

Indian Housing Finance Alliances and the Urban Poor

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Abstract

Apart from the public and private interventions in the housing finance market, it is thought that non-governmental organisations (NGOs) and community-based organisations (CBOs) can play an important role. One of the NGOs dealing with housing finance is the Society for the Promotion of Area Resource Centres (SPARC), which has experience in this area in especially the Indian city of Mumbai. The focus will shift to the activities of the alliance between the NGO SPARC, the National Slum Dwellers Federation and the Mahila Milan (a federation of CBOs). Following this, the potential roles of NGOs and CBOs in an alliance with public and/or private institutions will be discussed in a model-like approach developed by Igel and Srinivas for the city of Bangalore. This will be followed by the discussion of the Dharavi scheme in Mumbai. Finally, the potential for serving the urban poor on a large scale through alliances will be reconsidered. Here, it will be shown that those controlling the flow of large sums determine the policies to a large extent, neglecting needs and desires of local dwellers.



1. Housing finance, NGOs and CBOs

Public and private housing finance institutions in India face problems in adequately serving the poor with housing finance (Smets 1995; 1997). They face difficulties in adjusting to the needs of the poor, or what Seibel (1997: 9) calls an institutional adjustment strategy of downgrading. Such an action of downgrading formal housing finance institutions is rather problematic, due to the predominant idea that housing finance should be characterised by large amounts, generally a mix of savings and credit. Moreover, the loans involved are generally long term in nature. This conflicts with the short to medium-term livelihood strategies of the urban poor (e.g. Smets 1999). To improve access of the poor to formal housing, NGOs and federations of CBOs can be seen as an alternative channel to serve them. Here, solutions are found in alliances with NGOs and/or CBOs.

One of the Indian NGOs being involved in alliances is SPARC, which is mainly known for the creation and strengthening of CBOs, such as financial self-help organisations among slum and pavement dwellers in Mumbai. For this purpose, SPARC works together with the National Slum Dwellers Federation (NSDF), in which slum leaders are organised, and the Mahila Milan (MM), which is a federation of women collectives. The alliance SPARC/NSDF/MM has not only established ties with other Indian cities such as Bangalore and Kanpur, but also with other communities in countries such as South Africa, Namibia and Cambodia.

Through financial self-help organisations that were established by the alliance, savings are pooled and a fund for crisis loans has been established. For a period of approximately three months, new female participants are expected to undertake a training process to learn how such a financial self-help organisation works. Once operational, additional external finance enables the provision of loans for income generation activities and for construction. However, before housing loans can be provided, other activities have to take place such as a survey of the slum concerned, conscious

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building, and training in communication skills resulting in a pilot project. If such a pilot project deals with housing, attention has also to be paid to construction skills, the costs of materials, production of building materials and the provision of basic facilities (e.g. Bolnick & Mitlin 1999; Patel 1999; Patel, Bolnick and Mitlin 2000).

In order to bring the shelter dreams of the urban poor alive, dwellers can display life-size house models made of a wooden frame covered with cloth at a housing *mela* or exhibition. Such a housing *mela* enables dwellers to communicate with bureaucrats and officials of the local and state government about issues of security of tenure, lending rates of housing loans, the establishment of infrastructure and basic facilities in the settlement and the norms and values associated with the construction process. This offers the possibility of discovering out how state-provided subsidies and subsidised housing loans in combination with other financial sources, and construction materials and techniques promoted by the building centres can be used to improve the habitat of slum dweller communities (SPARC 1999).

2. A model for Bangalore

To close the gap between demand and supply of housing finance to low-income households, Igel and Srinivas (1996) have developed a credit delivery model for squatter housing in Bangalore, India. The idea is that formal credit is channelled to low-income households through a tentative model involving four groups of agents; representatives of public sector agencies, private sector financial institutions, NGOs and CBOs. The community-based credit committee, as a CBO, is supposed to bring the 'most' attractive characteristics of the operations of the 'informal' financial market together; 'timely credit, obligation to save, flexibility and reciprocity to tap household savings and provide the means to channel formal finance to low-income borrowers.' (Igel & Srinivas 1996: 294-295).

