

The shortage and the low quality of housing for the Economically Weaker Sections (EWS) and Low Income Groups (LIG) in Indian cities is one of the major challenges for fostering inclusive and sustainable

The lack of adequate finance models for these sections of society restricts their possibility for upgrading their houses or access new ones. This inadequacy is witnessed in public schemes for pro-poor housing and financial products for low income groups.

Limitations in Low Income Financing

- Legal requirements and terms of the financial market do not fit the realities of informality. All the formal finance institutions ask for a steady source of income and assets to mortgage, both of which are not available to the urban poor.
- Need for long-term and low-cost funds. The loans on offer in the usual financial market are expensive and short termed. This makes the repayment unaffordable for the urban poor.

Issues in Pro-Poor Housing Finance

Beneficiary Contribution in Various Govt. Programmes

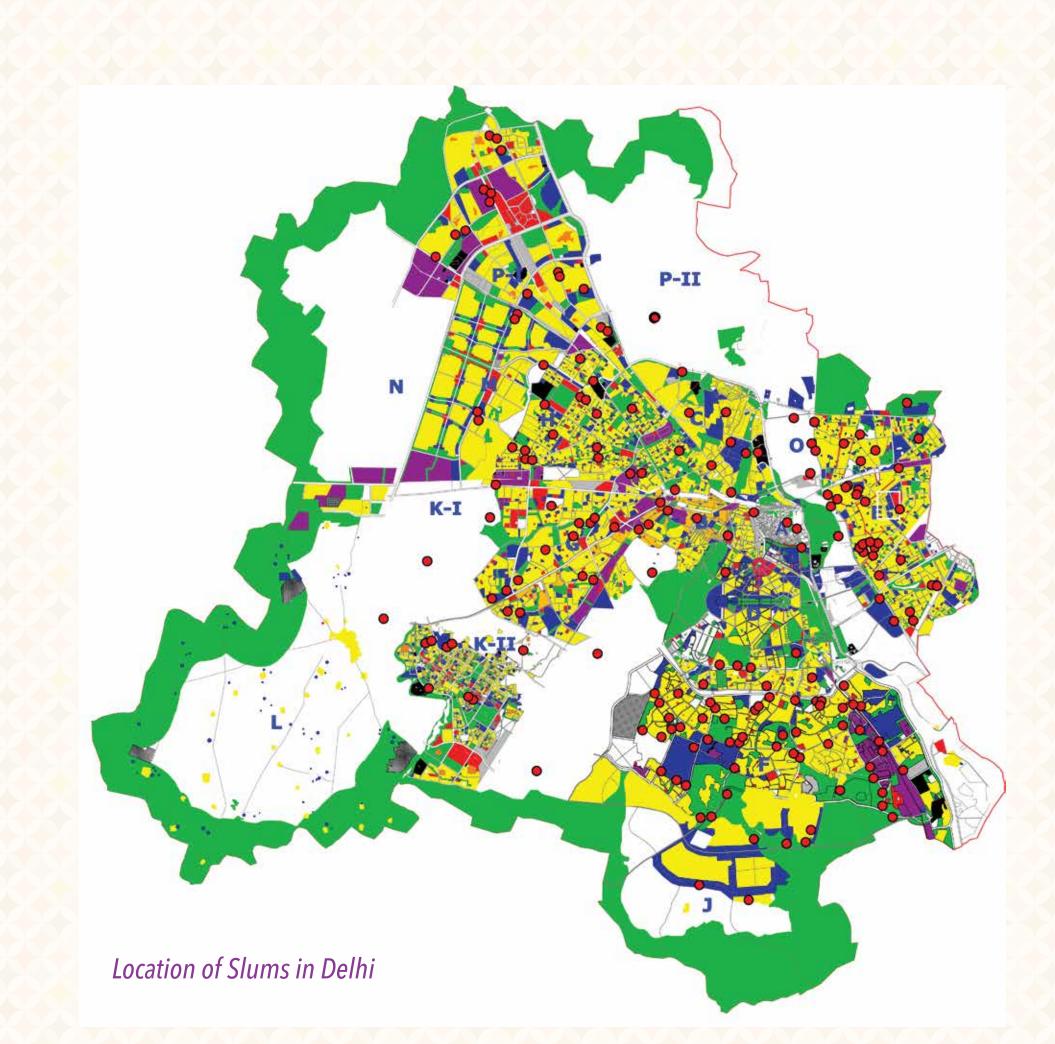
Relocation of Slums by GNCTD

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- Supply-side constraints: Inadequate supply of dwelling units under EWS/LIG schemes of the government. Lack of supply and initiatives from private developers.
- Affordability gap: There is a significant gap between borrower repayment capacity vis-à-vis the price of the dwelling unit.
- Limited access of the poor to sources of institutional funding.
- Apprehension of loan delinquency has made institutional lenders wary of lending to the poor/weaker sections.

One of the main and overseen issues in the provision of Housing under LIG and EWS schemes is the gap between government initiatives and affordability of slum dwellers.

None of the existing initiatives by the government for slum improvement takes into account the affordability of slum dwellers and they are made on a "one size fits all" basis. They focus on the economically weakest section of society but miss out on utilizing the available paying potential of slum dwellers in large cities like Delhi.



The example: Punjabi Bagh

