

## Supporting community based housing

**A** GOVERNMENT taskforce in Sri Lanka reached agreement on a set of guidelines for the future housing programme. These included that the Government should play a supporting rather than a participatory role and that shelter solution should be affordable by beneficiaries and that costs should be covered.

Based on estimates of housing need and on the general guidelines set by the taskforce, the Government announced the Million Houses Programme. The Urban Housing Sub-programme started in 1985. Its dominant aim is to make a substantial and lasting impact on the housing situation of the urban poor. Subsidiary objectives are to place the human being at the centre of the planning process, and economic sustainability in the long term.

A new institutional framework was developed for the decentralised implementation of the UHSP. The Ministry of Local Government, Housing and Construction has responsibility for developing national policies and programmes. The National Housing Development

### *'Devolution of decision-making'*

Authority (NHDA) has the task of co-ordinating the national programme and providing technical assistance, training and information to districts and local government bodies. An important part of the institutional framework is the Community Development Councils (CDC) and the Community Thrift Societies.

THIS study\* records and analyses the innovative policies and procedures which were introduced through the Urban Housing Sub-programme (UHSP) of the Million Houses Programme of the Sri Lankan Government. This article summarises the report, in particular the aspects of it dealing with housing finance.

The key to the programme is devolution of the decision-making process to the community and the individual builder-households. Each project area organises a Community Development Council which serves as a channel of communication and as the decision-making body for the community. The NHDA assists communities in setting up Community Thrift Societies which provide business loans and administer NHDA housing loans for each community.

### *Loan finance*

Under the housing option loan programme, a maximum loan of Rs 15,000 is available for new houses and Rs 8,000 for upgrading in the Colombo area. Elsewhere, maximum loan amounts are set by the Housing and Community Development Committee (HCDC). In general, the goal is to give loans to all households in a project area. In theory, loan amounts should vary according to a household's assessed ability to pay, but, in practice, where someone has not qualified for a loan, then the requirements have been circumvented. The NHDA has been successful in communicating information about the loan programme.

Applying for loans can sometimes

be burdensome and the NHDA has trained CDC members in some areas to assist in completing applications. As part of the process, applicants must have their income certified by the Divisional Government Administrator, and in at least one area this has given rise to problems because if income was certified at above a certain level then this could mean the loss of welfare benefits. To deal with this problem, all households were entitled to obtain a loan of a certain amount without income certification.

Another condition for loan eligibility is the ability to provide a guarantee for repayment. This can be either a property or two personal guarantors. Because not many households have property as security, personal guarantors are encouraged. Finding suitable guarantors has presented problems.

### *'Problem of guarantors'*

After a loan is approved, the money is dispersed to the borrower in instalments, one for the foundation, another for the walls, a third for the roof and a fourth for doors, windows and finishes. One problem with the instalment procedure is that it can increase costs by compelling borrowers to buy small quantities of materials several times rather than make a single bulk purchase at a reduced price.

Repayment is officially required to begin the month after the first instalment is disbursed. For many house-

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holds this has proved to be difficult, since they are still in the middle of the building process and all financial resources are used for the construction.

The average NHDA loan for the households surveyed was about Rs 13,000 (\$480). For new construction, the average loan was close to Rs 15,000 (\$555). The mean cost of building a new house with windows, doors, floors and finishes was approximately Rs 37,500 (\$1,390). A significant amount of money therefore has to be raised by the household in addition to the NHDA loan. On average, NHDA loans pay for only about 40% of the cost of build-

## *'Resorting to middlemen'*

ing a new house in a low-income settlement and about 60% of upgrading costs.

Two thirds of the households surveyed took out additional loans and one third even had two or more loans. The most frequent sources of loans (used by half of the households) were pawnbrokers, who accepted jewellery or other personal possessions as security for the loans they issued. Friends or relatives were another common source of loans. A sizeable number of households (about one third) resorted to middlemen engaged in short-term lending charging high rates of interest.

Employers sometimes offered loans at reasonable rates but only about 6% of households were able to take advantage of this. None of the surveyed households received loans from formal lending institutions. Another significant source of funds is "West Asian money", that is, earning from temporary labour in West

Asian countries. It is common for poor Sri Lankans to work for a year or two in West Asia, where they can earn wages which are high by local standards.

## *Policy issues*

In its first two years, UHSP reached close to 20,000 households, an impressive performance even though the set targets for the urban programme were not fully reached. The gap is mainly due to the limitations of the individual loan approach for urban areas and the great complexity of sites and services and upgrading projects which include land development regularisation and provision of tenure.

The policy has been successful in reaching lower income groups and also has had a considerable redistributive effect. While the programme has lowered the Government's involvement in housing provision considerably, NHDA loans are provided with subsidised interest rates and, ignoring the administrative

## *'Less Government involvement'*

costs of loan approval, even for the average participating household it is difficult to pay for the construction or improvement of a house despite the level of both hidden and direct subsidies.

Households obtain a number of other short-term loans in order to finance the construction of their homes, which tend to have a higher priority for repayment than the NHDA loan. The combination of payment can become a heavy burden for low-income households and this is

particularly true when construction is still going on. By providing small loans which correspond to capacity to repay but not to people's aspirations or knowledge of housing, NHDA has forced households to seek outside financing. It is crucial that emphasis be placed on providing households with information on how to reduce the costs of housing con-

## *'Increased rate of recovery'*

struction and on how to use incremental building techniques.

One of the main problems for the financial viability of UHSP is the extremely low recovery rate on NHDA loans. Up to the end of October 1986, monthly payments as a percentage of the total amount of payments due, including arrears, was only 13%. However, taking account of the amounts due in the month it is estimated that about 50-60% of the monthly amount to be recovered has been collected but, of course, this is still extremely low. The reasons for this are historical, economical and managerial. There is a tradition of non-payment of Government loans. However, the second reason for poor recovery is that people at the income level in question are genuinely unable to make their repayments. There are, however, many households which are not paying but which have the ability to do so. With improved management, it should be possible to increase the recovery rate. ■

*\*Supporting Community Based Housing, Sri Lankan Demonstration Project, Case Study — Part 2, United Nations Centre for Human Settlements (Habitat), undated.*