Housing for All

AFFORDABLE HOMES THROUGH HYBRID VALUE CHAINS

India

With millions of Indians still without a roof over their heads, Ashoka, a global non-profit organisation that supports social innovation, is catalysing the creation of large-scale, market-based affordable housing. Its Housing for All programme brings together a "hybrid value chain" of real estate developers, housing mortgage providers and citizen sector organisations to help low-income citizens own homes costing less than US$16,000.
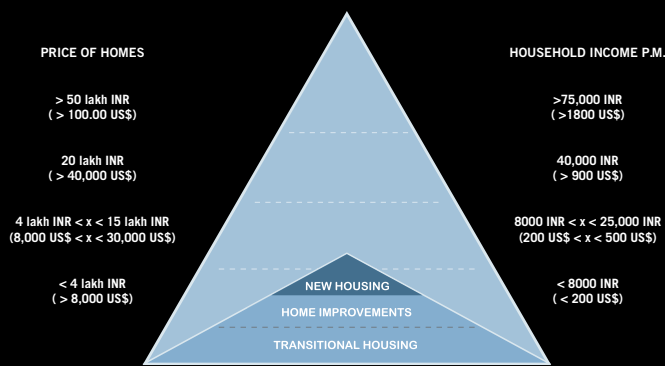
The Challenge

In India, as per the 2001 Government Census estimate, nearly 24.7 million households do not own their own home. This estimate covers both urban and rural housing. From our findings, the primary understanding we were presented with was that "The urban poor is not just one class." In fact, those in India who earn US$50–500 per month as household income are all classified as one class of urban poor. But through data collected from more than 10,000 households, and interviews with potential customers and our Ashoka fellows, we arrived at our first biggest discovery, which we have called "The pyramid within the bottom of the pyramid". As depicted in the diagram, there are three classes of urban poor that need different housing solutions ranging from temporary housing for the poorest of the poor, to home improvements for the poor who have occupied illegal land and built a structure they now call home.

However, there is also a class of people who earn US$200–500 per month (as household income) who are capable and also very willing to move to a newly built home. These are residents of slums in various Indian cities who earn a reasonably high income, but have no way to prove their income. All of their income is undocumented and thus they are not eligible for formal loans or a mortgage.

For example, 94% of the Indian urban population today cannot afford what is available in the market as new housing. It is directly related to the fact that only 3% of Indians pay income tax and so those who do not pay income tax are not eligible for a mortgage as financial companies demand to see tax returns as proof of income.

Also 95% of the Indian urban population today are informally employed. Auto rickshaw (*tuk-tuk*) drivers, taxi drivers, maids, construction workers and small grocery shop owners all come under this category.

PRICE OF HOMES		HOUSEHOLD INCOME P.M.
> 50 lakh INR (> 100.00 US$)		>75,000 INR (>1800 US$)
20 lakh INR (> 40,000 US$)		40,000 INR (> 900 US$)
4 lakh INR < x < 15 lakh INR (8,000 US$ < x < 30,000 US$)		8000 INR < x < 25,000 INR (200 US$ < x < 500 US$)
< 4 lakh INR (> 8,000 US$)	NEW HOUSING / HOME IMPROVEMENTS / TRANSITIONAL HOUSING	< 8000 INR (< 200 US$)

The Pyramid at the Bottom of the Pyramid

01   Children playing in a slum area in the Indian city of Ahmedabad (2011)

The Solution

The demand for affordable housing in India translated to market value is around US$250 billion. This figure covers only the actual bare housing units, and does not include items, which are needed for living in these houses, such as furniture, electrical and electronics equipment, etc. As there was a readily available market, Ashoka's Housing for All (HFA) programme looked at a small, but definitively large-impact intervention that could increase the supply of such housing today. It arrived at the following guiding principles to catalyse housing creation in urban areas:

- Housing must cost less than one million Indian Rupees (US$16,048)

- Size of such housing must be of 250–550 square feet (23–51 square metres)

- Must be produced without any government subsidies (be market-driven)

- To focus only on informal sector customers

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Ashoka was never intending to build these houses itself. Ashoka saw its role as a catalyst to bring together various stakeholders. Real estate developers were happy to identify land, get the required government permits and deliver housing based on the above specifications. The fundamental question was, where were the buyers and who would provide their loans?

