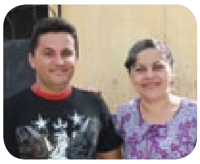
ACCESS TO HOUSING AT THE BASE OF THE PYRAMID:

ENABLING MARKETS FOR AFFORDABLE HOUSING




ADVANCED RELEASE: NEW HOMES

ASHOKA

FULL ECONOMIC CITIZENSHIP

HYSTRA
hybrid strategies consulting

With the support of: HILTI FOUNDATION

Written by:

Sadna Samaranayake, Consultant, Manager, Global Learning, Full Economic Citizenship,
Ashoka: Innovators for the Public

Valeria Budinich, Chief Entrepreneur, Full Economic Citizenship,
Ashoka: Innovators for the Public

Olivier Kayser, Managing Director,
Hystra

Copyedited by:

Sumati Nagrath, Director, Mirabilis Advisory Services

Designed by:

5By7

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HILTI FOUNDATION

This report has been a collaborative effort.

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About the Authors

Ashoka Innovators for the Public: founded in 1980, Ashoka is the world's working community of more than 3,000 leading social entrepreneurs. It champions social change ideas and supports the entrepreneurs behind them by helping them get started, grow, succeed and collaborate. As Ashoka expands its capacity to integrate and connect social and business entrepreneurs around the world, it builds an entrepreneurial infrastructure comprised of a series of global initiatives that supports the fast-growing needs of the citizen sector.

Ashoka's vision is to create change today, for an 'Everyone a Changemaker™' society to become the reality of tomorrow. For more information, visit www.ashoka.org.

FULL ECONOMIC CITIZENSHIP

Ashoka's Full Economic Citizenship (FEC): is one of Ashoka's global initiatives striving to enable an environment where every citizen has the opportunity and the capacity to exercise his or her economic, social and cultural rights. To achieve FEC, a citizen must have access to essential products and services required to enable his/her activity as consumer, producer and holder of assets. FEC seeks to end the exclusion of two-thirds of the world's population through catalyzing business social alliances in sectors that address basic human services such as in housing, healthcare and small farming. These collaborations are called Hybrid Value Chains™ which combine the resources of the business and citizen sectors to transform markets and redefine value in game-changing ways.

Hystra: is a new, hybrid type of consulting firm. Hystra works with business and social sector pioneers to design and implement hybrid strategies through innovative business approaches that are profitable, scalable and eradicate social and environmental problems; and combine the insights and resources of business and citizen sectors. Hystra itself is a hybrid organization, a for profit tool for social change. Hystra consists of a core team of full time consultants and of a growing network of partners already present in 7 countries. For more information, visit www.hystra.com.

Foreword by Hilti Foundation

EGBERT APPEL
Managing Director
and Board Member
Hilti Foundation,
Liechtenstein

The pursuit of affordable housing for low-income communities living at or near the base of the pyramid is nothing short of a campaign to transform lives. 1 billion people across the world are deprived of, or live in inadequate housing. For low-income communities with scarce means and resources, housing represents not just a place to live but also a place to work, an asset that allows access to loans that impacts health and potentially the education and upward mobility of their children.

The Hilti Foundation is committed to creating sustainable societal impact in the areas of affordable housing, basic education, community development, culture, disaster relief, and social entrepreneurship. It is because of a similarly broad and simultaneously deep commitment to all of these sectors, through the work of nearly 3000 social entrepreneurs, that Hilti Foundation supports the work of Ashoka around the world.

In collaboration with Hystra, a hybrid strategies consulting firm, Ashoka has conducted the following investigation into access to housing at the base of the pyramid, specifically for low-income urban dwellers worldwide.

The study unpacks various models for achieving affordable housing for all, and surfaces cross-cutting insights and barriers faced. The study also identifies promising avenues for moving the sector forward including recommendations for various stakeholders and frameworks for engaging in collaborative action, called Hybrid Value Chains that leverage the strengths of multiple players.

At the Hilti Foundation, the message that corporations are able to reinforce the work of developing affordable housing, creating hybrid value that progresses us further than the market or charity alone can do, resonates with our commitment to challenging society's intractable problems.

The notion that the end user's experience must drive our work is a message that resonates deeply with our values as a family of companies. We are proud to sponsor this important study.

ACCESS TO HOUSING AT THE BASE OF THE PYRAMID:
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ADVANCED RELEASE: NEW HOMES

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Introduction

"My house is my workshop, my savings and my place to rest".

- Manjula-Ben, incense stick maker in Ahmedabad, India.

We are at a moment of great opportunity and obligation in the drive towards affordable housing for low-income communities. The current low-income housing market is worth USD 424 billion,[1] a sizable and impressive figure given that very few market-based housing solutions address the needs of the poor or do so efficiently. One billion individuals around the world, that is 1/6th of humanity, live in slums and inadequate housing. If left unchecked, this number will triple by 2050.[2]

Addressing the enormous quality and quantity shortfalls of housing solutions available to serve the needs of millions of low-income families will require harnessing the efforts of diverse players. It will require thoughtful collaboration and long-term commitment to scalable, global solutions from actors that span private, social and public sectors.

We find ourselves at a moment when such players exist and when the tides of globalization, shored up by a drive for inclusivity, make affordable *Housing For All* an initiative whose time has come.

Over the past four years, Ashoka's "Housing for All" program, supported by the Hilti Foundation, has catalyzed several successful housing initiatives addressing the needs of low-income communities in India, Colombia and Brazil. Each one of these initiatives is designed to contribute to advancing affordable housing markets through commercial approaches based on (or enabled through) business-social collaborations called Hybrid Value Chains.

Produced in collaboration with Hystra, a consulting firm specializing in hybrid strategies, the complete version of this report, published in April 2011, builds on the practical experiences of the dozens of pioneering social entrepreneurs and corporations who have endeavored to provide affordable housing solutions for low-income communities over the last 20 years. It identifies the barriers to scale these solutions face, and proposes a series of recommendations for the various stakeholders involved in affordable housing, spanning private, social and public sectors. The following Advanced Release is an abbreviated report focusing on new homes solutions, featuring Ashoka's Housing For All initiative in India, and Jamii Bora in Kenya.

This report was informed by an in-depth study of international examples of promising and already successful affordable housing solutions that provide both new homes and home improvement solutions for the urban poor. Detailed research, on-site visits and the perspectives and feedback of academics, innovators and practitioners have been incorporated into this work.

We hope this report will serve as a call to action and illustrate to multiple stakeholders how they might engage in ongoing efforts to advance housing solutions for millions of low-income families around the world.

1 Drayton, B. and Budinich, V. (2010) *A New Alliance for Global Change*, Harvard Business Review, September 2010.

2 GLTN Secretariat facilitated by UN-HABITAT (2010) *Tackling Tenure Security in Slums through Participatory Enumerations*, Global Land Tool Network Brief 1, March 2010.

Key Highlights of the Report

- A **home,** for low-income populations is **so much more than a roof overhead.** Homes bear income generation, livelihood and health implications and can impact a household's access to finance, social stature and the upward mobility of future generations.

More than a Roof Overhead

Health Implications	Livelihood Implications	Social Implications
• Basic health considerations • Safety • Sanitation • Clean water • Secondary impacts on education and productivity	• A place of work • A productive asset that can be leveraged • An appreciating asset	• A social symbol and source of dignity • Point of connection to community and social fabric

- "Affordable" in affordable housing is **not synonymous with subsidized or cheap**. Instead, affordability is synonymous with whether a housing solution is *attainable* by and *appropriate* for low-income populations — with implications on design, quality, access to retail finance and access to information about these solutions, in addition to appropriate price points.

- To mobilize the capital required to address global housing shortfalls, **market-based housing solutions** – not dependent on subsidies but offering services at market prices — **are necessary**. Such market-based approaches can indeed be viable among low-income communities, but are unfortunately few in number. Those that are successful employ a combination of strategies**; maximizing value for low-income clients by reducing costs, bundling value, integrating financing and mobilizing the resources of the community.**

- The strategies required for catalyzing successful market-based solutions can rarely be advanced by one actor or sector. Ranging from governments, CSOs, building material manufacturers, distributors and retailers, finance providers, social investors and foundations, **a diversity of actors collaborating in concerted ways** is required to overcome the multidimensional challenge that is the quest for affordable housing for all. The resulting **Hybrid Value Chains** are innovative operating frameworks which hold promise for scaling up affordable housing solutions.

- While the potential of market-based approaches is clear, so are their limits, both in terms of the barriers they face to growing and scaling, but equally importantly, their **limited capacity to reach the poorest of the poor**. Reaching these populations requires the **careful and coordinated application of subsidies -** which implies a more thoughtful approach than simply giving homes away, or subsidizing prices which often undercuts budding market-based initiatives.

- Regardless of the nature of affordable housing initiatives, who leads them and whether they are market-based or subsidized, **several key barriers constrain the potential growth and scale** of virtually all affordable housing solutions. Chief among these barriers are **land rights, access to finance, limited cross sector collaboration and policy environments** not conducive to advancing affordable housing solutions.

- Several older and more scaled initiatives have scaled in part due to **creative approaches to tackling** one or more of these **key barriers to scale.** These approaches offer key insights for market-based and subsidized efforts to advance the development of affordable housing solutions and markets.

Major Actors In Affordable Housing

Each of the solutions profiled as a part of the Access to Affordable Housing report, are comprised of several types of actors, which span private sector, social sector and public sectors. Several actors such as CSOs, public sector agencies and finance providers are common to new home as well as home improvement solutions.

Defining Key Concepts

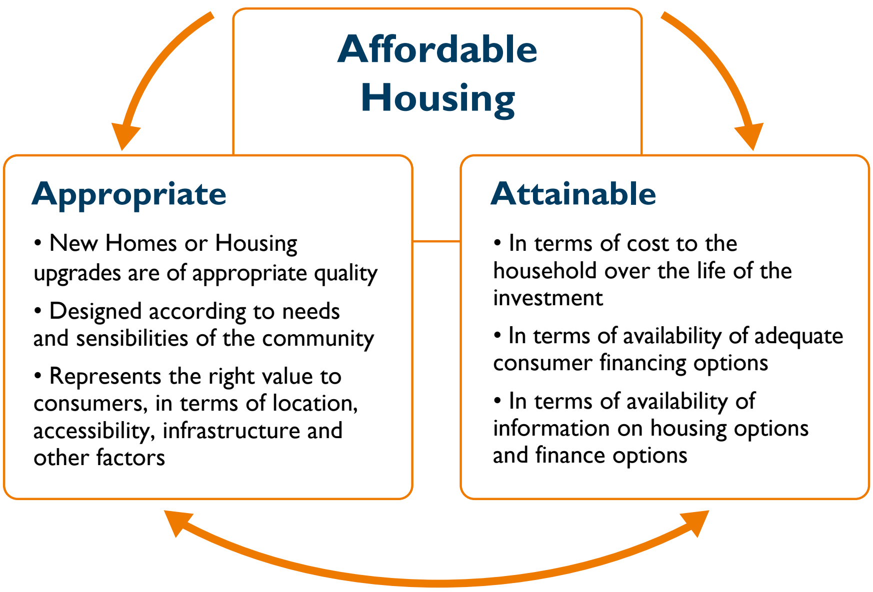
What Is Affordable Housing?

Most developed countries employ a commonly accepted cost guideline for affordable housing; that a home should cost no more than 30% of a household's gross income over the term of the investment. (KPMG 2010). There have been few attempts to define affordable housing in the context of housing solutions for low income communities in developing countries that account for nuances outside of cost.

Although it is often considered so, affordable housing in this context is not simply cheap or low cost housing. Rather it is housing, or housing upgrades that are **appropriate** to BoP populations, and **attainable** by the BoP.[3]

Not all low-cost housing solutions are affordable, i.e. --attainable or appropriate-- for the BoP, as evidenced by multiple examples of government subsidized housing that remain under-occupied by the populations for which they were intended. Conversely not all affordable housing solutions are low cost solutions either. Some are high cost interventions that are made affordable and attainable only through the application of subsidies. This report does not focus on such solutions.

Another important distinction; creating an affordable housing solution for the BoP does not necessarily imply a reduction in quality. In fact the most appropriate solutions carefully balance quality and affordability, cutting costs by incorporating sweat equity of the low-income communities or through creative design and long-term cost savings solutions.



3 A similar approach to defining affordable housing is adopted by UN-Habitat. Their approach focuses on "the generation of housing opportunities rather than houses, meaning that emphasis is laid on measures that enable individuals, households and various social groups to have access to a range of housing inputs that may result in a dwelling that suits their needs, demands and ability to pay. (UN Habitat, 2009)

Commonly Used Terms and Acronyms

INITIATIVE/ ORGANIZATION	ACRONYM	DESCRIPTION
Citizen Sector Organization	CSO	Interchangeable with non-governmental organizations (NGO) or non-profits or voluntary sector, Ashoka has coined the term Citizen Sector Organization to refer to all initiatives, from grass roots to multilateral that emerge from the social/citizen sector
Microfinance Institution	MFI	Financial institutions that provide financial services to low income populations, such as loans, savings, money transfer services and micro insurance. Originally highly reliant on social collateral, micro finance models have now evolved considerably to include individual lending and are emerging from diverse players including CSOs; cooperatives; community-based development institutions like self-help groups and credit unions; commercial and state banks; insurance and credit card companies; telecommunications and wire services; post offices; and other points of sale. (www.cgap.org)
Hybrid Value Chains	HVC	Innovative operating frameworks, and strategic collaborations between private and citizen sector organizations that have the capacity to transform markets by leveraging the strengths of these distinct actors.
Base of the Pyramid	BoP	The term used to characterize the world's population living on less than USD 3000 PPP in 2002 USD as the per capita, the rough daily equivalent of $3 per capita per day. (Hammond et al. 2007). BoP is used interchangeably with low-income communities in this report.
Housing Finance Institution	HFI	Emerging class of financial institutions specializing in housing finance. Those working with low income populations model the practices of MFIs.
Home Improvements		Synonymous with "incremental ugrading" or "self built" or "progressive" housing.
New Homes		New homes, as described in this report, are typically multi-unit housing developments, designed and priced for low income communities, with at least minimal levels of infrastructure, and clear transfer of title to low-income clients that purchase these homes.

Delivering New Home Solutions

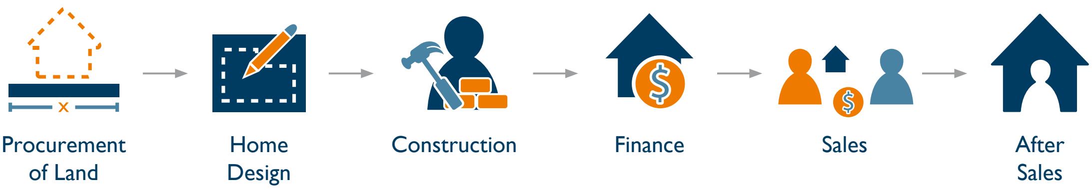
New homes, as described in this report, are typically multi-unit housing developments, designed and priced for low income communities, with at least minimal levels of infrastructure, and clear transfer of title to low-income clients that purchase these homes.

