Task 5.2 EVALUATE IMPACT ON HOUSING MARKETS

Objectives
To estimate the impact of the proposed strategy on the housing markets and pre-empt any negative impact.

Issues
Should the evaluation be limited to the housing market of the target households? (See Note: IMPACT ON THE HOUSING MARKETS OF INCREASED ACCESS TO HOUSING FINANCE.)

Should only "first-round" impacts be considered? If not, how can the effects be measured?

How accurate is the assessment likely to be?

Definitions
HOUSING MARKETS: This describes the transactions between the whole range of households and producers that demand and supply housing. It covers the mechanisms of use, development and transfer of such assets, goods and services, including the manpower and materials required to produce housing and the land on which to locate it.

Method
The following steps should be followed:

(a) A matrix based on the Example to Task 5.2 should be prepared with the following columns: Components of housing market; Current situation; Likely impact of proposals; and Action recommended. In the first column, should be written the row headings: Demand, Number of houses; Demand, size of house; Demand, type of house; Building materials availability; Building workforce availability; Building sites availability; Building prices.

(b) The impact of the proposals on the housing market should be considered. If the housing-finance strategy is implemented and works as intended, it will influence the availability of houses and their prices (see NOTES below). The matrix should be filled in accordingly. In column 2, the current situation for the item in each row should be indicated and in column 3 what is thought will happen to it as a result of the proposals. For the Demand rows, information from Task 5.1 should be used to fill in column 3. For column 2, the typical or range of house size and types should be indicated. For the Building rows, if the annual rate of availability is not known, then in column 2 should be indicated at least whether there is a surplus or a shortage of materials, workforce and sites. Prices for typical houses should be indicated. The predicted impact of the proposals should be indicated in column 3, taking into account the impact on households assessed in Task 5.1.

(c) The last column should indicate what action is recommended. Obviously, the proposals are likely to lead to an increase in demand for housing, which will lead to a reduction in availability of some inputs. This may cause in increase prices, unless surpluses exist. However, such negative impact can be minimised and may even be turned to advantage (see NOTES below) by the recommendation of appropriate action.

Information
Indications of the likely impact may be found in reports of what happened when similar demand increases were experienced in the past. Increasingly, bilateral and multilateral donor agencies are carrying out country shelter sector studies, focusing particularly on housing demand and supply. These can provide useful information, and their authors may have not only more information, but will have developed useful insights on which to base judgements and estimates.

Another likely source is local professionals working in the housing sector. If past experience does not provide a guide, it may be possible to obtain estimates from building professionals, housing economists and manpower specialists.

Rule-of-Thumb
See NOTES below.

Examples
See the figure illustrating Task 5.2 opposite.

Example Task 5.2 Impact on housing markets			
COMPONENT	CURRENT SITUATION	LIKELY IMPACT	ACTION RECOMMENDED
Demand (quantity)	large pent-up demand (20-30 per cent) for housing	10-15 per cent more houses required as households get more access to funds	identify options for increasing supply of housing and finance
Demand (house size)	tendency to build large with excess decoration, poor quality	larger, better houses as households get more financing	institute public education to minimize wasteful excesses
Demand (house type)	large houses started, often left incomplete, which deteriorate before they can be completed	more building starts of core units, probably of higher standard	encourage completion of smaller incremental units before building larger ones
Building materials	seasonal variation to reflect nature of production	shortages, higher prices	set/step up local manufacture (note foreign exchange implications
Building workforce	skilled builders in short supply	shortages, especially of skilled builders	start training programmes, particularly apprenticeship based
Building sites	illegal development due to lack of programme of land development	shortages, particularly of smaller sites	urban authority to programme land development
Building, house prices	steady increase over time to reflect shortage	overall increase in house prices if price of components increases	institute the above in order to match demand

Notes

IMPACT ON THE HOUSING MARKETS OF INCREASED ACCESS TO HOUSING FINANCE

Increased and easier access to housing finance will lead to an increase in the demand for housing and, in turn, for building sites, building materials and building workforce. Unless there are surpluses of these when the strategy is introduced, it is likely to increase housing prices, and if the demand is large, to inflationary increases in the economy as a whole.

Much of this negative impact can be prevented if it is anticipated and the supply of each component is increased as an integral part of the proposals for housing finance.

In most developing countries labour may be plentiful, but shortages of skilled operatives and managers may still be constraints to expanding housing supply. With training programmes, this can be overcome, but will take time (2-5 years), and therefore needs planning in advance. Indeed, with anticipation of increasing demand, a skill training programme can increase the numbers of skilled personnel and also improve the standards of the existing manpower. The World Bank-funded Construction Industry Training Programme, started in Sri Lanka in 1982, in anticipation of the Million Houses Programme and the tourism-led boom for hotel and other construction, is a good example how training can upgrade skills and also create a construction profession.

Constraints to the supply of building materials and sites may have arisen, however, because there was not enough demand. For example, the manufacture of building materials and particularly components such as doors and windows, sanitary ware etc, becomes much more viable if the numbers are not only large but, more importantly, are maintained at a constant and predictable rate. It may even be that, with increased demand, materials that are currently being expensively imported could be locally manufactured (the foreign exchange implications of establishing local manufacturing capability will have to be kept in mind).

The production of serviced sites can also become easier and cheaper if it can be planned for on a regular basis. Often the land acquisition, planning and servicing costs and processes are the same for a range of site sizes, because of their fixed-cost component. Therefore, by purchasing larger sites in advance of their requirements, development authorities could reduce the costs per plot and improve the rate of planned supply over a year or two.

Once the impact of an expanded demand has been identified, it should be possible, in most cases, to minimise any negative impact and to use it to advantage by planning the necessary action in advance of expanding demand. It should be noted that different actions require varying lead times. Thus, conventional training of surveyors and land acquisition procedures necessary for the development of housing sites may take five years or more. It is unlikely that a housing finance strategy can afford such a wait, and alternatives that can speed up the process will have to be developed.

Task 5.3 EVALUATE IMPACT ON THE ECONOMY

Objectives
To estimate the impact of the proposed strategy on the economy, to ensure that any negative effects can be pre-empted.

Issues
Should only "first-round" impacts on the economy be considered? If not, how can the effects be measured? (See Notes: IMPACT ON THE ECONOMY OF INCREASED ACCESS TO HOUSING.)

How accurate is the assessment likely to be?

Definitions
BALANCE OF PAYMENTS: This is the difference between the income and expenditure accounts of a country, and is usually calculated at regular intervals. The most significant component is the balance of trade which effectively records the difference between a nation's imports and exports.

INFLATION: A general increase of prices and fall in the purchasing value of money.

INVESTMENT: The act of putting resources to work to produce future returns. This is distinguished from SAVING which takes resources out of circulation without necessarily putting it to immediate productive use. (Obviously the institution with which the savings are deposited will put them to use.)

CONSUMPTION: The opposite of savings and investment, refers to the utilisation of resources for immediate consumption.

Method
The following steps should be followed:

(a) A matrix should be drawn, based on the example to Task 5.3, with the four columns headed: Aspects of the economy; Current situation; Likely impact of proposals; and Action recommended. In the first column should be written the row headings: Balance of payments; Employment; investment; Savings; Consumption; Other institutions.

(b) The proposals developed in outline (in Task 4.1) should be considered. If the housing-finance strategy is implemented and works as intended, it will have an effect on the economy, levels of investment, savings an consumption patterns and the various financial institutions and intermediaries (see NOTES below). These de1iberations [(7)] should be used to fill in each matrix. Notes should be kept of the discussions and the highlights entered in the appropriate spaces on the matrix. Column 2 should be used to indicate the current situation for the item in each row and column 3 for what is thought will happen to it as a result of the proposals. Where it is not possible to fill in figures (not even rough estimates), a short note should be written explaining what is assumed to happen (column 2) or is likely to happen (column 3). Column 3, the "Impact" column, should be used to indicate what is thought likely to happen as the result of the proposals, taking into account the impact on households and housing markets assessed in Task 5.1 and Task 5.2.

(c) The last column should be filled in, indicating what action, if any, is recommended. Obviously the proposals are going to have some impact on the economy, both adverse and beneficial. This is more likely to be the case if the target group constitutes a significant percentage of the total population. By recommending corrective action, the negative impact of the proposals can be minimised. If no remedial action is possible, the proposals should be reconsidered.

Information
Where similar actions have been implemented in the past, reports on their impact will obviously provide the best sources of information. Other useful sources are input-output studies which show the inter-relations of the housing sector with the rest of the economy. If country-specific analysis is not available, approximations may be made based on comparative studies.

If no such information is available, some insights may be had from macroeconomists familiar with the workings of the economy. See also the comments made under Task 5.2.

[(7)] For the second cycle, these should be supported and supplemented by discussions with economists, those working in financial institutions and others familiar with the economy.

Rule-of-Thumb
See NOTES below.

Examples
See the figure below, illustrating Task 5.2.

