

Property Rights: Ensuring well being through low-income housing

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Abstract

Pakistan, like most parts of the world, has adopted capitalism, but its own capacity to generate domestic capital remains limited. Thus persistent dependence on foreign capital is a commonality across the state and non-state actors, including businesses and development agencies. In a world which is increasingly about economics such dependency results in subservience to foreign demands in all spheres of life-be economic, social or political. To explain constraints on creation of domestic capital, we have used the well known framework developed by Hernando De Soto in 'Mystery of Capital'. De Soto points out that the key to the mystery of capital lies in a combination of ownership of a clean and clear title and elaborate man-made processes to convert that title into capital. We^{1,2} have further restricted the application of this framework for proposing a policy in the housing sector for the low income market. There is a substantial unmet demand for low-cost housing in Pakistan, if addressed; this market is potentially worth US\$15 billion. We argue that market based mechanisms work best to solve the housing problem for the poor and would relate it with current political and policy emphasis to provide housing by the state. It can be shown that the social present value on the investment in such a mechanism can at least be three fold.

Property Rights, as Hernando De Soto has extensively argued in 'The Mystery of Capital', hold the key to capital formation and creation of surplus value for the large majority of the population. De Soto points out that the key to the mystery of capital lies in a combination of ownership of a clean and clear title and elaborate man-made processes to convert that title into capital: collectively termed 'property rights'. We have applied the framework of De Soto to understanding the problem faced by the urban poor in terms of access to housing and have proposed a market-friendly policy framework to enhance access to housing.

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"Public Housing schemes have been inconsistent with the economics and sociology of the poor."
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Case Study on Urban Poor by Acumen Fund (2004)
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² Jawad Aslam - Acumen Fund Fellow, activist and entrepreneur, works with Saiban, an NGO focusing on low income housing.

1. Theoretical Background

De Soto has maintained that capitalism is the only viable economic system in the current scenario which guarantees prosperity and well being. However, capitalism, globalization aside, has so far been successful only in the 'West' (U.S., Western Europe and Japan) and it has failed elsewhere. In fact, capitalism and globalization, in the wake of openness in political and economic realms, have caused greater inequalities elsewhere. Thus, advocates of capitalism and globalization in these countries have gone on the defensive.

De Soto defines capital as something which has an intrinsic value as well as the capacity to produce surplus value beyond the physical dimension of the asset. He argues that although the developing countries and former communist nations have embraced capitalism wholeheartedly, they have not been able to generate capital on their own. Why it has happened in the West and not elsewhere is the single most important question which has been thoroughly dissected by De Soto.

According to De Soto³, creation of capital is only possible when property rights are unambiguously defined and collectively enforced. De Soto maintains that there are essentially five failures, termed as mysteries, which contribute to the failure of creating property rights, and eventually, capital. Once we understand these mysteries, it becomes possible for us to demystify the success of capitalism in the West, and its failure elsewhere. First, there is the mystery of missing information. Second, there is the mystery of capital itself. Third, there is the mystery of political awareness. Fourth, there is the problem of missing key lessons from the U.S. history. Fifth, and last, is the mystery of legal failure.

1.1 Mystery of Information

'Legality [is] marginal. Extralegality has become the norm', writes De Soto. With the help of a 100-strong team, which worked over 5000 days across continents, he has calculated that the worth of the real estate assets held, but not legally owned by the poor of the Third World is at least \$9.3 trillion dollars. This is equal to the valuation of all listed companies in the twenty

most advanced nations; more than twenty times the total direct foreign investment into all Third World and former communist countries in the ten years after 1989; forty-six times as much as all of the World Bank's loans of the past three decades, and ninety three times as much as all development assistance from all advanced countries to the Third World in the same period.

The mystery of information is actually an ignorance of the poor people's real wealth, which leads to extensive under-capitalization. This is also known as the informal sector, black market economy or the under-ground economy in many nations. As national government statistics are blind of these ground realities, the national strategies are also blind of this hidden and enormous wealth. The result is that developing countries continue to harp fears of poverty amongst themselves and amongst the rest of the world. The mystery of missing information about the real values, which the people hold, is therefore a key in solving the main puzzle: why capitalism triumphs in the West, and fails elsewhere.

1.2 Mystery of Capital

Many thinkers have associated capital formation with entrepreneurial process. De Soto, on the other hand, argues that the developing countries' problem is not the lack of entrepreneurship, as demonstrated by creation of assets worth trillions of dollars. Rather, it is in fact the lack of easy access to a property mechanism which could legally fix the economic potential of their assets and ultimately be used in the creation of surplus value, which is far greater than the value of the physical dimensions of their assets.

De Soto further argues that the real property right is not about the ownership: clean title is only the tip of the iceberg. The real impact of an effective system of property rights is the flow of communication between the asset and realization of its value and reduced transaction cost encouraging networking amongst people. De Soto finally suggests that the absence or lack of this phenomenon is the major reason for the failure of capitalism and macro economic reforms.

³ This part of the paper is largely based on Hernando De Soto's seminal work "The Mystery of Capital".