Creating new homes solutions that are responsive to the needs of low income communities is challenging work. There are high costs for first movers in this space as they work to construct multiple stages of their value chain– from securing land, to promoting the new homes to providing the end user finance. (Ashoka, 2008).

The complex and situational nature of the activities required typically imply that no one player can manage these functions. Rather, the dynamics of the new homes value chain indicates that concerted efforts between multiple parties are required.

Below is a look at the challenges faced at various steps along the new homes value chain, and corresponding needs.

Delivering New Homes: Challenges and Needs



Challenges

Procurement of Land
- Limited affordable contiguous land
- Limited infrastructure and utilities
- Limited land close to work opportunities
- Lengthy cumbersome processes for approvals for construction/ purchase of land

Home Design
- Limited experience designing homes for BoP needs

Construction
- Limited opportunities for bringing down construction related costs, without deeply compromising quality
- Wastage and inefficiencies are proportionally more detrimental to margins (due to lower cost of homes)

Finance
- Lack of consumer mortgage financing options for clients
- Limited information on client credit worthiness
- High transaction costs for relatively small mortgage amounts

Sales
- Difficult to reach disaggregated consumers to sell a number of new home developments
- Difficult to communicate offerings due to lack of understanding of client values and/or trust and credibility issues
- Client engagement is a multi-step process, including education, marketing and often guiding the client through acquiring finance

After Sales
- Limited capacity of low-income communities manage upkeep of common areas

Needs

Procurement of Land
- Requires government collaboration for extension of infrastructure
- Greater transparency in approvals processes

Home Design
- Design must take into account social dimensions of BoP (community space, space for income generation activities)
- Requires input from the community and CSOs representing them

Construction
- Greater efficiencies in construction processes
- Incorporate community resources and labor where possible, allowing sweat equity to contribute to purchase price

Finance
- Finance providers with lower cost structures and adapted processes for BoP client acquisition
- Apply benefits of standardization where possible

Sales
- Direct sales and marketing to low income communities by those trusted by potential clients (i.e. community members or CSOs)
- Complementary services to clients, assisting them with livelihoods/financial access

After Sales
- Funded and established mechanisms for upkeep of community areas and routine repairs
- Community capacity building

The Market-Based Cases

After an extensive review of over 70 housing solutions, we identified geographically diverse cases titled Market-Based Cases, of which two are included here. These cases are termed as "market-based" due to two primary criteria:

• The initiative delivering the new home solution is not highly subsidized

• The client purchasing the new home pays market value for the purchase

From these Market-Based Cases, which illustrate promising approaches to delivering new homes, we surfaced some key cross cutting themes. Apart from context specific factors, we identified four key barriers that, according to the practitioners involved in these cases, restrict the scale and replicability of their solutions.

These Barriers are:

1. The lack of access to clear and secure land title (hereafter, Land Rights)
2. The lack of access to appropriate finance options for low-income clients (hereafter, Finance)
3. The lack of access to a policy environment supportive of affordable housing markets (hereafter, Supportive Policy)
4. Limited collaborative and cross-sector collaborative action

Housing For All - India

Executive Summary

Ashoka's Housing For All (HFA) Initiative, supported by the Hilti Foundation,[1] works to catalyze sustainable and scalable new home and home improvement solutions for low-income communities. It does so by advancing business models for collaborative action between private and social sector actors capable of delivering solutions in this sector.[2]

Launched in 2008, HFA[3] India **brings together real estate developers** with access to land and capital; **Citizen Sector Organizations (CSO)** with the ability to aggregate demand in target communities; and **housing finance institutions** willing to lend to low-income clients. All partners benefit from these engagements: low-income communities buy affordable new homes with options to finance mortgages and down payments, real estate developers and finance institutions gain new clients, CSOs receive a fee for their services and further their objectives to help communities through providing access to housing solutions.

Beneficiary families have, on average, 5 family members collectively earning an average income of USD 6-10[4] per day. Low-income clients assume a mortgage against their new homes and repay regular loan installments to the finance provider. New home developments are designed with a long-term commitment to community needs, notably through: 1) maximizing space utility according to the lifestyles of the target customers; 2) creating common spaces that preserve the social dynamics of low-income communities; and 3) in some developments, including the designation of physical space for CSO resource centers where capacity building activities such as training for livelihood development is provided.

STAKEHOLDERS	CONTRIBUTED	GAINED
REAL ESTATE DEVELOPERS	Land procurement, delivery of complete housing units	Access to new markets, CSO marketing partnerships, cash flow benefits of shorter term and pre-sold developments
FINANCE PROVIDERS	Consumer finance for low-income clients	Access to new client base and opportunities to cross sell; support from CSOs
PROJECT MANAGEMENT COMPANIES AND ARCHITECTS	Technical expertise, design innovation	Opportunity to work on innovative design challenges, new market expertise
COMMUNITY ORGANIZATIONS	Knowledge of target population, network of potential clients, input on appropriate design for homes and developments, community and livelihood generation projects	Service fee for sales and marketing; opportunities for equity and diversified revenue streams; ability to extend housing to clients
LOW-INCOME CUSTOMERS	Demand for new homes	Titled and design customized new homes with access to basic utilities; continued support from CSOs

PROJECT DETAILS

Geography:

India, Gujarat; Ahmedabad (more cities in pipeline). Other HFA projects in Colombia, Brazil and Egypt

Product:

New homes in new apartment developments

Stakeholders:

Private: Real Estate Developers: Santosh Associates, Vintron, DBS. CHL (Community Housing Limited) - construction management company and KSA DPS - architecture and design

Finance: SEWA Microfinance, Micro Housing Finance Company, GRUH Finance, Dewan Housing Finance Ltd.

Social: SAATH and Mahila Housing Trust (Self Employed Women's Association, SEWA)

Currently, four projects (all in Ahmedabad) are in various stages of development, with the first expected to be complete at the end of 2010. Roughly **2500 units are on offer for low-income customers across the 4 projects. All projects are scheduled for completion by the end of 2011.**

Twenty five units[5] in the first development have been sold to low-income communities. Advance bookings (through payment of a deposit of below 5% of the value of the home) in the other three projects are ongoing and were at 1540 at the time of writing. **Loan disbursements for mortgages are also ongoing, with 670[6] loans originated to date.**

While pre-bookings look positive in early stages of the projects, the degree to which low-income communities are able to assemble necessary down payments, and can access and then repay mortgage financing over several years, remains to be seen.

The Business Model

Partnership: CSO and real estate developers

As of mid 2010, the above actors are engaged in three kinds of partnership models to deliver a total of 2500 new homes to low-income communities by end of 2011.

1. CSO is engaged as one of many possible marketing agents by the developer and receives a commission for units sold.

2. CSO is an exclusive marketing agent for a period of time and receives commission. In one of the iterations of this partnership model in India, the partner CSO founder has assumed a position on the developer corporation's Board. This ensures greater planning and design input by the CSO to represent the client needs in the development of homes and after sale of homes.

3. CSO and developer corporation are formally engaged in a for-profit joint venture allowing equitable distribution of risk and returns.

These varying partnership dynamics are complemented by the services of finance providers, architects and project management companies to enable target clients to purchase high quality affordable homes.

THE STORY OF SUNITA KANHAYALAL

Sunita lives in a small one-room house in a slum in Indiranagar, 15 km away from the city of Ahmedabad in Gujarat, India. She has been living there with her husband and two sons for more than 10 years, earning her livelihood by working as an attendant at a bank for the past decade.

Now that her sons are grown up, and are wage-earners themselves, the family – which is increasingly crowded in their one-room space – has the capacity to afford a bigger home. Owning a home, a secure asset, has been a longtime dream of Sunita's. However, there was neither a home on the market that she could afford, nor did she have access to financing options which would allow her to consider such a large purchase.

Today, her situation is much different. Sunita has made an advanced booking for an apartment with an Lambha HFA India project, and will soon realize her dream of owning a home with more space for her family and better facilities. The home costs USD 9050, and she is in the process of being approved for a mortgage loan that will have her paying roughly USD 85 per month for 15 years.

Sunita was made aware of these affordable housing options through the work of community organizations who market these units. The community organizations also build the capacity of would-be customers like Sunita, through livelihood training, access to government resources and other services.

Sunita Kanhayalal, HFA India client, soon to move into her new home.

Photo by: Elisabeth Real

Sales and Marketing: Aggregated demand through CSOs

CSO partners play the role of marketing agents who aggregate demand for the developer as well as the finance providers involved in the project. They market new homes to low-income clients through various channels which include existing physical spaces organized by the CSO to address several needs of the community, and direct marketing managed by field workers.

Photo : Ashoka

A typical slum home, Ahmedabad India

Financing: New Market, New Products, Many Unknowns

Housing finance for low-income communities is a relatively nascent market in India. HFA India works with several lenders from MFIs to commercial banks who are all on a learning curve in terms of defining products and services responsive to this market, which are in line with their cost structures and business models.

At the time of writing, 670 loans[7] were originated, supplied by lenders at a maximum Loan to Value (LTV) of 80%. Loan amounts range from INR 300,000 to 600,000 (USD 6500-14,000), with a tenure of 15 years and at interest rates ranging from 12% to 14%. Average monthly payments amount to roughly INR 3000 to Rs 6000 (USD 65-140), and typically range from 35% to 40% of a household's monthly income.

Photo : Ashoka

New housing development site, Ahmedabad, India

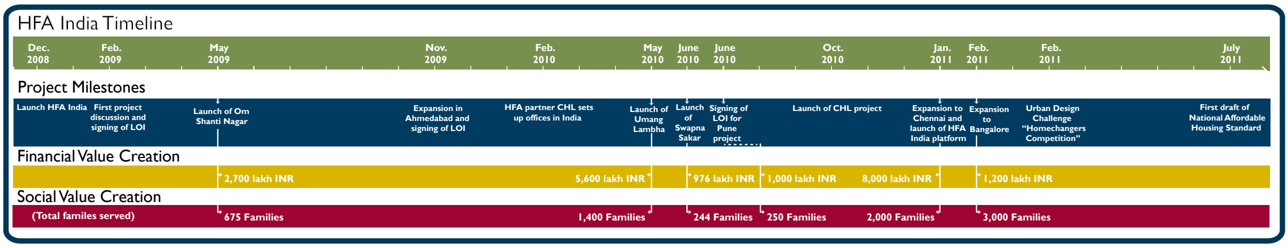
Several potential buyers of homes, though confident of their capacity to pay monthly installments on a home mortgage, experience difficulty accumulating the nearly 20% down payment required to originate a mortgage loan.

Today, finance providers including MFIs housed within partner CSOs, are looking to provide shorter-term loans to finance specifically this down payment. On the one hand, short term financing along these lines might be looked at as necessary to enable low-income families to buy these homes. Conversely, conventional financial wisdom, which cautions against extending finance beyond 80% loan to value on a home, suggests that doing so would excessively increase the defaults on loans. The years to come will demonstrate the appropriate balance of short term and long term finance and whether customers are able to afford down payments and the mortgages they take on.

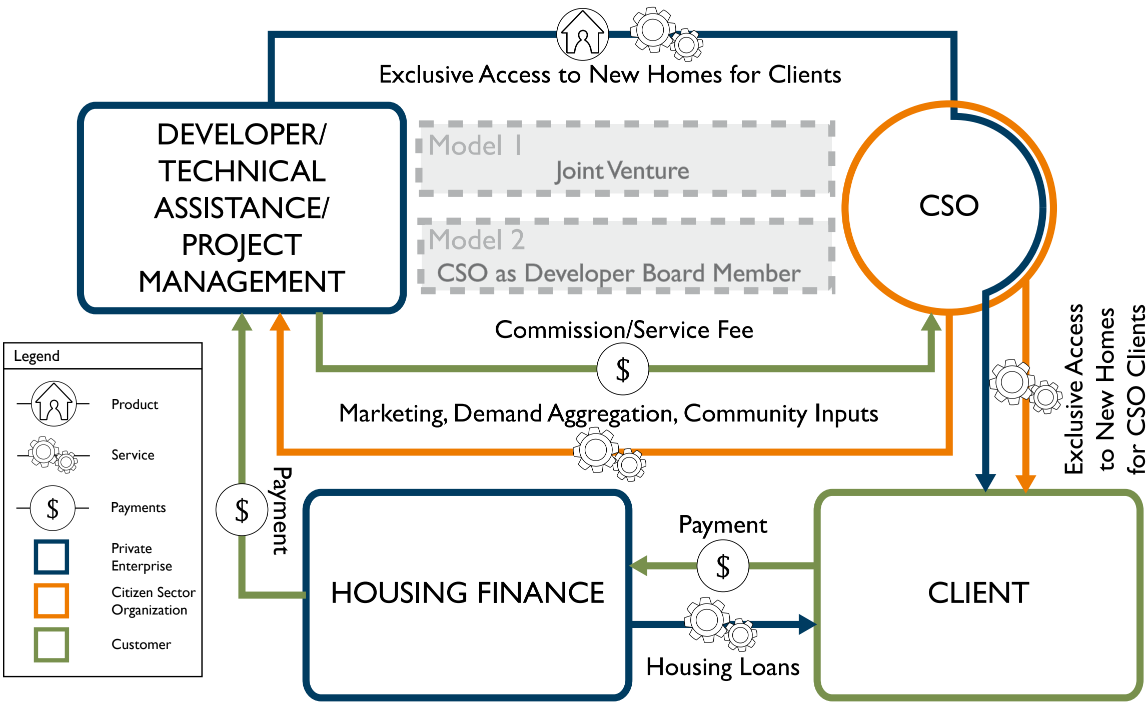
Photo : Ashoka

New housing development under construction for low-income clients in Ahmedabad, India

HFA India Timeline



HFA India Operations



HFA India Value Chain

PROCUREMENT	PROJECT FINANCE	PRODUCT DESIGN	PRODUCT DEV	MARKETING AND SALES	RETAIL FINANCE	AFTER SALES
• Developer acquires land and subcontracts procurement of building materials	• Various avenues including **developer's revenues, CSO investment, commercial finance and private investors**	• **Developers work together with CSOs and architects to design developments**	• Developer and developer/ CSO JV partnership sub contracts construction process	• **Direct sales to families through CSOs engaged as marketing vendors or partners with developers**	• Mortgage financing provided by HFIs. MFIs provide loans for down payment	• **Livelihood generation and community services support by CSOs in collaboration with the developers**

Social Sector Actors

Private Sector Actors

Evaluation Framework

Is the solution SOLVING THE PROBLEM?