Example Task 5.3 Impact on the economy			
ASPECT	CURRENT SITUATION	LIKELY IMPACT	ACTION RECOMMENDED
Balance of payment	Most building materials are imported	Marginal unless the increased demand is met by imports	Measures to match local supply to demand, reduce imports
Employment	Urban unemployment has been increasing; informal-sector employment increasing	Construction could mop up labour, particularly migrants	Provide training; create a structured industry/job market
Investment	Target group makes virtually no direct investments	Marginal due to nature of target group	Create possibilities for small investors to participate in economy
Savings	Low level of savings, not helped by lack of focus/opportunities	Savings likely to increase with specific savings-targets in view	Entry of new, small, irregular savers should be made easier
Consumption	Surplus funds mopped up by consumer goods	Reduction in spending on "expensive"/luxury items, foods	Educate/advise on nutrition, value-for-money foods
Institutions	Few in target group interact directly with formal institutions	May be competition to attract savings, some may loose out	Guard against shady, corrupt practices; advise savers

Notes

IMPACT ON THE ECONOMY OF INCREASED ACCESS TO HOUSING FINANCE

Economy
Increased and easier access to housing finance will increase the demand for housing. That, in turn, will exacerbate any existing shortages in building sites, building materials and the building workforce. Unless there are surpluses of these when the strategy is I. introduced, it may lead to increased prices for housing. If demand is large, it may also increase inflation in the economy as a whole.

Balance of payments
If the materials used in housing have a large import content, there will be an immediate impact on the balance-of-payments. The magnitude will depend on both the current balance of payments situation and on the import content of housing (unless steps are taken to minimize this in Task 5.2). Generally speaking, there is every reason to suggest that housing, particularly for the lower income groups, can and should be constructed with minimal import content in the long run, though this may not be possible for countries that are dependant on imported energy.

Employment
Increased housing production implies increased employment and investment opportunities, as housing construction is usually a labour-intensive process and constitutes fixed assets.

The increase in employment is fairly obvious for the construction sector. The level of employment generated will depend on the type of housing produced (see Task 5.1). Generally speaking, labour-intensive, lower-income low-rise housing will generate higher employment opportunities than high cost or high-rise housing. The cost of creating employment in this sector is also much lower (up to 1/20th that of manufacturing industry in the "formal" sector) than in most other sectors. Moreover, the type of employment created is well suited to the mass of urban immigrants, requiring minimum skills or training. Employment in the construction industry is an efficient and useful training and transformation process for creating a more modern and better skilled labour force.

Investment
Housing construction has a major impact on employment and investment in other sectors. For example, there is a close correlation between housing and demand for domestic appliances, the so-called "white goods", such as refrigerators, cookers, washing machines etc. The housing construction process also requires inputs of up to 70 per cent from other economic sectors, including agriculture, light, medium and heavy industry and services. At the same time, with increased employment, there will also be increased demand for goods in general from a previously un- or under-

employed section of the labour force. Even with lower-income households, the increase in demand can be significant because of their large number. The associated investment multiplier is about two, but with obvious variations amongst countries.

Savings
An increase in savings, particularly held in financial form, is a policy objective for most countries, since it allows for some of these savings to be used to finance investments in a variety of sectors. In many countries, there is either a very low level of savings, or savings are held in the form of gold and other assets not accessible for investment. The introduction of a housing-related savings programme can act as a major tool in increasing the level of savings in such countries, without adversely affecting other forms of savings and finance institutions. Housing-related savings will not necessarily divert existing forms of savings, but will generate new savings and funds that would not otherwise be transformed into formal savings.

Consumption
Being the opposite side of the savings coin, it is likely that a strategy which calls for housing-linked savings is likely to divert funds from current expenditure as well as from non-financial saving (see Task 5.1). To the extent that the savings are financed from reductions in current expenditure, these will effect consumption levels for particular items. The most obvious areas for reduction are probably non-essential items such as alcohol and tobacco, entertainment and transport. There may also be a reduction in expenditure on food, largely through a shift to cheaper foods. If the scale of increased access to housing is large, producers and suppliers of consumer items are likely to experience a slight reduction in demand in the initial stages. Suppliers and producers can minimize the impact if they anticipate the corresponding increase in demand for alternative goods and services.

It is also possible that some of the savings will be generated through cutting down on essential expenditure. One possible impact is the reduction in food to the younger and female members of households, which could become a danger if those groups are already malnourished. This impact can be minimised through counselling and awareness programmes that should be launched in anticipation.

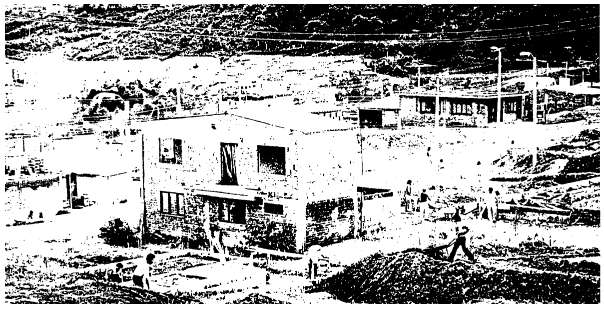
Other institutions
The increased demand for housing and the associated changes in savings and consumption patterns is likely to have an impact on financial institutions and intermediaries. The likelihood of obtaining a house is a powerful incentive for domestic savers. The impact is likely to be greater if there is a diversion of savings and savers from these institutions to the housing-linked institutions, rather than attracting new savings (see Task 5.1).

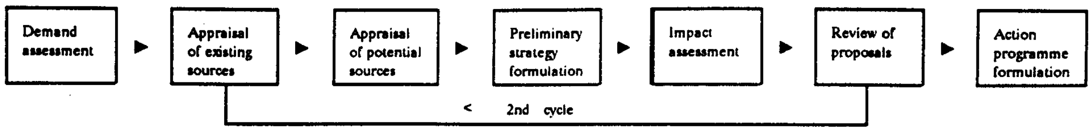
It may be that some of these other, non-housing institutions will also want to participate in the housing-finance strategy, or will offer similar schemes depending on their assessment of the likely impact and room for manoeuvre permitted by their rules and regulations. If it is thought likely that there will be considerable adverse impact on these other institutions, it is advisable that an early discussion takes place with them in order to minimize the possibility of retaliatory or pre-emptive action by them which could jeopardise the strategy.

The reforms and innovations introduced by the strategy into the financial market are likely to lead to an increase in overall efficiency. If nothing else, any reduction in subsidies for housing will be beneficial and any shifting or reallocation of capital on the basis of competition rather than government directive is a good indication of increasing financial efficiency.

Once the likely impact of an expanded demand has been identified, it should be possible in most cases to minimize the impact and even use it to advantage by planning the necessary action in advance of expanding demand.

Stage 6: REVIEW OF FIRST CYCLE AND PREPARATION FOR SECOND





STAGE 6. REVIEW OF FIRST CYCLE AND PREPARATION FOR SECOND CYCLE

By this stage, there will be a draft for a workable proposal for housing finance, but one that was done primarily in order to understand the process and become familiar with it. Therefore assumptions have been relied upon wherever necessary, rather than waiting for more reliable information.

Before being finalised, the proposals need to be reviewed to identify those data items that need clarification, confirmation or conversion from assumptions to facts.

The review will also allow the identification of those tasks that will need to be redone, either in the light of the more correct information generated or because of having a better understanding of what has to be done and how to do it and the implications of each task on the other. As a result, the second time round will also produce better proposals.

It may be that the Manual is being worked through only as a training exercise, and not in a real situation which allows for the generation of information. The Review should still be done, even though the information required cannot be obtained, as it will be possible to identify those areas that are information-sensitive, and gain a deeper understanding of the factors involved.

Once some or all of the previous tasks have been repeated as part of the "second cycle", a document can be produced presenting the proposals, including specifications for the institutions that will be handling the housing finance.

Task 6.1 REVIEW OF FIRST CYCLE

Objectives

To review the proposals and the preceding stages and Tasks in order to pinpoint further needs for information and data.

Issues

n.a.

Definitions

CRITICAL: Refers to that information which, if changed, will cause the reconsideration or re-evaluation of results, conclusions and/or proposals.

Method

The following steps should be followed:

(a) An information needs chart similar to the one in the Example to Task 6.1 should be drawn, with the four columns headed: Task; Households/users; Client; and Other institutions respectively.

(b) In the first column, each of the Tasks and sub-tasks should be entered. The work done in response to each Task and sub-task should be looked at, identifying information needs. Remember that "information" also includes "confirmation".

To identify the information needed, examine the assumptions made in the first cycle. Assess whether an assumption was critical in influencing later Tasks and, in particular, the proposals. If the assumption was not critical, a search for more accurate information may improve the overall accuracy of the report, but will not improve the proposals. Therefore, the time and effort spent obtaining information relating to an uncritical assumption should be kept to a minimum.

(c) Every piece of information that is critical should be entered in one or more of the next three columns, depending on what is thought to be the most likely source (refer to the section on information in the Task sheets). For entries in column 3, the particular source should also be indicated.

(d) A confirmation and action needs chart similar to the one in the example to Task 6.1 should be drawn, with the four columns headed: Proposal; Households/users; Client; and Other institutions. Each of the proposals should be entered in the first column. What action or confirmation as to acceptability has to be taken by the user, the client and/or by other institution should be indicated in the respective columns.

