



**Women in Informal Employment
Globalizing and Organizing**

WIEGO Technical Brief N° 8

July 2014

How to Assess Security of Tenure and Emulate Mortgages for Financing Semi-Formal Homes: Lessons from Mahila Housing SEWA Trust

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WIEGO Technical Briefs

The global research-policy-action network Women in Informal Employment: Globalizing and Organizing (WIEGO) Technical Briefs provide guides for both specialized and non-specialized audiences. These are designed to strengthen understanding and analysis of the situation of those working in the informal economy as well as of the policy environment and policy options.

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Acknowledgements:

This paper has been made possible through the generous support of the Loeb Fellowship Program at Harvard, the KIVA Visiting Professor Program at TU Darmstadt, and MHT. We further thank Harris Selod and Keith Clifford Bell, The World Bank and Renana Jhabvala, SEWA Bharat for their helpful comments. Finally, this work would not have been possible without the long-term support of the Environmental Planning Collaborative, with which we have pursued research on land management and urban planning.

Publication date: July 2014
ISBN number: 978-92-95095-91-5

Published by Women in Informal Employment: Globalizing and Organizing (WIEGO)
A Charitable Company Limited by Guarantee – Company No. 6273538, Registered Charity
No. 1143510

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Cover photograph by MHT of the Savda Ghevra Resettlement Colony

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Introduction

When the UN Human Rights council came together for its 25th session on March 10, 2014, the Special Rapporteur on adequate shelter discussed guiding principles on security of tenure for the urban poor (UN 2013). These principles expanded upon her earlier report *Mapping and Framing the Security of Tenure*, which portrayed a much-nuanced continuum of tenure security, eschewing the conventional formal-versus-informal or legal-versus-illegal bipolar view. In this regard, identifying innovative methods for assessing tenure security is highly relevant for realizing “the right to adequate housing as a component of the right to an adequate standard of living, and on the right to non-discrimination in this context” (UN 2012). *The Challenge of Slums*, UN-Habitat’s groundbreaking report on human settlements (2003), illustrates the magnitude of the problem: 45 per cent of people in Asia (without China), 38 per cent in Africa, and 25 per cent in Latin America and the Caribbean live outside of the formal housing market.

In the light of this highly relevant, contemporary discussion, this WIEGO Technical Brief takes a closer look at innovations made by the Mahila Housing Trust, which is affiliated with the Self-Employed Women’s Association (SEWA) network in India. Upon the request of urban poor SEWA members and reflecting the modern, nuanced understanding of tenure security, MHT has started to issue collateralized housing loans for semi-formal properties that enjoy high tenure security.¹

In order to do this, MHT developed a new mechanism for screening the security of tenure of properties outside of the conventional housing finance space. The process for the verification of tenure security goes beyond the recognition of state-accepted tenure; instead, it ranges from de-facto to de-jure instruments such as non-eviction assurances, temporary licenses, *peremboke* (new or restricted tenure), and *patta* (freehold or old tenure). MHT also investigates potential conflicts with the urban planning regime such as whether or not a road is proposed on a housing loan applicant’s property, which would mean the latter would be demolished if the proposed road was constructed. In sum, MHT determines the property’s suitability for serving as collateral even though it is not fully formal.

Further, MHT found that despite lacking some criteria for qualifying as formal, undisputed real estate, many if not most properties enjoy high security of tenure nevertheless. Therefore, lack of full formality (as per its conventional definition) does not necessarily imply higher lending risk. Consequently, “semi-formal properties” should not be excluded from the housing finance market nor be charged any significant interest markup to compensate for perceived risk.

Finally, MHT undertakes additional steps in order to improve its ability to foreclose the property in case of loan default even though the property is not formally registered in the borrower’s name and therefore cannot be mortgaged. These steps, structured around the legal instrument of Advanced Power of Attorney, are tailored to respond to the condition of low-income borrowers.