Through collaborative entrepreneurship models, HFA projects provide affordable and quality homes with clear title and access to basic services (water, electricity, sewage etc) to a small number of BoP families. In doing so, these projects illustrate successful business models to scale affordable homes for low-income populations.

Problem Magnitude

• 17 million households live in slums[8] in India.

• Deficit of 24.7 million units corresponding to 35% of urban population.[9]

Quality of Solution

• Well designed apartments with access to basic services and good quality material used for construction.

• CSOs and clients' input on design to ensure optimal utilization of common and individual spaces.

• Maintenance not yet addressed: either administered by the developer, or CSO-led, or resident-managed.

Housing Impact - The Numbers

• 1540 families booked apartments in 4 new home developments of average unit size of 300 sq ft[10], first of which will be completed at the end of 2010.

Housing Impact - Quality of Life

• Pride, elevated social status and physical and financial security from owning a home and leverage-able asset.

• Expected improved quality of life and productivity for beneficiaries, due to legal and organized access to basic services like water, electricity and physical security, and functional common spaces.

• Expected improved health outcomes due to improved sanitation conditions, access to sewage and safe structures.

• Expected improved access to social infrastructure such as educational centers and community centers, which are likely to follow housing developments.

Is the solution ECONOMICALLY VIABLE?

Partnerships catalyzed by HFA India tap new, profitable market opportunities for developers and finance providers. They also bring new revenues to CSOs, while allowing low-income customers to afford a home purchase.

Solution reaches the upper segment of the BoP. However, resulting new homes are a significant and difficult investment for even the upper BoP.

• 1 to 3 minimal incomes (~ USD 1-2 per person per day) per beneficiary family of 5.

• Customer receives loan for 80% of home value (USD 6,500-14,000) over a 15 year term, at 12-14% interest rates, i.e. monthly installment of USD 65-140, typically representing roughly 30-35% of a household's monthly income.

• A previously absent affordable housing product for the upper BoP is now available in the marketplace and has the potential to stimulate positive market competition and potentially lower the prices.

• Advanced booking fees have been withdrawn by roughly 20-30% of potential customers to date.[11] It is estimated that most of these withdrawals have to do with the difficulty in assembling the 20% down payment.

For real estate developers, while low-income housing developments are a lower margin venture than upper scale developments, several factors make these ventures comparable in terms of returns on investment.

• Potential lower cost of capital, due to several possible sources of investment for affordable housing projects, including social investor funds, or subsidized funding.

• Margins reduced to 16-25%[12] as opposed to a regular 30-60%, but comparable or higher return on investment due to advanced volume based sales of units by CSOs and availability of down payment funds before project completion.

• Large market potential with few existing competitors.

• Real estate developers gain first mover advantages and form relationships with strong CSOs which form significant barriers to entry for later entrants.

Is the solution ECONOMICALLY VIABLE?

CSOs benefit from additional revenues and value created for communities.

• CSOs compensated for marketing and promotion costs through their networks, while they build further skills and competencies working in partnership with private sector players.

• CSOs also paid 1-2% commission for every unit sold through their networks.[13]

• CSOs extending to their beneficiary populations, a customized home offering without bearing related development costs.

While the housing projects of HFA India are not subsidized by donor funds, the CSO partners of these models utilize grant funding for general operations.

Is the solution SCALABLE AND REPLICABLE?

Because it leverages the competencies and motivations of players that exist in the market (developers, financers and CSOs), this model requires each player to invest resources (available land, finance, etc) in order to scale up.

The following circumstances constrain HFA India projects' ability to scale:

• Unfavorable policy environment with tedious and corrupt channels for construction permits delaying project timeline, a critical factor in optimizing cash flow and maximizing thin profit margins.

• Scarce access to affordable land to build residential sites in the urban areas, especially land with access to public infrastructure.

• CSOs and private sector partners unaccustomed to the others' social versus business mindset and work culture, necessitating time to learn to work together.

• Limited interest on the part of private sector developers due to lower margins, limited awareness and lack of confidence in market size and prospects.

• Limited capacity of finance providers and lack of adequate finance products for financing requirements of informal borrowers.

• Low income communities' hesitation with advanced sales before completion of actual physical structures, which is an important condition for acceptable return on investment for developers.

To be replicated, this model requires finding the right set of partners, willing to tackle this market and work together, as well as collaboration with the public sector for infrastructure and approvals. Replicability depends on:

• The Ability to find:

1) Willing private sector developers interested in this market opportunity.

2) CSOs with deep knowledge of communities and complementary marketing, training and demand aggregation competencies.

3) Diverse finance providers with willingness and capacity to finance short and long term capital requirements of low income communities who may not have formal documentation of income.

4) Architects with a keen sense of design for low income communities and ability to incorporate community input.

• Players who take on a role similar to Ashoka's involvement, convening disparate stakeholders with varying agendas around a complex, and potentially beneficial market opportunity.

• Favorable policy environment which does not distort the market (for e.g. a policy framework that provides free land to all slum residents is not conducive to market sales of units).

• Cooperation from government for approvals and provision of external infrastructure (access roads, public transport, water and electricity supply).

Is the solution ENVIRONMENTALLY SOUND?

Environmental sustainability is not articulated as a primary goal of the HFA program.

Postscript

Future subsidies possible, with potential impacts on price

Subsidies of INR 200 (USD4.50) per sq foot[14] are available from the state to real estate developers addressing the needs of low-income populations. These subsidies are yet to be realized and incumbent on developers to pursue with the state. Should they be successful in realizing these subsidies, the impact on sale prices of homes, and whether savings will be passed on to customers remains to be seen.

Scale through advancing knowledge and standards

With a clear understanding that prospects for scale and replication are impacted by the project and context specific constraints mentioned above, Ashoka invests resources in the development of industry standards, tools and knowledge platforms which promise implications for a wide range and variety of contexts. Among its initiatives, are collaborations with diverse stakeholders towards a national (Indian) affordable housing standard which aims to codify energy, quality of construction, design and environmental standards for affordable housing. In an effort to promote increased knowledge sharing and the development of web based tools for a variety of stakeholders to assess market opportunities, Ashoka is launching a global Housing For All Knowledge Platform in April of 2011, intended to be an online community and resource center for various stakeholders to assess market opportunities.

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1 A joint initiative of the Martin Hilti Family Trust and the Hilti Group, based in Liechtenstein, the Hilti Foundation supports various initiatives with the common theme of empowering people to help themselves. http://www.hiltifoundation.org/Home.aspx

2 Housing for All initiatives are active in Brazil, Colombia and Egypt.

3 Ashoka and the Hilti Foundation do not provide any financial support to implementing partners who deliver housing solutions. While Ashoka Fellows are involved in HFA India projects, they no longer receive funding or stipends from Ashoka.

4,5 Interview with Vishnu Swaminathan, Director HFA India, September 1, 2010

6 Total number of loans disbursed as of September 6, 2010

7 Details of loan figures from interview with Vishnu Swaminathan, HFA India Director, September 1, 2010

8 McKinsey Global Institute, Housing Policy and Urban Planning in India, pg 59 & 119

9 McKinsey Global Institute, Housing Policy and Urban Planning in India pg 119

10 Interview with Vishnu Swaminathan, HFA India Director, September 1, 2010

11 Interview with Rajendra Joshi Managing Trustee SAATH, June 30, 2010

12, 13 Interview with Hemant Parikh, Managing Director V Worldwide Group June 28, 2010 and Manish Pancholi, CEO DBS Affordable Home Strategy Ltd June 29, 2010

14 Interview with Hemant Parikh, Vintron, June 28, 2010

Jamii Bora

Executive Summary

With more than 300,000 members, Jamii Bora[1] (JB) is the largest microfinance institution in Kenya.[2] Beyond micro credit, the organization provides savings accounts, life and health insurance, counseling services focused on community capacity building, business classes and larger ticket housing loans.

Leveraging its assets as a micro finance institution and its experience delivering a host of services to its members, JB launched its affordable housing initiative in 2002. It did so by purchasing and delivering private land[3] 60km outside of Nairobi. Its vision was to create a complete ecosystem that would provide its members with residential, commercial and social services.[4]

Each resident of this new town, called Kaputei, purchases new homes and therefore access titled land and infrastructure. All residents are existing JB clients who have a strong borrowing history with the MFI and are either entrepreneurs or can support local entrepreneurs. JB is the exclusive provider of financing for purchase of these homes.[5] Cost of homes depends on how long the client has been a member of JB and can range from 350000 KES(USD 4320) for those who have been members over 10 years up to 750000 KES (USD 9375) for newer members.

STAKEHOLDERS	CONTRIBUTED	GAINED
JAMII BORA	Provides homes, land tenure, commercial properties, loans for their purchase , infrastructure, community centers	Home loans are a new line of products cross sold to existing clients; additional revenues from rent on commercial units
PRIVATE FUNDERS (e.g., Acumen Fund, Stromme Foundation)	Provide funding for the project	Equity; Interest Income, Impact investing related social value
HOUSING PROFESSIONALS (e.g., architects, engineers, professors)	Technical, environmental and construction knowledge	Service fee for technical advice, knowledge of a new market segment
INDUSTRIAL / COMMERCIAL ENTERPRISES	Jobs to Kaputei residents, rent for offices	Labor and new markets
JAMII BORA MEMBERS	Demand for housing, construction labor	New homes, additional income through construction jobs

PROJECT DETAILS

Geography:

Kaputei Town, Kenya 60 KM outside the city center of Nairobi

Product:

New homes in new township

Stakeholders:

Private: Construction and Environmental Experts (e.g., architects, engineers, professors, and road builders); Funding Partners
Social: Jamii Bora
Finance: Jamii Bora

In total, JB plans to include 2000 new homes (for 10000 individuals), cultural and social centers, and commercial/ industrial areas in Kaputei. Total cost is estimated to be KES 900 million (USD 11.25 million), half for residential development and the other half for commercial development. Construction costs have been reduced through standardized design, local manufacturing of building materials and construction of homes by residents who are paid by JB. The project is financed through private loans, JB company savings and consumer down payments, with minimal funding through donations.

Kaputei is still under construction[6] as legal protests[7] from local environmental NGOs and neighboring towns have delayed the process. As of September 2010, **two neighborhoods, encompassing ~500 homes in total, have been built and ~200 are under construction. Residents are moving into completed houses on an ongoing basis.[8] Some families, that have already bought homes, have delayed their move due to personal considerations of distance to work, and impact on businesses**. JB has also opened two schools in Kaputei — a primary school in January 2009 and a secondary school in January of 2010.[9] Management expects the township to be completed early 2012.[10]

With a current waitlist that far exceeds the available homes, JB is in negotiations for the purchase of additional land to create another township. As the company continues to expand, JB believes it must actively manage its costs, while looking for innovative ways to increase quality and service for residents.[11]

The Business Model

Several features of the JB operating model, including engineering in-house materials production, implementing a standardized manufacturing process, and leveraging its existing client base and sales channels, have allowed JB significant cost reductions in delivering homes to low-income households.

Procurement: Cutting costs through making building materials on-site

JB evaluated and reduced multiple cost drivers in the procurement of raw materials. First, JB bought cheap land near the township to extract the raw gravel needed for construction. It also built a temporary, basic factory and hired

Jane Ngoiri and family members in her new sitting room

Photos : Jamii Bora

THE STORY OF JANE NGOIRI

Jane Ngoiri outside her new home in Kaputei

Jane Ngoiri, a third generation slum dweller, lived in a small one bedroom shanty in the Mathare slum of Nairobi, along with her four children. Her home was a 6 square meter, mud structure. A half complete wall divided her home from her neighbor's, who made a living from the illegal brewing of alcohol.

Jane was a commercial sex worker who had been struggling for many years to support her family when she found out that she was HIV positive. In late 1999, it took the Mathare branch manager, Jane Njoki, several months to convince Jane and her colleagues that another life was possible for them. The entire group decided to become Jamii Bora members in December 1999 and their lives slowly but surely changed.

Jane took sewing classes and started her own tailoring business. She buys old clothes and recycles them into children's dresses for sale. She purchased her first simple second hand manual sewing machine with a loan of USD 40 from Jamii Bora.

Jane's business is growing and she has taken out and repaid Jamii Bora loans 11 times over the past 10 years. However, even with a relatively stable income, an improved home remained unrealized dream. Given her profile as a HIV positive former-sex worker with no formal income or official address, commercial banks would not consider her a candidate for a home loan.

In 2002, Jane turned to Jamii Bora for a home loan for a house in Kaputei. Given her strong track record with previous business loans, Jamii Bora accepted her loan application in 2008. It took Jane six years to save enough for the down payment of 10% (USD 440).

Today, Jane lives in a two bedroom home in Kaputei. She has a kitchen, a bathroom, a sitting room, two bedrooms, a garden and enough space to sew and grow her business. She pays USD 40 a month, which is not much more than what she paid for rent in Nairobi.

Jane says she is proud to be a home owner and she thanks God every day for the miracles that have happened in her life. She says that even though she is HIV positive, she is determined to live to see her children grow up and also wants to see her grandchildren.

members to produce cement blocks and roof tiles, saving on both labor and transportation costs. On site production costs were KES 30 per block and KES 17 per tile, whereas purchased machine cut blocks would have cost KES 28-35 each plus KES 4,000-8,000 (USD 50-100) in transport.[12] The factory has also provided jobs to over 100 JB families, improving their ability to pay back loans.

Sales and Marketing: Cross selling to entrepreneurs with strong credit history

JB leverages its existing sales channels to cross sell new housing loans to its base of approximately 300,000 clients across Kenya. Housing loans are approved for clients who have a minimum three year engagement with JB and successful repayment of at least three business loans. Those eligible for home loans in Kaputei are either proven entrepreneurs or hardworking individuals who can support the work of entrepreneurs. JB proactively selects entrepreneurs who can either provide goods and services to the town (e.g., food shops), who can serve the surrounding areas (e.g., carpenters), or have outgrown their current business space and need bigger homes or the commercial area of Kaputei.[13] However, several entrepreneurs are hesitant to move to Kaputei until a critical mass of residents moves in, to support their businesses and electricity (currently solar powered) is provided as a utility.

> "Cutting costs in a low cost housing project is a combination of hundreds of aspects of building materials production, designs and construction methods, lay-out plans etc. There are no shortcuts or simple solutions to cutting costs. Every little detail counts, and only the sum of all these minor savings can lead to a solution that is truly and affordable home for the poor."
>
> – Ingrid Munro,
> Founder and Managing Trustee,
> Jamii Bora

Product Design and Development: Professionals working with the community on standardized homes

To ensure quality construction, JB hired professional architects, engineers and professors to design and oversee the construction of the township, in consultation with residents.

