Financing housing down-pyramid
Housing and housing affordability are outputs of value chains

- Supply side: Land → Owned homes
- Demand side: Eligible households → Enforceable liens
- Weak or broken value-chain links thwart policy intentions

The differences among need, effective demand, underwritable demand, financeable demand

- Informality and its gradations
  - Formality is the endgame; formality is an ‘illusion’
- Aggregation to underwritability to formalization
Demand has to be actualized
Need → Effective → Underwritable → Financeable → Loan

- **Need** is not effective demand
  - ‘Need’ is what I want to consume
  - “Effective demand” is what I *can* pay for, *will* pay for, and *do* pay for

- **Effective demand** is not underwritable demand
  - Ability to pay must be verifiable

- **Underwritable demand** is not financeable demand
  - A loan is a financial product connected to a stream of repayments of underwritable demand

- **Financeable demand** is not a housing loan
  - Not just a stream of payments, a financial product
    - Optionalities → If good things happen to borrowers
    - Penalties → If bad things happen to borrowers

- A **housing loan** is not a **house** itself

- Result is two value chains: demand and supply
Demand and supply: 2 value chains, 16 links
Household → ‘financing journey’: property → ‘development journey’

- Many actors along the way
- Many handoffs
- Each relies on the next

- Developers always looking for opportunity
- Find a new customer-price niche

- Government enables or disables
- Regulates
- Incentivizes
If any link doesn’t work, the value chain is ‘broken’
And in many (most?) markets, one or more links doesn’t work

- If even one demand-side link is broken
- People can’t borrow to buy

- If even one supply-side link is broken
- Homes aren’t created

- If several links are broken at the same time ...
- Problem may seem insoluble

- Solution: Analyze each value chain by observation
- Identify missing links, weak links, uneconomic handoffs
- Make ‘maxi-min’ changes at the weak links only
Informality, underwriting, financeability
What is true, what is believed, what can be documented

- Formal systems rely on paper, not people
  - Documentation = Proof
    - Quantitative, electronically transmittable
  - Personal testimony = Unreliable

- Informality is of two types
  - *Income*. Formal $\rightarrow$ Declared on taxes
    - No regular pay slip; pay in cash
    - Self-employed; seasonal; home-based
      - Extended family (remittances)
  - *Tenure*. Formal $\rightarrow$ Registered in cadaster
    - ‘Clouded’ land use rights (estates, leases)
      - “You can become urban without moving”
    - Building code/ inspectors (self-improved)

- Formal systems require formal-formal
  - But 80%+ of the emerging world is informal
  - Are they bad credit risks?

What do they need/want?
What can they afford?
What can we verify?
What can we finance?
Gradations of informality and ‘effective housing demand’

<table>
<thead>
<tr>
<th></th>
<th>Informal income</th>
<th>Semi income</th>
<th>Formal income</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Formal tenure</strong></td>
<td>Irregular income</td>
<td>Self employed</td>
<td>Pay slip</td>
</tr>
<tr>
<td></td>
<td>Title deed to land</td>
<td>Title deed</td>
<td>Title deed</td>
</tr>
<tr>
<td></td>
<td>Pukka house</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Semi tenure</strong></td>
<td>Irregular income</td>
<td>Self employed</td>
<td>Pay slip</td>
</tr>
<tr>
<td></td>
<td>Kacha house</td>
<td>Pukka house</td>
<td>Pukka house</td>
</tr>
<tr>
<td></td>
<td>Month to month</td>
<td>Month to month</td>
<td>Long occupancy</td>
</tr>
<tr>
<td><strong>Informal tenure</strong></td>
<td>Irregular income</td>
<td>Self employed</td>
<td>Pay slip</td>
</tr>
<tr>
<td></td>
<td>Kacha house</td>
<td>Kacha house</td>
<td>Kacha house</td>
</tr>
<tr>
<td></td>
<td>Week to week</td>
<td>Week to week</td>
<td>Week to week</td>
</tr>
</tbody>
</table>

- Deep poverty → Cannot pay, cannot finance
- Unreliability of income → Conservative PTI, external guarantors, product grace periods
- Unverifiability of income → Create pre-funding or savings-based features (e.g. escrows)
- Unrecoverability of collateral → Pre-assignment, Power of Attorney, right to evict
Gradations of informality and housing finance solutions