Examples

The figure below gives an extract from an exercise based on the preceding Tasks.

Example Task 6.1 Information and action needs summary chart			
INFORMATION/CONFIRMATION NEEDS			
TASK	USERS/Households	CLIENT (Min of Housing)	OTHER INSTITUTIONS
1.1 Target groups		Confirm conclusions particularly regarding income range	
1.2 Demand for finance	Confirmation of conclusions, particularly relating to costs, likelihood and levels of borrowing		Population size and growth figures (Census Dept, UDAs)
2.1 Current sources	Confirmation, particularly regarding acceptability of sources		Confirmation of terms and conditions of sources (Min Finance/State Bank)
ACTION/CONFIRMATION NEEDS			
PROPOSAL	USERS/Households	CLIENT (Min of Housing)	OTHER INSTITUTIONS
SLS Saving for Land	Test reaction to and acceptance of scheme, waiting period	Confirm acceptance Check legal requirements	Check reaction to becoming “participating institutions”
IHP Incremental Housing Prog.	Test reaction/acceptance	Confirm acceptance Check legal/admin requirements	Confirm acceptance (UDA) Check land availability, time, cost allocations (UDA)
CSA Community-based Saving	Test reaction/acceptance	Confirm acceptance Check legal/admin requirements	Confirm acceptance (Ministry of Finance, Housing Bank) Check outline set-up (Housing Bank)

Task 6.2 THE SECOND CYCLE

Objectives

To develop a programme of action for the second cycle.

Issues

n.a.

Definitions

n.a.

Method

The following steps should be followed:

(a) Make a list of Tasks based upon those undertaken in the preliminary cycle (Stages 1 to 5). The information and action needs identified in Task 6.1 should be used to modify the list: those Tasks that are not critical need not be repeated, and can be left out.

(b) The information and confirmation needs should be combined into packages intended for the same person or institution before including them in the Tasks. For example, a number of information needs and some of the confirmation needs that relate to the users could be combined and obtained through a single survey. They could be undertaken as a sub-task early in the second cycle, even though some of the information that will be sought is to be used in Tasks right at the end of the second cycle.

(c) Having done the preliminary cycle, it should also be possible to identify what other resources are required in the way of assistance, particular skills and/or expertise.

(d) A schedule or programme for carrying out the Tasks should be made, as well as a list indicating what resources are required, when and for how long.

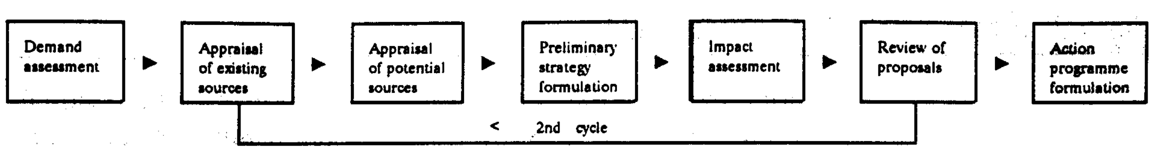
(e) The Tasks listed and programmed should be carried out. The instructions given for the various Steps and Tasks should be re-used, but this time round it should be possible to concentrate more on the proposals than on the process.

Example

The figure below is a partial excerpt showing some of the Tasks for the second cycle.

EXAMPLE Task 6.2			
TASKS	OBJECTIVES	RESOURCE REQD	TIME
1.1	Set target group		*[minimal]
1.2 2.1	Demand for finance Current sources	10 Survey assistants/interviewers 1 Analyst (computer) 1 Economist/Financial expert	1 week 1 week 2 days

Stage 7: ACTION PROGRAMME FORMULATION



Having repeated some or all of the Tasks of the first cycle, a better outline proposal will have been arrived at after the second cycle, based on more accurate information.

The outline proposals will suggest a number of actions and initiatives to be taken. Among them is likely to be the establishment of one or more new (housing-finance) institutions, and/or the modification of existing ones. This Stage develops these proposals into a programme for action.

To do this, first any new or modified (housing-finance) institutions proposed by the strategy in Stage 4 have to be designed in detail. Then, having identified what needs to be done by whom in order to implement the proposals, the various actions identified in the earlier tasks (Tasks 4, 5 and 7) will have to be programmed. This will mean estimating the length of time each task is likely to take, and arranging them in the right sequence. It is suggested that this be done as two separate operations: the first to cover the legal and administrative actions needed to prepare the context for the proposed and/or modified institutions, and the second to cover the changes that have to be made within existing housing-finance institutions.

This will help to identify gaps in the set of proposed actions by indicating bottlenecks as well as the need for additional action. It will also help identify possible shortages of labour or of institutional capability.

This process should produce a set of workable proposals for housing finance. However, before they can be implemented, they will need to be approved and accepted so that they can then be acted upon. This will require the production of a document presenting the proposals to the various authorities and individuals concerned. (8) Some of these will need to know and see the whole document, while others need to see and know about only that which concerns them and the specific actions required of them. This may be a straightforward piece of acceptance or confirmation, or it may require a complex series of actions. In each case, agreement to undertake what is required of them will depend on the presentation of the case. How well and how willingly they then perform depends also on how well they understand what is required.

Clarity and brevity are therefore likely to be the key words in the finalisation of the proposals.

(8) In a real process, many of these actors would have been involved from the earliest stages in consultations, meetings etc., providing guidance and information or reacting to alternatives. For a training exercise, their place could be taken by participants in a simulation game. For this, one or more persons should take on the role of each actor or institution. The first step involves writing out a brief characterisation of the role: background, attitudes, resources. The second step would be to have these characterisations discussed by the whole group and any modifications made. In the third step, participants would role-play, reacting to proposals, requests for information, clarification or permission as required by the various Tasks of this Stage.

Task 7.1 DESCRIBE INSTITUTION

Objectives
To describe the new or modified institutions that will be used to provide housing finance as part of the strategy.

Issues
Is it better to set up a new institution or to modify an existing one?

How will the institutions operate? (See Notes: LENDING INSTITUTIONS.)

Definitions
n.a.

Method
The following steps are required:

(a) The new, or modified institutions being proposed should be considered and, for each institution, a chart based on the example to Task 7.1 should be used. On the basis of discussions and deliberations, the information asked for should be filled in. For modified institutions, the answers will refer primarily to the modifications proposed, and it should be indicated if no change is required to any particular aspect. (9)

Sources of funds - indicate where the money that will be used by the institution will come from.

Amount - indicate the total amount expected from each source.

Terms - indicate the terms on which this money will be made available to this institution from each source (e.g., rates of interest, repayment period, etc.).

(9) The headings deal with financial institutions. If your strategy calls for other types of institutions instead, or as well, then this establishment and its operations should similarly be explained.

Conditions - indicate what conditions are applicable to each source (e.g. deposits, collateral, etc.).

Period - indicate, for each source, whether the supply is one-off or if continuous, over what period.

Clientele - indicate if there are any restrictions or preferences as to whom the money from each source will be lent. Based on this, indicate the anticipated client profile of the institution.

Lending - indicate how the money will be lent to clients (e.g., process, stages etc.), and whether there will be restrictions or limitations on either the size or use of the loans.

Amount - indicate the expected range of each type of loan and the total amount expected to be lent by the institution annually.

Terms - indicate the terms on which this money will be lent to borrowers/clients.

Conditions - indicate what conditions will apply to borrowers.

(b) Next, short notes should be written on each of the following:

Legal status - indicate the legislation under which the institution will be established or modified.

Operations - indicate the staffing (organization, qualifications, numbers, sources, training) and operations (location, timings) of the institution.

Type of loans - indicate the kinds of loans the institution will make.

Eligibility - indicate what criteria will be used to determine eligibility for loans/savings.

Application - indicate the applications process.

Selection - indicate what procedures and criteria will be used to select applicants.

Security - indicate what form of security the institution will require for its loans.

Repayments - indicate how (when and in what form) the repayments will be made.

Defaults - indicate what action will be taken at which stage against defaulters.

Foreclosure - indicate what steps will be taken at which stage by the institution in order to foreclose. Indicate the legal basis for these.

(c) Having described the new or modified institution, indicate the basic steps required to establish or modify the institution.

Information
Most of the information will come from the previous Tasks.

Rule-of-Thumb
Box 3 gives a useful checklist which compares conventional institutions and the needs of low-income households.

Examples
See the figure illustrating Task 7.1 below.