With an emphasis on cost cutting, these hired professionals developed several standardized home layouts that could be mass produced, and involved simple, low tech construction processes and could leverage cost savings through scale. Each home was built with either 2 or 4 bedrooms, a kitchen, sitting room and bathroom.[14] Homes are basic and finishings are minimal, as emphasis is placed on structural soundness, quality and space efficiency.

Initially, Kaputei did not have access to government utilities, which necessitated the provision of basic services through alternative means, for example through solar panels on homes. JB recently began working with Kenya Power & Lighting Company to bring electricity to Kaputei. To address the water consumption needs of the community, University of Nairobi professors were hired to conduct a hydro-geological study. They found a water source at a depth of 85 meters and boreholes were drilled to create a hydro-pump system. Additionally, hybrid wastewater management systems have been implemented to recycle 70% of water utilized in Kaputei.[15]

Financing: Installments roughly equivalent to slum rent, covering construction costs

As a microfinance organization leading an affordable housing initiative, JB offers financing to all of their home buyers. Each client receives a loan with a tenure of 5-20 years and an interest rate of 8.5-10%.[16] Clients make a down payment of 10% of the total cost of KES 350000 to ~700000 (USD 4,375-8,750) and the average monthly installment is KES 3,500 (USD 40).[17]

Through lowering its own cost of capital by utilizing patient capital from its investors, JB offers a low interest rate to its clients. Combined with an increased tenure as compared to other microfinance loans offered, monthly installments work out to amounts similar to what residents formerly paid as rent in Nairobi slums.[18]

The purchase price of the home covers all construction costs of the home (roughly KES 150,000 / USD 1,875 for 2-bedroom), 50% of infrastructure and land cost (KES 75,000 / USD 938), and a modest margin.[19] The remaining 50% of infrastructure cost is covered through rent payments from commercial and industrial space.

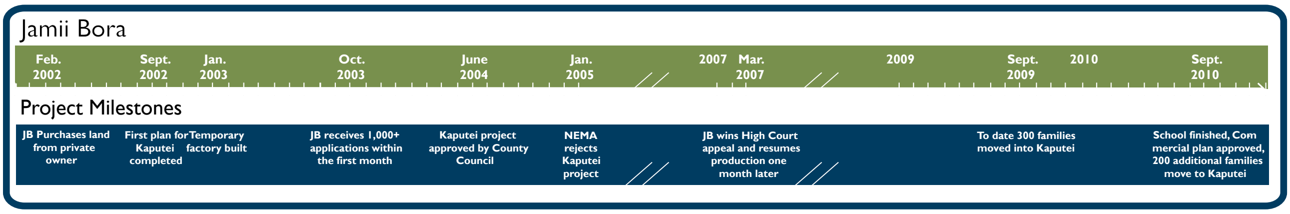
"Housing projects for the poor fail because they focus only on housing. You can't separate housing from the other issues because poor people have so many needs. Poverty has to be tackled from all angles."

– Ingrid Munro,
Founder and Managing Trustee,
Jamii Bora

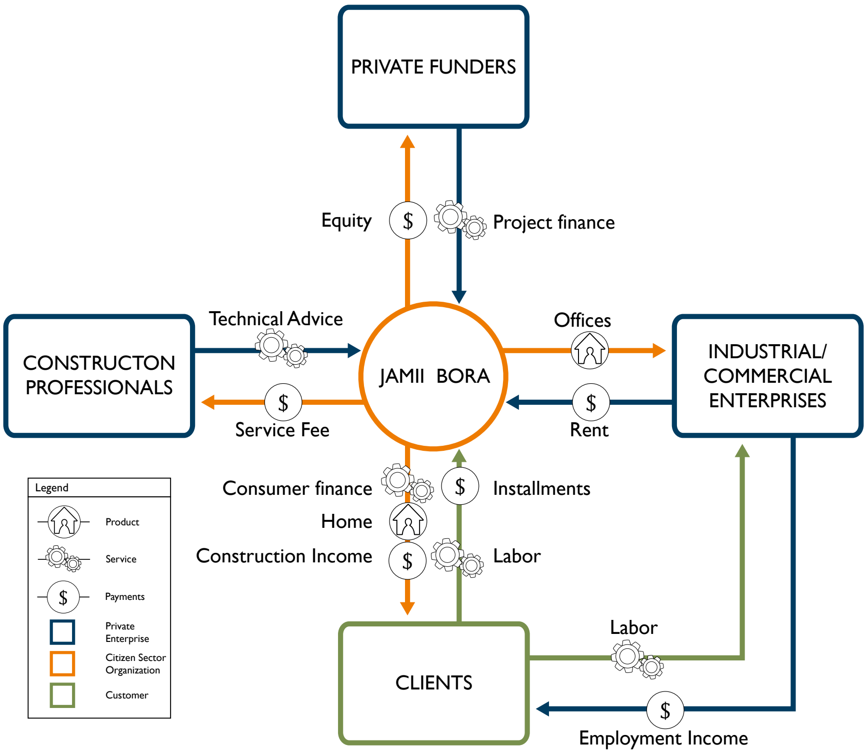
Aerial shot of Kaputei Township under construction

Photo : Jamii Bora

Time Line



Jamii Bora Operations



Jamii Bora Value Chain

PROCUREMENT	PROJECT FINANCE	PRODUCT DESIGN	PRODUCT DEV	MARKETING AND SALES	RETAIL FINANCE	AFTER SALES
• **JB set up local factory to mass produce tiles and cement blocks**	• **Project financed by consumer down payments, JB Trust and private loans**	• **Professionals design the standard, green community with the residents' input**	• Professionals supervise and oversee quality of contruction; **local residents, most of whom are JB members, build homes**	•**Advertisement to current members and approval of those with strong credit record and livelihood opportunities in Kaputei**	• **JB provides housing loans at 8.5-10% interest for up to 15 to 20 years**	• JB provides community maintenance •**Commerical center provides livelihood to residents**

Social Sector Actors

Private Sector Actors

Evaluation Framework

Is the solution SOLVING THE PROBLEM?

Jamii Bora is providing quality home solutions with titled land to microfinance members by taking a comprehensive approach to low-income population needs. Impact so far has been small as the project is in mid stages of construction.

Problem Magnitude

- ~1.5million slum dwellers in Nairobi and 7.5 million in Kenya.[20]
- Many households (~6 members each) live in a single room without security of tenure.
- ~ 94% of Nairobi's slum dwellers are without access to adequate sanitation.

Quality of Solution

- Design and oversight of home construction by professional architects and engineers, with quality control on each home.
- Extensive consultations with potential residents to ensure needs are addressed.
- Inclusion of commercial space for entrepreneurial businesses and livelihood generation.

Housing Impact - The Numbers

- Over 2000 JB member applications for a home in Kaputei.
- 470 homes built and families served.
- 50 entrepreneurs currently working in township, providing jobs to other members (working from residential homes at time of writing, as commercial center is not yet built).

Housing Impact - Quality of Life

- Ownership of a home and land title, a leverageable asset, is an immense source of physical and financial security and pride, elevating social status.
- Expected increased health outcomes due to improved sanitation conditions, access to clean water and sewage systems.
- Expected improved productivity outcomes due to increased space for livelihood activities and solar lighting increasing productive hours.
- Expected improved education outcomes due to community access to new resources like nursery schools, playgrounds, sports facilities, library and communal halls.

Is the solution ECONOMICALLY VIABLE?

The Kaputei Town Housing Project is a viable model for Jamii Bora, investors and involved stakeholders. The provision of finance for purchase of homes makes this solution a viable one for BoP communities in Nairobi desiring home ownership.

Slum dwellers pay roughly the same installment as their previous rent.

- Client families live in the Nairobi slums, paying average rent of KES 3500 (USD 40 for 2-bedrooms), roughly equivalent to installments in JB program.
- Typical client family earns between USD 80 to USD 200 per month.[21]
- Client acquires loan for 90% of home value (KES 350,000 to 700,000 ie USD 4,375-8,750) over a 5-20 year term, at 8.5-10% interest rates.
- New homes result in increased incomes for some residents who are employed by JB in home construction.

Jamii Bora is striving for financial sustainability, ensuring loan repayment through selection of creditworthy clients.

- In 2010, JB repaid in full a USD 250,000 loan to Acumen Fund.
- Purchase price of homes allows break even on each home, land plot and related infrastructure.
- JB charges fees for additional services offered by JB to residents (e.g., schooling, electricity, township maintenance).
- Credit extended at low rate of 8.5-10% made possible by a mix of funding sources including company savings, member deposits, and down payments.
- Home loans granted only to creditworthy JB members (minimum 3 years as JB clients, at least 3 loans already repaid, capable of 10% down-payment).[22]

Other stakeholders benefit from additional revenues and value created for communities.

- Fee for service for housing and environmental experts, architects etc.
- Local entrepreneurs access new revenue streams and ability to expand business/revenue with additional work space.
- Jobs created for 100+ JB members and local Maasai community.

The solution is economically viable and is not reliant on subsidies. Clients pay the full cost of the home, land and related infrastructure. Additional programs such as the school and other facilities are subsidized by JB.

Is the solution SCALABLE AND REPLICABLE?

Jamii Bora's ability to scale is constrained by a lack of partnerships and access to funds:

• Limited amount of funds for disbursable loans due to lack of access to funds with low cost of capital and long term maturity.

• Difficulties convincing would-be BoP clients to relocate outside the city, especially to new townships, before a critical mass of residents is reached (due to limited livelihood options, increased commute times, and lack of public infrastructure in new townships).

• Lack of government relationships to effectively provide public infrastructure and utilities (and ideally limit JB's involvement in creating access roads, electricity water and sewage systems).

• Lack of partnerships with private sector players that could boost employment opportunities in new townships or otherwise alleviate JB's need to reinvest in various processes, such as training labor in construction practices in potential new townships.

Going forward, Jamii Bora is attempting to address these barriers by:

• Recently becoming a registered bank, giving it access to funds with lower cost of capital.

• Considering partnering with other organizations to increase scale and reduce costs.

To be replicated, this model requires:

• Large pool of low-income individuals willing to move, and an effective organization, with deep knowledge of the community able to aggregate demand.

• Understanding of low-income individuals' creditworthiness (likely require a long term relationship with clients).

• Access to affordable, long-term financing with low cost of capital or subsidies to offer low-interest loans.

• Availability of affordable and contiguous land, in close enough proximity to city centers.

• Economic opportunities near location of new homes, or transportation to these opportunities.

• A culture and environment where standardized low tech building is acceptable.

• Productive relationships with local groups and neighboring towns to avoid delays and potential legal battles and protests.

Is the solution ENVIRONMENTALLY SOUND?

Jamii Bora has attempted to build an eco-friendly township after legal fights with environmental NGOs.

• JB prevailed in court proceedings after a 2-year legal battle against NGOs, who claimed Kaputei would disturb wildlife migratory patterns.

• Inclusion of sewage system that cleans and recycles water back into the community.

• Homes powered by solar panels and technologies such as hybrid waste water management.

Postscript

At Kaputei, Jamii Bora has been able to develop a sustainable, relatively closed ecosystem by allowing communities to engage in the construction of their own homes, by supplying infrastructure and relying on members' entrepreneurial nature to stimulate livelihoods. However, as the organization considers growing their housing initiative both in Kaputei and through new ecosystems, partnerships with the government and private sector players are likely required to more easily scale and replicate.

Partnerships with the government for the provision of infrastructure and public utilities, like the one being pursued with the Kenya Power & Lighting Company, would allow JB to scale to new areas more efficiently. Private companies can provide more scalable employment opportunities, thereby allowing Jamii Bora to offer homes to a greater number of its members who do not fit the current entrepreneurial criteria. With more occupational opportunities, more slum dwellers will be willing to relocate to Jamii Bora's ecosystems. Leveraging cross sector partnerships would better allow JB to focus its efforts on scaling home development and financing.

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1 Jamii Bora means "good family" in Swahili

2 JB founded in 1999 as a small micro-finance operation for a group of 50 beggars

3 350 acres of contiguous land were purchased

4 Interview with Ingrid Munro, Founder and Managing Trustee, Jamii Bora, July 2010

5 Two types of homes are offered. The first, a 2 bedroom, sitting room, bathroom and kitchen layout is approximately 540 sq feet in size on a 2000 sq feet plot. The second type of home is 4 bedroom, 740 sq feet, on roughly the same sized plot.

6 Construction began in late 2007 and is ongoing.

7 Jamii Bora prevailed in a court case brought on by local NGOs alleging that Kaputei township blocked the animal migration corridor to Nairobi National Park.

8 Over 250 families had moved in at the time of writing

9 Roughly 250 students are enrolled in the primary school. In 2010, the government recognized both schools as official public schools.

10 Interview with Ingrid Munro, Founder and Managing Trustee, Jamii Bora, July 2010

11 Interview with Ingrid Munro, Founder and Managing Trustee, Jamii Bora, July 2010

12 Turana, Johnstone ole. ***Private Sector Now Steps In To Provide Low-cost Housing.*** February 15, 2010. http://www.businessdailyafrica.com/Company%20Industry/-/539550/861970/-/item/1/-/514y0hz/-/index.html

13 Interview with Ingrid Munro, Founder and Managing Trustee, Jamii Bora, July 2010

14 Interview with Ingrid Munro, Founder and Managing Trustee, Jamii Bora, July 2010

15 Jamii Bora Company Website, http://www.jamiibora.org/index.htm

16 Jamii Bora Company Website, http://www.jamiibora.org/index.htm

17 Yasmina Zaidman, Helen Ng & Adrien Couton. ***Knowledge Necessary to Meet Poverty Alleviation Goals: Building Enterprise to Reach Low-Income Markets.***

18 Interview with Ingrid Munro, Founder and Managing Trustee, Jamii Bora, July 2010

19 Jamii Bora Company Website, http://www.jamiibora.org/index.htm

20 Homeless International (http://www.homeless-international.org/standard_1.aspx?id=0:2350&id=0:276&id=0:262)

21 Interview with Ingrid Munro, Founder and Managing Trustee, Jamii Bora, July 2010

22 Jamii Bora Company Website (http://www.jamiibora.org/housingtime.

What Market-Based Approaches to Affordable Housing Tell Us

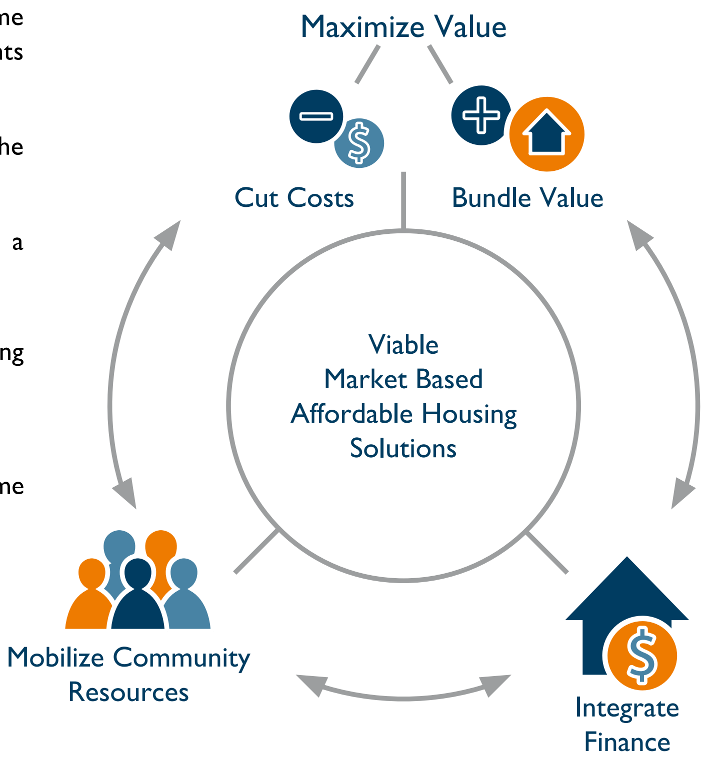
From a broad review of business models delivering housing solutions we selected several Market-Based Cases that were geographically diverse, not subsidized, and that delivered new homes as well as home improvements at market prices to low-income consumers. This section presents the key insights drawn from analyzing these Market-Based Cases.