1.3 Mystery of Political Awareness

De Soto has argued that the extralegal frameworks developed by citizens, powered by huge inflows into urban areas, are rarely antisocial in nature.

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"If the written law is in conflict with the laws citizens live by, discontent, corruption, poverty, and violence are sure to follow", writes De Soto.

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The political and legal elite need to understand the mechanisms and rules which operate the extralegal sphere and instead of always looking at these mechanisms with disdain, they should try to merge with the written law of the land. The West has done it over a course of at least two hundred years, and surely there is no quick fix for other nations.

1.4 Missing Lessons from the U.S. History

De Soto has focused on the history of Western nations in general, and on the U.S. in particular, and has drawn several parallels between their past and developing countries' present. He has traced the developments of property rights structure by referring to key milestones both in the judicial and political history of the U.S. For example, 'squatting-occupying a land for a long period without a title' was illegal in England, however it became a common practice in the U.S. as the land was freely available for new settlers and immigrants. After a long and multi-pronged battle, American politicians expressed the revolutionary idea that "legal institutions can survive only if they respond to social needs."

1.5 Mystery of Legal Failure

De Soto has shared his own experience of 'formalization' of capital. His team designed a project in Peru to bring extralegal entrepreneurs into the formal sector. New registry offices were set up, which ultimately brought 276,000 extralegal entrepreneurs into the formal economy; generating US\$ 1.2 billion in tax revenues, where none was paid earlier. The experiment was a huge success, as the

company and property laws were modified to adapt to the needs of the previously extralegal entrepreneurs.

De Soto argues that people do not opt to live in the extralegal sphere out of a fear to pay taxes; in fact, they may end up paying far more than the legal taxes, as the extralegal framework is not free. Therefore what determines whether "you remain outside is the relative cost of being legal." However understanding these relative costs, and to convince those who abide by extralegal framework to abandon it takes very minute level decoding of the extralegal social contract. Once this is done, the legal job is over, and potentially more challenging work of the politician begins. The politicians need to convince both the elite and the masses about the advantages of the new legal framework. In this process, they are bound to face resistance from the elite in particular, however to offset that pressure, they must develop deep bonds with the people at large.

In this chapter, De Soto has also criticized the current focus of many governments and international development organizations on the computerization of records as a strategy to enforce property laws. He has argued that much before computers were in common use, the West had developed elaborate processes to safeguard property rights and computerization has just helped in speeding up the process of information accumulation and retrieval. The obsession with computerization stands on the false premise that property is a part of the physical world; it belongs more to the legal and economic worlds.

1.6 Criticism on De Soto: Is Private Ownership enough to eradicate poverty?

Noted intellectual Naomi Klein has criticized De Soto and has taken the exact opposite position. According to Klein, De Soto's thesis generates short-term solutions to the poor conditions of many people, and is based on a partial view of reality that is very ideological. In a comparative article, it has been noted that the big difference and opposition to the theory of De Soto is its profitless end. This fact makes a critical difference in the full conception of housing: to see

housing as a human right or a commodity. Efficient poverty reduction strategies based on housing are not based on private property. Beyond “ownership”, the civil society organizations that promote the right to housing work with the concept of Social Production of Habitat (SPH).

However, Klein’s argument⁴ tends to be a bit superficial. Association of property rights with housing alone is reductionism at best. De Soto’s framework about (property rights) clearly demonstrates that ownership is only the tip of the iceberg. Property rights go beyond ownership and include the complex process of formalization of capital generation—not limited to housing alone. A significant part of De Soto’s argument is about the work of the extralegal entrepreneurs, who operate under their own systems. Bringing them into the formal economy has huge dividends for the overall population and is not directly linked with housing.

2. Review of the Housing Market

2.1 Historical Perspective on Housing in Pakistan

At one point in history, rural to urban migration was viewed favorably by economists for a host of reasons. Fundamental to this view was that such migrations naturally shifted surplus labor from rural areas to provide much needed manpower for the urban industrial growth process. Unfortunately, as the process of urbanization moved at an unprecedented rate and city populations began to swell, the rural to urban migration began to take a negative toll on all sectors of society including social, economic and political. Countries that were mainly agrarian societies in the developing world were unable to successfully deal with the population shift and the basic challenges it posed. Pakistan is no exception.

Alongside the traditional process of modernization and urbanization in Pakistan, there has been a disturbing trend within the housing sector. As the society became more affluent, developers began to capitalize on the opportunity. Since land is considered a safe and promising investment, there was a proliferation of housing developments catering to the

upper- and upper-middle classes of society. The intent of the developments was to solely cater to the investor community. This resulted in a vicious cycle of artificial inflation of prime land that followed the pattern mentioned below.

- + Developer purchases raw land
- + Investors purchase at low rates and hold for 2-3 years
- + Other investors see the increase and promise of the development and purchase at higher rates and hold for another 2-3 years
- + An average of 15 years passes without any physical development on the land but plot prices increase fifteen-fold. Investors have gotten tremendous returns but have inflated the plot prices to a rate that the lower- and lower-middle class could not dream of affording.