This Technical Brief has three key objectives:

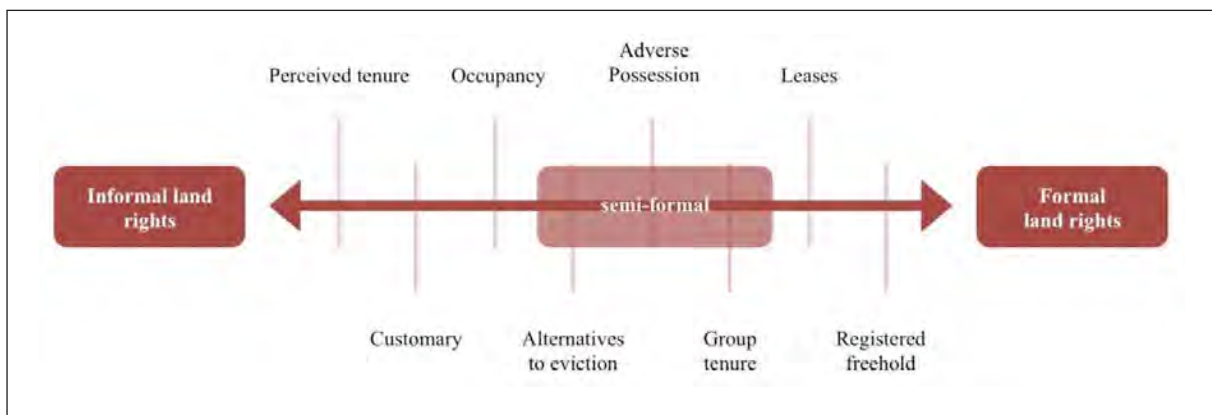
1. to illustrate the need for and the value created through the innovative loan product and its enabling proceedings
2. to illustrate the challenges in the delivery of the collateralized housing loans in order to allow policy makers to remove undue barriers
3. to share the loan proceedings with other potential lenders in order to enable them to replicate the innovative approach not only in India but also in other low- and middle-income (and possibly even high-income) countries with semi-formal land and housing.

¹ As these loans square “half-way between uncollateralized microfinance and mortgage lending”, the Affordable Housing Institute (www.affordablehousinginstitute.org), a Boston-based think-tank for affordable housing finance with a focus on developing and transitioning countries, refers to this asset class as Home Asset Loan Finance or, simply, HALF: http://www.affordablehousinginstitute.org/?page_id=631#whatishome-link

Technical Foundation

Using the modern housing rights framework promoted by UN-Habitat (2012), MHT defines “semi-formal” properties as those that locate within or near the adverse possession bracket of the housing and land rights continuum (**figure 1**). As the land management screening mechanism will show below, semi-formal properties are at least occupied for prolonged periods, often decades, and have been peacefully purchased rather than being invaded. However, if a semi-formal property transaction did occur but was never registered, usually because of prohibitively expensive fees and/or procedural burden, the land title still continues in the name of the former owner (or the heirs, which increases the complexity further). Semi-formal properties thus locate approximately at the “adverse possessions” marker within the continuum of rights. As India recognizes adverse possession, UN-Habitat’s framework paired with MHT’s approach constitutes a powerful tool for land regularization in the country.