We found that viable market-based models have the following strategies in common:

They achieve break even or profitability through a combination of strategies that:

1. Maximize value for clients through reducing costs and value bundling.[4]
2. Integrate financing into their solutions.
3. Mobilize the resources of low-income communities.

Strategies Employed by Viable Market-Based Solutions



Strategy 1:
Maximize Value for Low-Income Clients;

Profits are possible in the quality delivery of new homes

Several innovative initiatives led by different types of stakeholders have managed to profitably create home improvement and new home solutions for the BoP. Doing so is often predicated on investing in serving low-income markets, and crafting compelling value propositions for low-income clients.

New Homes: Reduced Sales Margins for Developers But Not Necessarily Less Return On Investment

The Cases of Jamii Bora (JB) and Ashoka's Housing for All (HFA) initiative in India demonstrate that new homes can be profitably delivered to low-income communities.

4 "Value bundling" is derived from the well known marketing strategy of "product bundling." Value bundling incorporates additional elements to an established value proposition and posits that holistic or comprehensive value propositions are critical for consumers with limited disposable income- where every dollar spent represents significant opportunity cost. (Marquez et al. 2010, pp 316)

Maximizing Returns on Investment, While Simultaneously Reducing Margins on New Homes Sold

Despite relatively low margins per housing unit sold, real estate developers see the potential for sound financial returns because of a combination of factors. **Projects are smaller in size, require smaller capital outlays to begin with, and are faster to turn around than traditional projects.** All these factors can lead to cash flow benefits that make a more compelling case for return on investment than what initially meets the eye.

As a real estate developer associated with HFA India put it, "margins per unit are half the ones I make on regular projects, however I invest half of the capital I would normally tie up in a project. This project gets finished and sold in half the time of others… Therefore, with cash flow benefits, my return on investment is actually double of what I make on traditional projects**."**

Cutting Costs Through Process Innovation and Standardization

By engineering in-house material production, building a standardized manufacturing process, and leveraging the resources and labor of its existing client base, JB was able to significantly reduce the cost of delivering homes tailored to the desires of its customers. Maximizing value requires more than sourcing low-cost materials. JB illustrates how maximizing value requires **critically maximizing margins where possible across the value and eliminating features that may increase costs and are not commensurately valued by clients.**

According to JB's CEO, Ingrid Munro, "Every little detail counts, and only the sum of all these minor savings can lead to a solution that is truly an affordable home for the poor."

Strategy 2:

Integrate Financing;

Successful Market-based Approaches all tackle the issue of financing for clients, though often at inadequate scale

The low-income populations addressed by the Market-based Cases require avenues to finance the significant investments required to purchase home improvement solutions or new homes. In all Cases, the leading stakeholders have figured out ways to extend new home loans or credit for home improvements that are **in line with customers' savings and repayment capacities, and that finance integrated offerings**.

New Homes: Balancing risk for lenders and borrowers

Compared to home improvement loans, new home loans represent a greater risk for lenders and a heavier burden to borrowers in terms of down payment requirements, and larger monthly installments over longer durations. While new home customers have formal property rights, lenders still need to assess the credit worthiness of low –income customers and their ability to repay long-term loans. **Mechanisms for assessing credit risk of these low-income clients, particularly for those without formal means of income, are very nascent** and finance providers in this space strive to assess credit risk of these clients with very limited information. Additionally, the relatively small ticket sizes of low-income mortgage loans (as opposed to more up-market mortgages) represent high transaction costs for financing institutions. While higher interest rates can counter the perceived risk and high transaction costs of low-income mortgages, they can also make monthly installments prohibitively high for low-income clients.

Leveraging Previous Investments in Client Assessment to Extend New Financial Products

Jamii Bora is able to keep transaction costs down, and also circumvent the issue of limited information on borrowers by **lending exclusively to its own existing MFI client base**. It thereby leverages its previous investment in assessing the credit worthiness of borrowers of its microenterprise loans and other products. However, JB's structure, that of a microfinance institution[5] accustomed to lending smaller amounts over shorter terms, is not ideally equipped to provide longer term, higher ticket loans at scale. The **alternative to in-house financing is forming partnerships with third party providers of housing finance**, as HFA India has started doing.

Extending Financing Through Partnerships

HFA India pulls in various types of financing partners, from MFIs within large CSOs to finance institutions focused exclusively on mortgage finance. However the right partners, with the willingness and capacity to lend to low-income groups at the scale required, are hard to find. **Apart from the high transaction costs and perceptions of risk that low-income communities present, existing financing institutions have other growing markets to tackle** (for instance, the formal housing market for traditional banks, and enterprise microloans for MFIs). Those financial institutions that are entering these markets, in limited numbers, are on a **steep learning curve, testing products and services** and prudently managing the growth of their affordable housing loan portfolio. The dearth of suitable third party finance partners underscores the need for new entrants and new financial institutions capable of extending consumer finance at the scale required. Please refer the section on access to Finance as a Barrier to scaling affordable housing solutions for more details.

Strategy 3:
Mobilize Community Resources;

Successful Market-Based approaches leverage and build up existing infrastructure and resources of the community

The Market-Based Cases featured in the following pages all tap into community resources and existing infrastructure to extend new home and home improvement solutions to low-income clients.

New Homes: Use of Existing Sales channels and Community Resources

Utilizing and Building Client Capacities

The JB model demonstrates that low-income communities have resources, labor and ideas that contribute to creative solutions for their housing needs while also cutting costs. Throughout the value chain, the community is actively involved in design and construction of their new township. JB is also an example of leveraging an existing and robust MFI infrastructure to branch into new, value-added offerings for clients.

Market-based approaches, while harnessing the latent resources of the community, can also contribute to them. Rather than paying professionals to provide the final product, Jamii Bora has paid professionals to transfer their expertise to BoP consumers. In doing so, Jamii Bora strengthens the capacity of the community while engendering ownership in the long-term care and planning of their township.

Partnerships with Citizen Sector Organizations to Tap Community Resources

Similarly, HFA India projects harness the infrastructure and resources of the community through active partnerships with CSOs who understand community needs, aggregate demand and provide a host of complementary services for low-income residents of new home developments. Apart from incorporating the community's input on design, a long term view of clients' current and future capacity to afford these homes encourages developers and CSOs to work together to increase the livelihood opportunities and resources available to residents.

5 While MFIs structures are not ideally suited to lend large mortgage amounts over longer terms, MFI's can play a vital role in identifying clients with a solid history of repayment of multiple micro-credit loans. Besides potentially contributing to cutting costs and in the process of financing clients, this is a clear way for an MFI to add value to their best clients and retain them as borrowers for additional loan products.

Barriers to Scale

The Market-Based Cases profiled here show promising approaches to delivering new home and home improvement solutions. However, their ability to scale their operations and replicate geographically, apart from context specific factors, is limited by 4 cross cutting Barriers to Scale:

- **Barrier #1: Land Rights -** Lack of access to land with clear title or secured tenure
- **Barrier #2: Finance** - Lack of access to appropriate finance options for low-income clients
- **Barrier #3: Supportive Policy** - A policy environment unsupportive of affordable housing solutions and markets
- **Barrier #4: Collaborative Action** – Limited collaborative action and cross sector collaboration In the following pages, we analyze these cross cutting Barriers to Scale.

Barrier #1: Land Rights

Lack of Access to Land with Clear Title or Secured Tenure

The lack of access to clearly titled land is a significant barrier to the scaling of affordable housing solutions and is a huge constraint to the upward mobility of low-income families. While occupying plots with ambiguous or no title likely allows low-income families to stay close to sources of income, **the threat of eviction and the lack of security of tenure is a disincentive to investing in the home or plot**. This limits the degree to which homes will be improved regardless of whether families can afford to do so or not, and **limits the potential positive health, and productivity benefits that can result from investing in homes.**

Additionally, lack of documentation proving ownership of land, more often than not, **leaves communities perpetually excluded from access to infrastructure and basic services**, and **further limits their access to finance** as they cannot leverage their home or the land they occupy as collateral. The limited ability, on the part of low-income consumers, to finance home improvements necessitates that the initiatives that offer affordable housing solutions tie up capital to finance purchases, or invest in partnerships to extend financing to clients. Either strategy has short-term implications on growth (and hence the profitability of commercial ventures) and potentially long-term implications on scale.

Security of tenure on land can be accomplished through means other than outright ownership. Often times**, formalizing a simple long-term lease allows a family to invest in home improvement and perhaps secure a loan to do so**.

Several countries have attempted subsidized delivery of land, or free land allocation for low-income populations. These initiatives often result in subsidies being misused **as below market offerings of land will invite speculative interests**, crowding out target populations. Meanwhile, selection processes which allocate land based on income qualifications and other indicators, where potential customers apply, or are selected through lottery, are inefficient at best and are often manipulated.

The Land Rights barrier, in addition to curbing demand for home improvement solutions, also has the capacity to adversely impact the supply of new homes for low-income communities. In cases where new homes are built, like in HFA India and Jamii Bora, the supply of the homes for low-income consumers depends upon the availability of land under several conditions. **Volume based new home construction necessitates that land be contiguous** as well as **cheap enough for BoP consumers**. **Developments must also be in relatively close proximity to livelihood opportunities and must also have clear title.** These factors combined make the supply of available land for affordable housing solutions quite limited in most urban and peri-urban areas.

The Land Right Barrier

Lack of Land Rights

Implications for BoP Client

- Lack of willingness to invest in home improvement due to threat of eviction and lack of clear ownership
- Limits potential quality of life and health related benefits from home improvements
- Limited access to infrastructure, utilities and basic services due to lack of clear title
- Unable to leverage land or home as collateral, limiting financial access
- Unable to capitalize on appreciation of land

Lack of Land Rights

Implications for the Market

- Limits demand and curbs the market for home improvements
- Limits supply of land for new home developments (that is affordable and contiguous with clear title)
- Limits extension of finance for purchase of home improvement solutions, due to lack of secure land rights
- Land without clear title is by and large "dead capital," not active in formal markets

Barrier #2: Finance

Access to Finance for the purchase of new homes

Access to finance for low-income, informal sector households remains one of the most formidable barriers to scale for market-based approaches to affordable housing, be it for new homes or home improvements.

The lack of appropriate finance mechanisms for home improvement solutions and new homes has an **immediate demand dampening effect for market-based solutions**. Many would-be clients of home improvement solutions or new homes, particularly those with no verifiable means of income (such as a pay stub), are excluded from these solutions, regardless of their actual capacity to pay for them. Those that do purchase affordable housing solutions either tie up savings to do so, borrow at high rates, use ill-suited loan products, or simply limit themselves to purchasing what is financed.

Though the Market-Based Cases seen in the previous section have found ways to provide finance to their clients, each initiative faces its own limitations, be it in their own capacity to finance purchases, or the availability of capable partner financial institutions to extend financing to low-income clients:

Extending finance for affordable housing solutions is typically outside of the purview of both MFIs and commercial banks. These institutions are accustomed to servicing either different client segments (high income groups) or extending different types of loans (micro-enterprise loans in the case of most MFIs). For both types of institutions, the extension of housing finance to low-income groups is a complex undertaking outside of their core markets and products. Effectively serving the financing needs of low-income communities at scale requires process innovation, trial and error, and that organizations be willing to make the commitment to tap into a difficult, but promising market opportunity.

Housing Finance that works for low-income communities:

- Reliably assesses clients' ability to repay based on limited information on credit worthiness and limited, fluctuating (and in many cases unverifiable) income.

- Provides credit based on limited collateral, limited security of land tenure and limited, if any, guarantees.

- Bears an affordable regular installment, closely matched to the income patterns of the borrower. Affordability is impacted by total loan amount, interest rate charged and the term of the loan – ideally medium or long term.

"Working with low-income groups requires very customized services and products for the unique and particular needs of our clients. Scaling up requires the standardization and mass production of customized products, which is a challenging endeavor."

Anoop Kaul, National Head, Financial Inclusion, BASIX Group

The Finance Barrier

Lack of Access to Finance

Implications for BoP Client

- Low-income clients, primarily those with informal means of income, are unable to secure appropriate financing
- Limits BoP purchasing power, irrespective of a household's ability to repay
- Low-income communities are either excluded from new homes/improvements, or rely on ill-suited financial products or local money lenders

Lack of Access to Finance

Implications for the Market

- Misapplication of other types of loan products (enterprise loans, consumer finance loans) with high interest rates, towards home improvement
- Private sector providers of home improvement solutions and new homes often requited to assume a financing role, and tie up capital in consumer financing activities
- Thwarts development of a market for home improvements and new homes for low-income communities

Barrier #3: Supportive Policy

A policy environment unsupportive of affordable housing solutions and markets

Whether initiatives are led by manufacturers, real estate developers or citizen sector groups, unsupportive policy environments negatively impact the scale of affordable housing initiatives.