Example Task 7.1 Proposed housing-finance institutions summary chart

	SAVINGS-FOR-LAND	COMMUNITY-BASED SAVINGS
Source of funds	Deposits by households	Treasury through the Housing Bank
Amount	Rs. 250 million + annually	Rs.5 billion (over 5 Years)
Terms	10 per cent, average 2 years	8 per cent, capital need not be repaid
Conditions	Money must be used to buy and develop land	Must be on-lent to community groups
Period	Supply expected to continue	One-off payment to provide seed capital
Lending	Money to be lent to Urban Development Authorities, and other acceptable developers	Money will be lent to street-based associations of 20 to 50 households for sequential loans
Amount	Rs.20 to 50 million; Rs.200 million annually	Rs.10 to Rs.15,000; a max of Rs.1 billion annually

Terms	12 per cent, each loan to be repaid within two years through sales of plots	15 percent to associations, who may on-lend to members at a higher rate if they agree
Conditions	Each local authority will be expected to develop plots commensurate with expected demand	All members of an association will be liable collectively for all their debts and liabilities

Notes

Lending Institutions

Many of the basic aspects of lending institutions, such as sources of t funds and the terms and conditions of lending, have been indicated in the Notes: SUPPLIERS OF HOUSING FINANCE (Task 3). These Notes cover the more practical, day-to-day operational matters that lending institutions have to deal with, such as making loans, selecting and approving borrowers, minimising risks and , staffing.

Making loans

Housing-finance institutions make loans to people to build or to buy houses and there will be no shortage, particularly in developing countries, of people in need of the loans. The difficulties the institutions will face will be in raising the funds from which to make the loans and in raising them on acceptable terms.

The different kinds of institution, listed in Stage 3, have different approaches to mobilising funds, but the process of making the loan is similar in all cases; though there may be some special considerations in the case of loans to some low-income families.

The main principles can be simply stated; funds are borrowed by the institution at given terms and are then lent against the security of property (or some other security) at a higher rate. The difference between the two interest rates is the total of:

(a) Management expenses
(b) Bad debts (or losses on lending)
(c) Transfers to reserves
(d) Taxation
(e) Profit

Security

The prevailing legal system will determine the rights of land occupation that are available and how they can be secured for the benefit of the lender. Local conditions will affect the alternative kinds of security that can be accepted and the actions that can be taken in cases of arrears and default. In some countries, there are different attitudes to the charging of interest on loans. See Box 14.

With modifications of this kind, loans for housing finance are secured both by the promise of the borrower that he will repay and also by a charge against the property in respect of which the loan is made and they are repaid, with interest, over a period of years.

Box 14. Interest-free loans
Islam prohibits Muslims from making interest charges or "RIBH", requiring instead that money should be made available as an investment in the enterprise for which it is lent, on a sharing of risks basis. For example, the statutes of the House Building Finance Corporation (HBFC) of Pakistan, which operated as a conventional interest-charging institution were amended in accordance with Islamic fiscal legislation in 1979. As a result, the HBFC was empowered under its statutes to "make investment, in collaboration with partners, for construction or purchase of houses, or for purchase or development of land". Consequently, its borrowers became its partners, and under the new system, when the property is sold, profits or losses are assessed market value of the property. While the property is in use, the borrower pays an annual amount equivalent to the HBFC's share of the attributed "rent".

Box 15. The Grameen Bank: an alternative approach to non-corporate finance in Bangladesh
While the Government struggled to create a viable rural banking system in Bangladesh, a small private initiative was started in 1976 to help the landless without normal bank collateral to obtain credit. This programme has become the Grameen (Rural) Bank. The unique operating procedures of the Grameen Bank grew out of several earlier attempts to reach the rural poor and were a sharp departure from traditional banking. The Bank's customers, who are restricted to

the very poor, are organized into five-person groups, and each group member must establish a regular pattern of weekly saving before seeking a loan. The first two borrowers in a group must make several regular weekly payments on their loans before other group members can borrow. Most loans are to finance trading and the purchase of livestock. By February 1987 the Grameen Bank was operating 300 branches covering 5400 villages. Nearly 250.000 people were participating, among them an increasing number of women, who accounted for about 75 percent of households with less than half an acre of land in the areas in which the bank was operating. Loans are small - on average, about Taka 3000 ($100) in 1985. By the end of 1986 about Tk1.5 billion had been disbursed, of which almost Tk1.2 billion had been recovered. Outstanding loans were thus about Tk300 million, with almost 70 per cent held by women borrowers. In sharp contrast to the Bangladesh commercial banking system, the Grameen Bank has experienced excellent loan recovery. As of February 1987 about 97 per cent of loans had been recovered within one year after disbursement and almost 99 per cent within two years. This good performance is reportedly attributable to a combination of factors: close supervision of field operations, dedicated service by bank staff, borrowing for purposes that generate regular income, solidarity within groups, and repayment in weekly instalments. Another factor which encourages repayment is the borrower's knowledge that the availability of future loans depends on the repayment of borrowed funds. Bank staff meet weekly with groups to disburse loans, collect savings deposits and loan payments, and provide training in financial responsibility. This means high operating costs. The ratio of expenses to loans rose from 9 per cent in 1984 to 18 per cent in 1986. These high costs have been partially offset by low-cost funds from international agencies.
From: The World Bank. "Financial systems and development", in *World Development Report 1989*, Washington, D.C., The World Bank 1989

Selecting borrowers

The institution's first and most important meeting with its market will be with an applicant for a loan. It will first need to consider whether the applicants are eligible to borrow. Are they of the right age and status? Are they bankrupt, or under some other financial or legal disability?

The second and more serious consideration is whether the applicant is able to undertake the financial responsibility of repaying a loan. For this decision, evidence of income will be needed, not only from the applicant, but also from any other member of his family who may be asked to contribute, and also whether the income is regular or intermittent. Other contributors may be asked to join the application and share responsibility and guarantors may be introduced to give additional security. The age of the applicant is also important since it can be assumed that his income will either cease or reduce substantially on retirement and the repayment should be completed before then.

References from employers will be valuable, but self-employed people will have difficulty in producing convincing evidence in support of their ability to service the loan.

Box 16 shows the experience of one housing-finance institution, HDFC of India, in making loans to low-income households.

When an income-level has been established, a decision has to be made as to the amount of loan that it can support and this, in turn, will depend on the rate of interest, the period of repayment and the amount of the family income that can be safely spent on housing. It should be emphasised that local information (such as from the survey in Stage 1) is more valuable than a "rule of thumb" percentage. If a "fixed annuity loan" is chosen the monthly repayment is usually found from mortgage repayment tables (there are also mortgage repayment tables for the more complicated calculation in the case of a "low-start mortgage").

The most important decision that a housing-finance institution will have to make will be whether to accept or reject a loan application. It will not help to make a loan to someone who cannot afford to repay it; this will damage both the applicant and the institution. Judgement, experience and sometimes intuition will be needed to assess the available evidence.

In addition to the borrower's promise to repay, there will usually be the security of the property itself. Action against the property, which is considered below, should be the last resort when all other actions have failed. Such action will mean dispossessing the borrower and his family and cause hardship, as well as bad publicity. Even though the process of eviction and sale very rarely takes place, the possibility that it could encourages regular payments.

Box 16. Lending to the poor in India
One of the problems that HDFC has encountered in lending to the poor in India is in assessing the incomes of applicants. Self-employed individuals with small incomes are not required to pay income-lax and so there is no possibility of verification of income from their tax returns. HDFC has resorted to innovative techniques for this purpose. For instance, while lending to a co-operative society of small traders in a small town in Gujarat, our credit officer had to spend hours with vegetable vendors and small grocers at their stalls by the roadside to estimate their incomes. HDFC has occasionally found that such people do not even have bank accounts; they have then to be encouraged to open a bank account and deposit a small sum every month in those accounts to enable them to service our loan conveniently. Many of these borrowers are not literate and are not even in a position to fill up an application form for a loan. The problem is further compounded because there is no uniform language for communication. HDFC has to help out individuals in deciding on the loan amount to be applied for, as well as in filling up the forms. More importantly, individuals have sometimes to be educated about the obligation to repay the loan in a timely fashion. In the past, there have been various occasions when government and government agencies have provided loans, especially in small towns and rural areas, which have then been written off, resulting in individuals developing the belief that loans need not be repaid. An interesting problem that HDFC has encountered concerns collection mechanisms in respect of borrowers whose income arises irregularly, as in certain self-employed cases, or on a daily basis, as in case of some casual workers. For instance, HDFC has provided loans on a pilot basis for a housing project in a tribal area of Valod The loans range from Rs.1000 ($100) to Rs.5000 ($500); the borrowers include agricultural labourers earning about Rs.10-12 per day during the sowing and harvesting seasons I and possibly nothing for part of the year. HDFC, along with a local voluntary agency in that area, is encouraging these individuals to save on a daily basis out of their income to facilitate repayment of the loan. HDFC is also discussing with agencies the possibility of setting up a service agency in each village which would be responsible for collection of the loans for a small fee. All these factors greatly increase the cost of servicing loans to low-income individuals. Coupled with this is the fact that the loan amount is small. Therefore, the profitability of loans to low-income individuals is not very attractive. In case of arrears in repayment of such loans due to illness or , loss of employment, the lending agency would have little choice but to reschedule such loans. Fortunately, HDFC has not had occasion to reschedule any loan, but the possibility always exists.
From: *HDFC Annual Report 1989*, Bombay, HDFC, 1989.