Figure 1: The Continuum of Land Rights



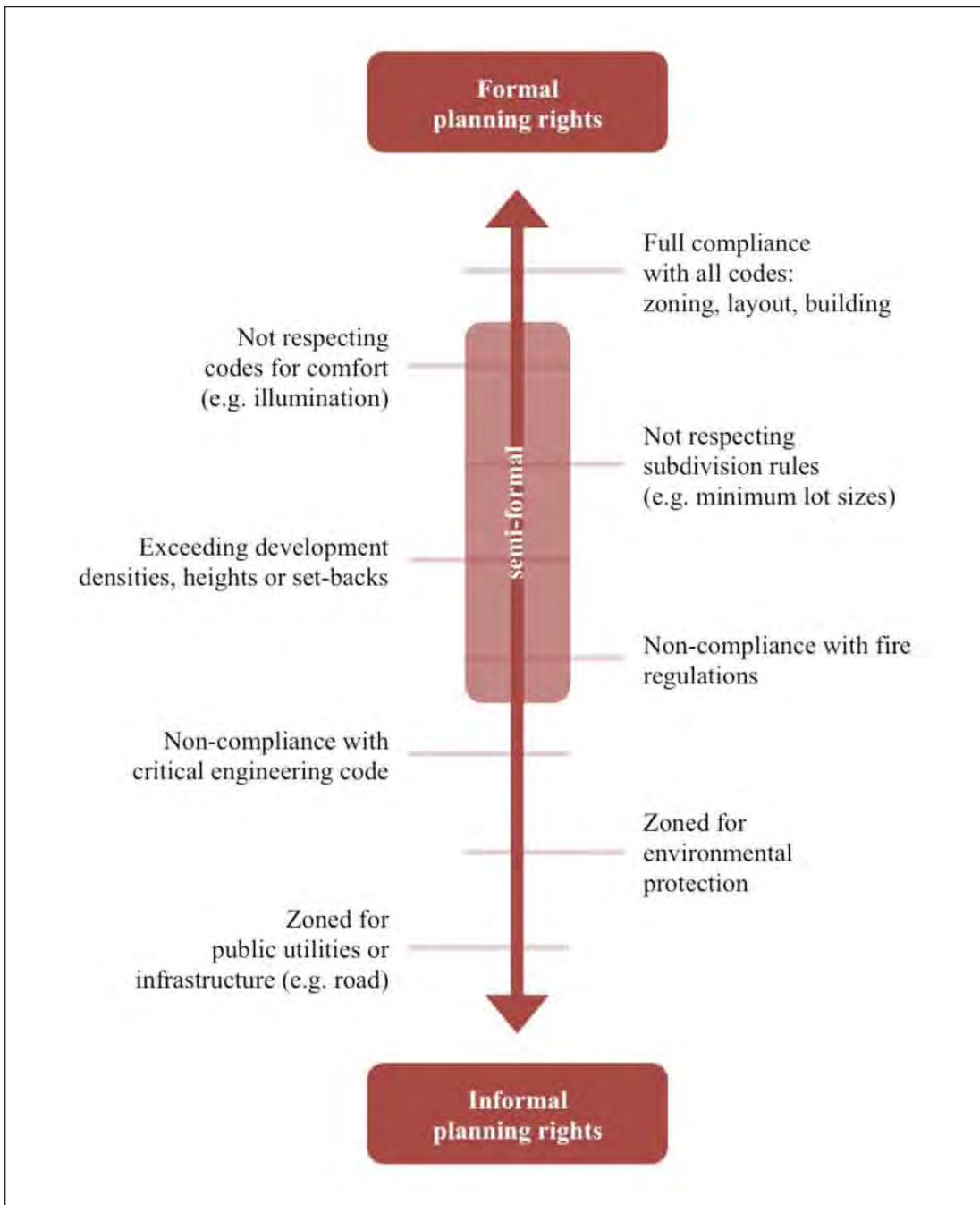
Source: UN-Habitat 2012 (modified by the authors)

Furthermore, UN-Habitat clearly indicates the superiority of adverse possession over, for example, mere occupancy rights and alternatives to eviction such as the verbal no-eviction guarantee given in scope of Ahmedabad’s Parivartan Slum Upgrading Scheme (see Rusling 2010 and SEWA 2002). From a financial point of view, superior security merits an interest rate reduction due to lower risk of eviction and thus lower lending risk, which improves the affordability of credit to a vulnerable population. Finally, figure 1 also shows that adverse possession may be considered as “semi-formal” rather than informal as it is already halfway to formality.

In this regard, MHT defines “semi-formal properties with high security of tenure” as follows: land with or without housing for which the dwellers peacefully hold undisputed occupancy and possession rights even though they are not formally registered as landowners in the public land cadaster (governed by the Revenue Act); and land that is not in critical conflict with urban planning instruments as governed by the Town Planning Act.² Thus, using land management and urban planning knowledge, MHT is able to establish a proxy for the de-facto tenure security of properties offered as collateral by prospective borrowers—even if the property’s tenure security is not officially acknowledged. Figures 2 and 3 capture MHT’s modern definition by augmenting the continuum of land rights with a second axis that illustrates a continuum of planning rights.