A common profile of buyers would be someone like Tulsi-ben (name changed), who lives in the city of Ahmedabad and makes tea at a small non-governmental organisation (NGO). Her husband is a *tuk-tuk* driver. Together they could make enough money to afford a 15-year mortgage of 400,000 Indian rupees (US$6,423), at 13% interest per annum, by paying an Equated Monthly Instalment (EMI) of 4,500 rupees (US$72.4) per month.
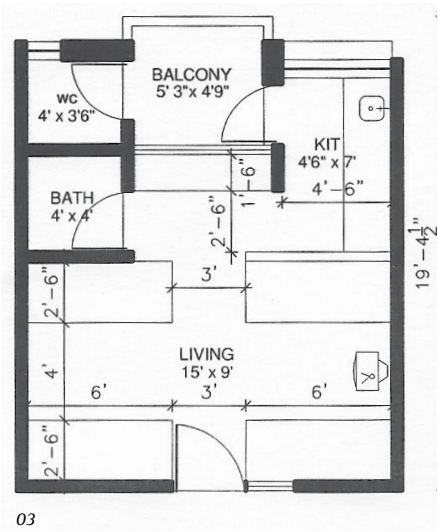
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01 Potential home buyers at a property launch.

02 The Umang Lambha housing project in Ahmedabad.

03 Sample floor plan of a 262 square foot home.

But the real estate developer had never dealt with the Tulsi-ben's of Ahmedabad before. Neither had such customers ever thought of buying their own property.

Ashoka roped in social entrepreneurs who are familiar with these communities to act as a middleman between the developer and the buyers. Tulsi-ben, for instance, deals with SAATH, an NGO founded by Ashoka fellow Rajendra Joshi, for her community needs. Mr Joshi was happy to bring together such buyers whom he knew were capable and willing to buy such houses built by the developer, DBS Affordable Housing Strategy Pvt Ltd. Hence, the developer's first question of who the buyers were was answered.

There were a small number of mortgage providers in 2009, when the HFA programme started.

Typically in India, home owners have to show proof of income, but informal workers like Tulsi-ben and her husband do not have income slips or tax returns to show. To overcome this, Ashoka persuaded the financial companies to think differently by accepting other means of income proofs, such as petrol receipts or daily mileage clocked by the *tuk-tuk* drivers, as an approximation of their income. At the same time, Ashoka worked with the informal workers to keep better records of their work.

Eventually, the companies were willing to provide finance for such informal sector workers at a slightly higher than market rate of interest. Ashoka catalysed the coming together of such providers with the project of DBS Affordable Housing and SAATH as the demand aggregator. SAATH not only brought in the customers to buy these units, but also ensured that they got their mortgage in time.

By linking the various stakeholders who were already in their businesses of supporting such communities, Ashoka made the right pieces fit together so that affordable housing could take the right scale. By the Hybrid Value Chain model – where commercial entities work closely with NGOs or social enterprises – that Ashoka propagated, every single stakeholder was benefiting from their contribution. The developer was happy to build more houses and also give a small fee to the citizen sector organisation (CSO)/NGO to bring in the customers, while the mortgage providers got pre-qualified customers from the CSO/NGO and were willing to pay a small processing fee to them.

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Significantly, the developer did not build homes without first consulting the communities to understand what they wanted. They found out that the poor aspired to own refrigerators (even if they did not own one yet) and thus wanted a home that had a space allocated for this future purchase. This led to a change in their designs.

01   Many home buyers are workers in the informal sector.

02   Laxman Singh Rajput and his family in their new Umang Lambha flat.

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The Outcome

By 2012, nearly 10,000 homes were built across India using the Hybrid Value Chain model. Several other thousands of houses were created even without the intervention of Ashoka as the market saw the demand and developers started projects. Nearly 10 additional mortgage providers for the informal sector have emerged and all of this ensures that the supply of affordable housing increases.

However, the challenges are different once the model scales up. HFA stopped catalysing new projects, but asked a larger question: How do we ensure that all such housing meets the basic quality standards?

In India, unfortunately, housing is the only product that does not come with a warranty or guarantee. Since then the HFA team has formulated India's first affordable housing rating system called CASA and is now creating an independent body called the Housing Council of India to own and operate this voluntary, project-based rating system. The HFA project case is unique to India, but there is still plenty of room to learn from other countries, such as Singapore, which has built affordable public housing since the '70s.

From what we have learnt, it is very evident that housing is not only about four walls and a roof. It is also about building a liveable environment for the community, from good quality, well-designed units, to the availability of sanitation and clean drinking water, as well as common spaces for neighbours to interact and build bonds. These will motivate the buyers to sink roots and build their future. In the end, it is not just providing housing, but a dignified life.

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<u>01</u> Children playing in front of their new homes at Umang Lambha.