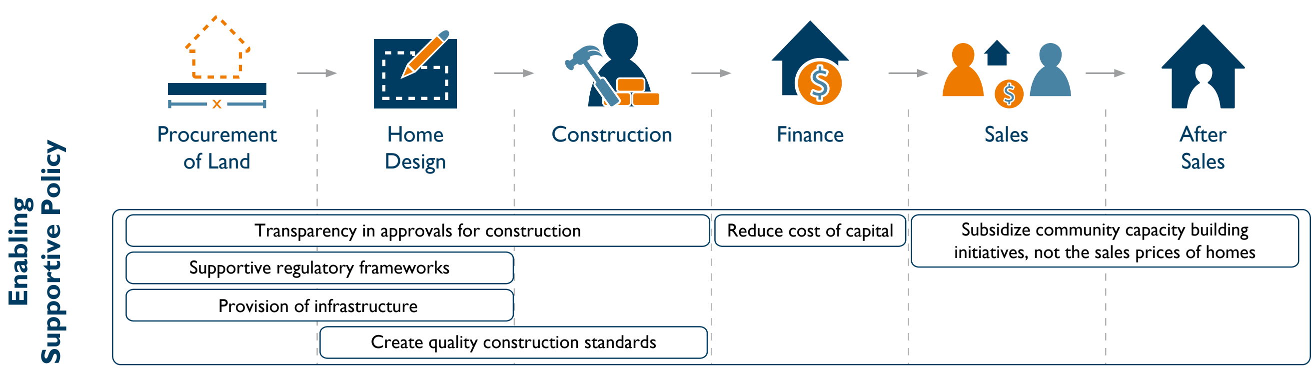
- For initiatives like JB, the absence of support from the public sector to develop infrastructure around the township including roads and public utilities creates significant additional expense and limits their ability to scale and replicate.
- In HFA India projects, lengthy and inefficient processes by which affordable housing projects are approved by local authorities, tie up capital for months at a time, cutting into slim margins and the speed at which capital is turned over by real estate developers.

Inconvenience, delays and extra costs are the lesser effects of unsupportive policy environments. The lack of transparent governance in the construction sector, one of the most corrupt sectors in both developed and developing countries according to Transparency International,[6] contributes significantly to slowing the efficient resolution of housing deficits.

Furthermore, ill-conceived public sector initiatives can actively distort markets. The promise of free or heavily subsidized social housing has undercut market-based housing projects in several countries where people prefer to wait for a long promised subsidized home rather than buy an affordable one at market prices. Such programs dis-incentivize the private and social sector actors that could catalyze more responsive solutions with limited government expenditure.

The following illustrates the key areas along the new homes value chain where market enabling policies can accelerate the delivery of new homes.

Enabling Supportive Policy for Delivering New Homes



6 Transparency International Annual Report 2009, http://www.transparency.org/publications/publications/annual_reports/ti_ar2009, Transparency International 2008 *Bribe Payers Index* http://www.transparency.org/content/view/full/13373/(filter)/b.

The Supportive Policy Barrier

Lack of Supportive Policy

Implications for BoP Client

- Lack of secure tenure to land
- Limited access to infrastructure and services that the governments are best positioned to provide, like utilities, roads etc.

Lack of Supportive Policy

Implications for the Market

- Limits incentives for private sector players to innovate low-income housing solutions
- Lengthy/inefficient/corrupt processes can slow the advance of affordable housing solutions
- Can result in ill-conceived applications of subsidies which incentivize speculative interest
- Can undercut the price of market-based solutions and thwart emerging markets
- Governments lose out on revenue from unregularized settlements

Barrier #4: Collaborative Action

Limited Collaborative Action and Cross-Sector Collaboration

Successfully delivering affordable housing solutions is rarely the work of one actor alone. The Market-Based Cases examined in this report all show elements of collaborative partnerships and in particular cross-sector collaboration across their value chains (see value chains diagrams on the next page for the specific areas of collaboration).

In all cases however, the ability of these ventures to grow and reach scale is constrained by the availability of potential partners with value added capabilities, and the degree and depth of these collaborations.

The Collaborative Action Barrier

Lack of Collaborative Action

Implications for BoP Client

- Client less likely to be offered a new home or home improvement product responsive to their needs without their input or that of CSOs
- Client less likely to be offered a comprehensive value- added product (such as all products to build an entire room with integrated finance, as opposed to just the cement/tile)
- Limited access to infrastructure and basic services without government's involvement and/or collaboration

Lack of Collaborative Action

Implications for the Market

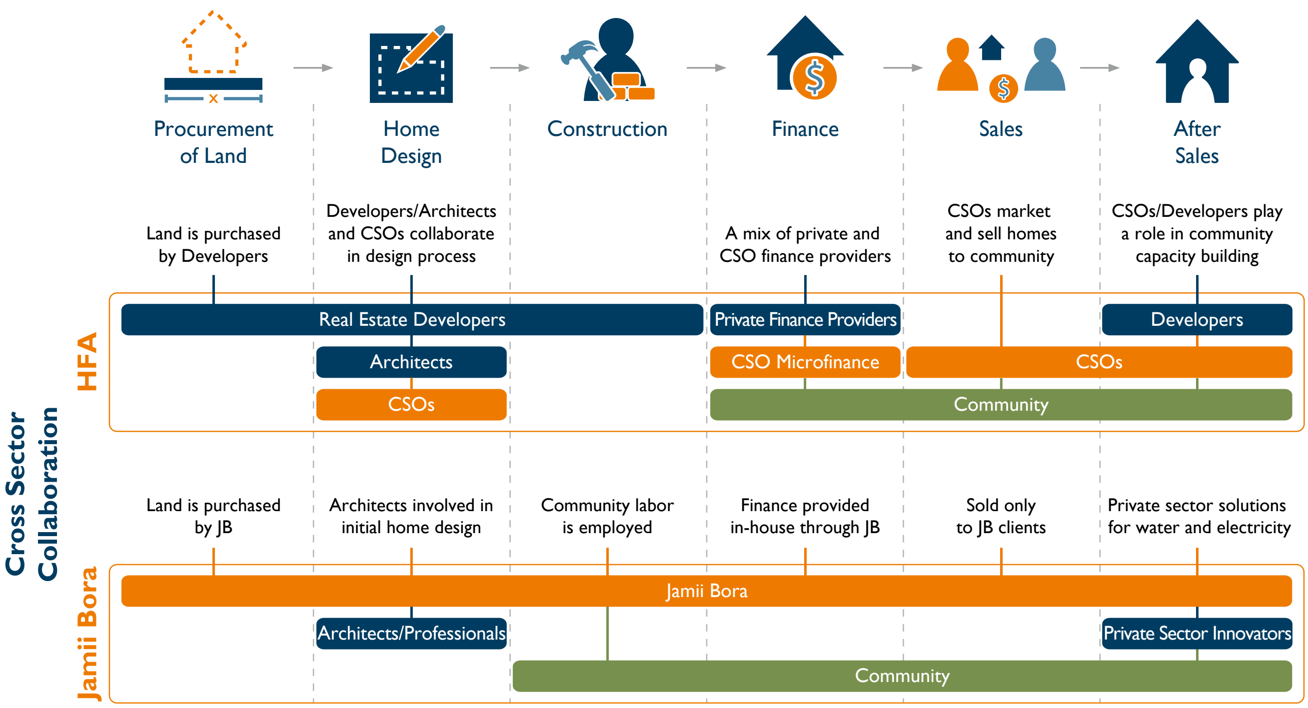
- Narrow and sector specific
- Limits sources and opportunities for innovations
- Lack of collaboration requires
- Scale of initiatives and impact can be limited when governments do not allocate resources for infrastructure and basic services

Offering **comprehensive value-added products and services**, **scaling operations** and **replicating working models to new geographies** often requires the expertise and assets of those in other sectors. For example, the Hybrid Value Chain developed by HFA India cannot be replicated in new geographies without the availability of both like-minded real estate developers and CSOs in these new locations. Despite the benefits that Hybrid Value Chains can bring, business, public and citizen sectors are not naturally inclined to work together in meaningful value generating ways. Those that do attempt cross sector collaborations typically need time to adapt, and must often change their operational models, in order to efficiently work together.

Scale enhancing partnerships, particularly with public sector players, are rare. Notably, all Market-Based Cases profiled, though they have varying levels of private and social sector collaboration, do not collaborate meaningfully with the public sector. For example, JBs' scale is constrained both in the existing township and in envisioned new projects by a lack of government support. Rather than focus funds and efforts on home development and financing, JB must also provide clients the infrastructure and public utilities that the government does not take care of. This point is further addressed in the "Supportive Policy" section.

The following illustrates the cross sector collaborations that form Hybrid Value Chains in the HFA India and Jamii Bora models.

Cross Sector Collaboration and the Formation of Hybrid Value Chains in Delivering New Homes



- In HFA India, private real estate developers work with social sector actors to market and sell residential units. Both types of actors participate in the design of units and in financing construction projects. Both social (microfinance institutions within partner CSOs) and private sector finance providers (HFIs and commercial lenders) extend retail finance to low-income customers of the units.

- JB is a Citizen Sector microfinance organization, involved in all phases of delivering new homes, from procurement of the land to sales of homes and financing. It works with private sector investors and private sector architects and other professionals to finance, design and build homes.

Recommendations for Stakeholders Involved in Affordable Housing

Multiple actors play a role in building the market for affordable housing: the Private Sector (real estate developers, building material manufacturers and retailers), Public Sector, Citizen Sector, Finance Providers (microfinance institutions, housing finance institutions and commercial banks) and Investors. This section highlights the findings of our investigation into each of these categories of players along the affordable housing value chain.

The following recommendations are the product of the insights of practitioners among each type of stakeholder addressed in the following pages. In particular, the participants of the Global Summit of Housing Entrepreneurs held in Barcelona, 2010, deserve a thank you for their input on the recommendations presented here.

General recommendations such as these require adaptation to local market and institutional conditions. Nevertheless these suggestions, based on discussions with experienced practitioners and experts in the field, should help you to think about your organization's core competencies, the assets you bring to affordable housing initiatives and how these strengths can be best leveraged.

We start with Financial Institutions because the issue of financing is central to the success of Affordable Housing initiatives and has implications for other players in the value chain.

Recommendations Overview

Below is a broad overview of the Recommendations contained in the pages that follow.

Recommendation	Financial Institutions			Citizen Sector Organizations	Real Estate Developers	Building Materials Manufacturers, Retailers and Distributors	Public Sector Actors	Investors and Funders			
	Commercial Banks	HFIs	MFIs					Multilateral Development Agencies	Philanthropists and Foundations	Social Investors	Private Investors
Design/create a specific product/service for the low-income market	√	√	√		√	√					
Create/establish a dedicated/specialized unit to serve the affordable housing market	√	√	√								
Offer/encourage technical assistance service to your affordable housing customers as a value-added service		√	√	√		√					
Develop a comprehensive offering for low-income clients					√	√					
Work with CSOs and communities to gain a deeper understanding and penetration of the affordable housing market	√	√	√		√	√	√				
Focus efforts in market enabling ways				√			√	√	√	√	
Create or work with governments to create a favorable policy environment and/ or to invest in common goods, or advance infrastructure					√		√	√	√	√	
Consider making equity investments in promising affordable housing enterprises and intermediaries								√	√	√	√
Collaborate with other stakeholders on the affordable housing chain to strengthen/deepen the market and increase the viability of your organization/offering	√	√	√	√	√	√	√	√	√	√	√

Financial Institutions: Commercial Banks, MFIs, and HFIs

Extending housing loans for home improvements or new homes requires new product design, skills, and processes for players willing to enter this new market, be it traditional commercial banks, micro-finance institutions (MFIs), and – to a lesser degree – specialized housing finance institutions (HFIs).

Whether you are a bank, an MFI or an HFI, working with BoP segments requires that your methods of repayment match, as closely as possible, clients' money management practices. Relevant innovations include quick loan approval and disbursement, smaller and more frequent (e.g. weekly) repayments, lending to groups (that, in turn, prorate and collect payments from members), requiring participation in prior savings programs (either individual or group), direct deduction of loan payments from paychecks and personal visits by loan officers the day after any failure to pay on time occurs. When attempting to roll out successful financial products in these markets, implementing these modifications to business processes is often more challenging and vital than changes to pricing policy (interest-rate charged per annum).

Commercial Banks

The core business of commercial banks is to provide loans to up-market clients (the middle and upper class), and most have hesitated to lend to low-income consumers as they are costly to serve. These households often have difficulty meeting standard documentation requirements (such as formal proof of income and collateral through encumbrance of property title) and want credit for less standardized housing products (e.g. home improvement and expansion; construction of a unit on a lot owned by the family). Additionally, relatively high operating costs geared to traditional home loan underwriting, lending, and servicing[7] have likely discouraged commercial lenders from offering smaller loans to low-income households for a wide variety of housing products and solutions.

In the past, equity and liquidity constraints often induced commercial banks in emerging economies to ration home lending to only their best (i.e., most profitable) customers. This is changing. Structural global trends[8] have increased the liquidity and equity base of most commercial banks and will likely continue to do so for the foreseeable future. Meanwhile, upper income and middle income housing loan markets have become highly contested and saturated in many emerging markets. A rapidly growing urban lower middle-class, increasingly in need of appropriate housing finance solutions, has become the single largest income group in most dynamic countries (India, China, Indonesia, most of Southeast Asia, middle income countries in Latin America).

Extending home finance to this huge new market of lower middle-class and creditworthy low-

7 The cost of qualifying households for a mortgage loan and collecting on a mortgage payment for Mexico's mortgage banks has approximated that of US home lenders- Dr. Bruce W. Ferguson, General Manager, Housing Microfinance, and former Senior Housing and Urban Economist, World Bank.

8 The global trends that have flooded many commercial banks in emerging countries with liquidity and permit dramatic increase in their equity base include: the rapid growth of emerging country economies (which have now replaced consumption in advanced countries as the driver of global economic development); and the determination of the Federal Reserve of the United States to avoid deflation in the country at all costs through printing money, quantitative easing, and devaluation of the US currency (justified as part of the necessary rebalancing of the global economy to reduce trade imbalances). These structural trends promise to export liquidity and inflation to the rest of the world for the foreseeable future. Brazilian and Chinese banks are on track to become the biggest global financial institutions. - Dr. Bruce W. Ferguson, General Manager, Housing Microfinance, and former Senior Housing and Urban Economist, World Bank.

income households, now represents a key challenge for survival and growth of commercial banks. Fortunately, commercial banks have key assets for successfully overcoming this challenge: access to cheaper, longer-term finance than most MFIs; sophisticated credit, liquidity, and term-risk management tools adaptable to affordable housing finance markets; and operational systems (IT networks) and branch networks capable of scale. Thus we recommend that you:

1. Create a dedicated unit to serve the Affordable Housing Finance market

A dedicated, separate Affordable Housing Finance/Housing Microfinance Unit will enable you to implement tailored business processes and thus achieve lower operating costs than your traditional activities. For example, repayment terms for home improvement loans to low-income segments will need to be aligned to the existing money management practices of clients. You can leverage existing savings groups (as done by Patrimonio Hoy), or joint liability groups using the same social collateral dynamics for home improvement loans as do MFIs. A dedicated unit will also ensure you can keep tight control over costs and profitability Key Performance Indicators (KPIs) and hold your management more accountable to them. A separate unit also allows you more latitude to potentially invite other investors.