<table>
<thead>
<tr>
<th>Informal tenure</th>
<th>Informal income</th>
<th>Semi tenure</th>
<th>Semi income</th>
<th>Formal tenure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Irregular income</td>
<td>Home upgrading</td>
<td>Mortgage</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Title deed to land</td>
<td>loan/ mortgage</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pukka house</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Semi tenure</td>
<td>Irregular income</td>
<td>Housing micro-</td>
<td>Employer-</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Kacha house</td>
<td>finance/ HALF</td>
<td>assisted loan</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Month to month</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Informal tenure</td>
<td>Irregular income</td>
<td>Self employed</td>
<td>Affordable rental</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Kacha house</td>
<td>Kacha house</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Week to week</td>
<td>Week to week</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Financial products are tailored to informality grid squares
- Require more ‘financial engineering’ up front, plus efficient ‘disrupted’ value chains
- Intermediate or strengthen borrower entity (e.g. co-operative, landlord, employer)
- Cash invested + Risk of being evicted = Significantly reduced probability of default
Aggregation → Underwritability → Formalization

Scale and formality improve underwritability

- Aggregation: Savings groups, co-operatives
  - Build group cohesion, establish credit histories
  - Savings ↔ Loan repayment with time reversed
- Intermediating: Formal entity for informal people
  - Co-operatives
  - Mission-oriented landlord
    - Charity, philanthropist, employer, community org
    - Rental is a simpler credit decision
    - Lender can enforce against landlord, not residents
  - Expertise, capital, equity at risk (‘skin in the game’)
- Risk reduction through scale and connectedness
  - Intermediating income guarantor (employer).
  - Cross-collateralizing (e.g. co-op’s); free-rider problems?
- Remittances and co-signers?

Government-built housing
Mumbai, India

Home-based seamstress
Delhi, India
Where it’s worked
Countries, programs, entities

- India: SEWA Grih Rin
  - Non-bank housing finance company
  - Targeting informally employed women
  - Member savings, credit history
  - Customized financial products (home improvement)

- South Africa: Enumerations
  - Community-led expansion of cadaster
  - Coupled with grandfathering (‘amnesty’)
- Many countries: housing co-operatives
- Thailand: Land rationalization via CODI
- Home Asset Loan Finance (HALF) as a tool
  - Longer tenor, lower rate than microfinance
  - De Soto 2.0 – formality comes at the end
Questions?
Financing housing down-pyramid
Our value proposition to Microfinance Institutions & their borrowers

François Perrot, head of Affordable Housing
May 25, 2016
Content of the presentation

What do we want to build? Affordable housing for LafargeHolcim

Why construction assistance matters

Best practices in the delivery of Construction Technical assistance
What we are building:  
a business initiative with social impacts

• Our definition of Affordable Housing: “Housing for people who do not have access by usual financial ways to decent housing”
  - Emerging countries: 4 billion people (‘Base of the pyramid’)
  - Developed countries: 150 million people without decent house conditions

• Our objective: building new markets for LafargeHolcim and improving housing conditions

• A dedicated team at Corporate and local projects embedded within the local teams of LafargeHolcim subsidiaries
THE AFFORDABLE HOUSING PROGRAM OF LAFARGEHOLCIM

25 COUNTRIES WITH PROJECTS LAUNCHED OR IN DEVELOPMENT
Affordable Housing with LafargeHolcim in numbers

25 countries involved

Over 400,000 people impacted in 2015

More than 15,000 housing loans distributed through our partners in 2015

Contribution to LafargeHolcim of additional CHF 15m EBITDA
Affordable housing segments

MICROFINANCE
- Customer need: Indivual home builder’s access to finance
- Our solution, based on our cement bags retailers network: Providing access to credits & technical assistance (catalogues of house designs, bill of quantities, ... )

EARTH&CEMENT
- Customer need: alternative to burnt clay bricks
- Our solution: Mix of cement and soil to produce non burnt clay bricks, keeping aesthetic and thermal inertia of earth construction

