

# Broadening Access for More Affordable Housing: Housing Finance for Thailand's Poor

by Paiboon Wattanasiritham

Housing the poor is an age-old problem. Despite innumerable policies, programs and pilots to address this issue, an effective solution remains elusive for the vast majority of the world's poor.

Of considerable interest in recent years is the role of finance in addressing this issue. This paper examines how housing finance can reach the poor to widen their housing options. Thailand's efforts to date are reviewed, with a closer look at the role and program of UCDO. Implications for broadening access to affordable housing finance for the poor are discussed.

## BACKGROUND CONTEXT AND RATIONALE

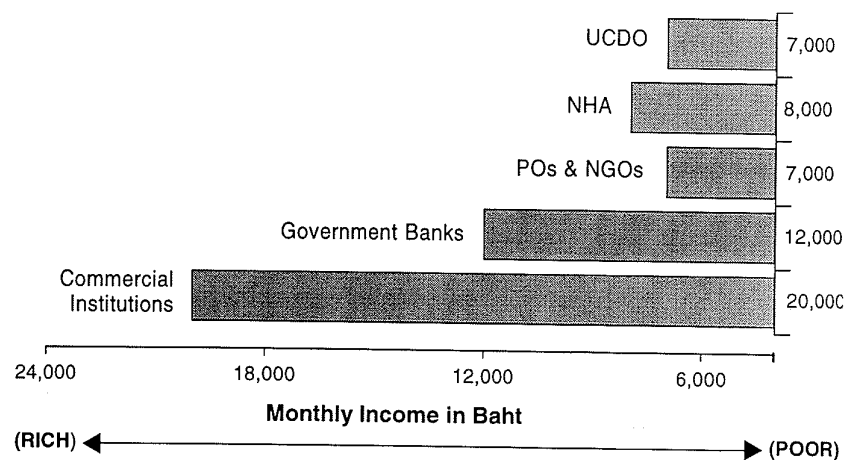
Thailand's housing finance suppliers have been largely unsuccessful at reaching the lower end of the income scale. Based on their target income groups, suppliers can be classified into four broad categories: commercial institutions, government institutions, people's organizations, and NGOs and special programs (see Figure 1).

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The mainstream financial institutions comprise commercial banks, finance companies and developers. Almost without exception, they cater exclusively to the "haves": middle-income groups and upward to the highest income earners. The lower income groups have neither the collateral nor adequate monthly incomes to meet minimum lending requirements of these institutions.

The bustling housing development in Thailand has also catered mainly to the middle class. While competition has driven some developers into the lower cost housing market, there are few options to choose from: construction of simple townhouses valued under 250,000 baht can only be found on the fringes of urban areas, often at great distance from places of work and with inadequate (if any) public transportation service.

Figure 1. Continuum of Target Income Group for Housing Finance Suppliers



Noteworthy, however, are the special efforts that have been made by two finance institutions in Bangkok to provide loans to the lower income group. One experimented with new financial instruments for low-cost housing, while the other became involved in financing of new housing in two slum communities in Bangkok. Sadly, both of these efforts withered away—in the first case because they failed to reach the intended target group, and in the latter case, because it proved to be cost ineffective.

#### Government Institutions

The Government Housing Bank (GHB) is a government financial institution conceived to stimulate homeownership and broaden access to housing finance to a wider segment of the population. The lending rates and requirements are more favorable than those of commercial institutions, and, therefore, accessible to a larger portion of the lower income groups. Yet GHB is still unable to service the poor.

The Government Savings Bank (GSB) has only recently become involved in housing finance. GSB attempted to devise a new system specifically targeted for the poor. However, following a pilot study in one Bangkok community, they concluded that the system was too complex to be economically feasible.

#### People's Organizations and NGOs

The housing cooperatives and credit unions are people's organizations that have been formed to address the housing issues of lower income groups. The housing cooperatives were initially started among the lower middle-income groups to gain access to housing loans at more reasonable rates through pooling their savings and then lending among members. However, the movement slowed when competition among housing developers led to more housing and finance options becoming available on the market.

The credit unions employ a similar strategy with the poorest segments of society but face financial limitations due to lower levels of savings among this income group. The only cases of successful housing finance through credit unions were made possible through additional external funds.