Within the context of private sector housing schemes, the above description will suffice for the current purpose. However, in the public sector, we find a different dynamic. Unlike private sector schemes, public sector schemes develop infrastructure and construct housing units within the first two years of project. They also successfully get citizens to start living on site.

However, a realization of a problem only occurs after some time, when the public sector comes to realize that the people living in the homes are not actually the real owners of the units. Rather, the real owners were actually speculators who took advantage of the government subsidy on the housing unit and subsequently sold/rented the unit at market rates. During this discovery, a new problem is brewing in the fledgling community: a large group of renters have taken hold of a community that holds no real roots. The results are horrific, and have been documented globally in various public housing schemes of the world. Renters of the community hold no obligations to the community at large—they are here today, and gone tomorrow—leading to various negative social and environmental impacts on the larger community. In turn, the genuine homeowners come to realize the neighborhood will not be sustainable for their

⁴ Habitat International Coalition- www.hic-net.org

families, and they leave. In public housing, the long term results are consistent—a proliferation of slums and ghettos.

With the above scenarios in the public and private sectors, the ingredients are complete for the investors/speculators market. With limited regulations on development companies (which is now changing), no ‘practical’ restrictions on housing by-laws, and a volatile market where land is the only stable investment, the ‘perfect storm’ for the proliferation of housing schemes was set. The results appeared to be extraordinary, with investors making annual ROIs of 100%, developers and investors lined up to make money. The surge in housing developments led to saturation points which resulted in a slump in the speculators’ housing market.

In the last two decades, the housing market has sustainably met the demand of developers/investors in more ways than one—low risk, high returns—an investor’s dream. During this same time period, the market completely failed to address the needs of the average citizen (defined as a household income of PKR 9000/month). The risk of dealing with such a segment, as well as the reduced returns (100% vs. 20% in the low income segments), never quite caught the appetite of the real estate developer—too much work, too little money.

2.2 The ‘New’ Market

Historically, low cost housing in Pakistan has either been the realm of NGOs, the government, or the informal sector. Due to the heavy capital requirements, as well as level of skill involved in scaling up the housing sector, NGOs have not gained much ground. As mentioned, the government has been very successful in the actual building of low cost housing developments, but has failed in all subsequent aspects—such as effectively targeting Bottom of the Pyramid (BoP)⁵ and building healthy and sustainable communities. Traditionally government models have been based on a lottery system that is generally rigged to favor the investor community who then exploit the BoP through renting those same units. With those units intended for homeowners—but occupied by renters—there is no ownership within the community. This inevitably spirals into becoming another slum where drugs, prostitution, crime, etc thrive, as mentioned above. The informal sector is riddled with its own set of problems: lack of legal tenure, crime, no master-planning, little or no infrastructure are just a few issues.

With a market slump in the mainstream housing market, we are seeing more and more developers moving downscale to address what we shall term as the ‘neglected market’. Whereas before, we were seeing the housing schemes being developed for pure investors, now we are seeing a trend

CASH FLOW SUMMARY

Income/month	PKR 10,000
Expenses	
Rent	3,000
Food	3,000
Utilities (Gas/Firewood, electricity, water, etc)	300
Transportation	1,800
Misc. (death in family, sickness, entertainment)	900
Total Expense	9,000
Monthly savings in ideal circumstances	PKR 1,000

⁵ Bottom of the Pyramid (BoP) refers to underserved markets comprised of poor and low-income consumers.

of smaller villas being offered to the middle income groups (PKR 25,000 – 60,000/month)—not yet targeting the 8 million households earning between PKR 6000 – 25,000/month. This untapped market segment represents an interesting group of people that need understanding. In order to better understand this segment, we must put ourselves in the shoes of the average citizen of Pakistan earning between PKR 9,000–12,500/month.

For those living in rental units (30% of the population), their monthly cash flow is summarized below.

With the average person saving Rs. 1,000/month and the average 80 square yard plot costing Rs. 420,000 (after speculators get through with it), it would take nearly 35 years before one could afford such a plot. The result is the current housing crisis Pakistan is faced with.

The average citizen lives with a level of uncertainty on a daily basis, and is desperately seeking solutions:

- + Will the landlord evict me this month, if renting?
- + Will the price of the staples (flour, salt, sugar, rice, oil, etc) fluctuate this month?
- + Will a tragedy befall me or my family—a death, a medical emergency?
- + Will I miss any days of work due to illness?
- + Will I have a job next month?

Within the cultural context of Pakistan, people are able to

AVERAGE PAKISTANI CITIZEN

Characteristic	Average Citizen
Monthly Earning	PKR 5,000 to 18,000
Location	Urban, Peri-urban, Slum
Source of Livelihood	Government Job, Private Job, Self Employed
Family Size	Up to six persons
Other support	A spouse/child brings secondary income which serves as savings

come up with a certain amount of money when needed—via social networks. A person is able to gather funds for medical emergencies, financial/business opportunities, etc from relatives and friends or through a common concept of informal savings and loan schemes (known as ‘committees’). When designing products for the BoP, all realities must be duly considered.