The credit committee at the core of the model was supposed to be formed from within the slum by leaders and members of CBOs. Each member must save a predetermined and specified amount with the credit committee on a daily, weekly or monthly basis. Loans of a maximum of twice the savings of a specific member will be provided. Apart from individual savings, Rotating Savings and Credit Associations (ROSCAs) can be set up, from which a round of contribution collection has to be handed over to the committee to establish a reserve and emergency fund. The savings can be used partly as collateral for future loans from commercial banks or housing finance corporations. The credit committee is constituted from within the settlement, which enables a good representation of the low-income borrower's view and interests. This would minimise power manipulations driven by greed and profit maximisation (Igel & Srinivas 1996: 295-298).

The structure and activities of the credit committee may change overtime. When the economic conditions of the participating slum dwellers improve, four stages can be distinguished. Firstly, the credit committee only deals directly with the slum dwellers and collects savings from individual slum dwellers. Moreover, several ROSCAs can be organised. A ROSCA is a financial self-help organisation in which participants pool regular contributions, which will be given, in whole or part, to each participant in turn. In the second stage, the credit committee also extends its operations to formal financial institutions. The collected savings can be deposited with a bank, where loans for individuals or groups can be arranged. To enable a direct link between the financial institution and the slum dwellers in the third stage, external commission agents are appointed by the banks to pay out loans and collect repayments. Such agents can help to establish mutual understanding between the dwellers and the financial institution, and to facilitate drawing up of contracts between the two parties

involved. The agents are a step towards stage four in which slum dwellers, based on self-regulation and control, are expected to have direct links and financial contracts with the formal financial institutions. In this period, the credit committee employs a role of support and co-ordination by securing the loan by, for example, providing collateral or guarantees (Igel & Srinivas 1996: 300-303).

3. Dharavi scheme in Mumbai

Sanyal and Mukhija (2000) analysed the Dharavi scheme, Mumbai, which aims at redeveloping the area by providing new infrastructure and housing, and establishing housing co-operatives for the local dwellers. In various stages of the preparation and implementation of the Dharavi scheme, conflicts arose between the stakeholders involved; housing finance agencies, public sector organisations (the Municipal Corporation of Greater Mumbai, the Maharashtra Housing and Area Development Authority, and the Prime Minister's Grant Project), private contractors, SPARC, NSDF, and dwellers participating in a housing co-operative.

Conflicts arose at different stages of the scheme. At the planning stage, the original government project was challenged by SPARC, who surveyed the project area and discovered that more dwellers had to be involved in the scheme than the government had originally estimated. Moreover, a plan was created by members of the housing co-operative, which rejected the planned five-story buildings and proposed two-three stories that would lead to declining construction costs.

Table 1. Financial sources for housing in the Dharavi habitat improvement scheme

Source	Share of housing costs
Subsidy Prime Minister's Grant Project	10%
Interest free loan (also subsidised by Prime Minister's Grant Project)	20%
Housing finance agencies	35%
Beneficiaries own contributions	35%

Source: Sanyal and Mukhija (2000: 8)

To cover the housing costs, the Prime Minister's Grant Programme –set up to enable the Prime Minister to influence the allocation of some funds - proposed a share of the costs as laid down in Table 1. In 1989, it appeared that the Prime Minister's Grant Project had insufficient finance to complete the Dharavi scheme. The Prime Minister's Grant Project was only willing to provide the direct costs subsidy and withdrew from the provision of interest-free loans and a guarantee for external loans.

In the meantime, the housing co-operative and SPARC started constructing houses, using a downpayment from the co-operative members to hire a private contractor. To obtain housing finance, SPARC approached the public sector housing finance agency HUDCO (Housing and Urban Development Organisation) on behalf of the co-operative. HUDCO was willing to provide the credit, but demanded conventional collateral. They suggested a guarantee of a state government housing authority, a land mortgage or a bank guarantee against a fixed deposit. However, the Prime Minister's Grant Project, as being the project's promoter, refused to advise that the state government housing authority should lease the land to the co-operative. Later on, SPARC managed to motivate the Municipal Corporation of Greater Mumbai to lease the land to the housing co-operation, so that it could be mortgaged for the HUDCO loan. Due to the delays in the release of housing finance, the

private contractor ceased construction activities. Nevertheless, SPARC attempted find a way out and guaranteed the HUDCO loans from its own funds. HUDCO released 75% of the first loan instalment to the housing co-operative that was responsible for its repayment, withholding 25% for the interest payments. A new contractor was employed, who was a relative of a co-operative member. Finally, SPARC succeeded in arranging an interim bank guarantee for additional loans until the land lease was executed.