Some non-governmental organizations (NGOs), such as the Building Together Association and the Foster Parents Plan International, although not directly involved in financing, play a catalyst role in support of housing programs. However, like the credit unions, they are limited in their ability to help a wider number of communities due to a lack of funds. Typically they only have sufficient financial resources to complete one or at most two projects.

#### Special Programs

Given the dearth of viable housing finance alternatives for the poor, the Thai government initiated first the National Housing Authority (NHA), and later the Urban Community Development Office (UCDO). Through the NHA, a state enterprise, the government adopted the role of developer. The NHA builds houses and either rents or sells them on credit. A wide variety of schemes is offered, from "hire purchase" (or "rent-to-own") to installment purchase to land leases. Unlike other low-income housing schemes mentioned above, the NHA can borrow necessary funds from the government or public (through issuing bonds) and therefore is not hampered by a lack of finance.

In its early years, at the end of the 1970s, the NHA assumed a strategy similar to that of Singapore, replacing slums with new housing construction for the poorest and most needy segments of society. Later, however, when the Thai government reduced the heavy subsidies that were required to implement the program, the NHA housing projects needed to become more self-financing. Now, the

lowest income groups find it not always possible to participate in the majority of NHA projects, as rents and housing costs are priced beyond their means.

In 1992, the Urban Community Development Office (UCDO) was formed to implement a national urban poverty alleviation program. In so doing, the UCDO filled a niche not previously occupied by existing institutions. Operating at a national level, UCDO is reaching some of the lowest urban income groups which have been excluded by other institutions and programs. Using a new, more diversified, people-oriented approach, the UCDO is developing a viable alternative that increases the range of possibilities and broadens access to financing through the promotion of community savings, and credit groups and the provision of loans at favorable interest rates. The UCDO process and lessons learned are discussed in the remainder of this paper.

#### UCDO PROCESS

The principal strategy of UCDO is to increase the managerial and organizational capacity of urban poor communities in support of a community-led process of development.

In 1992, the government granted Baht 1,250 million to UCDO as capital for the purpose of extending credit to the urban poor.

Credit is used as a mechanism to strengthen the capacity of the community to deal collectively with its own development issues. Through the use of credit, UCDO helps the community develop its role as project initiator, organizer, planner and manager. In so doing, UCDO helps the community members to help themselves in broadening access to opportunities to improve their living conditions.

Because the communities conceive and implement the projects, it is possible to meet the needs and overcome the constraints of the poorest urban dwellers.

**HOUSING LOAN CRITERIA AND PROCESS**

In order to be eligible for a loan, the community group must demonstrate sound operation and management of savings and credit activities. This requires that the community establish a savings and credit group, set up a sound management process and, after several months of building up savings, engage in credit activities among its members, using its own resource base for at least three months. The UCDO provides organization, management and technical training to help communities set up or improve the operation of savings groups.

If a community does not face eviction, lending usually starts with a revolving loan and an income-enhancement loan before a housing loan is offered. However, if the community is under the threat of eviction, UCDO will offer a housing loan for immediate resettlement.

The group must identify clear beneficiaries and prepare a sound project proposal. The "project" housing loans can be used in one of three ways: (1) to build housing on the same site or one nearby; (2) to purchase land at a new site; or (3) to participate in the National Housing Authority's "hire purchase" housing scheme. "Non-project" housing loans are typically used for home renovations, usually done by the homeowners themselves. Housing projects typically range from 100 to 200 households. Most community groups are unable to handle larger projects, and smaller ones do not permit optimal service infrastructure provision.

If the amount of the loan does not exceed 1 million baht, the UCDO manager can approve the loan. If in excess of 1 million baht, the loan application must be approved by a loan committee. The committee comprises nine representatives: two from the communities, two from NHA, two from government banks (Government Housing Bank and Krung Thai