2.3 The Market: Market size, analysis and forecast⁶

In order to appreciate the magnitude of the low cost housing market within Pakistan one must analyze the segment on two levels: a) Actual housing backlog/deficit, and b) owned units versus rented units.

a) Currently, Pakistan has an overall housing backlog exceeding 6 million units with an annual addition of 300,000 units. Roughly 30-40% of the demand is addressed by mainstream developers who cater to the high end market. The remaining units fall under the category of low income segment. The government has made repeated attempts to address this segment through various initiatives—seldom succeeding. Based upon conservative estimates, the current low cost housing deficit within Pakistan is 3 million units with an addition of 150,000 units per annum.

b) It is estimated that 69% of housing units are listed as ‘owned’. However, of the total sum of housing units, only 59% can be deemed proper housing according to the UN definition. Thus, the renters’ market data indicates that there is a potential market for low cost housing of roughly 4.4

⁶ Most of the data in this section have been taken from Government of Pakistan, National Housing Policy 2001.

million units within the count.

Comparing the above two approaches, a conservative estimate of the potential market is worth up to 15 billion dollars. In addition to these alarming rates, within the urban context, there is a very disturbing pattern. Of those that do own homes, there is a clear pattern of construction of additional rooms as opposed to construction of new homes—leading to the increase in the density of homes—thus further exacerbating the housing problem. With most homes having been constructed over 20 years ago (58%) over 50% of the population under the age of 25, and the population of the major urban centers of Pakistan expected to double in 15 years—demand in the lower income segments is expected to explode in the next decade.

In this grave situation, the government of Pakistan has dedicated a negligible 0.08% of the public sector development budget to address this extraordinary problem for the BoP.

2.4 Industry analysis and forecast

The table below defines the players in the low income housing space:

As mentioned, the low-income housing segment remains neglected by current market players. Developers tend to pursue high-end projects where returns are exponential. The NGO sector tends to focus on specific issues (sanitation, water, solid waste, education, health, etc) as housing is quite complex. The informal sector has caused major problems within urban societies of Pakistan.

The neglected market, with their untapped potential, may seem like an enticing opportunity for investors/developers to pounce on; however the proposition is not as easy as it may sound. The neglected market does have its inherent risks that, if not addressed properly, will lead to one of two results or a combination of both:

- + the prospective development will turn into another investor haven—which will result in a failed project due to the slump in the market (as discussed above), OR
- + the prospective development will turn into a ghetto or slum due to poor management

As of July, 2007 the estimated population of Pakistan was 165 million. The current household size is 6.6 persons and the occupancy per room is 3.3 persons. The average citizen is

OVERVIEW OF LOW COST HOUSING MARKET IN PAKISTAN

	FORMAL HOUSING	INFORMAL HOUSING
PUBLIC	Government Housing Schemes: a) Ineffective allotment system caters to investors / speculators b) National budget for low cost housing is .08% of PSDP	Ownership Rights granted to <i>Katchi Abadis</i> : very limited scope / not a feasible practice
CHARITABLE	Saiban, <i>Al Huda</i> : Limitations to scale exist	
PRIVATE	Ansaar Management Company (Social Venture)	<i>Katchi Abadis</i> / Slums: a) Lack of legal tenure; b) Excessive crime; c) Lack of infra-planning; d) Illegal squatting

said to earn PKR 9,000/month, while 81% of the population is earning below PKR 7,000/month. It is estimated that almost 50 percent of the urban population lives in slums or *katchi abadis*. This demand is mostly addressed by the informal sector through the development of *katchi abadis* (slums) which, in turn, create a host of new problems.

Because no organized segment of society is consciously trying to address this demand, the solution inevitably comes from informal housing developers. The formal private sector, in general, does not serve low-income segments. The public sector, historically, has failed to provide sustainable large scale housing solutions for the BoP. When the government does announce such initiatives, developments usually have cumbersome application procedures, are unaffordable to the poor, and are often grabbed by middle income households or real-estate speculators—resulting in the ghost-schemes or ghettos—as witnessed throughout the country. Thus, the market for low-income housing is dominated by informal housing developers, who operate on a localized scale through various means such as encroachment and illegal subdivisions.

3. Property Rights and Formalization of Capital... In Pakistan

As De Soto has passionately argued, ensuring property rights,

including legal ownership and elaborate processes would ensure the formalization and creation of domestic capital. Thus, an asset would be converted into capital and unleash a process of wealth creation, prosperity and well-being. This process is usually achieved by using property as mortgage or as equity. However, in the history of financial institutions within Pakistan, very few organizations have been venturous enough to offer mortgage products to the lower income segment. There are several reasons for this, some are mentioned below:

The lower income segments:

- + do not have verifiable income or a legally identifiable address;
- + do not understand the concept of mortgage products/time value of money;
- + tend to be wary of banks and do not maintain bank accounts
- + may not be able to maintain the discipline of a regular monthly mortgage payment

The financial institutions:

- + do not find it financially viable to make micro loans in the housing sector, as overheads are too high;
- + do not find large tracts of legally secured and sanctioned land where they can offer such products;

	TYPICAL FORMAL SCHEME
Location	Periphery of city
Scheme Layout	None - narrow lanes, no space for park and public amenities
Plot Sizes	75 - 125 square yards
Price	PKR 80,000 - 120,000
Legal Housing	No
Utilities	Electricity
Amenities	Minimal
Environmental Conditions	Very poor - serious sewerage and solid waste problem

- + do not find it possible to identify legally accountable individuals

Although the above obstacles are significant enough to inhibit the growth of this sector, they are not entirely impossible to overcome.