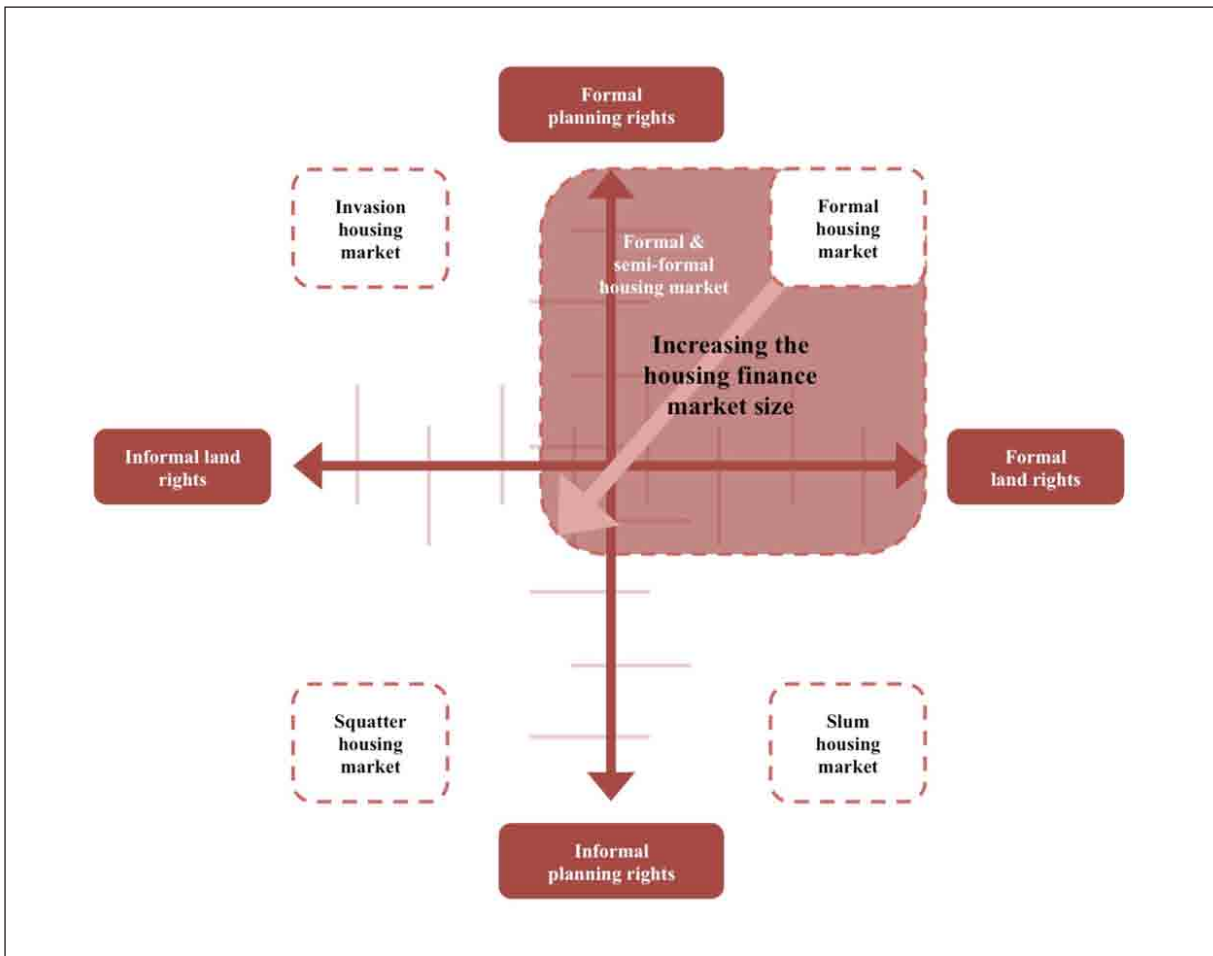
² Town planning schemes, development plans, and zoning regulations and reservations, etc.

Figure 2: The Continuum of Planning Rights



Note: How formal a property is and thus how likely it is that the property gets demolished depends also on its compliance with the continuum of planning rights. Besides urban and area development plans, the planning regime encompasses procedural, building, layout and zoning regulations. The plans regulate, for example, the location and standard of infrastructure and the areas for expansion of the city. The set of regulations may make prescriptions relating to comfort, externalities/nuisance and/or security. How relevant the compliance or non-compliance is for the property's formal status (and the likelihood of demolition) depends on locally defined norms. (The above values are for illustrative purposes only). MHT considers any property formal enough as long as it is not in conflict with the prescriptions of the Town Planning Scheme, which is a local development plan that determines the positioning of roads and development areas. In addition, once a loan is issued and construction begins, MHT engineers ensure that construction is on track.

Figure 3: Redefining the Housing Market



Note: Using the continuum of planning and land rights allows for a redefinition of the housing finance space and the increase of the market size of viable transactions.