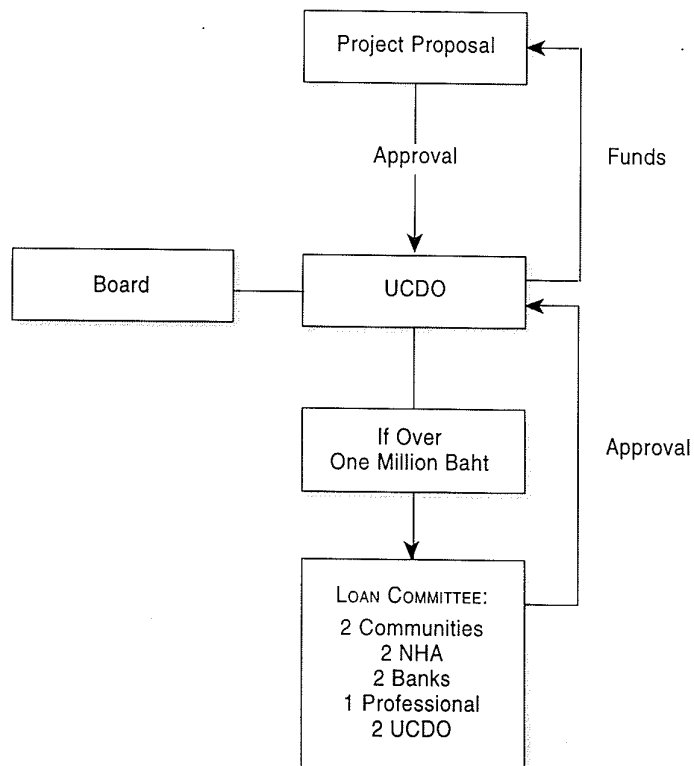
Bank), one professional, and two UCDO officers (see Figure 2).

The loan period for housing loans is up to 15 years. Interest rates range from 3% to 10% annually, with group housing projects receiving the lowest rates, and individual housing improvements, the highest. This compares with the income enhancement loan for which the loan period is up to five years. The interest rate is 8% annually. The loan is for improving existing accommodations or investing in new ones. UCDO grants up to a maximum of 10 times the amount saved by the savings group. Thus, the UCDO

supplements the financial resources of the communities. Once the group receives the loan, it decides how to proportion the disbursements between their own savings and the borrowed funds.

The UCDO provides a wholesale loan to the community group, which the group then on-lends to individual members. The community organizations normally add an additional 2% to 5% to the interest rate, as agreed by its members, bringing the rates charged to individuals close to market rates, which are about 13% to 15%. This margin provides a source of finance for community groups to

**Figure 2. Loan Approval Process**



cover their operational costs and to fund community development or welfare activities.

The whole community committee signs as guarantors, and, in the case of housing project loans, the land site is used as collateral against the loan. Repayment conditions are determined by the savings and credit group in consultation with UCDO. Regular repayments of not less than one per month are made according to the agreement. Delays and repayments in arrears result in a fine.

The UCDO is looking at ways of further decentralizing the lending process. Networks of community groups, which have greater interaction and closer ties with the communities, are being encouraged to help monitor and counsel community savings groups. In the future, these community networks may assume a greater role in approving and disbursing loans to communities.

### UNIQUE ELEMENTS

- 1. Principle of Working Together With the Community.** A serious shortcoming in most development organizations is the highly centralized nature characterized by a top-down decision-making process. The UCDO avoids this shortcoming by institutionalizing community participation in two ways: first, through inclusion of community representatives at the highest levels of decision-making. The composition of the UCDO board is unique in that all stakeholders are represented, including the "client"—the urban poor communities (see Figure 3). The three committee members are elected and represent different kinds of settlements: upgraded communities, communities under threat of eviction, and resettlement projects.

Second, the organizational structure of UCDO programs extends into the community itself through the establishment of community task forces. Member commu-

**Figure 3.** UCDO Board of Directors

Governor of NHA	chair
Government Representatives	3
Community Representatives	3
Special Appointees	3
Managing Director, UCDO	director and secretary

ity organizations formed the national Community Development Committee (CDC) which has created a number of task forces to manage, coordinate and promote community development programs. One of the seven task forces is the Housing Task Force, consisting of 10 members from each of the 10 zones. The UCDO coordinates with the national task force, and the national task force collaborates with the local housing task force set up in each of the zones to find solutions to eviction and housing problems (see Figure 4).