SLUM REHABILITATION
- Customer need: looking for good waterproof solution
- Our solution: Bagged concrete supplied to small customers in informal settlements

MASS AFFORDABLE HOUSING
- Customer need: quality & speed of large scale projects
- Our solution: Lafarge works with developers to improve quality & speed of construction.
Our Housing Microfinance model, tailored to local conditions

Benefits for the MFI
- Introducing a customer needed and financially beneficial product
- Creating strong positive impact
- Product diversification
- New customers carefully selected

Benefits for LafargeHolcim
- Creating a new market
- Contributing to the social development of low income families

Benefits for the customer
- Access to top quality technical assistance in house design, construction process, …
- Ability to generate new incomes
- Enjoying a more comfortable life

Over 15,000 households received construction assistance in 12 months
Our value proposition to **Microfinance Institutions**

### Market assessment methods
- End-user surveys
- Focus group meetings

### Marketing campaigns to promote Housing Finance
- Promotion tools
- Activation campaigns

### Training of loan officers on housing
- Topics include construction practices, project assessment & safety

### Access to funding & technical assistance
- Cooperation & refinancing agreements
- Network of practitioners
We have developed a method of market surveys to help microfinance institutions evaluate the size of the market and understand the housing needs of their customers

Benefits for Microfinance Institutions

- They know what their customers want in terms of housing credits (size, maturity, etc) and can anticipate challenges (land issues, technical assistance)
- They can develop the best suited credit product
- They can identify a first pool of customers who will benefit from housing credits
- Customer surveys can also be organized with new potential customers through Lafarge network of retailers
We have partnered with several investors to facilitate access to refinancing and technical assistance for our microfinance partners.

Benefits for Microfinance Institutions

- They access long term financing suited for the development of housing products
- They also leverage on the technical assistance capabilities of the investors
- They develop well designed credit products, with fair and competitive interest rates

Our partners
3. TRAINING & I.T. TOOLS FOR MFIs STAFF

We have developed toolkits to train microfinance loan officers on construction basics, facilitate the processing of housing loan and increase their sales skills.

Benefits for Microfinance Institutions

- They develop the skills of their staff
- They can pre-check housing applications and accelerate the disbursement
- They can sell better the housing loans (product specificities, advantages, etc)
4. ACCESS TO THE COMMUNITY OF HOUSING MICROFINANCE PRACTITIONERS

We want to help the housing microfinance community grow and learn through trainings and workshops

Benefits for the Microfinance Institutions

• Access the largest network of microfinance practitioners proposing housing microfinance loans
• Learn from your peers to continue innovating and improving your products and performance
• Promote your work internationally and get recognition

2016 projects

• Housing Microfinance Academy: introduction classes and courses for advanced participants
• Website with useful information and peer exchange
Our value proposition to *borrowers*

**Construction Technical assistance**
- Project visit by Lafarge counselors
- Bills of quantities
- Plans

**Catalogues of house designs**
- Nigeria
- Indonesia

**Access to building materials retailers**
- Lafarge-led network
- Rebranded stores

**Affordable construction materials**
We provide access to our dedicated teams of construction technical assistance, who help loan applicants with their construction projects

Benefits for the borrowers

• Lafarge technical assistants visit applicants on their site, prepares the bills of quantities and the project’s drawings
• They optimize the house design and propose construction solutions which are affordable and durable

Benefits for the Microfinance Institutions

• Lafarge technical assistants visits ensure that there is a real project behind the loan application. It contributes to reducing the credit risk
2. RELIABLE BUILDING MATERIAL RETAILERS

We mobilize our network of building material retailers so that loans are disbursed in kind and customers benefit from the best suppliers.

**Benefits for Microfinance Institutions**
- They are sure that the money is used for construction: strongly reduces the risk of money misuse
- They benefit from new relationship with retailers

**Benefits for the borrowers**
- They benefit from the best prices which are checked to make sure retailers are competitive
- Retailers are trained to offer the best service to the microfinance borrowers (construction assistance)
3. CATALOGUES OF HOUSE DESIGNS

We have developed houses which, by design, are suited to be built step-by-step, one room at a time.