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A conscious effort in the area of research and development for the last twenty years has recently yielded sustainable results. Saiban, a non profit organization, was established in 1991 by Tasneem Siddiqui, a retired senior civil servant of the Sindh Government. The purpose of the NGO was to serve as a hub of action research for shelter. Saiban's successful model has been implemented in eight schemes in two provinces providing healthy environments of community participation to over 60,000 citizens of Pakistan. Upon establishing a significant track record, the most recent housing development in Kala Shah Kaku, on the periphery of Lahore, will potentially revolutionize the housing sector for the BoP within Pakistan.

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In the Kala Shah Kaku development, known as Khuda Ki Basti-4 (KKB-4), Saiban was able to leverage all of their accomplishments in the two decades to engage the House Building Finance Corporation (HBFC), the first housing finance institution of Pakistan, to offer mortgage loans to the BoP for the purpose of constructing homes.

This critical paradigm shift in the culture of property rights in Pakistan can potentially serve as a catalyst in the field, as Grameen Bank has done in the field of microfinance.

3.1 How it was achieved?

KKB-4 is located in the District of Sheikhpura, adjacent to Lahore. According to new laws under Local Government Ordinance 2001, any new housing scheme must be approved

by the local Tehsil Municipal Administration, TMA. However, due to mass corruption and a lack of respect for the law within the private sector, no developer had bothered to obtain the required permits until 2008. The approval process is very similar to standard development processes worldwide, however, since KKB-4 was the first application in seven years, officials did not know how to process the application. After eighteen months of hard work, the Saiban team was able to obtain legal permits to start construction. This long and arduous procedure, along with many other requirements, indisputably established Saiban's legal ownership—a critical step in providing comfort to HBFC.

Once legal title had been established, the second major step was creating the process to convert legal title into capital. Again, this tedious process took a long time, concerted efforts and a supportive Board of Directors at HBFC. The task involved several items:

- + getting successful buy-in from all stakeholders, while overcoming reservations from each side (the BoP, HBFC);
- + designing a product that is affordable for the BoP;
- + establishing a clear process of income verification for clients of the BoP;
- + establishing legal protection for HBFC when clients are not given sale deeds, by Saiban, for a period of five years (see Appendix I below);
- + establishing a legal process of recording transactions that were acceptable to all stakeholders, including the local government;
- + converting the titles into liens, to allow mortgaging for capital

Once the above obstacles were overcome, during a period of 24 months, the advent of the legal housing industry within the BoP was launched, propelling growth in at least 40 other industries. This study has documented the costs and benefits from such an investment separately, given at Appendix-II.

3.2 Conclusion: Mysteries Resolved

As the above case has clearly demonstrated, it is quite possible to resolve the mystery of capital in the context of low income housing in Pakistan—despite the numerous hurdles that currently exist. In reference to the De Soto framework, we apply the principles in the following manner: *first the mystery of information is resolved, as it becomes possible to verifiably identify a citizen with a legal address*. As the above discussion shows, the identification of legally accountable persons has been a major hindrance for banks to expand the mortgage market. The Saiban process has effectively solved this information problem, though only at a pilot stage. But it has demonstrated the possibility of the same and has also spelled out the detailed mechanism for the same.

Second, the mystery of capital is resolved as the title now owned by the poor is converted into capital through regular mortgages. Most of the capital in the shape of property in Pakistan is dead capital; it is just a piece of land. The Saiban experiment has shown that it is possible to make this capital alive by following specific procedures and by taking the real stakeholders—the owners of property—on board.

Third, the mystery of political awareness is also resolved as the key stakeholders (local community, government, and financial institutions) are engaged during the entire process. In fact, in the above mentioned model, Saiban was able to engage the government on several levels, including support on a multi-million rupee road project for several local villages and KKB-4. The Saiban experience also shows that involvement of community is an effective political tool to enhance the legitimacy, not just legality, of the project. This was specifically demonstrated by creation of a successful Citizens Community Board in this area.⁷

Forth, the mystery of missing lessons from the US history is also resolved as the financing institutions come out of their straight jackets of rules and regulations and become willing to be active player in a new market. HBFC, for example, had fixed a minimum income requirement to approve mortgages, which it decided to relax to accommodate the new class of customers.

Fifth, the mystery of legal awareness is resolved as Saiban traverses through a complex myriad of rules and regulations and ultimately finds a legal solution. In this process, Saiban discovers that the law cannot simply be forced onto the masses without their buy-in by educating people about the time value of money, demonstrating the benefits of a mortgage and a healthy community, etc. The end results are clear: once people are offered a reliable and socially acceptable legal system, they do respond positively.