- 2. Community as Owner of Problem and Efforts.** The community is the principal actor. The building of organizational and management capacity in urban poor communities is the basis of the UCDO strategy. Credit is used as a catalyst to enhance the communities' capacity through concrete managerial experiences, as part of a larger process to expand development activities and responsibilities by the community organizations themselves.
- 3. Joint Learning and Problem Solving.** The formation of community networks and federations is encouraged to share learning, exchange opinions and jointly find solutions to common problems among community organizations. UCDO sponsors exchange visits between communities, meetings and workshops for community

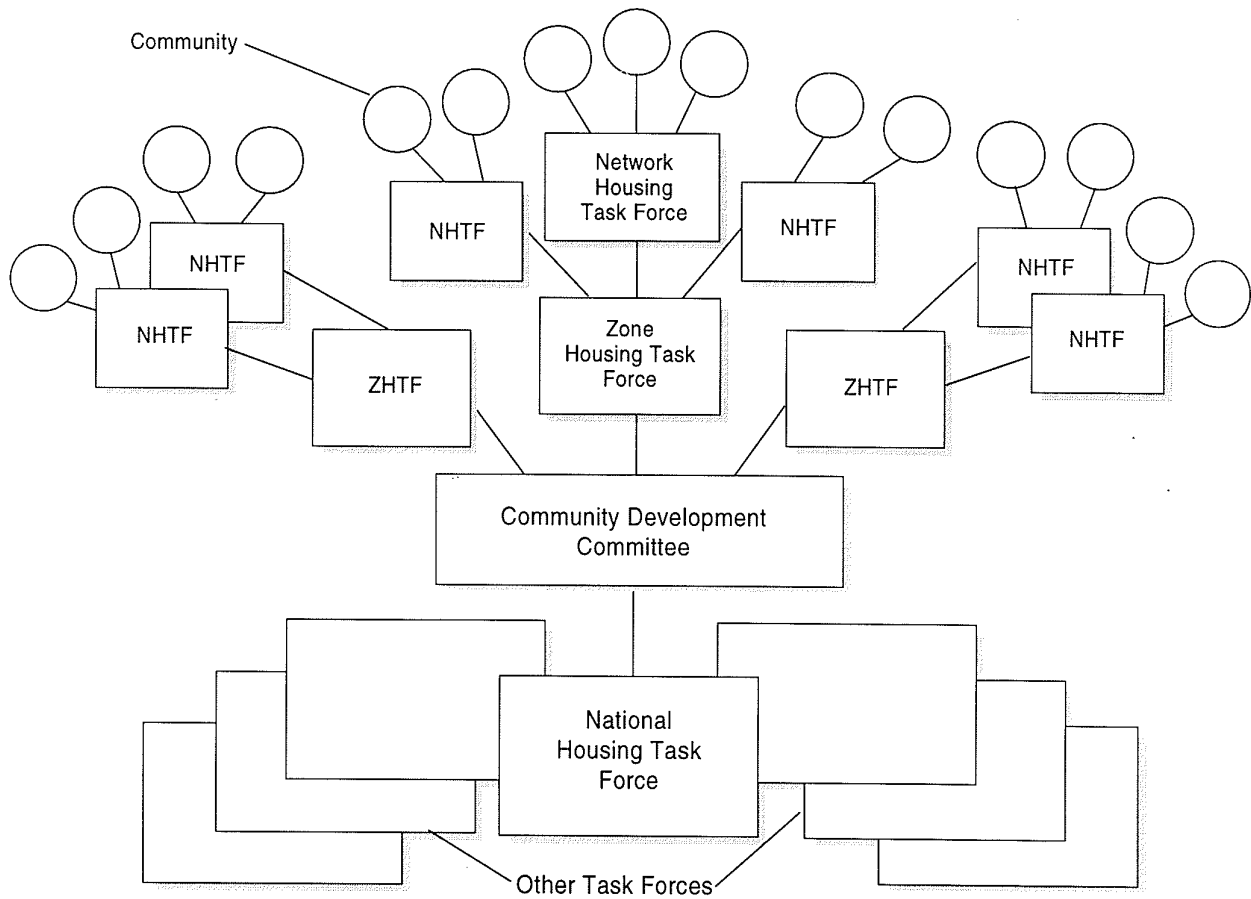
networks, and training sessions in order to develop the human resources and potential of the urban poor for community-led development. At present, exchange visits between communities have proven to be one of the most effective ways of transferring practical knowledge and skills between group members.