Alternative forms of mortgage

As with the title, the form of mortgage or charge against the property will arise from local law and custom, but there are a number of variations from the standard document, as follows:

(a) There is the incremental loan mortgage, sometimes called an open-ended mortgage or a sequentially-escalating mortgage. A series of small loans can be made under a single mortgage document (which helps to reduce costs); a subsequent loan being available when an earlier loan has been repaid. It can match the loans to construction in stages, with the first loan perhaps for the serviced site, the next for the first stage of construction and so on. It limits the exposure of the borrower while enabling him/her to know that further funds can be borrowed. It may also, however, slow down the completion of construction.

(b) There is also the loan based on the "compensating balance" principle sometimes known as the "blocked-compensating balance" mortgage. The principle is that the borrower makes a deposit with the lender which is then blocked, that is not refunded until the loan has been largely repaid. The deposit could, for example, be the amount of a down payment. The borrower then has a loan for the full 100 percent of cost or value and has, in addition, interest on the deposit.

This may have advantages to borrowers with irregular incomes, since a missed repayment or two could be made up from the blocked deposit. The disadvantage clearly is that a substantial deposit has first to be found and that interest is payable on 100 percent of the value of the land or house.

(c) There is also the group mortgage, when the property is bought in the name of a group of people, usually a co-operative, and the group is responsible for the repayment rather than the individual. Irregularity of incomes can be evened out within a group and pressure exerted by the members on each other to reduce the likelihood of default.

(d) The low-start or accelerated repayment mortgage (see box 12) allows households to obtain a mortgage with a low initial monthly repayment. Though the repayments increase at a regular rate throughout the repayment period, households should be able to keep up with the increase through increases in monthly earnings.

Minimising risks

Mortgage finance - that is a loan secured against property - is not the only kind of housing finance. Guarantors may be possible. These are people with larger and more stable incomes prepared to share the responsibility. There can also be guarantees by government or some other institution to give protection to the lender, and local alternatives may be possible.

Box 17. The Badan Kredit Kecamatan: financial innovation for the non-corporate sector in Indonesia

A government project in Central Java, the Badan Kredit Kecamatan (BKK), lends tiny sums without collateral, largely to middle-aged peasant women. The BKK takes no longer than a week to process the one-page loan application form and does not supervise the loans.

It sounds like a recipe for disaster, yet the BKK is one of the most successful banking operations of its kind in the world. More than 35 per cent of Central Java's 8500 villages are serviced by almost 500 sub-district BKK units and 3000 village posts. As of 31 December 1987, the BKK had 516,000 outstanding loans. 90 percent of which were for less than $60. The BKK earned $1.4 million in profits in 1987 - a 14 percent return on the consolidated average outstanding portfolio for that year. Although the delinquency rate appears to be high - about 20 per cent of outstanding loans - a closer look reveals that about three-quarters of arrears are several years old and should be written off. If these loans were subtracted, the actual repayment rate would be around 95 per cent. (The BKK resists writing off bad debts because it feels that this sends the wrong message to borrowers.)

Starting in 1970, at the initiative of the Governor of Central Java, a BKK unit was created in each of the sub-districts *(kecamatan)* with an initial loan of 1 million rupiah. The loan was provided by the provincial government through the Regional Development Bank at 1 per cent interest per month. Additional funds are borrowed from the Regional Development Bank, also at 1 per cent interest per month. To bypass restrictions and paperwork, these BKK units were classified as non-banks. This enabled the BKK to charge interest rates high enough to cover its costs, to avoid credit allocation, and to ignore traditional collateral requirements.

BKK loans are relatively cheap. Daily credit from moneylenders costs 20 per cent a day. Monthly loans through the organization of retired military officers cost 47.5 per cent a month. The BKK's effective monthly rate is about 7.5 per cent. A maximum of one week elapses between loan application and disbursement or rejection. If the first loan is repaid on time, new loans may be disbursed on the same day as the application. To get a loan, borrowers must fill out a simple one-page form and receive the approval of their village leader. No collateral is required. The system relies upon the character references from local officials and peer pressure to encourage repayment.

The BKK reduces risk by making initial, short-term loans of about $5. The administrative costs would seem prohibitive. But these loans introduce villagers to the financial system and enable them to graduate to larger loans. Most clients agreed that the greatest incentive for repaying on time was the expectation of getting another loan.

Each local BKK is an independent unit, not a bank branch. The staff of the Regional Development Bank supervises the local units carefully. Salaries of BKK staff are low, but motivation to expand the portfolio and maintain a good collection rate is high, since 10 per cent of a BKK's profits are divided among its staff. If a BKK goes bankrupt, staff members are no longer paid.

The main source of BKK funds has been loans from the Regional Development Bank. Each loan to borrowers, however, has a mandatory savings component that earns interest and can be withdrawn when the loan is fully repaid. Recently the BKK began a voluntary savings programme in nine units. More than $30.000 was raised within seven months, with an average savings account of only $9. Most of these voluntary savers were not BKK borrowers. The programme [was to] be duplicated at 400 of the healthiest units in 1988/89.

From: The World Bank, "Financial systems and development", in *World Development Report* 1989, Washington D.C., The World Bank 1989.

There are a number of different kinds of insurance that may appear in the housing-finance transaction. Since the lending institution has an interest in the property, it should be insured against fire and other forms of damage and the benefit of the insurance be assigned to the lender.

Also (unless there is an endowment repayment) the life of the borrower should be insured for the amount of the outstanding loan so that his dependants, in the event of his death, may receive the unencumbered property. This is called a "mortgage protection" insurance which can be paid for with a single premium which is then added on to the amount of the loan -resulting in a slightly increased repayment period.

There is also the kind of insurance that can be taken out by the lending institution to cover its risks of reducing down-payments, extending repayment periods and of making loans to lower-income families. As with the costs of processing an application, capitalised insurance premiums can be added on to the amount of the loan and repaid by a small increase in the monthly repayments.

There are unfortunately a number of situations in which borrowers can fall into arrears and they are not always predictable or avoidable. Typical events are loss of employment, breakdown of relationships or serious illness and the first thing the manager of the lending institution must do is to find out what the problem is and whether anything can be done. One adjustment would be for payments of interest to be made, but for repayments of capital to be suspended. A more extreme measure, if the problem was seen to be short-term, would be for all payments to be suspended until things improved. Help may be possible from members of an extended family to avoid the extreme penalty of the loss of the house. The important thing is for the manager to know what is wrong and what is being attempted and to be as sympathetic as possible within the limits of his obligations to his institution and to his investors.

Staffing
The operations of a housing-finance institution are varied and need specially trained people - perhaps an argument for adapting an existing institution rather than starting a new one. An additional problem with deposit-taking institutions is their need to be readily available to investors, and have many branches. Borrowing for a house happens infrequently but saving, for whatever purpose, is a regular weekly or monthly event.

In addition to its general management, the office must be able to conduct interviews, gather evidence, operate accounts, maintain files and keep records and documents. The legal requirements may be provided by the institution, or acquired from outside and the same applies to the valuation of the property as an adequate security. Repayments of loans may be made to the institution, or it may arrange for its own collection service. In either case, facilities for the handling and safeguarding of cash will be needed. Being constantly in touch with members of the public, a lending institution must be mindful of its public relations and perhaps it will need to advertise the availability of its services. These last points will be even more critical if the institution also accepts savings and short term deposits from the public.

In addition to providing staff to perform these functions, the institution will need to arrange for training programmes, so that they and their successors will be better informed and able to assume positions of increasing authority.

Task 7.2 ACTION PROGRAMME

Objectives
To work out, in detail, the series of actions that will have to be undertaken in order to implement the proposed housing-finance strategy.

Issues
n.a.

Definitions
n.a.

Method
The following steps should be followed:

(a) From the outline strategy chart developed in Stage 4 and Stage 5, and modified as a result of Stage 6 and using the details from Task 7.1, those actions that will need to be undertaken in order to implement the proposal should be identified. This should include the legal and administrative changes that have to be made within the institutions themselves.

(b) These should be entered in the first column (Action) on a chart similar to the one in the example to Task 7.2 (chart A). In the second column should be indicated prerequisite actions for each of these actions. There will be some actions that can be done straightaway, without any other action being required first, and for these, "NONE" should be written in the second column. For some of the actions, another action elsewhere in column one will be required to be done first, and this should be indicated in column two. Where the prerequisite action is not already listed in column one, a brief indication should be given of what is required in column two. For those actions that are the last in a series or sequence of actions, and are in a sense the objective of that series of actions, "FINAL" should be written in the second column.

(c) This will give sets of linked sequences. Where these contain actions that cannot be implemented, that series of actions should be dropped from the strategy. If this is done, the implications for the overall strategy should be considered: it may need going back to some of the earlier Tasks and thinking of alternatives.

(d) Once there is a set of workable sequences, each sequence should be entered on a chart similar to that in the example to Task 7.2 (chart B). The various actions of the sequence should be listed in the first column. In the second column should be indicated how long each of the actions in that sequence is expected to take. In the next column should be indicated the main actors (individuals, organization, institutions) involved, and in column four, the resources required to carry it out. The fifth column should be divided into suitable time periods and a bar drawn indicating the length of time required: the bar should start at the time when that action could start, keeping in mind the preceding actions. Each sequence chart should be given a title which encapsulates the sequence of actions envisaged (perhaps based on the end result).