Benefits for Microfinance Institutions
- Construction phases will match with the loan size and it will contribute to building a safe house

Benefits for the borrowers
- Borrowers will build the house of their dreams in phases which have been carefully identified
- The end result house is safer (structural) and remains extendable either horizontally or vertically
4. ACCESS TO NEW CONSTRUCTION MATERIALS

We have developed new construction technologies such as soil stabilized bricks which can be associated to the loan offer

Example: Soil Stabilized Bricks

• Soil Stabilized Bricks developed & tested by Lafarge in its Research Center in Lyon, France
• Non burnt clay bricks: avoiding the use of wood, thus reducing CO2 impacts dramatically
• Gain of 25% from traditional construction method
• Built to last : SSB bricks are stronger than burnt clay bricks
Content of the presentation

What do we want to build? Affordable housing for LafargeHolcim

Why construction assistance matters

Best practices in the delivery of Construction Technical assistance
Impact of construction technical assistance

Addressing structural assessment and if needed retrofitting

Key issue: columns for 1 storey ≠ columns for 2 storeys.
Impact of construction technical assistance

Proper attention to slabbing

**Key issue: thin/unsound floor slabs endanger safety and durability**

*As seen in other low-cost projects*

Non-Standard Slab, below 100mm

Standard Slab, 100mm +
Content of the presentation

What do we want to build? Affordable housing for LafargeHolcim

Why construction assistance matters

Best practices in the delivery of Construction Technical assistance
Best practices in the delivery of construction technical assistance

Best practice # 1: Start with safety

Best practice # 2: Promote step-by-step construction

Best practice # 3: Application on tablet

Best practice # 4: Training of loan officers
Unsafe job sites are more expensive

And saving lives has no value

**A safe site**
- No accident
- No delays
- Less wastage of materials

Major issues:
- Protection equipment
- Work at Heights
- Housekeeping
Question: is it a safe site?

Real example from Indonesia

Question:
Is it a safe site?

Helmets

Shoes

Housekeeping
Best practice # 2: improving the construction project

What happens without construction assistance

- **The customer:** *I want a loan to build a 100sq.m house right now, the same house as my neighbor*

- **The loan officer:** *I am sorry, you cannot afford a loan for a 100sq.m. house. Better you come when you have more revenues*

- **The customer:** *Ok … (thinking: I will do it on my own)*
Best practice # 2: improving the construction project

Our solutions to build affordable houses

1. Promote step by step construction

Objective: modular houses, adapted to loan size / maturity and family income

2. Use new construction technologies

Ex: Soil stabilized bricks by Lafarge

- Gain of 25% from traditional construction method. High quality product
- Built to last: SSB bricks are stronger than burnt clay bricks

→ Using catalogues of house designs to promote affordable solutions and products
Best practice # 3: accelerating the loan processing

Fast processing of housing loans is key

- Customers highly value site visits
- BUT
- They want their loan application to be processed rapidly

➡ New software on tablet
Best practice # 3: accelerating the loan processing

Lafarge software available on Android
Best practice # 3: accelerating the loan processing

4 components

1. Catalog of house designs
2. Sketch preparation
3. Quotation
4. Client file processing
Best practice # 3: accelerating the loan processing

Step 1: showing examples to the customer
Step 2: preparing / adapting sketches
Best practice #3: accelerating the loan processing

Step 3: preparing the Bill of Quantities

[Image of a New Quotation interface showing total costs and breakdown of structural work, foundations, and 1st floor.]
Best practice #3: accelerating the loan processing