Most networks are still a loose federation of community groups. However, as their membership is strengthened, networks are encouraged to assume a broader development role, particularly in terms of counseling and training of community savings and credit groups.

- 4. Integrated Credit.** For UCDO, housing finance is only part of a bigger picture of total community capability building (see Figure 5). UCDO applies a holistic approach with integrated credit for income enhancement, revolving loans and housing. This approach increases the range of possibilities available to the communities and enables the implementation of a holistic community development plan. For the truly poor, who find it difficult to compartmentalize their financial needs, integrated credit represents a significant innovation. There is an integrated problem requiring an integrated response.
- 5. UCDO as Facilitator.** The role of UCDO is not that of a financial institution providing banking services but rather one of a development agency facilitating the people's movement. This means assisting the communities to develop and strengthen their organizations so that they have the capacity to broaden their access to finance and other development opportunities.

UCDO considers all external actors to the community as having a supporting, rather than central, role. Nonetheless, partici-

Figure 4. Housing Program Organizational Structure



pation by outside agencies and organizations is considered crucial to strengthen the community-centered approach with respect to resource enhancement, extending the reach of the program and integrating the approach into mainstream development practices. UCDO actively promotes and engages in partnerships with other actors in support of these objectives.

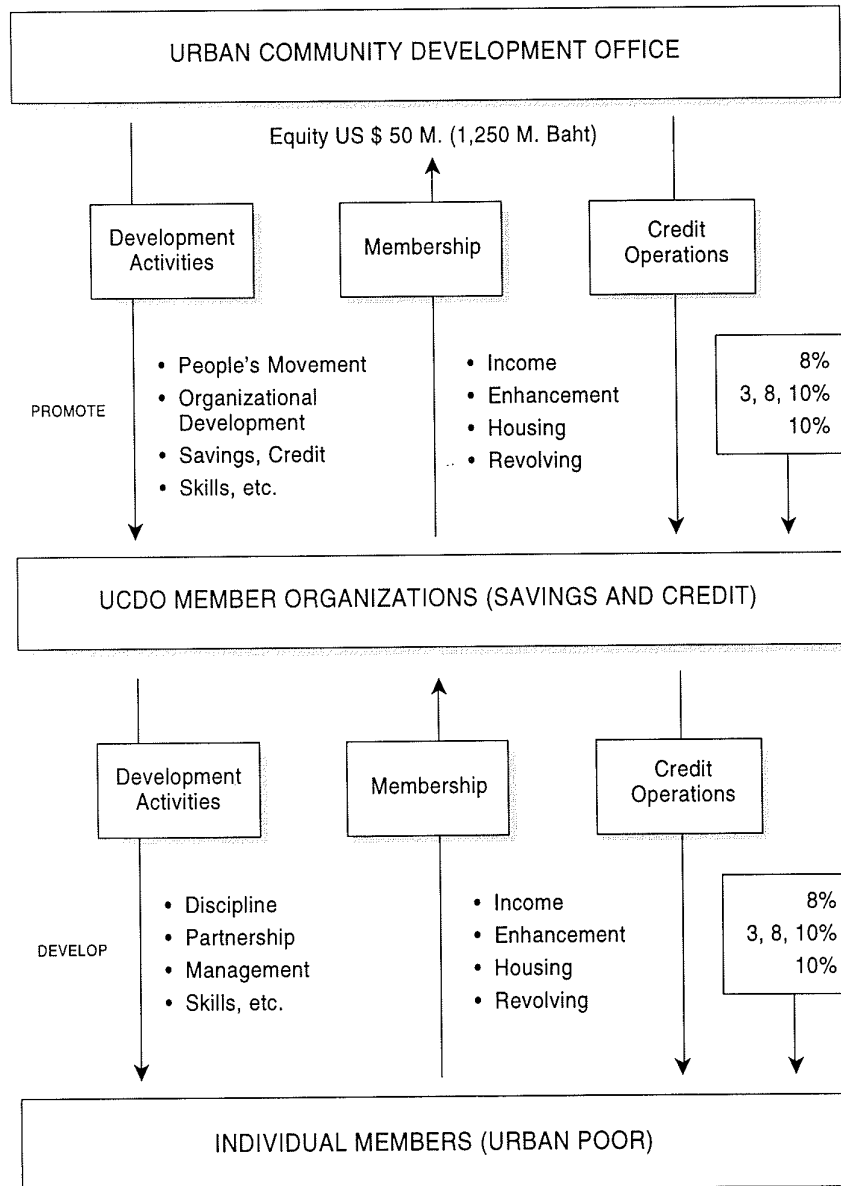
**RESULTS**

While UCDO has successfully assisted a number of communities to obtain housing, it is only a start. UCDO activities and membership have only reached one-quarter of all the urban slum communities in Thailand. Although loans to housing projects account for over two-thirds of all loans, the number of housing projects accounts for less than 10% of the total number

of projects approved. The majority of the housing projects have been concentrated in Bangkok and surrounding communities.

In the one year period from June 1996 to June 1997, UCDO allocated almost US\$3 million in loans for six housing projects in two community organizations. It also granted over US\$2.2 million in "non-project" housing loans to 29 organizations.

Figure 5. UCDO in a Nutshell



Since the start of operations in 1992, there have been 187 housing-related projects, benefiting over 120 organizations for a total of US\$19.33 million. Of this amount, US\$14.55 million is still outstanding (see Table 1). On average, the problem loans (for all types) among member organizations range from 1% to 2% of total outstanding loans. Within the savings groups, problem loans to individual members average 5% to 8%.

A survey of 10 organizations that have received housing loans revealed that 85.5% of the members actually live in the community. (Often social boundaries and membership are larger than the community boundaries, comprising people from neighboring low-income rental flats or non-resident vendors working in the community). Fifty-four percent rent the land, and 43% have illegal tenure.