Source: The authors (inspired by Lim 1987)

The Need for Collateralized Housing Loans for Semi-Formal Properties with High Tenure Security

India does not only face a quantitative and qualitative housing deficit, it also lacks the financial instruments that are required to alleviate this shortage. On the one hand, microfinance institutions (MFIs) increasingly deliver unsecured housing loans to the urban poor. The properties of such loans are similar if not identical to consumer loans. The perceived capacity to repay, foremost determined through the size and security of household income, is the determining factor for making the credit decision—ignoring the potential for interest rate reduction through collateralization. In the case of low-income borrowers seeking funds mostly for incremental shelter construction, such housing loans usually do not exceed INR one lakh. On the other hand, commercial banks serve the upper-middle and higher income groups with formal mortgages that use the quality of the mortgaged property as the key for making the credit decision. However, only a few lenders issue such loans in the range between INR one and five lakh:³

their products are characterized by small loan size (Rs 50,000-Rs 100,000), short term (.5-5 years) and repayment culture based on affiliation and third party guarantors, without checks on the use of funds or the quality of construction. At the other end of the bar is secured mortgage lending from housing finance companies, which offer larger (loan size Rs 5-7 lakhs), longer term loans (5-10 years) with registered collateral (formal housing and incremental housing) and verification of income and credit history. This missing middle is driven by two constraints: affordability and informality. [Informality is a two-fold constraint: first in regard to borrowers and, second, in regard to properties, the latter not being a constraint in case of typical consumer or microenterprise loans].

(World Bank 2011)

The shortage of lending activities in this loan (and implied income) segment is alarming for two reasons: firstly, with one to six million households of the urban population demanding housing loans between INR one and five lakh, the incapacity of markets to deliver to this large segment unnecessarily increases the burden on governments: the public sector is forced to fill this market gap and to spend scarce resources (e.g. time and money) on a middle-income population that could afford to borrow in the market—if financial institutions would offer it credit in the first place.⁴ As a consequence, the lending constraint distracts the public sector from the provision of basic infrastructure and services and basic shelter for truly poor households. Secondly, the shortage is also the result of structural problems in the field of urban planning and land management that undermine the security of the underlying asset, i.e. the semi-formal real estate, rather than of problems in the financial sector alone. However, to lack the ability to judge the asset's quality for serving as collateral constitutes a severe problem for lending institutions, effectively inhibiting the delivery of affordable credit. This is particularly true given that the Reserve Bank of India requires that large loans be secured. In other words, structural problems in urban land management and planning, paired with banking regulations, contribute to the deficit of the housing finance space. For this reason, at present, the needs of several million prospective housing borrowers cannot be addressed by the private sector, which loses a business proposition worth INR 1 to 1.5 lakh crores.⁵ Unless the private

³ The gap is arguably even larger, ranging from INR one to seven lakh.

⁴ Lacking exact data for the housing demand in the upper LIG and the MIG segment, we estimate that the market demand for housing loans of one to three lakh may be of one to six million units. Our estimate is based both on the existing housing backlog and on expectations about future urban growth. On the one hand, the 11th 5-Year plan estimates that in 2007 the housing shortage was 24.71 million units. Of this shortage, 2.89 million units (11 per cent) were in the LIG segment and 0.04 million units (0.2 per cent) only in the MIG and HIG segment. Of this shortage, possibly one million housing units fall in the INR one to three lakhs category. On the other hand, the urban population is forecast to increase by 175 million people (or approximately 40 million housing units) until 2020. Possibly another five million housing units lie in the one to five lakhs loan segment. Therefore, we think that the above estimate is conservative. (We expect that the overwhelming majority of demand is for loans smaller than INR one lakh for the purpose of incremental housing and slum upgrading and that only a small share, as in 2007, falls into the MIG and HIG category).

⁵ With one to six million housing units in the target segment and an average loan size of INR three lakh, the market size may be of INR 1 to 1.5 trillion (or INR 1 to 1.5 lakh crores). Admittedly, this back-of-the-envelope exercise is a crude estimate. However, the purpose of this paper is not to produce a more accurate number, but to illustrate a legal and financial mechanism that, in our eyes, constitutes a solution for catering affordable and secure housing finance to a market of a highly significant size.

sector finds its own ways to cater to this market, the government needs to compensate for this shortage. Without establishing methods for screening the quality of underlying semi-formal properties that are potentially affected through tenure insecurity induced by urban land policies, the financial sector will not be able to address this gap.