2. Create a loan product that finances sequential and gradual home improvements so that customers are not driven to ill-suited and expensive consumer finance

Low-income clients consume what is financed and therefore often take on higher cost, shorter term loans that are not designed for home improvement. Despite the fact that this voluntary use of ill-suited loans can be a popular high-profit activity for some commercial banks in the short run, high-cost consumer lending for housing (sometimes over 60% all-in interest-rate per year, typically extended through other institutions) adds little value for low-income households, risks generating a household debt crisis in the long-term and can be detrimental to your bank's profits and reputation. Instead, offer a product that is responsive to the gradual home improvement needs of low-income consumers, and profitable over the long-term.

3. Partner with CSOs and MFIs for greater access to and deeper understanding of this market

Many commercial banks do not have a solid understanding of the needs and characteristics of low-income housing consumers, or information on their creditworthiness. Partnering with MFIs and CSOs who have years of experience working with these customers can allow you to enter this market prudently. For example, once a loan product for sequential home improvements has been introduced, partnerships with MFIs can channel clients to your loan products. Additionally, strategic collaborations with affordable housing developers and building manufacturers/retailers can also reap benefits. These strategic partnerships with MFIs, home developers, and building manufacturers/retailers can help you qualify suitable households for finance, provide packages of credit for building materials, provide construction related technical assistance and delivery of materials to sites/storage.

Microfinance Institutions (MFIs)

MFIs find themselves in a difficult position vis-a-vis housing loans. MFI clients likely already demand home improvement loans (or already use other types of loans for this purpose), which your institution probably provides on a small scale as a reward to faithful customers. However, housing financing for either new homes or home improvement is a new business, one that is significantly different from financing of micro-entrepreneurs. Serving BoP housing finance needs as an MFI, at more than minute scale, requires the capacity and financial backing to provide larger, longer terms loans at lower interest rates. Specifically, sustainable and affordable home lending/housing microfinance requires competitively priced funding in local currency for terms of five to ten years. Such terms are still rare in the MFI industry, which depends upon quick turnover (average loan duration of less than a year) of somewhat higher-priced working capital and micro business loans.

MFIs may not see housing loans as a key development opportunity as most operate in markets where considerable unmet demand exists for their "higher interest rate/shorter term" core products – working capital and micro-business loans. MFIs do however have a competitive edge over traditional housing finance institutions as they know low-income clients intimately. Additionally, low overhead and transaction costs constitute meaningful advantages if MFIs develop the new competencies required to add housing loans to their portfolio.

Affordable housing lending is a new and specialized business requiring considerable investment in upgrading skills and systems. Thus, a central question for MFIs becomes: "*why build a housing loan business beyond the minimal scale necessary to meet the demand from existing customers?*"

The answer to this question is context specific. However, we believe that the following are compelling reasons for MFIs to diversify into housing finance at scale:

- Serve your customers better and thus gain their loyalty, as you risk losing your best customers to other MFIs or commercial banks if you do not provide them with a tailored service that is increasingly in demand.
- Gain a new profitable market that is much larger than that for micro-enterprise lending.
- Cross-sell savings, insurance, and remittance products with along with housing finance.

The larger the MFI and the more contested the credit market, the more compelling the case for scaling up housing finance. That said, MFIs' top management must make an explicit strategic commitment to affordable housing lending for this activity to gain traction within the organization.

Indeed, building a quality housing loan product means more than simply making small adjustments to micro-enterprise credit and calling it a "housing loan." MFIs serious about housing should create a new business division able to provide new services (such as technical assistance to ensure that the home improvement project is technically feasible and that the work is well done), different processes (higher ticket size and longer duration than current average loans will require different assessment of ability to repay), new funding sources, and more sophisticated operational systems (for example, managing asset/liability risk, which is generally insignificant for micro-enterprise lending).

MFIs committed to developing a housing product at significant scale should consider the following strategies:

1. Create a dedicated unit to serve the Affordable Housing Finance market

A new division allows instilling of new values, establishing new business processes and the roll out of new products under a different cost structure. Establishing a dedicated unit will ensure tighter controls over costs and profitability/risks KPIs, and you can more easily hold the management of the new division accountable for them. It will also allow you to keep tight control over possible innovations such as extending loans not only for building materials for the house but also for specialized labor and alternative infrastructure, particularly low-cost decentralized technologies for water, sanitation and energy.

2. Offer a technical assistance service to your housing finance customers and provide incentives for quality construction

Offering technical assistance can be accomplished through a business partner (materials retailer for example) or a CSO partner. It could include developing a set of modular or standardized home expansion and home construction blueprints/budgets. Your MFI could extend credit offerings exclusively, or offer better terms to households that build with the assistance/labor of construction contractors from a list provided by the MFI.

3. Partner with commercial banks or second-tier housing finance institutions to access longer-term debt funding

Given the lower ticket size of home improvement loans and ready knowledge of clients' credit history, you are likely to start by offering home improvement loans. The repayment terms for home improvement will be close to your traditional microfinance activities. As a second step you will consider offering loans for new homes, which require tying up capital for longer durations and lending at lower rates of interest. This will require that you work with second-tier financial institutions[9] and/or create a new entity, i.e. a Housing Finance Institution (see next section). You may also be able to find social investors which will allow you access to longer-term funds on more favorable terms for housing loans as is the case with Jamii Bora.

9 Second-tier financial institutions are wholesale financial institutions that channel funds from donors and/or government to individual retail financial institutions at a concessional rates.

Recommendations for Microfinance Institutions

4. Work with government to leverage public subsidies for the lowest income households

Purely market based programs are not able to effectively reach the lowest income households. To reach such customers, MFIs can leverage public subsidies, which can take many forms including partial loan guarantees, subsidized capital and complementary grants concurrently administered with housing micro-loans.

5. Partner with diverse players (materials manufacturers and retailers, real estate developers) interested in growing this market

Strategic collaborations with diverse players (construction material providers and retailers, real estate developers) can help you access the capital needed to provide attractive housing loans, as you leverage deep knowledge of and access to low-income markets. For example, operate branches inside hardware/building materials retailer store partners and on projects sites of affordable home developers with whom you collaborate. As an MFI, you have expertise in aligning repayment terms to the existing money management practices of clients. You can also leverage existing joint liability groups using the same social collateral dynamics for home improvement loans as for your traditional microfinance activities. These competencies can be of great value in the right partnerships.

Creating the new processes required to offer housing loans requires significant investment from an MFI as well as a long-term strategic commitment to housing. This complex undertaking suits those MFIs with an established, sizable, profitable and stable micro-enterprise lending business. The larger your customer portfolio, the more attractive to the other partners you will be, and the easier it will be for you to make it a new, profitable business line.

Housing Finance Institutions (HFIs)

Commercial banks usually make home loans above USD 15,000 with a duration longer than 5 years, for formal customers for the purchase of developer-built units in subdivisions. MFIs typically offer loans below USD 1,000 with durations of less than 2 years for informal customers. In most countries with substantial urban poor populations, this leaves a large vacuum for financial institutions serving medium sized loans, over a mid range tenure. Some countries such as India, are witnessing the creation of specialized Housing Finance Institutions, capable of leveraging independent cost structures, access to subsidies and the benefits that come with serving a niche market. Along these lines, we recommend that you:

1. Create specialized Housing Finance Institutions, capable of offering both new home and home improvement finance

Typically unencumbered by the large overheads of commercial banks and without the same constraints on access to capital faced by MFIs, financial institutions specialized in housing (HFIs) are the missing middle, which can potentially make huge strides in addressing the financing needs of the BoP for new homes, offering loans between USD 1,000 and USD 15,000 for durations of 2 to 10 years. These types of institutions include housing cooperatives, mutual savings and loans, and mortgage banks.

2. Partner with MFIs and CSOs to gain to customers

Given your niche focus on housing finance, success depends on intimate knowledge of your customer base. MFIs and CSOs have long established relationships with your target market. You could partner with them to quickly source a critical mass of clients, and/or implement MFI tried and tested backend processes and methods of customer acquisition and servicing.

3. Focus on selected customer segments to standardize credit assessment processes

Work with organizations that provide access to volumes of clients with similar profiles. By learning how best to serve the needs of niche groups based on their vocation/cash flow patterns or other characteristics, for instance, through working with trade unions or member-based vocational organizations like federations of entrepreneurs or auto rickshaw drivers, for instance, HFIs are better able to leverage limited resources in service of a greater numbers of loans. Specializing in a few client profiles will enable standardized processes for underwriting and credit assessment.

4. Partner with diverse players (materials manufacturers and retailers, real estate developers) interested in growing this market

While the above recommendations help aggregate demand for HFI loans, partnerships with real estate developers that focus on housing programs for the informal sector, or partnerships with building materials manufacturers or distributors will enable you to amass a steady supply of new homes, or home improvement solutions to finance.

5. Offer a technical assistance service to your home improvement finance customers and provide incentives for quality construction

Offering technical assistance can be accomplished through a business partner (material retailer for example) or a CSO partner. It could include developing a set of modular or standardized home expansion and home construction blueprints/budgets. Your HFI could extend credit offerings exclusively, or offer better terms to households that build with the assistance/labor of construction contractors from a list provided by the HFI.

Citizen Sector Organizations

CSOs span the spectrum from local non-profits to special interest-based organizations to cooperatives, advocacy groups and MFIs. Most serve a broad range of needs for low-income communities, including housing, education, health care and advocacy for basic rights. CSOs focusing on affordable housing often take the approach of fundraising for building homes or implementing home improvements themselves. This approach is well suited for communities with the lowest income levels.

However, for constituents with higher levels of income, a new market-based approach is possible. With deep access to and knowledge of low-income communities, CSOs are well positioned to provide goods and services at market rates to the top of the BoP. CSOs that want to offer affordable housing solutions can do so by leveraging their strengths in key functions related to the provision of affordable housing, in partnership with private sector actors delivering new homes and home improvement solutions. These engagements can happen at minimal cost to the CSO, and in certain cases even earning revenues from these partnerships, as illustrated in the table below:

PARTNERSHIP FUNCTION OF A CSO INVOLVED IN AFFORDABLE HOUSING	TYPES OF CSOS TYPICALLY INVOLVED
Sales and marketing/ Activating demand	Local CSOs or MFIs supporting income generating activities
Bulk sales and processing/ Demand aggregation	Local CSOs or MFIs with a network of potential clients
Training and mobilizing community based sales forces for home improvement solutions	Local CSOs, community groups with established trust in the community
Financing (including mobilizing savings)	MFIs, local savings groups, community groups
Providers of complementary services such as property rights advocacy or access to utilities	Advocacy groups, community groups, providers of low cost legal services
Value added services like technical assistance or construction training	Local CSOs, community groups

For CSOs interested in serving affordable housing needs, our recommendations are as follows:

1. Build networks of sales forces to sell home improvement products and services

Assess the assets you bring to these new engagements (number of beneficiaries/ members, geographical reach, etc) and make strategic choices about your role. For example, to source community-based sales people, a minimum level of involvement would be to provide your business sector partners access to your network of beneficiaries. Alternatively, you could recruit and train them yourself. Finally, you could take a leadership role in this initiative, creating the network of sales forces, presenting aggregated demand and a sales force to distributors and retailers.

2. Provide services (for a fee) to business partners (e.g. real estate developers, materials manufacturers)

As you engage with business sector players, focus on the services that you are uniquely positioned to provide at scale without relying on subsidies. Business sector actors should be willing to compensate you for services that they cannot provide better than you can (demand aggregation, BoP sales force training, loan provision, etc).

This is an economic opportunity for you, and likely to bring profound changes in the way you operate as you will have to work closely with the business sector. Therefore, ensure you have the right partners and that your interests are aligned. Then make the commitment required for the success o the partnership. This enterprise might require a new organizational structure with separate governance, new staff and a new ethos altogether. Such a move may disenfranchise some of your most loyal constituents. Do not underestimate the time and efforts required to include them. The payback may well be more sustainable and larger scale social impact.

3. If you are unable to aggregate demand, work to activate it

If your organization is not in a position to, or is disinterested in collaborating with the business sector to address affordable housing solutions for upper BoP populations, you can still play a relevant role in this space: building the capacity of your constituent base as in the examples of SPARC and CODI. Initiatives which increase the income potential of clients, build their capacity and their access to financial services will, over the long term, allow their economic inclusion in the housing market as eventual consumers rather than beneficiaries.

Real Estate Developers (New Homes)

Few real estate developers consider the BoP as an exciting market. They likely enjoy growth potential in more lucrative and traditional markets. Furthermore, they see low-income markets as small, complex, with thin margins and high barriers to entry in terms of accessing customers. Admittedly, the challenges they foresee in working in BoP segments do exist, and therefore success in these markets requires new competencies.

As the HFA India case illustrates, this market represents an exciting opportunity for entrepreneurial real estate developers:

- Returns on investment are potentially substantial, as thin margins per unit are offset by the smaller investment required and quicker capital rotation compared to traditional projects.
- Complexity can be turned into a source of competitive advantage for those willing to go down the learning curve and develop the new competencies required.
- BoP markets will present opportunities for growth for developers during times of low demand in higher-end markets. The BoP is the new big wave of growth in the housing industry as the overall supply of higher-end properties outpaces demand. Increasingly, middle income and upper income housing markets have become contested and saturated in emerging economies.

Therefore, we recommend that to enter this market you do the following:

1. Develop a comprehensive offering (financing, social services) for low-income clients

Identify new ways to develop, capture and deliver value along the affordable housing value chain. This implies considering all of the pieces that comprise a value proposition for your clients; not just the building, but also adequate financing for your consumers, as well as an appropriate level of infrastructure to sustain the types of services that these communities will require. In some instances, this may even imply focusing on ways to create adequate economic opportunities for target communities. As new homes, more often than not, require relocation to new sections of a city, people will not move if these elements are not in place.

Consider how you can boost the capacity of the community in the process of your engagement. For instance, arranging space for vocational training, or including the community in construction empowers your future client base to purchase homes you develop through increased income or sweat equity. It also has the added benefit of creating loyalty among your new client base.

2. Partner with CSOs for greater access to and deeper understanding of this market

This market is a departure for you, therefore it is important to work with players who know your market well. CSOs have intimate knowledge of these client segments and understanding of their motivations, preferences and living conditions. They can therefore help you create homes that are responsive to micro level demand by gathering clients' inputs. CSOs can play an effective role in the marketing and sale of homes. Because they are a trusted and long term presence in the community, and are likely to be the best sales force you can find for your project (provided of course that they are convinced that your offer is appropriate to the needs of the communities they serve).