Example of Bill of Quantities

<table>
<thead>
<tr>
<th>Product</th>
<th>Quantity</th>
<th>Unit</th>
<th>Unit Price</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stone</td>
<td>2.60</td>
<td>m3</td>
<td>140.00 Dhs</td>
<td>364.00 Dhs</td>
</tr>
<tr>
<td>Cement CPJ 35</td>
<td>0.10</td>
<td>50KG Bag</td>
<td>65.00 Dhs</td>
<td>6.50 Dhs</td>
</tr>
<tr>
<td>Water</td>
<td>0.60</td>
<td>m3</td>
<td>10.00 Dhs</td>
<td>6.00 Dhs</td>
</tr>
<tr>
<td>Cement CPJ 45</td>
<td>20.80</td>
<td>50KG Bag</td>
<td>67.50 Dhs</td>
<td>1,404.00 Dhs</td>
</tr>
<tr>
<td>Welded Mesh</td>
<td>51.40</td>
<td>Kg</td>
<td>7.00 Dhs</td>
<td>359.80 Dhs</td>
</tr>
<tr>
<td>Sand</td>
<td>1.40</td>
<td>m3</td>
<td>330.00 Dhs</td>
<td>462.00 Dhs</td>
</tr>
<tr>
<td>Slab</td>
<td>200.00</td>
<td>U</td>
<td>7.00 Dhs</td>
<td>1,400.00 Dhs</td>
</tr>
<tr>
<td>Agglomerated</td>
<td>264.60</td>
<td>U</td>
<td>5.70 Dhs</td>
<td>1,508.22 Dhs</td>
</tr>
<tr>
<td>Flume</td>
<td>3.10</td>
<td>m3</td>
<td>40.00 Dhs</td>
<td>124.00 Dhs</td>
</tr>
<tr>
<td>Brick</td>
<td>441.00</td>
<td>U</td>
<td>2.00 Dhs</td>
<td>882.00 Dhs</td>
</tr>
</tbody>
</table>
Best practice # 3: accelerating the loan processing

Step 4: Preparing the client file

Name:
JP Palau

Address:
24 Brown Street

Phone:
9789678678

PROJECT INFORMATION
Description:
Adding new floor

Quotation:
JPP Quotation (154,992.80 Dhs)

MICRO FINANCE INFORMATION
Micro Finance Institution:
HSBC

Branch Name:
Best practice # 3: accelerating the loan processing
Step 4: Comprehensive client file
Best practice # 3: accelerating the loan processing

Step 5: PDF sent to loan officer by email
Best practice #5: training of loan officers

Housing loans require specific competences

For the promotion

- Understanding construction projects & basics
- Promotion the housing product
- Explaining the benefits, compared to consumption loans

For the processing

- New Standard Operating Procedures
- Training the front and back office
- Impact on the IT system (vouchers, money transfer)
Contacts – Corporate Affordable Housing team

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francois.perrot@lafargeholcim.com

Corporate website :
www.lafargeholcim.com/affordable-housing

Join our collaborative platform
www.affordablehousinghub.com
FINANCING HOUSING AT THE BOTTOM OF THE PYRAMID EGYPT CASE, 2016

May Abdel Hamid
Chairman, Mortgage finance Fund, Egypt
Executive Director, Social Housing Fund

7th Global Housing Finance Conference Housing 2030
# Overview of Egypt Real Estate Industry

## Demographic & Real Estate Indicators

<table>
<thead>
<tr>
<th>Total Egyptian population 90 million representing around 22 million households. Average Household size 4.4 person : 4.1 for urban and 4.7 for rural. Population growth 2.6% annually. Where Over 50% of population below age of 30 years.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average family spending on Housing 18.6% of their monthly income. Only 43% of the household in Urban areas while 57% in Rural areas.</td>
</tr>
<tr>
<td>Annual demand for urban housing estimated at 554,000 units 950,000 new marriages yearly.</td>
</tr>
<tr>
<td>26% of population are below poverty line, 75% of population need a certain form of subsidy or government assistance to get access to formal homes. 12 -15 million people living in informal housing , and Vacant units estimated at 3.4 million units.</td>
</tr>
<tr>
<td>13% of the existing housing stock needs replacement while the actual percentage stands at less than 1% of total units. Urbanization rate of 55 pct</td>
</tr>
<tr>
<td>12-15 million People Living in informal housing ,and vacant units estimated at 3.4 million units</td>
</tr>
</tbody>
</table>
Shortage of housing and limited affordability created an urgent need for a well functioning housing finance system and need for ways to improve affordability and above all a comprehensive housing program that could accommodate all the needs.

Issuance of the Real Estate Finance law (148) of 2001 and its executive regulations, sets up the basis to regulate the mortgage sector.