This paper proposes one solution for this challenge: proceedings for collateralized housing loans for semi-formal properties with high tenure security. The paper documents how MHT screens the tenure security of semi-formal properties based on the land management and planning regimes and then, if the borrower and property are deemed credit-worthy, emulates a mortgage through an advanced power of attorney.

Proceedings for Collateralized Housing Loans for Semi-Formal Properties with High Tenure Security

In order to use any asset as collateral for a loan, the following criteria need to hold: (i) the asset must be durable for the loan period; (ii) it must be recoverable in case of default; and (iii) it must be sellable for a price not smaller than the sum of the secured amount and the cost of taking possession. Here, we take the last condition for granted as the informal house can usually be sold significantly above the construction cost (i.e. the upper range of the potential loan amount). However, whether or not the first and second conditions hold is much harder to determine. For example, the durability does not only depend on the structural quality of the dwelling and its ability to withstand earthquakes and flooding but also on the unlikelihood of eviction, which would result in the loss of the property, from the informal land on which the structure sits. On the other hand, besides unclear land ownership, potential conflicts with the urban planning and revenue regimes may make it hard to take formal possession of the semi-formal property even if it enjoys high de-facto security of tenure.

Unless a financial institution agrees that all three conditions—durability, recoverability, and salability—for good collateral hold are met, it must charge a risk premium on the loan, making the loan more expensive (similar to or as any unsecured debt) and possibly unaffordable. For example, if the credit risk would increase from 0 to 5 percentage points, then a sustainable interest rate of 15 per cent would increase to 21 per cent.⁶ Or, the institution may not be able to lend to the borrower at all as per RBI regulations. In either case, distorted financial markets and poverty aggravation are the adverse results of poor mortgageability.

With its innovative screening procedures, MHT-supported credit cooperatives propose a potential solution for overcoming this impasse, which the following section details. The screening procedures are as follows.

Step 1: Screening the Borrower

The credit cooperative supported by MHT screens the loanee and guarantors' identities and financial status. To do so, the cooperatives collect address and identity proofs and income and expenditure information of the loanee and respective guarantors in order to be able to judge the likelihood of repayment. The following documents are collected: a loan application form; the loanee's election card (as ID and address

⁶ This relationship is best illustrated with the CGAP formula for setting sustainable interest rates: $R = (AE + LL + CF + K - II) / (1 - LL)$, with R being the sustainable interest rate, AE the administrative expenses, LL the loan losses, CF the cost of funds, K the capitalization rate, and II the investment income. For the above example, the rate would increase to $(15 + 5) / .95 = 21.05$ per cent.

proof); the loanee's electricity bills (as address proof); the guarantors' income declarations; the guarantors' election cards (as ID and address proof); the guarantors' driving licenses (as ID proof); and other documents, such as ration cards, as per availability.

Finally, the credit cooperatives will verify the customer, guarantors and declarations made, for example, by cross-checking with other information sources such as credit and savings history or inquiries with neighbors.

As the above measures are basically identical to typical MFI or bank screening methods for unsecured consumer or microbusiness loans, they are neither described in detail nor illustrated here. However, due to the additional constraint of informal properties beyond just informal borrowers, the procedure for housing loans differs as is outlined below.

Step 2: Screening the Underlying Asset's Compliance with the Land Management System

In addition to determining the eligibility of the prospective borrower, the credit cooperatives need to determine the underlying asset's quality for serving as collateral. MHT supports the cooperatives in determining the multiple ownership rights that semi-formal landowners possess for the property: in particular, MHT screens the property ownership and its compliance with the land management system (i.e. the Revenue Act).