Later on, new financial problems arose and SPARC was not eager to increase the downpayments with the contractor and consequently the debt burden. Again, a new contractor stepped into the project and was willing to invest substantially in the scheme without further HUDCO loans. The new contractor was even eager to repay the HUDCO loans, reimburse SPARC for the bridge loans, and to return the subsidy granted. In return, he/she was allowed to sell 70% of the housing units on the free market. Only 30% had to be provided free to the residents. The co-operative members were pleased with the contractor's initiative and did not protest against the construction of additional floors. In practice, the dwellers had to pay an average of Rs. 35,000 for these 'free' houses. SPARC suggested that the co-operative members had been bribed to accept this offer.

As has been sketched above, different conflicts arose between the co-managing institutions during the preparation and implementation of the scheme. The conflicts between private entrepreneurs and SPARC led to the development of a more market-oriented attitude of SPARC. Moreover, the frictions between the public agencies and SPARC stimulated SPARC to gain control over a part of the public sector. These experiences led to the centralisation of SPARC's internal organisation. Furthermore, the way that SPARC dealt with the communities transformed 'from an open-ended, all inclusive and participatory way to a relatively selective style where it worked with a few trustworthy individuals.' Instead of advocacy only, the original mission of SPARC became one of social investment in profitable enterprises. Finally, it should be noted that the Mumbai case is unique; it took place against a background of rapidly increasing real estate prices and new private-sector-friendly governmental policies for low-income housing areas in the 1990s (Sanyal & Mukhija 2000: 4-5, 28). I quote:

'The public policy changes instituted to attract private developers included an increase in Floor Area Ratios (the ratio of the floor area of the built-project to the area of the site), larger allowance for free-sale of housing for cross-subsidizing the cost of housing construction and the introduction of Transfer of Development Rights (TDR – unbundles the development potential of a land parcel from a site specific context and allows property-owners to transfer the development potential from an "origin-site" to a "receiving site").' (ibid.: 5).

This study of the Dharavi scheme not only reveals that institutional pluralism may be accompanied by conflict, but that such conflict does not necessarily have to have a negative impact on the institutions and the target group. Moreover, a possibility of institutional conflict require its acknowledgement, clear-cut devises and unambiguous rules about the division of labour when implementing habitat improvement schemes, and the creation of a centralised institution that may mediate disputes among the various parties involved in slum rehabilitation (Sanyal & Mukhija 2000: 27).

4. Downmarketing housing finance through scaling up reconsidered

The downmarketing of housing finance in India is facilitated by financial injections of e.g. the Asian Development Bank. In 1997, the Bank released a loan of \$ 300 million (Rs. 12.9 billion), which was

intended for the provision of housing finance to the National Housing Bank (a subsidiary of the Central Bank of India), the HUDCO and the private sector institution HDFC (Housing Development and Finance Corporation). The purpose of this loan was to strengthen linkages between housing finance corporations and CBOs. This was done with the aim of supporting low-income housing and slum improvement, but also the refinancing facilities of the National Housing Bank. For this purpose, greater insight is required into the operation and maintenance of the informal housing finance market and the willingness for alliances to channel 'affordable' credit to the urban and rural poor. In the same year, \$ 600,000 was approved by the Asian Development Bank to ameliorate the institutional constraints of housing finance institutions. Another additional amount of \$ 500,000 was approved to support the shift of the government's role as provider of houses towards a facilitator's role (ADB 1999: 3; Vora 1999: 10-11).

The financial injection from the Asian Development Bank was expected to help in downmarketing housing finance. However, NGOs generally face a shortage of funds for providing credit. As a consequence, external sources of finance had to be mobilised in addition to the pooled savings from the associated CBOs. For this purpose, the NGOs should be trusted by the financier, who tends to ask for conditions such as a complete building plan including targets before the credit will be released. The NGO SPARC (1996: 6) describes it as follows:

'Every agency which had lent us money behave with the alliance as though we need to be hundred percent definite about all aspects of the construction. Almost as though they are doing us a enormous favour to lend us money.'

A development of the institutions in line with the demands of providers of housing finance creates the possibility of co-operation between public and/or private institutions. The housing finance corporations in India spend a lot of money on hiring consultants to design systems. The same sums could be used to start pilot projects, which will create better knowledge on policy and procedures (SPARC 1996: 7). The alliance SPARC/NSDF/MM 'is working to secure land tenure, standardize house construction and design costs and negotiate with housing finance institutions to convince them of the need to lend directly to low-income households' (Patel 1999: 165).