4. Proposed Policy Framework

We propose a tripartite arrangement involving: private sector developers, the public sector, and financial institutions—to realize the dream of providing a sustainable and affordable housing solution for the BoP on market friendly terms. The central piece of this arrangement will be the existence of committed and resourceful entrepreneurs, who will bridge the demand-supply gap through the mobilization of resources. A project management company and an investors' consortium would be established to purchase land at subsidized rates through the government processes—allowing investors comfort in the asset-backed arrangement. (The Saiban model is a financially sustainable model providing investors an IRR of 30%). The government, under the existing policy of the 'Area Development Schemes' would offer capital to finance project infrastructure, as well as a model residential block.

⁷ Citizens Community Board (CCB) is a body created under Local Government Ordinance 2001. A CCB consists of a minimum of 25 non-elected citizens, who register this as a non-governmental, non-profit association. Under the law, each local government allocates 25% of its development budget for CCBs. A CCB can undertake a wide range of public interest projects as long as it can generate 20% of the project budget from its own resources. The remaining 80% is contributed by the government.

The government agency would be given shares against its investment, which the project management company will be liable to return within a specified time period of five years. As the government is a non-profit enterprise, only the principal investment would be returned in that time, and the shares of the government would be swapped. Finally, the end users (the BoP) would be offered housing finance via participating institutions—since the title would be of legal ownership, their properties would be mortgaged to obtain housing finance.

It can be shown with detailed arguments on how such a market friendly mechanism would be acceptable to all concerned parties. This would be a superior mechanism to the give-away facilities of the government, which end up almost always being misused, as the beneficiaries are not properly selected due to information gaps. This would also bring sizable returns on the investment in the long run. As the proposed mechanism would be solely targeted for the poor, the social return on investment⁸ would be immense and multiple by effective pro-poor targeting and creating a legally acceptable title. It can be shown that the social present value on the investment in such a scheme can be approximately three fold. Above all, such an arrangement would conclusively demonstrate the critical nature of property rights in the creation of capital.

⁸ For details, please see Appendix-II.

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Habitat International Coalition- www.hic-net.org

Appendix-I

A1.1 Incremental Developmental Housing - A working model

Saiban, an NGO registered in 1989 and founded by Tasneem Siddiqui—a retired civil servant of the government of Pakistan—has been working for almost two decades in the field of low cost housing. Having developed numerous sites within the province of Sindh, Tasneem and Saiban have quickly become the authority on the subject internationally.

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The success of Saiban has come, firstly, in effectively requiring clients to move on site upon down payment, thus eliminating the investors. Secondly, Saiban was able to bring amenities such as water, sewerage, road, and electricity on an incremental basis. This method of incremental development—coupled with deferred payment for the land—allowed them to offer extremely low cost plots in Karachi.

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In the province of Punjab, where Saiban is leading a non-government sponsored model of 500 homes, many changes have taken place to test whether a private-sector model works. Having piloted several strategies, many innovations have been incorporated in the Saiban model.

Some of the areas that have lead to relative success within Saiban are metioned below:

- 1) **Affordability:** The model ensures that housing is offered to the poor at affordable prices, and with flexible payment schedules.
- 2) **Simple procedure with a rapid delivery:** There is a ‘one-window’ on-site booking and allotment process with minimal lag between booking and delivery.
- 3) **Effectively target the poor:** An effective filtering approach has been put in place by the company in order to ensure that plots are sold to bottom of the pyramid (BoP) groups, and not to land speculators. Upon allocation of the land, residents

are required to construct a house and live on the plot within 60 days, or face the risk of eviction. All clients have an option to build their homes independently or have Saiban construct units for them.

4) **Healthy physical environment:** Saiban places great emphasis on the importance of a healthy physical environment for families to live in. The urban planning takes into consideration vital issues such as parks, schools, social centers, proper infrastructure, etc.

5) **Legal housing with security of tenure:** Since the housing scheme is legally sanctioned, residents have a strong security of tenure and clean title upon completion of payments. This would allow residents to use their homes as equity to further improve their economic conditions.

6) **Socio-economic opportunities:** Saiban would facilitate key social and economic services including education, health care and credit to the residents.

7) **Financial viability:** The model is entirely sustainable and self-financing. The cost of land and infrastructure are borne entirely by the residents of the housing schemes.

8) **Sustainability:** Saiban, with the assistance of urban development NGOs, manages the community for a period of five years, during which all residents are be required to utilize the home as primary residence—selling or renting the plot is prohibited for that period. This period allows the community to mature and establish a stable identity.

A typical Saiban site varies from 20-100 acres with roughly 25 residential plots per acre and an additional 5% of commercial plots for a given project. Saiban manages all aspects of the project, including but not limited to, civil works, home construction, marketing/sales and community development:

- + 70% of the residential plots (“regular”) of 100 square yards, each to be sold on a no-profit-no loss basis to low-income families with household income between PKR 5,000-15,000

per month (US\$ 80 -250)

- + 30% 'prime' residential plots of 100 sq. yards, each are sold in the open market—for profit. 'Prime' plots do not carry the restrictions of 'regular' plots (requiring immediate residence for five years). Rather 'prime' plots are sold at a premium rate once regular plots are settled and the market price has increased significantly. Depending on the project, the sale of these 'cash' plots is phased out throughout the project to sustain cash flows and allow the project to be less reliant on debt-financing. The target market tends to be the lower-middle income families—households earning between PKR 16,000 – 25,000 (\$260-415) per month.
- + 5% commercial plots of 100 sq. yards each to be sold in the open market.