It was found in the primary study on three slums of Punjabi Bagh that the slum dwellers have an ability to pay more than five times what they are required to pay under existing schemes. These slum dwellers are also willing to pay this amount provided they get good quality housing.

- People are dependent on the bungalows of Punjabi Bagh and are mostly employed as drivers and gardeners, while some work as
- Avg. Monthly Houdehold (HH) Income is Rs.6883

HH SIZE & DURATION OF STAY

nearby vacant land.

 Majority of the households consist of between 5 and 7 members. • The Punjabi Bagh Club was constructed 30 years back uprooting a slum on that land. Many of the people moved to find shelter in the

COST OF HOUSE AND INVESTMENTS DONE

- The house cost in most of the cases is between Rs. 10,0000 to Rs. 20,000 with majority towards the higher side.
- Not much of housing consolidation or improvement has taken place and most of the people have invested less than Rs. 5000.

WILLINGNESS TO PAY

- There are no respondents who are not willing to pay for better
- They are willing to pay upto Rs. 1,500 per month and Rs. 10,000 as down payment.

AFFORDABILITY

- Average Affordable Unit Cost = Rs. 4,13,000
- Average Affordable EMI = Rs. 2,065

HOUSING MICROFINANCE

'Rent to Own' - The scheme:

Efforts have been made developing alternative ways for providing shelter to the sections of the community, who are not able to afford it on their own. Two such approaches are:

- Community Funds
- Housing Microfinance

Community funds

- Community Funds are designed to enable the poor to access shelter assets, particularly land and infrastructure. They are mostly targeting the very poor, those without security of tenure or adequate housing.
- Usually they require savings and the role of the community structure is essential for repayment.
- Collateral security is essential for the collective loan management.
- In terms of impact at scale, some community funds have demonstrated a greater capacity to expand their coverage (Baan Mankong,

Housing Microfinance

The normal mortgage loaning system is out of reach for a big part of society. Therefore financing options with long term loans with small EMIs and lower rates of interests have been developed. These options have to be