3. Partner with MFIs and HFIs to provide adequate financing solutions

In this target market, affordability has as much to do with the existence of financing options that are responsive to the needs of clients and their income patterns, as it has to do with the price of the home. Microfinance institutions are potentially good partners because they have extensive experience in this market and have fewer requirements of borrowers than traditional mortgage lenders. However, microfinance institutions have access to shorter term capital than traditional banks and limited sources of funds. Therefore, also consider building alliances with more traditional housing finance institutions to be able to deliver attractive financing options to clients.

4. Coordinate with governments to provide sustainable infrastructure

Given that new home developments are more likely in newly developed areas, it is critical to engage with the public sector for access roads, electricity, water, sanitation and all basic infrastructure required by the new community. Managing the costs of maintaining such infrastructure over time may involve introducing maintenance payment schemes and require that developers think through the upkeep of infrastructure investments at the outset of projects.

As a real estate developer, creating a successful product for BoP/low-income markets, will be a long, often frustrating road with much trial and error. Large scale operations and access to capital are not the primary assets required in this market. Rather, strong local ties coupled with commitment to a specific area are crucial to real estate developers seeking gains in this market. The benefits of engaging in this sector are more tangible at local levels, thus those local players who have ties to the community, are in a position to lead, and can leverage this social capital will succeed.

Public Sector Actors: National Government, Local Government, Municipalities and Public Housing Finance Agencies

The "public sector" addressed by these recommendations includes various types of entities: local government, national government, public second-tier housing finance institutions, infrastructure service agencies, etc. We leave it to the readers to map the public sector in their specific contexts.

As a public sector actor, you are likely already involved in the space of affordable housing. You likely intervene by disbursing subsidies, building basic infrastructure, designing and enacting regulations and branding social housing programs designed to grant or deeply subsidize new homes for low-income populations. Such government interventions are necessary to provide housing solutions for the most marginalized populations for whom market-based approaches are unfeasible. Yet most governments cannot claim efficient or scaled up provision of affordable housing solutions to these populations.

The great bulk of formal housing production – usually above 90% — is unaffordable to the bottom two thirds. Public-sector support for mortgage finance of developer-built units contribute strongly to the dramatic mismatch between housing supply and demand in emerging economies. Household surveys consistently demonstrate that low-income households would much rather upgrade their existing unit and the community than relocate to a distant subdivision (on inexpensive land that meets the cost parameters of housing programs) far from jobs and services.

How then, can public sector agencies better serve the affordable housing needs of low-income populations?

Local governments can exercise control over many of the factors that determine the price and availability of secure tenure to serviced urban land – the single most important input of the public sector into affordable housing. Typically, however, local governments pay little attention to the supply of suitable parcels for affordable housing development.

Public sector actors should focus on roles that neither business nor citizen sector players can play. The business and citizen sector players addressing low-income markets will tell you that you could help them scale up to meet this un-served demand in the following ways:

1. Create a favorable policy environment for access to property rights

Property rights are identified as a key barrier to scale by all cases profiled. Pioneering public sector actors have been able to:

- **Listen to practitioners in the field and CSOs** to create the best framework and platform for various stakeholders to address the property rights barrier. The CSOs who are working among these communities have likely innovated approaches the public sector could take to scale. CODI is an example of a CSO figuring out that access to a significant base of funds at one time, coupled with specific resources, gives communities the bargaining power to negotiate for property rights. This approach has been scaled up by the Thai government.
- **Encourage and incentivize "negotiated and transparent approaches"** to enable access to property

rights. "Negotiated approaches" (where land owners and land occupiers agree to trade titled plots in exchange for part of the land value as in the case of Terra Nova, or in exchange for freeing up more valuable portions of the land, as in the case of CODI) have been proven to work in various locations.

2. Use infrastructure budgets strategically to achieve multiplier effects

As experienced by the slums rehabilitated by Terra Nova and demonstrated by numerous studies, low-income families are more likely to invest in their homes after investments in infrastructure are made with public money.[10] Additionally, strategic choices in infrastructure development (building access roads in areas planned for future development; and provision of basic services and utilities to new home developments) can influence developers to enter a new location, motivate landowners to agree to sell, and encourage construction materials manufacturers to consider serving low-income markets.

3. Invest in common goods (e.g. land registries) needed to enable market development

Support the creation of land registries, infrastructure developments and resources that business sector, and citizen sector players are unable to fund and/or execute themselves.

4. Address the constraints faced by local finance providers attempting to address low-income Affordable Housing finance needs (through loan guarantees, well targeted subsidies and other incentives)

Pioneering public sector actors –particularly second-tier liquidity facilities for housing -- can convene and listen to the needs of MFIs and banks attempting to serve low-income segments. Public sector actors have various means to address the constraints faced by finance providers attempting to finance housing solutions for low-income communities, for example:

- **Provide funds for partial guarantees of loan repayment** to alleviate fears that housing loans to the informal sector are risky, and help lenders raise money from capital markets while still keeping some of their "skin in the game." Partial guarantees have the added benefit of limiting negligent lending practices such as those that resulted in the US subprime home lending crisis.[11]

10 Historically, MFI industry grew out of a rejection of subsidized public credit for small and medium-sized farmers. In housing, however, government participation is essential in order to: 1) achieve secure tenure to service land for low and moderate income households; and 2) to reach the poorest households with an affordable housing solution. For example see 2005 study by Dean Cira, Senior Specialist in Urbanism World Bank.

8 The US subprime home lending holds few lessons for emerging countries, where housing finance institutions of all types have continued appropriately conservative underwriting and lending. The one exception is that the national monetary authority must not only pay attention to liquidity and inflation, but also watch carefully asset prices of real estate to avoid bubbles (now an accepted policy goal in China, Hong Kong, and much of Southeast Asia).

Recommendations for Public Sector Actors

- **Enable credit lines at subsidized rates** for a given amount of time, or alternatively, subsidize cost of capital for finance providers with a one-time grant, to help secondary market liquidity facilities and new entrants into the informal or low-income housing finance space get started.
- **Introduce other incentives,** including tax breaks, preferential status or other benefits for finance institutions serving these markets.
- **Remove current legal barriers** to the expansion of finance institutions, including restrictions on the acceptance of deposits, and barriers to acquiring additional funds to loan.

5. Streamline your processes for approval of housing for low-income market segments

Regulations affecting affordable construction can greatly discourage real estate developers from addressing these markets. Long and corrupt approvals processes tie up capital in projects and create uncertainty. A streamlined process for approval of housing for low-income market segments, including "fast-track" options that avoid delays and cumbersome red tape would greatly encourage the development of affordable housing solutions.

6. Create easy-to-implement quality building standards and enforce them

Ensure that your affordable housing related regulations address quality of construction (for example, resistance to fire) rather than the specific solution (for example, plasterboard). Regulations pertaining to the use of certain types of materials or processes, often the product of lobbying efforts on the part of manufacturers, can add significant extra costs to affordable housing developments particularly in places where land values are very expensive such as in major urban centers around the world.

As you take on these recommendations, you will likely face internal opposition from within your public sector agency. To avoid this, identify, celebrate and promote the internal champions you undoubtedly have in your organization, creating the right incentives for them to act.

The powerful lobby of the formal construction industry largely drives the bias in favor of public subsidy of large developer built units. In addition, housing ministers and housing bureaucrats rarely understand the importance of incremental building and finance of affordable housing.

These key public managers as well as elected officials often think of "housing" mainly in terms of meeting quantitative goals for mortgage finance of developer-built units – the highest cost, least affordable, and – usually – most unappealing housing solution for the low/moderate income majority.

Dr. Bruce W. Ferguson,
General Manager, Housing Microfinance, and
former Senior Housing and Urban Economist, World Bank

Investors and Funders: Multilateral and Bilateral International Development Agencies, Philanthropists, Foundations, Social Investors and Private Investors

Currently donors and multilateral agencies provide large loans and grants to governments and CSOs around varying "social housing" programs. These funding streams can be made much more efficient by incorporating the recommendations that follow in this section.

Multilateral and bilateral international development agencies and development finance institutions

Multilateral and bilateral international development agencies have a vital role to play in advancing affordable housing, channeling funding and shaping national policy towards more responsive solutions. We recommend that bilateral and multilateral agencies consider the following:

Recommendations for Multilateral Agencies

1. Encourage and support governments to invest in common goods and low/moderate income housing solutions

Multilateral and bilateral agencies are often the only actors in a position of influence with national governments to encourage a reorientation of priorities away from subsidizing mortgage finance and developer-built housing for upper-income households. Multilateral and bilateral agencies can encourage and fund national environments that are more conducive to low-income housing solutions by supporting various types of common goods and infrastructure investments, the development of various credit instruments and avenues for providing secure tenure to serviced urban land.

2. Evolve a leading intermediary multilateral agency, or a series of leading regional agencies for affordable housing finance

At present there is no central or leading multilateral agency or intermediary in the sector that provides policy cohesion or channels debt and equity to tested and proven models (a role played by Accion, for instance, in the microfinance sector). An organization taking on a lead intermediary role would allow the market to organize more efficiently and could serve several vital functions like channeling longer term financing to affordable housing solutions and creating common access databases of investment opportunities and market data. A debt and equity channeling function performed by a leading multilateral would open up avenues of capital yet underutilized for affordable housing initiatives, providing incentives for new donor agencies and investors to participate in the sector through equity investment opportunities, partial loan guarantees, etc.

Philanthropists and Foundations

Donation based affordable housing programs will always be limited in scale by the amount of philanthropic funds available. To the extent that philanthropists and foundations take a long term view towards investing in catalyzing markets and seeding sustainability, they will achieve larger, longer term impact. To do so, we recommend that Foundations and Philanthropists consider the following:

1. Invest in market enabling ways

Such a shift in focus requires a departure from output- and volume-based interventions, where the projects that receive funding are those where the greatest numbers are touched. Instead, more strategic and long-term interventions that unlock markets will have a lasting effect and allow additional low-income families – particularly in the upper income segments of the BoP -- to improve their housing through market based approaches.

2. Focus on a few projects until they have achieved impact

Invest in a few projects for the longer term. Make sure that the project leaders and entrepreneurs you sponsor go as far as they can in getting their models right, and do not get diverted with new initiatives. Projects will only be picked up and replicated by others (and thus potentially have significant, lasting impact) once they have proved to work on a certain scale, which will require time and commitment from your investees. Require, finance and disseminate evaluations of impact and lessons learned.

3. Subsidize market based solutions to reach deeper into the BoP

Free homes and price subsidy is rarely the best use of philanthropist or foundation funds. Where market based solutions are addressing the needs of upper BoP populations, your involvement could stretch the lower limits of the program. You can "piggyback" on existing market-based programs, providing the right incentives for those involved to serve the needs of the poorest. Mechanisms to do so include loan guarantees, subsidized loans or, or grants to market based initiatives to address the needs of lower income segments. Alternatively, subsidize the capacity building of lower income segments to allow their later economic inclusion. Be mindful of not intervening in ways where your funds distort markets that can serve low-income populations more sustainably over a longer term.

4. Play a supportive role to other public and civil sector initiatives and agencies

Foundations and Philanthropists can play a significant supportive and in some cases a "corrective" role, augmenting and supplementing the work of public sector, civil sector and multilateral agencies. For instance, Foundations can invest in solutions that provide technical assistance and know-how to local governments and beneficiaries, or in initiatives that increase transparency, monitoring, education or build the capacity of public sector or civil sector organizations and initiatives.

5. Play a convening role for multi-sector initiatives and broker strategic partnerships

Promote the emergence of a coalition of players who can serve the needs of low-income markets. Illustrate the ways in which they complement one another and provide a platform and potentially seed funding to incentivize their participation.

6. Fund and support debt/equity and technical assistance channeling intermediaries in affordable housing

Intermediary organizations established for a long term presence in the sector, supported by multiple foundations and donors can catalyze the affordable housing market and bring policy cohesion to the sector.

7. Invest in risky for-profit ventures

Donors accustomed to vetting solutions and not requiring recovery of capital are in a unique position to catalyze market growth by investing in riskier for-profit ventures that have the potential to greatly impact the affordable housing market. Under-utilized tools like Program Related Investments (PRI)[12] can be used to fund these types of initiatives. Look for profitable projects and take risks that investors requiring target rates of returns will not take.

12 In the USA, PRI investments refer to the use of Foundation's endowment funds (which would otherwise be invested in the stock market or other form of for-profit investments) in for-profit investments with both a social and a financial return

Recommendations for Social Investors

Social Investors

Social investors who are more accepting of uncertainty in terms of financial returns, with greater value placed on the creation of social returns, are well positioned to invest in affordable housing. These investors should take a patient approach to recovering their capital, for example through the following:

1. Seed fund promising ventures that are not yet ready to offer market returns

This is precisely what many social investors did when they started investment in the early stages of MFIs during the 90's. Many of these investments have not only proved profitable but have demonstrated the viability of micro lending approaches around the world. Similarly, promising affordable housing initiatives often have a finite non-recoverable establishment cost, which when funded can unlock growth and innovation.

2. Strategically support MFIs and HFIs

Offer long term credit lines at below market rates of return, or guarantee funds, to MFIs and HFIs willing to offer home loan products to their client base.

3. Couple investment with appropriate technical assistance

Increasingly social investors are realizing that technical assistance and guidance is much needed in this market and greatly enhances the chances of success of their investment. Partner with appropriate technical assistance providers or fund the provision thereof.

4. Make equity investments in promising affordable housing enterprises and intermediaries

Support the creation and on-going costs of intermediaries for regions and large countries (e.g., Sub-Saharan Africa, India, Lain America, the Middle East and North Africa) that channel equity, debt, and technical assistance to promising players in affordable housing. Similarly, make equity investments in affordable housing enterprises such as lending institutions, homebuilders and subsidiaries of materials manufacturers focused on the BoP market.

Private Investors

If you are a private investor accustomed to a level of returns, the housing market for low-income populations may appear high risk, with limited returns. It is indeed high risk, as these initiatives grapple with the learning curve of a new target market. However, with sound investments, those that manage to move down these learning curves first will profitably serve this market, with the potential to benefit from huge market shares in the future as barriers to entry for second comers are high. Therefore:

1. Consider this a high-risk/high-return market

Take the time to look at the opportunities it provides, as developers as well as material retailers may be looking for funds to scale up fast.

2. Partner with social investors

Social investors are well positioned to incubate projects until they are large enough for you to invest in a second round of investment.

The economic dynamism of many emerging countries, combined with advances in our understanding of creating products for the low/moderate income majority, and the shift of the mass-market to the lower middle class have now made "housing for all" an attractive although still challenging proposition for the private-sector.

Affordable housing in emerging economies is one of the major markets of our time. *Carpe diem.*

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HYSTRA
hybrid strategies consulting

ASHOKA:
INNOVATORS FOR
THE PUBLIC

1700 North Moore Street,
Suite 2000 (20th Floor)
Arlington, VA 22209
USA

Tel: +1 703-527-8300
Fax: +1 703-527-8383

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