(e) On a chart similar to that in the example to Task 7.2 (chart C), a summary programme of all the sequences should be provided. In column one, the titles of each sequence should be listed, and in column two a bar drawn representing the total time required (from the individual charts), again keeping the preceding actions in mind when determining the start dates.

Information
Outcomes of Stages 4, 5, and 6 and Task 7.1

Examples
The figure on the next page shows sample excerpts from the three types of charts suggested for this Task.

Example Task 7.2 Programme or legal and administrative action summary charts

Chart A. ACTION LINKS

ACTION	PREREQUISITE ACTIONS
Establish street-based associations (SBAs)	Establish community-based lending. FINAL
Establish community-based lending	Agreement of Housing Bank
Designate participating institutions	Criteria for participation
Earmark some HBFC funds to target group	Ministerial directive
Prepare ministerial briefing	Can be started after developing strategy. NONE

Chart B. SEQUENCE: Street-based associations

ACTION	TIME	ACTORS	RESOURCES	TIMING
1. Street briefing meeting	*	CBAs Households	Briefing package	*
2. Formation of SBA	1 month	Households	CBA advisory team	********
3. Deposits by members	on-going	Members		*********
4. Loans to members	On-going	SBA, members		***

Chart C. SUMMARY OF ACTIONS

Incremental housing programme	**
Saving-for-land scheme	***
Community-based associations	***************
Street-based associations	******

Task 7.3 PRODUCING THE FINAL REPORT

Objectives
To produce the documentation necessary to implement the housing-finance proposals.

Issues
Who should receive the final report?
What should it contain? (See Notes: FINAL REPORT)

Definitions
n.a.

Method
The following steps should be followed:

(a) The action/confirmation list (Task 6.1), should be used to list the persons or institutions who need to be presented with reports or other documents.

(b) For each person or institution, the method of presentation of the information they need to confirm or act upon should be indicated. These presentations may range from written or verbal presentations, and may be formal or informal, in the form of reports, memoranda presentations made either directly or indirectly. If indirectly, the channel through which they are to be made should be indicated.

(c) The necessary documentation and presentation material should be produced and the proposals submitted or presented.

Information

n.a.

Rule-of-Thumb

The client will almost certainly require a written report. Wherever possible this should also be presented verbally, so that the main points can be highlighted and understood. The process will be made much easier if the client has been involved and informed throughout the strategy development process, and at least the preliminary proposals have been discussed.

For action that needs to be taken by other institutions, reports will have to be produced that identify clearly what needs to be done, and why. Most often these will have to be presented through, or by, the client and therefore the client must be properly briefed.

Notes

FINAL REPORT

It is best to keep the final report to the client as brief as possible. Stick to the main findings and proposals without going into details of what was done and how it was done.

Much of the detail, which is required to demonstrate that at thorough piece of work has been done, or to back up the proposals, can be presented in the form of appendices and, if voluminous, bound separately.

The report itself should consist of an executive summary, and sections summarising the background information and the proposed strategy.

A typical listing of the contents of the two main sections is as follows:

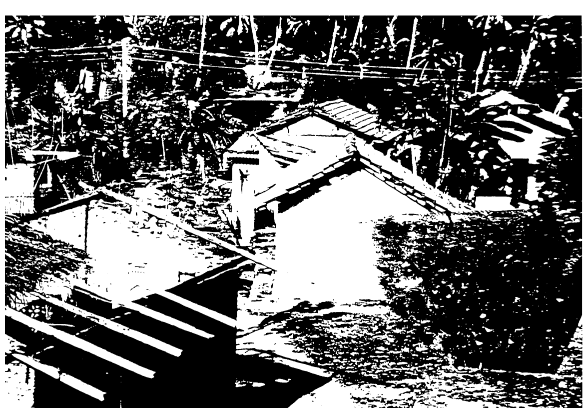
A. Background information

- (i) The need for housing finance (Stage 1)
- (ii) Existing housing finance situation (Stage 2)

B. Proposed strategy

- (i) Policy proposals (Stage 4)
- (ii) Institutional proposals (Stage 7)
- (iii) Implementation programme (Stage 7)
- (iv) Impact and implications (Stage 5)

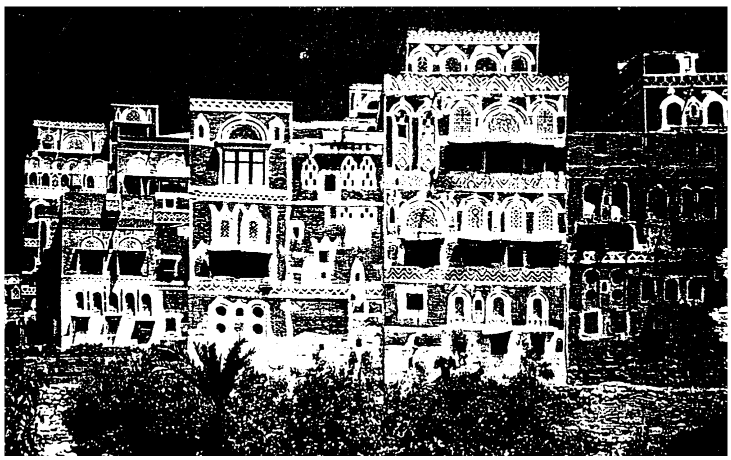
READINGS



This is a list of essential reading material for anyone concerned with housing-finance strategies. They have the further merit of being short pieces that are easily available. For a course, these seven readings should be the core which can be supplemented by other material focussing on local conditions.

Boleat, M.	"Housing finance institutions" in *Shelter Settlement and Development* (edited by Lloyd Rodwin), *Allen* & *Unwil1,* London, 1987
Renaud, B.	*Housing and Financial hzstitutiol1S in Developing Countries,* World Bank Discussion Paper, Washington, D.C., The World Bank, 1964
Struyk, R. and Turner, M.	"Creating a housing finance strategy in developing countries", in *Housing Finance International,* August 1988
United Nations	*Non-Conventional Financing of Housing for Low-income Households*, New York, 1982 (ST/ESN83)
United Nations	*Community-based Finance Institutions,* Nairobi, UNCHS (Habitat), 1987
United Nations	*Mobilisation of Financial Resources for Low-income Groups*, Nairobi, UNCHS (Habitat), 1989
The World Bank	"Financial systems and development", in *World Development Report 1989*, Washington, D.C., The World Bank, 1989

GLOSSARY



This glossary lists and defines terms in the context in which they are used in this Manual.

ACCELERATED REPAYMENT MORTGAGE	Sometimes known as the "low start" mortgage this method provides for the monthly repayments to increase at a regular amount throughout the repayment period. This enables the initial repayment to be lower so lower-income groups can be eligible to borrow. The rationale is that both incomes and property values increase over time (through inflation) and this should be taken into account. In the early years, repayments do not cover all of the interest due, so that the amount of the capital borrowed actually increases. This might put the lender at risk if the loan is near 100 per cent of value and recovery has to be made. With rising property values, in most places, the risk to the lender is probably small.
ACCEPTABILITY	Refers to whether the method is (or could be made) acceptable to most people in the target group.
ACCESS TO HOUSING	The possibility of having the secure use of acceptable shelter whether through ownership, rent, or other arrangements.
ACCESSIBILITY	Refers to whether members of the target group can and are able to use the particular method.
AFFORDABILITY	An assessment that relates a particular housing solution to the amount that can be paid for without unduly stretching the payer's resources.
ARREARS	Amount of debt still outstanding due to delayed repayments. See also DEFAULT.
BALANCE OF PAYMENTS	This is the difference between the income and expenditure accounts of a country, and is usually calculated at regular intervals. The most significant components are the balance of trade, which effectively records the difference between a country's imports and exports, and the movements of capital between countries.
BOTTLE-NECKS	Anything stopping or slowing the flow of a process. See also CONSTRAINT.
BRIEFS	Thorough instructions, or information relevant to what needs to be done.
BUDGET	Estimate of income and expenditure.