The model of the alliance SPARC/NSDF/MM is seen as vulnerable by Patel (1999) in four respects. Firstly, the complete process is dependent on trust; all individual members have to trust that all parties will behave and act in accordance with the collective's interests. Secondly, a growth of the decentralised development process may obstruct innovation and adaptation. Thirdly, it is of crucial importance to maintain a more or less balanced working relationship with the government. Especially when the alliance depends on public sector initiatives, there is a danger of encapsulation by the government or conflict between the stakeholders involved. Only when some distance from the government can be established is the alliance able to develop new alternatives for housing and finance. Fourthly, the model is not financially sustainable and dependent on external finance (ibid.: 167-168). Public or private sector agencies tend to demand the institutionalisation and legalisation of the NGOs and CBOs they are dealing with. However, institutionalisation and legalisation often leads to more bureaucratic procedures for the NGOs and CBOs, which are required to upgrade activities such as financial extension services, training personnel in book-keeping and financial management, promoting innovative savings schemes, internal resource mobilisation through debt instruments, in mediating contacts with banks or donors, collecting and safekeeping savings, checking the creditworthiness of clients, negotiating bank loans, as well as in practices of lending, collecting instalments, bearing the

credit risk, and repaying bank loans (Seibel 1997: 15-16).

The financial terms and conditions for housing loans, including interest payments and the means of institutionalisation and legalisation, are often to a large extent determined by the lender. The housing loans provided by the housing finance corporations and the HUDCO are generally intended for complete housing units. Nevertheless, the loans are too small for the construction of a housing unit and a contribution from the beneficiary and/or the NGO is required. Still the housing loans are large and require a long term of repayment. Alliances between NGOs and formal housing institutions are backward due to the long term of housing loans and the short-term perspective of many NGOs, which are forced to work on a-project-to-project basis due to a shortage of internal resources (Garilao 1987: 117). Furthermore, many NGO projects tend to remain small scale and cover only small tracts of land in the target area (Bowden 1990: 146), while there is an enormous need for improvement of the habitat conditions of the increasing number of the poorer sections of the fast growing Third World Cities.

One alternative financial condition, which is more or less accepted by the HUDCO, the National Housing Bank and the housing finance corporations, is the social control mechanism, such as peer pressure, as substitute for conventional collateral. Moreover, creditworthiness is accepted on the basis of proved savings behaviour. For such groups, community building may be required to enable the participation of the beneficiaries in a sustainable way. Bowden (1990), however, considers community building to not be very sustainable due to 'natural' tension between group members, which can affect each group, high turn-over of field workers, too much direct assistance given, lack of consensus about methods that enforce cohesion and sustainability, big role of charismatic leaders, problems in generating self-help decision-making capability (ibid.: 145-146). In addition, community-level action encourages external agents to refrain from lending their assistance, placing the burden of habitat improvement on the slum dwellers themselves (Douglas 1995: 25). The most encouraging community level action is characterised by

'households capable of pooling resources and dividing labor into complementary tasks; strong inter-household support networks; security of tenure; leadership arising from within that is also recognized by the state; the presence of NGOs that seek to empower rather than undermine community organizations; democratic regimes; and community-oriented support from international assistance agencies. While this exact profile is difficult to find in Asia, many of the elements exist or are appearing.' (Douglas 1995: 27).

In addition to the social control systems, relatively small loans require larger overhead costs, which may cause frictions with financiers. In this respect, an employee of the National Housing Bank complained that the overhead charges of the NGOs (8-10%) are very high compared with 3% of the housing finance corporations. The National Housing Bank aims at bringing down these overhead costs. In the meantime, the NGOs are held responsible for the repayment of loans.

To make housing loans affordable for the poor, housing loans may be subsidised. The HUDCO subsidises the housing loans for the poor, while the National Housing Bank and the private housing finance corporations subsidise the relatively small loans for the poor and non-poor. Grants and subsidies for housing finance programmes can improve access to housing finance by the target group, but it reduces the potential of replicability of the scheme unless the grants or subsidies continue. Credit, provided it is repaid, is preferable to grants, because a revolving fund can cover more people in the long run. Furthermore, obtaining and repaying a loan requires a more active and self-reliant

involvement of the beneficiaries (Copestake 1996: 24). Such involvement can be established through small savings and credit groups.