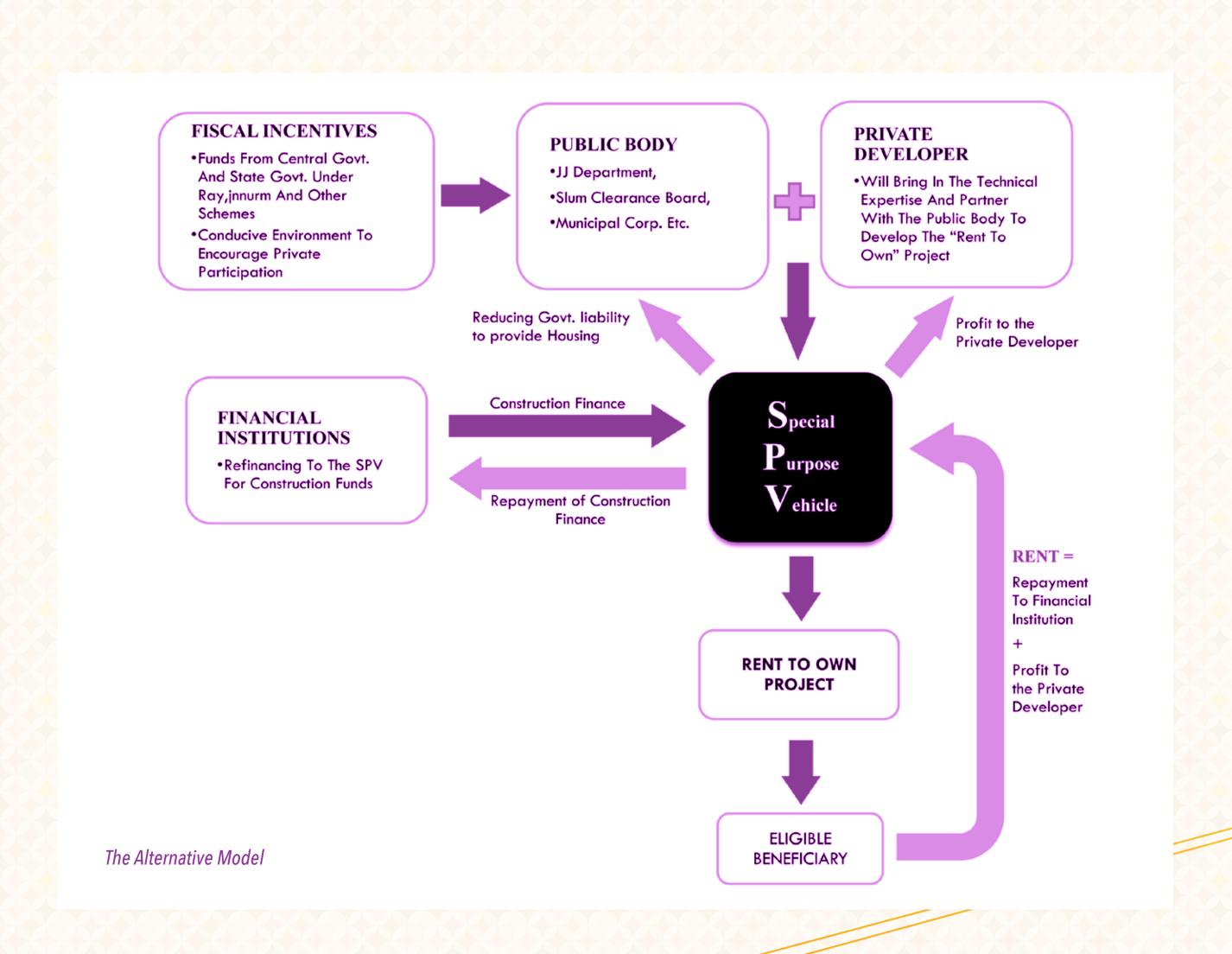
The micro enterprise loans given by the MFIs are for small amounts and for shorter periods whereas housing loans will involve larger amounts of money and will be for longer tenure. Therefore, there is a need to tap the potential of MFIs, which can provide housing loans to the poor.

connected with Housing schemes to cover the financial products for this sections.

The features which make the microfinance sector attractive for delivering housing finance are:

- MFIs provide timely and adequate micro credit and other micro financial services to the poor and have greater understanding of the issues concerning
- The credit histories of poor borrowers have been established by the MFIs.
- MFIs have well-established systems and procedures for distributing and collecting loans.
- MFI clients aspire for having a house of their own. Financial assistance for housing construction is a limitation for such clients.
- MFIs have a good potential to cater to the housing finance needs of the economically weaker segments.

The scheme introduced through this thesis is called "Rent-to-Own'. It offers an effective alternative model for providing an affordable shelter option for slum households while reducing the burden of the government to provide free housing to this segment of the society. In this scheme there is no contractual obligation to buy. The scheme can give access to houses that would otherwise be unattainable for a first-time buyer living in a slum. While renting, the prospective buyers would be dealing with the Urban Local Body or the implementing agency that can act as a 'social landlord', which may offer an extra feeling of security.











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