Unlike informal developers, Saiban services all plots in the project with electricity, water-supply, underground sewerage lines and disposal, as well as roads during the tenure of the project. Doing so ensures that residents do not face the hardships faced by the counterparts in urban slums and squatter settlements. As Saiban's approach to housing is holistic, it also facilitates essential social and economic services of education, health-care, and micro-credit through a network of NGO partners to further improve the living quality of its residents.

Additionally, Saiban arranges mortgage financing via HBFC for standardized 1 bedroom, 2 bedroom and 3 bedroom housing units (with kitchen and bathrooms) to facilitate clients (as mentioned in the paper).

A1.2 Marketing

Unlike private and public sector developers, who spend a considerable percentage of their budgets on 'marketing' via flashy billboards promising of paradise, state of the art sales offices on main roads, and lavish entrance gates, Saiban utilizes a more systematic grass-roots marketing program to sell plots. Although avoiding high costs of advertising and marketing offices is desirable, the primary rationale is to help discourage

speculators – who dominate the real-estate market – to buy plots in the scheme. While the bulk of its efforts to prevent speculators from buying plots is based on its sales methodology (explained below), the lack of high profile marketing also contributes towards preventing speculation.

The grass-roots approach to marketing has proven to be effective in the Saiban model.

A1.3 Sales and Delivery of "Regular" Plots

The plot allotment and delivery process is one of the key drivers of success for Saiban. All clients are dealt with on a first-come, first serve basis—and if they fulfill all requirements, they are granted a plot. The applicant goes through a one-window sales process, where he/she is explained the plot's price and size, details and timeline of the development, as well as contractual requirements of residents. Given that low-income housing fraud is rampant through-out Pakistan Saiban's emphasis on simplicity and transparency helps strengthen its brand in low-income circles.

To prevent speculation on the plots, Saiban employs a standard practice of deferring title transfer to the new resident for a period of five years with residence starting within 60 days of purchase. During this period, the resident cannot rent, transfer, sell, or leave the plot vacant. The result requires that residents continuously occupy their houses, or risk their plot being cancelled. These measures have been a powerful tool to weed out speculators within similar projects—where occupancy rates have been above 90%.

A1.4 Sales of "Prime" Plots

As mentioned earlier, Saiban withholds sales of 30% of the residential plots and 5% of the total development for commercial plots until the end of the project at which point they are sold at the going market rate—although the possibility of selling them earlier is considered when required. These "prime" or "reserve" plots exist for two purposes. First, they allow Saiban to generate a much higher financial return on the project than just through the sale of regular plots which have lower margins.

The prime plots do not enter the equation until the latter part of development, when Saiban has developed and sold all regular plots to low-income families, and the premium on “reserves” has been maximized. Second, these plots also provide a financial cushion to the project. In the event of a liquidity crunch, Saiban can dispose of these plots prematurely (at reasonable margins). As there is always huge market of real-estate investors and speculators ready to buy land, these prime plots ensure that the project does not face any financial insolvency risk (since prime plots only carry one restriction: deferred title for a period of five years).

Note: At times, objections are raised in regards to the thought process of ‘mixing’ regular plots (lower income groups) with prime plots (middle income groups) and the sociological effects. The housing experience of Pakistan, specifically that of Saiban and the Orangi Pilot Project (Karachi) indicates that a ‘healthy’ mix of varying income levels is conducive to the development of society—preventing communities from becoming ghettos. A varying mix allows for the society to develop a sense of community through an informal sense of financial interdependence—via employment, loans, etc.

A1.5 Infrastructure Development

As part of the product that Saiban is offering, basic amenities including electricity, water-supply, sewerage, and paved roads are provided to each resident. Considering the complexities of working with the government, the current project has been designed to minimize bureaucratic dependency, aside from electricity. The water table can be found at 25 feet below the natural soil level at some proposed site, while WHO standard drinking water is available at 600 feet below that land. By hiring private contractors to carry out all bore work, installing independent turbine engines, and installing supply pipes—Saiban eliminates the need for dependency in the case of water supply. All internal sewage lines lead to a disposal station next to natural drains (*naalas*) wherein the water is treated and pumped into the *naala* after attaining acceptable standards—allowing Saiban to steer clear of any dependency

on the sanitation authority. Internal roads are constructed by private contractors as well. Within the context of Pakistan, as long as the engineers/contractors are licensed, the government does not inspect work financed and executed by the private sector. The exception to the entire infrastructure development process is electricity, which is not possible to execute independently. Saiban pays a bulk fee to lay the electrical infrastructure for the entire development, or phase out the project into four phases under the supervision of the Water and Power Development Authority.

