

## Two innovative housing finance schemes

### Slum upgrading in Egypt

**A**S PART of a larger sites and services and slum upgrading project taken up for Helwan, a large industrial suburb of Cairo, five existing slum areas were to be upgraded under a joint USAID and Egyptian government project. These are shown in the table below.

As can be seen, there were just under five persons per family, and abundant land in each colony for redevelopment, the gross residential density being just 444 persons and 88 dwelling units per hectare. In fact only 50% of the land was being used for residential purposes, and 25% was vacant.

In 1980, the five colonies had no individual water connections, no sewer connections, no solid waste disposal, and very few schools and health centres. Sewage was collected in individual cesspools which often overflowed and formed stagnant septic pools in the area. Garbage was dumped on empty plots.

Most of the residents were workers in the industries of Helwan, and a detailed income study in the five colonies in 1978 had shown that 70%

THE United Nations Centre for Human Settlements (Habitat) has published details of two innovative housing projects which have housing finance components. The schemes are described in this article.

of the income earners received between E£20 and E£60 per month, the average being E£48.9. This placed 65% of the residents below the poverty line.

The project consisted essentially of two parts. The first was the provision of water, sewerage, roads and lighting, and community facilities. This was to be done by the public sector. The second was the actual improvement of the houses. The total cost of the first part was calculated to be E£16.8 million of which 73% was to be spent on infrastructure and 26% on community facilities.

#### *Housing finance innovations*

A distinctive feature of the project was the creation of a loan fund of E£4.4 million to finance home improvement loans.

The incorporation of a building loan facility in the project itself was one of the innovations at Helwan. It has now been applied in most sites

and services and slum upgrading projects. At Helwan, not only is the financing agency a part of the project, but it has opened offices in each of the project areas to which the residents can apply directly for a loan. This has further simplified the loan-giving process.

Since there were a total of 14,780 dwelling units, the infrastructure cost per house was estimated at E£1,137. However, the government is not trying to recover the cost of either the land or its development from the slum dwellers. Reimbursement is required only of the home improvement loans that people are expected to take. The maximum loan and the criteria for eligibility have been worked out on the basis of the home owner's ability to pay. A survey of expenditures incurred showed that people spent about 25% of their income on housing.

Since a 1979 income survey showed the median income in urban Egypt to be about E£960 per year it was worked out that at a 7% interest over 20 years, people paying E£20 per month could repay a loan of E£2,500. Thus this figure was fixed as the maximum loan that a family could take.

All these variables, the interest rate, the maximum loan to be given, and the maximum income up to which loans would be available, were worked out on this mutually inter-related basis. It is worth noting that 7% was 3.5% below the interest rate fixed by the rental board for low and medium income housing, and was half of the rate charged to industry and agriculture. There was thus a

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Colony	Population	No of Dwellings	Area (hectares)
Kafrel Elw	6,900	1,380	34.1
Rached	10,800	2,160	21.8
Ghoneim	26,900	5,300	47.6
Izbet Zein	8,000	1,600	6.8
Izbet Sediqa	21,700	4,340	57.0
Total	74,300	14,780	167.3

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further large element of subsidy in the scheme.

Another innovation in housing finance attempted in the Helwan project was the establishment of completely different criteria for the collateral guarantee of loans. In the case of workers the project authorities decided that an undertaking to pay a part of his income every month to meet repayment obligations, countersigned by the employer, would suffice. Self-employed people had to get one worker in a factory to act as their guarantor. In their case, the maximum loan given was pegged to a monthly repayment of 15% of their income.

#### *Progress*

Despite these favourable terms, and the fact that 90% of the residents said they would improve their houses if they were given a loan, at the end of 1982, nearly three years after the project began, the public sector had been able to spend in the five colonies only £758,074 or 3.7% of the overall project outlay after adjustment for inflation.

The main reason was that the off-site infrastructure was not created by the government agencies concerned, and there seemed to be no point in putting in the non-site water, sewer and power connections until that was done.

Such delays are far from uncommon. They usually spring from the fact that public sector agencies throughout the developing countries, with their cumbersome bureaucratic procedures for tendering, approval and financial sanction, find it difficult to get things done quickly. Land acquisition for infrastructure also poses problems, although whether or not this was true of Helwan is not clear.

#### *Finance*

By contrast, despite the lack of water and sewer connections, and the initial reluctance of many residents to get into dealings with a bank and pay interest, the disbursement of house improvement loans has fared a great deal better.

The loan disbursement campaign was taken up first in Izbet Zein, and then extended to Rached and Ghoneim. In these colonies 12% to 45% of those eligible had taken loans by June 1983. Overall, 28% of the beneficiaries had taken 38% of the total amount available for disbursement. What is more, by June 1983, 94% of the loans had already been disbursed.

Since this was done in stages as the work progressed, it meant that by June 1983 the people who had taken loans had nearly completed the improvements they planned to make. A survey revealed that the borrowers had added 2,000 rooms in the three communities.

In June 1983 therefore, the Helwan project presented a mixed picture of success and failure. The high level of subsidies, perhaps 50% of the total cost of upgrading excluding the value of land, raised doubts about whether it was replicable on a large enough scale to meet Egypt's low-income urban housing problem.