Mortgage Finance Law set the rules for the types of products which banks and mortgage finance companies could offer borrowers as well as underwriting criteria Maximum LTV of 90%. - Maximum installment 40% of monthly income & 35% for low income. Creation of a Guarantee & Subsidy fund to improve access to housing finance loans through cash subsidies as targeted beneficiaries ranging from LE 5 K– LE 25 K based on income level.

Liquidity facility established along FHL banks with participation of 28 banks and MFCs in addition to CBE and GSF. Extended finance of EGP 1 billion. Bonds issue planed soon.
Affordable mortgage program launched in 2010 in collaboration with WB. Loan of $300 million to support the operation extended to GSF to finance part of the mortgage finance linked demand side subsidy.

The Social Housing Program launched in the wake of the Egyptian revolution, a momentum for change, with the goal of providing one million social houses in five years to complement the AMP of 2010.

Launch of National strategy for housing 2013 and establishment of SHF 2014. New operation for $500 million with the World Bank for five years. The program covers both newly built houses and existing houses to unlock some of the capital tied up in vacant units.

SH Law no. 33 of 2014 was ratified on May 2014, establishing the Social Housing Fund with the objective of providing necessary finance needed to build houses for low-income households. The SHF was mandated to “propose, plan and release social housing projects, & supervise their implementation, to secure suitable residences for low-income citizens, & land management for low and middle-income citizens.”

Central Bank of Egypt stimulus package for EGP 20 billion for low income housing launched in 2014. Interest rate of 5%-7% to eligible beneficiaries complementing the demand side. The cash subsidy paid by GSF from LE 5 K to LE 25 K based on income level.
The CBE initiative EGP 20 billion to banks and their affiliated MFCs to make 5% & 7% interest rate (7%-9% lower than rental rate) - 20 year mortgage loans to low-income households qualifying under the AMP program and intends to expand the program with growing demand.

Subsidy approaches 50% house price for certain incomes levels, but enable us to reach the desired income levels.

The Program will support the following aspects of the Government’s Social Housing Program:

(i) Institutional consolidation and capacity building;
(ii) development of housing policy, and the design of regulations and program guidelines;
(iii) Measures to improve the effectiveness, transparency, and accountability of housing programs;
(iv) Demand-side housing programs, including financial support to low-income households to help them access housing or housing finance.
(V) It will also assist in developing incentives for private rental investors to rent out their units to low-income tenants.
### Egyptian Social Housing 2015-2020

#### Household Beneficiaries

**Cumulative Number of Household Beneficiaries under the Inclusive Housing Finance Program (2016-2020)**

<table>
<thead>
<tr>
<th>Items</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand-side homeownership subsidies (AMP)</td>
<td>50,000</td>
<td>125,000</td>
<td>300,000</td>
<td>500,000</td>
<td>725,000</td>
</tr>
<tr>
<td>Demand-side rental subsidies</td>
<td>5,400</td>
<td>26,500</td>
<td>47,500</td>
<td>75,000</td>
<td>102,400</td>
</tr>
<tr>
<td>Total Number of Household Beneficiaries</td>
<td>55,400</td>
<td>151,500</td>
<td>347,500</td>
<td>575,000</td>
<td>827,400</td>
</tr>
</tbody>
</table>

The total number of Program beneficiaries is expected to reach more than 3.6 million individuals or close to 830,000 households with an average household size of 4.3 individuals and generate 1.5 million job opportunity.
A new public rental program has been put in place by the Gov. to provide housing for HH’s with incomes below LE 1,500 per month. A program administered by MOH & SHF where Units are fully paid by Gov. and Rents only need to cover maintenance & management.

Current rent levels to affordable HH with lowest decile of income distribution, based on a rent-to-income ratio of 25%.

The SHF will introduce supplementary demand-side subsidies to accommodate HH with very low incomes, while making sure that rental incomes are sufficient for real estate companies to take on the management of the stock. The Program will support the design, implementation and financing of this demand-side subsidy and related management system for low-income tenants.

In addition to investors’ incentive packages, the Program will support the development of demand-side tenant subsidies aiming at filling the gap between the rent required by the investor and the payment affordable to the tenant, estimated at 25 percent of income.
Incentive packages necessary to attract private investors to rental housing for moderate income HH’s.