With the exception of electricity (which is provided from the outset), all development is carried out on a block basis, where each block has access to all amenities prior to moving on site. Due to the block-based approach, the developer is able to manage cash flows and capital requirements more efficiently.

Saiban has a team of professional engineers and designers to ensure that all civil works are up to standard. In the long term, all management and infrastructure/common area maintenance are managed by a homeowners association—with clear by-laws and maintenance fees.

A1.6 Home Construction

Based upon successful results documented in the Saiban experience, not only in terms of client satisfaction, but also overall aesthetics and efficiency, the following practices are adopted:

- + Design and construct a subsidized pioneer block of 1 bedroom to 2 bedroom units to demonstrate a model for cost-effective construction; Saiban is currently studying various options in the alternative materials market.
- + Arrange a building contractor to build low-cost houses for clients based on standard designs.

These services do not cost Saiban much, but go a long way in enhancing the value of its product offering, thereby increasing the rate of plot sales while allowing Saiban to focus on its role as a project management company.

A1.7 Other Support Services

While facilitating home construction and mortgage-financing for clients, Saiban also facilitates key social services (e.g., education, health-care, income generation, etc) by encouraging a network of NGO partners to provide key services as the community grows and the needs arise. While Saiban's primary goal is to improve the socio-economic experience of residents, these activities naturally create business value as they make the scheme even more attractive to prospective clients. As mentioned above, all long term management of community affairs are being done by a homeowners association that is to be developed and nurtured during the five year period where Saiban is responsible.

Appendix-2

Social Return on Investment on Low Income Housing

			Year 1	Year 2	Year 3	Year 4	Year 5
Cumulative No. of plots sold			200	400	1,000	1,500	2,500
Cumulative No. of occupancies (80%)			160	320	800	1,200	2,000
		Growth					
Social, Economic and Environmental Benefits	Ref	Rate	US\$	US\$	US\$	US\$	US\$
Economic Benefits							
Savings per family/household (Rent-Lease)	1	10%	367	428	490	515	537
Additional Income due to Access to Mortgage Finance	2	10%	1,935	2,129	2,341	2,575	2,833
Value of New Employment Generated (Labor etc.)	3	10%	1,613	1,774	1,952	2,147	2,362
Potential Gains from Income Generation Programmes	4	20%	957	1,108	1,332	1,671	2,005
Social Benefits							
Savings on medical bills due to Safe Water proper Solid							
Waste/Sewage Management	5	20%	98	115	138	166	199
Environmental Benefits							
Cost Saving by Waste Water Treatment	6	5%	20	21	22	23	24
Social, Economic and Environmental Benefits							
Per Household			5,018	5,625	6,314	7,088	7,990
Total Social and Environmental Benefits			802,880	1,800,032	5,061,296	8,517,032	15,979,561
Operating and Capital Costs							
Operating Expenses (Lease)	7	10%	360	429	472	519	571
Capital Expenditures	8	10%	2,016	2,218	2,439	2,683	2,952
Operating and Capital Costs Per Household			2,400	2,647	2,911	3,202	3,523
Total Operating and Capital Costs Per Household			304,960	423,456	1,367,405	1,380,954	2,618,100
Social Purpose Benefit Flow			497,920	1,376,576	3,693,891	7,236,047	13,361,461
Discount Rate	9	11%					
NPV of Social and Environmental Benefits			\$82,805				
NPV of Project Costs			\$35,902				
Benefit-Cost Ratio			2.31				
Social Purpose Value	10		\$46,903				

Notes to Above

- 1) Savings accrued on part of rental payments which households would pay in case of not owning a house in ADG.
- 2) Indicates the potential income which the customer can earn by taking loan from the bank based on returns on comparable loans in micro finance sector in Pakistan. (State Bank of Pakistan 2007)
- 3) Represents the labor costs incurred on building a house considered as labor income due to construction of a house, based on Pakistan's national average (Labor Force Survey 2005)
- 4) ADG incorporates starting income generation programmes within its communities especially for women at home, and the figures are based on a comparison with similar programs (Pakistan Poverty Alleviation Fund)
- 5) UNICEF (2005)
- 6) Based on estimate of reduction in water usage for tertiary purposes such as watering of plants, washing etc. (Pakistan Council on Research in Water Resources 2000)
- 7) Indicates the monthly lease payments paid by the household.
- 8) Indicates the down payment made by the household to buy a plot.
- 9) Discount Rate equivalent to Discount Rate offered on 6 monthly Treasury Bills.
- 10) Taken as a difference between NPV's of Benefits and Cost as calculated above.

General Notes

1. The data have been calculated by the authors after careful estimation and sources, where possible, have been cited.
2. All figures are described on per household per year basis.
3. Data represent consumers' perspective of costs and benefits in all indicators.
4. Appropriate growth rates have been applied for year-on-year change.



Acumen Fund is a 501(c)3 social venture fund that invests in non-profits and socially directed for-profits distributing vital products and services to the poor through scalable, market oriented approaches. Our investments currently focus on four key areas: water, health, housing, and energy.

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