The two principal reasons for borrowing for a housing project are to own their own house (60% of members) or because they face eviction (24% of members). The housing loans provide community members with the means to solve their housing problems directly.

The principal obstacles facing the members concern difficulties in finding sites that (1) are serviced; (2) are near their work; or (3) have easy access to transportation. In several cases, the lack of technical knowledge of the design and construction of housing development led to higher costs. A more basic constraint is the inability of some slum people to afford regular loan payments.

The major advantage of the UCDO process is that the project fits the people. The conventional approach expects people to conform to the project. Because people are closely involved in the UCDO program formulation (and community housing project design) from the start, the program has taken into account the potentials and constraints of the target group in order to ensure that it

**Table 1.** Housing Loans (June 1997)

Type of Housing Loan	No. of Projects	No. of Communities	No. of Families	Amount Approved (Million Baht)
Purchasing existing land or land next to existing slum	9	7	229	44.95
Purchasing land farther away for relocation	19	46	2,971	287.60
Housing construction	8	8	553	80.46
Housing repair, improvement	146	96	n/a	56.12
Infrastructure development	5	—	—	15.46
Total	187	155*	3,534*	484.36

\* Two communities received loans for both housing and land.

meets their needs and enables them to participate. However, there are still many obstacles which need to be overcome. The UCDO process is constantly evolving to meet the changing needs of its target group and to address problems and constraints as they emerge.

#### OBSTACLES

Many problems and challenges are encountered in implementing UCDO Housing Projects:

##### 1. Target Group Not Fully Reached.

Despite all efforts to broaden access, housing projects still only reach part of the intended target group. Housing finance is still not affordable by the poorest of the low-income community residents. Irregular incomes and/or heavy debts from formal and informal loans previously incurred may make many reluctant or unable to commit to monthly payments. Moreover, community housing projects often only offer one plot size, which may cost more than some

members are able to afford. Requirements for a lump sum downpayment for the purchase of land may also force some members to withdraw from the housing projects.

##### 2. Weak Management of Community Groups.

Participation and management within the community organizations can vary widely. Community organizations are often unfamiliar with new and sometimes complex methods of management and operation. Poor accountability and deficient accounting systems can lead to mismanagement of community savings and ultimately loan repayment defaults. Often the cultural element which advocates decision-making by elders promotes information and decision-making at the committee level and relatively poor levels of communication with members. In the latter case, the project takes on the characteristics of a private development or public housing estate: members of housing projects are not directly involved in the

design and management of the project, yet they are obliged to accept a finished product which may not meet their needs. A top-down management style can also impact approval of new members; sometimes it is too lax, other times too selective, but both have an impact on the cost of the project and the ability to meet loan repayments.