They consist of two distinct demand-side programs, for investors and for tenants.

Incentive schemes will be offered to investors who would commit to rent out units to HH’s with moderate incomes (in the range of LE 900 to LE 2,500) for a given period of time.

The scheme would concern investors newly-built units from developers or renting out previously-owned units that were either left unfinished, or kept vacant.

Program will support the design of the investor incentive program, which may include upfront subsidies by the SHF.
A total of 650,000 units to be offered in the coming 2 years as follows:

- 100,000 units ready to be delivered through mortgage linked subsidy nowadays. 40,000 already allocated & subsidy paid. Mortgage loans & subsidy extended estimated at EGP 3.6 billion under the program so far.

- 150,000 units to be delivered to customers in the last 6 months.

- 400,000 to be delivered after 1-1.5 year and to be financed through mortgage finance.

- 10,000 rental units to be offered shortly.
CHALLENGES

1. Review of existing rental laws
2. Self build models well designed and managed
3. Public finances made available in the future for subsidies
4. Disequilibrium of the sector, rental law and vacancy rates creating distortions,
5. Land management, make land available to private developers at attractive conditions so that they build units for rental - low yield rates so developers will need rental vouchers
6. Location of units to be near to jobs
7. Inclusion of the private sector to make it sustainable
8. Public campaign to make people aware of the program
9. Address informal incomes with guarantee & or mortgage default insurance policy along Fogarim lines
10. Creation of affordable rental housing component as part of the social housing program to cover the need of the very poor, micro loans for construction and completion.
11. Design an integrated strategy and policy document that does not change with government changes
12. Inclusion of the private sector to make it sustainable
13. Public campaign to make people aware of the program
14. Address informal incomes with guarantee & or mortgage default insurance policy along Fogarim lines
15. Location of units to be near to jobs
16. Land management, make land available to private developers at attractive conditions so that they build units for rental - low yield rates so developers will need rental vouchers
17. Disequilibrium of the sector, rental law and vacancy rates creating distortions,
18. Public finances made available in the future for subsidies
19. Self build models well designed and managed
20. Review of existing rental laws
Indonesia’s Housing Finance Approach:
Serving the Bottom of the Pyramid

7th Global Housing Finance Conference, Washington DC, May 2016

By Wijayanto Samirin,  wija.dc@gmail.com
Special Staff to Vice President of Republic Indonesia for Economic and Finance
Indonesia at a Glance

- 4th largest population in the world, 255 million;
- Urbanization rate of 54% in 2015, and will reach 63% by 2030;
- Young population with median age of 28.6 years;
- GDP per-capita of USD 3,600 in 2015; and
- 60% of working population are in the informal sector.
Current Housing Situation

Demand

- House ownership rate of 80%, the rest is rent/contract;
- 13.5 mio HH have no house;
- 3.4 mio HH have substandard housing;
- 1 mio new houses is needed per year to address the problem.

Supply

- Community/self-build as the main player on housing provision in Indonesia (71%);
- Formal housing stock is not sufficient to response the demand (400 k per-annum)

Financing Access

- Mortgage market in Indonesia is limited, only represent 3% of GDP. This is below it peers in the region.

- Low affordability (income relative to rising house prices) and lender perceived high risk are key constraints;
- Government housing budget of IDR 13 T (USD 1 billion) is far from being adequate;
- Need efficiency of spending and massive mobilization of housing credit and mortgage securitization;
Housing Finance Market & FLPP Program

**FLPP**

- Interest Rate: 5%
- Tenor: 20 years
- Liquidity: 90% funding provided by Government of Indonesia;
- Guarantee: 100% guaranteed, 24 bps included in interest rate

**Challenges**

- Dominated by one player;
- Constrained Net Interest Margin (NIM), limited lenders’ interest;
- Regressive, benefiting those with higher loan;
- Allowing for purchase of new home only
- Bias toward salaried workers, NO PROGRAM FOR NON SALARIES WORKER;
- Low interest rate has made mortgage securitization very difficult;
Goal:
- Support GoI to achieve *Satu Juta Rumah* (One Million Homes) goals while increasing access to affordable housing for underserved groups

