then the thrift society could indeed help not just with housing finance but with developing communities. This requires a wholly different way of using thrifts, and one which has not yet been explored.

The form of finance developed in the Million Houses Programme has a number of subsidies built into it, in the form of low interest rates, in not charging for the considerable administrative and technical support costs, and finally in what will inevitably be a high default rate (perhaps as much as 20%).

Nevertheless, the total subsidies are considerably less than in previous housing programmes, and there is the further merit that, for once, the subsidy is at least going to the poorer households. More important than that is the fact the the Programme is developing a sense of self-reliance, in decentralising decision-making and is reaching such a large number of people. ■

Housing investment in Sri Lanka
(Rs Million in Current Prices)

	1979	1980	1981	1982	1983	1984	1985	1986
PUBLIC SECTOR								
Total Urban Invest	372	1021	625	696	393	424	328	345
Million Houses Prog								
Rural SubProgramme						189.8	217.6	257.4
Families Reached						43213	49679	55856
Average Loan, in Rs						5300	3700	3600
TOTAL PUBLIC SECTOR	608.8	1981.5	812.2	912.1	(600)	(600)	(600)	(600)
BANKING SECTOR	153	308.8	252.5	338.0				
State Mortgage Inv Bank								
Total Loan Amount	27.4	35.8	68.9	89.4	158.4	367.6		
Number of Loans	533	554	778	1069	1508	3413		
Avg Loan, in Rs	51407	64620	88446	105040	107700			
HOUSEHOLDS								
Total Investment	1979.0	1516.9	3982.	4876.9				
As % of Public	68.7	39.8	78.8	79.4				

BABAR MUMTAZ is director of overseas services of the Development Planning Unit, University College London. The DPU has been advising the National Housing Development Authority through a series of training workshops since 1984. Mr Mumtaz, who specialises in housing and urban development, has worked extensively in Africa, Asia and the Middle East for governments and as a consultant to the United Nations, the World Bank and other international agencies.