If a housing finance scheme becomes dependent on finance from donors in the West, the danger arises of what Garilao (1987: 118) calls 'the trap of dependency'. To avoid the trap of dependency, the NGOs have to mobilise local resources. The Federation of Thrift and Credit Associations even refused to accept external sources of finance. When it concerns finance from an Indian public institution, there is a danger that debts will be written off. There is a tendency that borrowers will anticipate this and thus not repay the credit. In general, it can be said that it is 'the surest way to kill a movement is to smother it with money.' (Korten in Hulme 1994: 268).

In order to defend the interests of the poor and their own interests, NGOs can organise themselves in an NGO centre to strengthen their operation and maintenance by exchanging experiences (Steinberg 1994: 8). Smets and Baken (1999) suggests that an incremental building process, instead of aiming at the construction of complete dwelling units, is beneficial to the poor. Such incremental building activities to extend the size or improve the quality of the shelter, taking place over years and even decades, are dependent on the individual household priorities, the means available and change according to the family cycle, or changes in the life of migrants in the city. Therefore, housing should be considered a process. Housing should not be judged according to its physical appearance, but its users' value has to be the main point of evaluation. In other words, 'what it means' for its users instead of 'what it materially is'. There is a continually changing variety of individual and/or household needs, priorities and possibilities, which helps spread the costs of the construction activities over time. The components required for the construction process should be left up to the individual users, or to decentralised local and small-scale institutions. Large organisations tend to provide standard products and cannot adequately deal with the enormous variety of changing housing needs (e.g. Turner 1976).

In practice, it appears that incremental building is increasingly seen as a good policy alternative. However, incremental financing is not commonly accepted. For example, the Indian Grameen Bank replica SHARE, working in rural areas of the state Andhra Pradesh, decided to provide housing loans with a term of four years after consultation with its beneficiaries. Such a term fits the livelihood strategies of the poor who have a short or medium term planning horizon. An additional result is that the friction between long-term financing and the relatively short to medium-term planning horizon of the NGO can be reconciled. A NGO's planning horizon is largely determined by funding agencies, which finance activities for a short to medium term only.

Conclusion

The role of NGOs and CBOs in the Indian housing finance market is very limited, but there are possibilities of expansion within certain limits. NGO's role in the delivery of housing finance is not only restricted in scope due to a lack of financial means available and the long-term bias of housing finance, but also due to an inadequate ability to cope with the provision of financial services. In addition, pre-existing financial services are difficult to expand due to institutional and contextual constraints. The financial terms and conditions are to a large extent determined by the formal housing finance institutions, which encompass mortgage lending, subsidised interest rates, mainly long-term and repayment in equated monthly instalments. In general, these loans are provided for buying a dwelling unit or for building one. In general, the beneficiaries have to take out a big loan amount. By subsidising the interest rate and enlarging the term the size of the monthly instalments can be reduced to an 'affordable' level.

For community-based housing finance an empowerment orientation is required. Here, savings and credit associations can play an important role by evoking trust and self-respect among the beneficiaries. Such a strategy must be proved successful in establishing CBOs. However, enlarging the scale of delivering housing finance is rather limited due to the finance available with the CBOs and the NGOs. In order to increase the funds, alliances can be sought not only among other CBOs and NGOs, but also with institutions in the private and public sector. If an NGO acts as a guarantor or borrows from a housing finance corporation, it obtains credit, but also has to deal with the housing finance corporations' norms and values. Their norms and values conflict with the short-term planning horizon of NGOs, and the norms and values of the poor, who build their dwellings in an incremental way. A better means of serving the poor with housing finance is to adjust the financial terms and conditions to the incremental building process of the poor. In other words, downmarketing housing finance through NGOs is limited unless the poor are given the opportunity to build in an incremental way. Therefore, the slum dwellers must be empowered, possibly with the help of an NGO, to be able to obtain such housing finance schemes to improve their living conditions over a long period. Furthermore, forming alliances among CBOs and NGOs can strengthen their negotiation capacity and position with other stakeholders in the housing finance market, where those having access to large sums of finance tend to dominate the terms and conditions of habitat improvement schemes. Here, is the challenge to overcoming periods of institutional conflict and conflicting norms and values to obtain improvements of the urban habitat in a synergetic fashion.

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