BUILDING SOCIETIES	Institutions established for the purpose of providing members with access to housing finance.
COLLATERAL	A form of security afforded to the lender by the borrower by pledging assets (usually in the form of property deeds or titles) as a guarantee for the repayment of money. Ideally the value of the property so pledged must not be less than the amount borrowed, and the property must be possessable and capable of being liquidated for cash by the lender.
COMPENSATING BALANCE	A lending system also known as the "blocked-compensating balance", where the borrower makes a deposit with the lender which is blocked, i.e., not refunded, until the loan has been paid off.
CONDITIONS (of loan)	Refers to all the requirements set by the lender, and may relate, for example, to such things as downpayments, possession of legal title, secure employment, nationality etc.
CONSTRAINTS	Anything that stands in the way of an objective. Few things or situations are in themselves constraints, but become so because of what needs to be done. Altering an objective or course of action can transform a constraint to an opportunity or a resource. See also BOTTLE- NECK
CONSUMPTION	The opposite of savings and investment, refers to the utilisation of resources for immediate gratification.
COSTS	These are the expenditures incurred in producing a r product such as a house, and do not necessarily equal its value or price.
CREDIT LEVEL INCOME	The level of income of a person or household which financial institutions assess as being the minimum to which money can safely be lent for housing.
CREDIT RATING	An estimate of a person's or household's ability to borrow and repay loans. The higher the rating the lower the risk to the lender. It is usually assessed on the basis of income and past performance regarding loans.
CRITERIA	A system of conditions that need to be satisfied, and which are used as a yardstick for evaluation.
DEFAULT	Failure to pay or to meet financial or other obligation. See also ARREARS.
DEMAND	The desire of would-be purchasers or users for a commodity. DEMAND is distinguished from NEED in that the willingness to acquire must be backed up by an ability to pay. DEMAND, therefore, is related to price and varies inversely to it. The demand for a product will be determined also by its desirability to the buyer, which may be a function of its attractiveness or the degree of desperation and need of the buyer. HOUSING DEMAND is therefore an estimation of the number of households that would be willing and able to acquire a particular housing solution or package. EFFECTIVE DEMAND is that which is backed up by a real ability and willingness to purchase a product that is offered, whereas POTENTIAL DEMAND is one that may exist in the future or is currently latent, either because the product does not exist, or because there are other conditions that prevent buyers from putting their preferences into action. PENT-UP DEMAND is a special case of POTENTIAL DEMAND, in that it is currently present but remains unexpressed largely because of socio-political constraints rather than purely material considerations.
DEPOSIT	See DOWNPAYMENT
DEPOSIT TAKING	Accepting and agreeing to hold other peoples' money in return for interest.
DOWNPAYMENT	Or DEPOSIT, refers to the money that has to be paid as the first instalment of a series of payments in a repayment scheme. The downpayment is seen as an additional security for the lender/seller as proof of the buyer's/borrower's financial capacity, and by both as proof of intention to go ahead with the transaction. Most housing finance schemes do not lend for the whole amount of the property to be acquired, the difference being met by the borrower in the form of a downpayment which is usually larger than the subsequent payments (often between 10 and 20 per cent of the total price).
ECONOMIC COST	The cost of all inputs to a product at market prices. Thus, the time put in by the household in the construction of its own house would be costed at the prevailing labour rate.
ECONOMIC RENTS	The level of rents that give the same return had the landlord invested the capital cost of the house elsewhere.
ECONOMICS OF RENTS	The calculations that relate to rents, particularly renting as a viable investment.
ELASTICITY	Here refers to whether the method is capable of coping with increased scale of operations that would be implied if it were incorporated into the Strategy.
ENDOWMENT INSURANCE	Form of life insurance with payment of fixed sum to insured person on specified date, or to the estate on earlier death.
EVALUATE	Calculate or assess the value of a product using pre- determined criteria.

FINANCIAL INSTUTIONS	Organizations concerned with lending and borrowing money and/or bringing lenders and borrowers together or advising them.
FORMAL	Any system that is legally instituted, usually registered and recognized by the public authorities. Its operations are usually subject to scrutiny and report as required by applicable legislation. The formal "sector" consists of all the known and "visible" entities and enterprises, as opposed to the informal "sector" which is largely "invisible" because it is not subject to regulation and does not appear in official statistics.
GRANTS	Money given, usually in accordance with certain criteria, without asking for or expecting it to be returned.
GROUP MORTGAGES	Loans to a specified number of people, all of whom are collectively responsible for repayment. This both spreads the risks and also lowers costs through the administration of a single loan, rather than a number of smaller, individual ones.
GUARANTOR	Person or institution giving assurance, or providing security to the lender on behalf of a borrower.
HOUSING BANK	A bank which specialises in lending money for house construction, acquisition extension and/or improvement.
HOUSING FINANCE	The capital made available to a household to acquire, extend, or improve a house. Acquiring a house may mean building a house or buying one that has been built by someone else. The house may be bought from any of a number of sources, including the builder, another household or even one's landlord, and the seller may be an individual or institution. The amount of housing finance required will depend primarily upon the gap between the costs of acquisition or improvement and the amount already available to the purchaser. However, the demand can only become effective, if the household is able and willing to borrow the amount. Its ability to borrow will depend on the terms of the loan as well as its own financial circumstances; its willingness is likely to depend upon its view regarding the value of the house or improvements. Generally speaking, the amount of capital made available represents the difference between the price of the house, and the currently available resources of the household, and is made available in the form of a loan to be repaid over a period of time with interest. From the point of view of the household, it is different from other forms of finance in that the amount is likely to be large in relation to current income (between two and four times annual income). For the lender, housing finance is also different in that in case of default, recovery can pose particular problems.
HOUSING MARKETS	The whole range of households and producers that demand and supply housing, including the labour and materials required to produce it and the land on which to locate it.
IMPROVEMENT	This includes any and all additions and alterations to an existing house that increase its space, comfort, utility or its life. These may range from building additional rooms, repairing or renewing the roof, obtaining a water connection or renovating the entire house.
IMPUTED COSTS	When actual costs are not known, because materials or services are not paid for, or paid for at special or concessionary rates, costs are assumed or imputed.
INCREMENTAL LOAN MORTGAGE	Sometimes called an open-ended mortgage or a sequentially escalating mortgage. A series of small loans can be made under a single mortgage document (which helps to reduce costs), a subsequent loan being available when an earlier loan has been repaid. It can match the loans to construction stages with the first loan, perhaps, for the serviced site, the next for the first stage of construction and so on. t limits the exposure of the borrower while enabling him to know that further funds can be borrowed. It may also, however, slow down the completion of construction.
INFLATION	A general increase of prices and resulting fall in the purchasing value of money.
INFORMAL	Any system where the rules and regulations defining its operations have not been formally constituted, but are based on custom and practice. As a result, it is also likely to be unofficial and unrecorded, and probably not subject to legal codes. Informal has also been described as being the opposite of formal, or its dual. In practice, the two are not isolated, but are likely to exhibit a high degree of interaction, and probably form a continuum.
INTEREST RATES	The amount of money paid annually, monthly, weekly or even daily, for borrowing money, usually expressed as a percentage.
INTERNAL RATE OF RETURN	The rate of interest (or return) which would make the initial investment outlay exactly equal to the discounted present value of the expected net flows of funds.
INVESTMENT	The act of putting resources to work to produce future returns. This is distinguished from SAVING which, if not placed in formal institutions, takes resources out of circulation

	without necessarily putting it directly to productive use.
INVESTMENT MULTIPLIER	The number of times a particular investment will be increased through positive reactions in other activities or sectors of the economy.
LAND TITLE	A legal document confirming the right of the holder to the exclusive use of the defined piece of land.
LEGALITY	Here refers to whether the method is legal or recognized as a bona fide way of obtaining finance.
LENDING	The act, activity or process of making money temporarily available to someone else.
LOAN	The money made available through the lending process.
LOW-INCOME HOUSEHOLDS	This is a relative term to distinguish between those with (for example) high, middle and low incomes. While it covers those with the lowest and indeed no incomes, low-income households are not necessarily those below the poverty level, nor do they all have the same needs or express the same demand.
LOW START MORTGAGE	A form of mortgage finance in which the repayments start off low in the early years and gradually increase over time rather than staying constant as with the conventional mortgage. This has the advantage that the repayments match incomes which are expected to rise over time.
MARKET	Place or opportunity for the exchange of goods and service at freely determined prices.
MARKET ECONOMY	An economy which operates on the principles of the market rather than being controlled or "planned" by the State
MONEY LENDER	A person who lends money to individuals, usually at high rates of interest and ruthlessly enforced conditions, particularly those relating to repayments and defaults.
MORTGAGE	The handing over of title to a property by a borrower to a lender as security for a loan, especially one incurred in order to purchase the property, with the understanding that it shall be returned when and only when the loan has been fully repaid.
MORTGAGE PROTECTION	Obtained through insuring the life of the borrower for a sum equivalent to the capital amount so that the successors receive an unencumbered property upon the borrower's death. This is usually done through a single premium which is added to the original sum borrowed. As the amount of outstanding loan reduces, so does the value of the life insurance.
NEED	Requirement or necessity. A need exists whenever the item in question is not available or is in short supply. To identify those in need, it is sufficient to identify those without. HOUSING NEED, therefore, is the quantification of those households without housing. However, to be meaningful, "housing" has to ~, be qualified using standards of acceptability, and "availability" by conditions of supply, and "households" by demography and social change. Consequently the measurement of need is complex and more dependent upon definition than on computation.
OPEN-ENDED MORTGAGE	See INCREMENTAL LOAN MORTGAGE.
POTENTIAL MARKET	The level of demand that is capable of coming into being or action, latent.
POTENTIAL SOURCES OF FINANCE	These include all those that are not currently being used by the target groups. Thus, they include those that exist locally but are not used by them, those that do not exist locally, those sources that are not currently used for housing finance and also those that need to be created.
POVERTY LEVEL	A level of income that cannot afford a basic minimum of goods and services as defined in a particular context. Most countries have an officially recognized (if not set) poverty-level income.
POVERTY LINE	A line drawn at the poverty level of income.
PRICE	This is the money charged for a product, and is usually equal to the seller's costs plus profits.
PRIVATE SECTOR	Those firms, organizations and individuals whose business decisions are not directly controlled by the government or the “public sector”, and are thus "private".
PROGRAMME	A series or sequence of actions that have a schedule or timetable for their expected or likely occurrence.
PUBLIC SECTOR	Those firms, organizations and institutions whose business operations are directly controlled by the State, and are thus "public".
RATES OF RETURN	A calculation of the annual percentage profit or income to be had from a particular investment. The higher the rate of return, the more profitable the investment. Arguably, anything with a rate of return less than the rate of inflation plus the rate of growth of gross national product is not worth investing in.