3. **Hurried Savings.** Some of the Housing Committee groups focus solely on obtaining a loan. Often the group is unprepared to assume large credit obligations just six months after their initial establishment. They have weak organizations due to a lack of organizational development, and accumulate savings beyond actual disposable income in order to be eligible for a larger loan. The unsustainable saving rates then translate into an inability to sustain loan repayments.

4. **Problems with Project Implementation.** There are four common problems with the project implementation:

- *Lack of public facilities.* Often infrastructure provisioning is left to the second phase of the project due to insufficient funds in the first phase or because the project is waiting for an infrastructure subsidy from NHA.
- *Heavy financial obligations.* To expedite the process, some projects attempt to finance both the purchase of the land and the housing construction in the first phase. Many members are unable or unwilling to assume a heavy loan burden and therefore withdraw their membership.
- *Limited project management skills.* The lack of experience of committee members in managing a housing project often leads to higher costs in selecting the site, purchasing landfill,

preparing utility installation and other construction costs.

- *Delays in moving in.* Relocation to a new housing location is often delayed due to (1) inconvenience of the new site, far from the existing community; (2) lack of public utilities which are often further delayed by too few residents at the new site; (3) lack of finance for housing construction; and (4) waiting for official eviction notice.

**LESSONS AND OBSERVATIONS**

The demand for credit to finance housing for urban low-income groups is not being met by commercial financial institutions or other government programs in Thailand. The UCDO program, adopting a fundamentally different approach to finance, has succeeded in reaching some of these groups, and has shown that under a people-oriented and enabling process, low-income people can be good credit risks. However, the key to broadening access to housing finance to the poorest segment of urban society requires a

departure from the conventional approach to finance.

Table 2 outlines the key differences between conventional housing finance facilities and UCDO's housing finance program.

However, the UCDO process is still relatively new. Based on what has been learned in this pilot phase, the process is evolving and changing. Coverage is still limited. In order that access to housing finance services for the poor can reach a broader target group, the program needs to be institutionalized on a national scale. Two possibilities present themselves:

1. **Enlarge and institutionalize UCDO.** One possibility is for UCDO to become a national institution, similar to the government banks, with independent legal status. This will enable UCDO to increase operations, resources and capacity to cover the full target group.

Presently, the government is in the process of considering the decree for establishing

the "Community Organizations Development Institute" which, if passed into law, will also incorporate the work of UCDO to be part of this "Institute."

2. **Create linkages with existing commercial facilities.** A second possibility is to enable the poor to access finance from commercial sources. This can be achieved in one of two ways:

- The financial institution can incorporate urban poor financing into its existing system. A specially designated branch could be set up to carry out the program.
- Alternatively, linkages between commercial institutions and development organizations that are involved in providing housing finance to the poor could be created. The partnership would help to ensure that both the financial and developmental aspects of housing finance for the poor can be delivered at a broader scale and on a sustainable basis.

**Table 2.** Perspectives on Housing Finance for Non-Poor versus Poor

Aspect	Non-Poor	Poor
Scope	Specific, single-dimensional	Holistic, multidimensional
Focus	Institution centered	People centered
Orientation	Providing financial service	Facilitating development process
Client	Individuals	Organizations, movement
Relationship	Bilateral	Multilateral
Requirements	Established capacity/collateral	Group formation/mutual guarantee
Rules & Procedures	Standard, fixed	Flexible, adaptable

Discussion forums have been held among officers of concerned government agencies (including the Bank of Thailand and the Ministry of Finance), the Thai Bankers Association, government specialized banks, the micro-finance support organizations (including UCDO and the Credit Union League of Thailand) and a number of other persons.

From the discussions it is agreed that the government should have policies to enable the linkages between the formal financial institutions and the micro-finance institutions. The informal community savings groups should be supported legally and the new institution (the "Community Organizations Development Institute") to facilitate the growth and development of community savings groups should also be set up as soon as possible.