At 1980 prices, the total cost of a complete flat excluding land was in the neighbourhood of £3,600. Of this, one third was being met by the public sector.

If water rates or ground rent that even remotely reflect the interest on the investment made in infrastruc-

ture were charged, then even at the subsidised rate of 7% the minimum income a resident would have to earn to pay these rates as well as the monthly instalments of his home improvement loan would be £1,260 a year. This would put the project out of reach of more than 80% of the residents.

Alternatively, the loan given would have to be cut down and the residents would be left to fend for themselves. Fortunately, the Helwan project did not lay down either a minimum residential standard or a limited time period. The residents therefore have the option of making improvements over a much longer period of time.

## Turning Jamaican tenants into owners

**I**N MOST slum-upgrading projects the most intractable problem is the recovery of the cost of the land on which the squatters have built their homes. The Government of Jamaica has developed a highly innovative method of solving this problem without putting too great a strain on the beneficiaries.

The Urban Development Corporation (UDC), a government operated agency, acquired land within the Orange Bay area of Hanover, Jamaica. Residents who leased the land from previous owners refused to vacate their shanties even though their leases had expired. Most of these residents lived in sub-standard housing with no access to basic amenities such as water, electricity and sewage disposal.

Instead of evicting the inhabitants, the UDC devised a programme whereby it would provide serviced lots at cost and affordable financing. The UDC installed pipe-borne water, electricity, paved roads and communal playing fields.

If the UDC had not presented this option, the residents would have been faced with a predicament. Due to their low and irregular incomes, the residents are not eligible for sub-

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*'Loan pegged to repayment  
of 15% of income'*

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sidised housing or loans from traditional lending institutions. This project affords an opportunity for residents of Orange Bay to up-grade their housing while working towards owning the land.

The residents rent the serviced lots for two years, after which the accumulated sum is treated as a down payment. Subsequent payments become mortgage premiums, and after the principal is paid the tenant acquires freehold tenure.

The two-year rental period serves to identify individuals who can meet the payments with sufficient regularity, gives individuals time to change their minds and look elsewhere for housing, and allows the UDC time to identify tenants who might pose problems for the authorities or the neighbourhood.

Applicants are eligible if their maximum household income is less than \$30 per week and if they live within six kilometers of Orange Bay. Tenants are permitted to erect temporary wooden structures on the lots but they are not allowed to construct concrete and steel buildings without UDC approval. This provision is flexible so that residents can erect small temporary structures at first and then larger permanent ones once their

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## *'Encouraging integration and self-reliance'*

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incomes increase and freehold tenure is guaranteed. It also ensures that permanent buildings are structurally sound and safe for single-family homes.

In order to encourage integration and self-reliance amongst community members, the UDC appointed a community development officer (CDO) who is responsible for managing most of the communal activities, including the distribution of one acre agricultural plots that are rented for \$50 a year. Consequently, families are able to grow their own food and sell their surplus to hotels in the area.

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## *Two phases*

The Orange Bay experiment has progressed in two phases since 1982. Most tenants who established residency during phase I are now accruing equity as mortgage payers. Out of 46 lots, 42 are being utilised, and of these, 30 are paying mortgages and 12 continue to rent. Residents of phase II began to move in during August 1984 after installation of roads and water systems.

One of the preconditions for moving into the serviced lots was that residents must occupy the land

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## *'Problem of financial constraints'*

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within three months of signing the lease. Due to financial constraints, many tenants are not able to acquire the necessary fund for building materials, construction and rental fees within this three month period. Other residents prefer not to occupy the land for several months until a suitable house is constructed. Consequently this precondition has been abandoned.

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## *Creating a sense of community*

The work of the CDO produces many positive effects that help to create a greater sense of community. Since 1982, the CDO has been instrumental in establishing a citizens association, constructing a community centre, developing a 72 pupil school, and organising many educational, social and religious groups.

In the area of skills development, the project's achievements are diverse and widespread. Seminars and workshops are organized to improve skills, agricultural productivity and community planning and crafts. Income generating projects are promoted and organized with the help of the CDO.

To this end, 21 one acre plots were

established with 15 already under cultivation. Beekeeping and animal husbandry programmes are currently being developed. It is evident that the roots of a community are being established in Orange Bay.

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## *Drawbacks*

Although the project is successful in many respects it also exhibits several drawbacks. According to CDO, the community suffers from the following:

- 51% unemployment amongst the adult population even though agricultural plots are still available;
- poor road conditions leading into the community;
- Destruction of crops by untethered animals, absence of a cemetery;
- inability to complete the kitchen at the Community Centre;
- Lack of funds for capital intensive projects.

Due in part to unemployment, payments are not always made on time. In phase II costs have increased, causing a 65% increase in annual premiums.

Even though the selection criteria

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## *'An experiment with high potential'*

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deliberately favour low-income applicants, the criteria are not strictly followed. UDC social planners argue that the \$30 per week maximum is too low for households with many dependants. Consequently UDC officials use this rule more as a guideline than as an unbending requirement. In essence the only "real" prerequisite at present is that applicants live within six kilometers of Orange Bay.

Perhaps the most important lesson is the need for governmental agencies to provide sufficient funds for long-term support. Without this support, short-term failures may damage prospects for long-term successes. The Orange Bay scheme, however, remains an experiment with high potential.