RECOMMENDATIONS	Set of actions proposed in order to achieve stated objectives.
RISKS	Possibility or likelihood of an event taking place. The higher the risk, the greater the uncertainty and therefore the greater the need to protect against the ensuing consequences.
SAVINGS	The surplus of income over expenditure. It is assumed that the higher the income the higher the level of savings possible. Savings are usually thought of as money deposited or invested in "formal" institutions, but in fact include savings in kind, either as easily convertible items or, as building materials. In situations of high inflation and rising prices, the latter may be preferable and make more economic sense.
SECURITY	The assurance that money lent will be returned and that if it is not, the lender holds something of the borrower that can be converted into money equivalent to, or greater than, the capital sum borrowed.
SEQUENTIAL LOANS	When an additional loan is made on the repayment of the first. Currently, many lending schemes exclude those who have had previous loans. This is acceptable only if the loans are subsidised and the purpose is to spread the subsidies; however without subsidies such a restriction eliminates those who demonstrate their credit-worthiness. It also encourages taking loans larger than the borrowers can actually afford since they know they will not get another chance.
SEQUENTIAL MORTGAGES	Security documents that make sequential loans possible.
SEQUENTIALLY ESCALATING MORTGAGE	See INCREMENTAL LOAN MORTGAGE.
SOFT TERMS	Terms of a loan that are set below the generally prevalent market rates and/or conditions.
STATISTICALLY SIGNIFICANT	A number or figure large enough to minimise a chance result.
STRATEGY	A set of actions so designed as to achieve a set objective in accordance to a pre-conceived plan.
SUBSIDISED CREDIT	Money that is made available on 'soft terms' such that the lender loses money in comparison to other lending possibilities.
SURVEY	The act or process of finding out opinions or facts through any of a number of means of observation and enquiry.
TARGET HOUSEHOLDS, AND GROUPS	Those households or groups who are intended to be the primary beneficiaries of the housing-finance proposals of the housing-finance strategy. Unless these are clearly identified, both qualitatively and quantitatively, it will be difficult to ascertain whether the objectives of the proposals are, or are not, being met. In a demand-based approach, it is the demand of the target group that has to be identified and met, and therefore it is particularly important to be clear as to who constitutes this group.
TAX BENEFITS	Those benefits or advantages that come about as a result of the way taxes are levied.
TAX CONCESSIONS	Those concessions or relaxations that are permitted in the way tax is levied, which mean that certain transactions are encouraged or treated preferentially.
TERMS	Refers to the rate of interest at which money is lent and the period over which it must be repaid. These may be fixed at the beginning or be varied during the loan period. Variable interest rates may nevertheless be "fixed" by relating them uniquely to another interest rate which may itself vary, such as the "base" rate set by the Central Bank. The period may similarly be varied, for example in order to keep the monthly repayment amount fixed.
TERMS OF REFERENCE	A set of directives that set out the parameters that the performer or contractor who undertakes a task will be expected to meet, including both what is expected to be achieved, with what resources and over what period of time. How it is achieved should be left to the ingenuity of the performer.
TYPICAL	That which exhibits the characteristics most common to a particular group, and is an exemplar for its category.
VALUE	This is the worth or price of a house as the finished product, and may be different in different markets. For example, the user value (i.e. the worth of the house to the user of that house) may be more than the market value and both may be more than the sum of all the inputs that have gone into producing it, including the imputed costs for labour and for profit. A typical user value is location, *viz.* proximity to employment, schools or to other family members.
VARIABLE REPAYMENT OPTIONS	By which unequal payments can be made as funds permit it. This is particularly important where the borrowers do not earn regular incomes. Administrative overheads could be minimised if the payment was in the form of books of saver stamps, using existing Revenue stamps. These could be " checked periodically to equate them with "regular"

	payments if required.

NOTE FOR RESOURCE PERSONS

The Manual has been written in such a way that it can be used for self-instruction by individuals or by groups working together. However, if there is a resource person available to help, the learning process will be considerably enhanced. The following notes are directed at the resource person, but might also be helpful to other readers.

The Manual is aimed at those with little or no prior experience of formulating housing-finance strategies, and, therefore, emphasis is placed on a particular sequence. This sequence should be followed, at least for the first run-through. However, if the capabilities and experience of the group are known, some Tasks can be stressed more than others, concentrating on areas that are least familiar to the group.

With each Task, there is a listing of the basic Issues. These are usually covered in the Notes, at least in outline. Where time and resources make it is possible, these Notes should be supplemented and even replaced by lectures, presentations, group discussions or by reading material relating to local and familiar cases and examples. Each Task should be "introduced" by the resource person with remarks based on the Issues and Notes.

Generally speaking, in the first run-through, each of the sub-Tasks take between one and three hours to complete. With a group, they should be completed individually or in small groups of, perhaps, two to four people. The "results" should then be presented and discussed. The discussions will help to identify concepts and issues that have not been properly understood, and can then be clarified.

Most often, the biggest problem is to get the participants started on doing the Task, rather than raising queries about hypothetical cases. Another common problem is "lack of information". Though rules-of-thumb are provided and participants are urged to make assumptions, participants often lack the experience to distinguish between reasonable assumptions and wild guesses. More importantly, they lack the confidence to trust their own judgements. Wherever possible, the resource person should help participants overcome this lack of confidence by encouraging participants to "take the plunge". Keep in mind that the second cycle is designed to rectify errors made in the first cycle.

It might help if at the start of the proceedings, participants were asked to undertake the simple "ice-breaker" exercises described below. These are particularly useful where the participants do not know each other. If the participants are not going to remain together as a group at the end of the "course" to work on a housing-finance strategy, they should be asked to state how they are going to apply what they have learned when they return to their workplace.

ICE-BREAKER EXERCISES

ONE: GROUP INTERESTS
Total time: 30-45 mins

At the start of the course, before anything except brief personal introductions, participants should be given 10 minutes and asked to list what they hope to learn from the course on a sheet of paper. Next, the participants should be paired off and given 10 minutes to discuss each others' lists and draw up a consolidated list. These lists should then be read out and discussed by the whole group, and a group list written up and kept till the end of the course. This list will provide the resource person with a good guide as to the expectations and interests of the participants. The list should form part of course evaluation at the end of the course, with participants discussing the extent to which their expectations have been met.

TWO: GROUP EXPERIENCE

Total Time: 30-45 mins

Draw a large matrix with rows for each participant and four columns headed: Source; Rate of Interest & Period; Special Conditions; and Bottle-necks. Ask each participant to relate their experience in financing their own house building using the headings of the columns. If a participant has not had personal experience of house building, ask them to use the experience of someone else.

Enter a note summarising their statements in the columns. In the last column indicate all constraints and bottlenecks, particularly those other than finance. Encourage discussion of any "interesting" bottlenecks and experiences, and compare the experience of the h group, drawing any general lessons from it that you can.

TIMETABLE

The first run-through of the Manual can be in anything between five and 10 days. As an illustration of a "Five-day course", a time table is given below. Where more than two weeks are available, it is suggested that the first run-through be done as rapidly as possible, concentrating on the process, leaving as much time as possible for a second or subsequent working through, concentrating on the content.

DAY	SESSION 1	SESSION 2	SESSION 3	SESSION 4
1	Introductions: to/of participants Ex:Ice-breaker 1 Ex:Ice-breaker 2	Discussion: Housing finance Introduction: Course, Manual	Task 1.1 Task 1.2	Task 1.3
2	Discussions: Sources of housing finance	Discussion continued	Task 2.1 Task 2.2	Task 2.3 Task 2.4
3	Task 3.1	Discussion: Impact of Housing finance	Task 4.1 Task 4.2	Task 5.1 Task 5.2
4	Task 6.1 Task 6.2	Discussion: Housing-finance institutions	Task 7.1	Task 7.2 Task 7.3
5	Presentations by participants	Presentations continued	Course review discussion	Proposals for further action

Notes

Discussions should be introduced with a presentation by the resource person, using the Notes in the Manual as a guide.

Tasks should be introduced with an explanatory presentation by the resource person. **Task numbers** are as in the Manual.

Guidance should be provided to the participants while they are doing Tasks. Discussion and collaboration, rather than competition, should be encouraged.

Review and discussion sessions should be held at the end of each set of tasks. Not every participant's work need be reviewed at each session; the purpose is to get feedback and assess comprehension.

Extra time, if available should be used for carrying out a second cycle rather than stretching the first-cycle timetable to expand time for tasks.