Tools: 2 Products & Technical Assistance

Building Blocks
- Implement **down-payment subsidy scheme** linked to credit for lower-income salaried and non-salaried households (Savings Subsidy Housing Finance or SSHF).
- Support **self-help subsidy scheme** *Bantuan Stimulan Perumahan Swadaya* (BSPS)
- Technical assistance to support market development and policy
National Housing Affordability Program

Indicative Budget Allocation:

<table>
<thead>
<tr>
<th>Component</th>
<th>Indicative Budget for 2016 - 2019 (USD million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gol</td>
</tr>
<tr>
<td>SSHF</td>
<td>150</td>
</tr>
<tr>
<td>Self-Help Housing Subsidy</td>
<td>350</td>
</tr>
<tr>
<td>Technical Assistance</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>500</td>
</tr>
</tbody>
</table>

Building Block:

- Housing and Real Estate Information System
- Supply Side Policy Support
- Local Governance Capacity Building
- Access to Housing Finance
Saving Subsidy Housing Finance Program (SSHF)

- **Savings** by household ~ 5% to 10% of house-value; income proxy (non-fixed income) + creditworthiness assessment
- **Down-payment subsidy** non fixed income & salaried households, scaled by income (20% - 40%) of value
- **A loan; maximum a household can afford** – ~50% to 70% from a lender of choice; a mortgage or a micro-loan
- Loans made at **market interest rates** determined by each lender’s risk appetite and business model
- **Lenders qualify customer for loan**; GoI approves applicants for subsidy (upon qualifying for loan)

### Standard Home Purchase

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>5%</td>
<td>Savings</td>
</tr>
<tr>
<td>35%</td>
<td>Subsidy</td>
</tr>
<tr>
<td>60%</td>
<td>Housing Finance</td>
</tr>
</tbody>
</table>

Assuming house price of IDR 100M
**Saving Subsidy Housing Finance Program (Cont’d)**

### Program Characteristics

- **Fund ~100K Loans**
- **Broad Loan Purpose** allows HH’s to purchase new/existing homes, build own homes OR upgrade existing homes
- **Reduced lender risk** with low LTV due to higher equity with prior savings and subsidy
- **Mortgage and Micro-Housing Finance** products being distributed through various lender segments
- **Formal and Informal income**
- **Progressive subsidy** with higher subsidy for lower income HH’s

### Technical Assistance Support

- **Real time electronic IT system with lenders** on case files / approvals / rejections / income assessment; qualifying subsidy amount; loan performance; etc.
- **Drive lower cost of funds and improve access to longer term capital market funding** working through with SMF (Secondary Mortgage Facility)
- **Develop a new guarantee scheme for low and non-fixed income**
- **Support to lenders** on non-fixed income assessment tools and best practices and construction technical assistance
- **Support consumers’ access to housing finance safely** via consumer financial literacy & education program; owner-construction toolkits, etc.
Goal 1:
*Increase number of households reached by BSPS subsidy*

<table>
<thead>
<tr>
<th>Activity</th>
<th>RPJMN (Unit)</th>
<th>Current Budget Allocation (Unit)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development of New Self-Help Houses</td>
<td>250,000</td>
<td>100,000</td>
</tr>
<tr>
<td>Quality improvement of Self-Help Houses</td>
<td>1,500,000</td>
<td>300,000</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>1,750,000</strong></td>
<td><strong>400,000</strong></td>
</tr>
</tbody>
</table>

- Gap of 1,350,000 Units and 1.8 Billion USD in financing between RPJMN targets and Budget Allocation to BSPS
- World Bank proposes an initial investment of ~215 Million USD for Perumahan Swadaya. Sufficient to fund ~200,000* units
- Potential for refinancing in later years if demand warrants
Self-Help Swadaya Subsidy Program (cont’d)

Goal 1:
*Improve efficiency and effectiveness of subsidy through financing and TA*

- At **Policy Level** work to expand subsidy in urban areas, link with National Slum Upgrading Program, strengthen community participation

- At **Implementation Level** improve delivery by:
  - Improving facilitators performance
  - Introducing more robust system or verification & monitoring
  - Improving the subsidy management information system
  - Introducing complaint handling management
Thank you........