To do so, MHT collects the land tenure documents and checks the multiple ownership rights and tenure status that the borrower and her guarantors' may enjoy. In order to support a credit decision in favor of the applicant, ideally the loanee and/or guarantors appear as the taxpayers and/or property owners. The second best option is the name of an "informal land broker" appearing on the land tenure documents. Often, formal landowners arrange such brokers, through, for example, a power of attorney, so that the broker may facilitate the property transaction between the landowner and buyer (i.e. the eventual semi-formal landowner). In that case, the middlemen tend to subdivide a larger plot and sell it to the poor, authorizing the sale-purchase documents with their signatures. In these cases, the buyers do not come into contact with the original landowner at all, and the latter's name is not documented in the transaction. Finally, in the worst case a land encroacher's name may appear on informal sales documents, with the encroacher's position towards the formal owner being unclear or even disputed. This may be the case when a land encroacher (verbally) declares himself as owner, then sells the land to the poor, who lack the means to verify formal ownership. If so, the potential borrower considers the encroacher as the owner and accepts the encroacher's signature on an informal purchase document. This last case implies the worst tenure security for the prospective borrower and highest lending risk for the financial institutions. If, in case of a default, the court were approached, then the informal sale-purchase documents signed by the formal landowner would hold higher validity. For a more detailed discussion of the regulatory tangles of the Revenue Act, refer to Patel et al. (2009).

The first form collected is the 7-12-Form, regulated under the Revenue Act (which governs the management and taxation of lands), and defines the land parcel by location and dimensions, formal land ownership, and type of tenure such as old or freehold tenure versus new or restricted tenure. MHT's main interest in the form is the identification of the formal owner and, as applicable, the nature of any restrictions on the transferability, salability, and usability of the land. (Freehold and old tenure are basically free of restrictions on the transferability, inheritability, or usability of the land in contrast to new or restricted tenure).⁷

⁷ Obtaining the old/freehold tenure for a new or restricted tenure plot in order to remove any restrictions is costly: the fee is 50 per cent of the land value. This may be relevant for a full formalization of the plot; however, as long as the authorities have authorized the construction (e.g. with a "plan pass" or a village committee resolution) and the semi-formal owner possesses documents that prove the as yet unrecorded land purchase, constructed buildings are not at risk. The contradicting provisions/permissions reflect, rather, the misalignment of the planning and revenue regimes.

Figure 4: The 7-12-Form

G. P. Rjt., Sr. II Std., 06-07-2011 20.00.000 A4 Blue I.
G R., R.D., No. R.A.M. 102006-1223-L I. dated : 3-8-2006.

આર. વી. રજી. (નિર્વહક)

ગામ નમુનો નંબર ૭ અને ૧૨ No. G 1452448

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ગામ નમુનો નંબર ૧૨

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	નરોતમભાઈ ભીમભાઈ	ખરીફ					
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#નામંજુર ક્ર-તકરાલી ન-૨૬
18/07/2011 09:35 pm ની સ્થિતિએ
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Note: The 7-12 Form displays the name of the owner registered in the land cadaster and includes a list of former owners or incumbencies on the land. The latter information is coded through numbers that reflect entries on the 6-Form below.

Secondly, MHT collects the 8-A-Form, which documents whether or not the owner of the plot possesses a Non-Agricultural-Use-Permission (NA Permit). This question is of interest because, formally, the NA Permit would be required for construction on the land. Thus, the NA Permit may be relevant for a full formalization of

the plot.⁸ However, as long as any government arm has authorized the construction itself, no building is at risk of removal (especially not without compensation). For example, the semi-formal owner-occupier may have obtained a No Objection Certificate from a municipal corporation’s zonal office (e.g. via the 1500-Scheme, one of Ahmedabad’s urban poverty reduction schemes aiming at the improvement of de-facto tenure security; see Nohn et al. 2007); alternatively, a village panchayat may have issued a construction permit (**figure 9**).

Thirdly, the 6-Form records all former transactions and changes of tenure of the land and, in conjunction with the Kabja Rasid (i.e. the sales contract; see **figure 6**), usually creates a clear picture of the land’s formal history, listing all formal owners over time. Ideally, the name of the plot’s owner on the 6-Form is identical to that from whom the occupier-owners have purchased the land; if this is not the case, which may happen for example if the land has been inherited, the ownership structure and the misalignment between formal cadaster and actual possession may be aggravated.

Fourthly, MHT collects all information related to property taxation like the property tax bill, proof of payment, and/or arrears notices. The tax bills, with the names of the loanee and her guarantors on it, serve as possession and ownership proof. It is key to understand and acknowledge that because the government is charging property taxes to semi-formal dwellers—even though the dwellers may not be formally registered on the 7-12-Form—the government recognizes these dwellers as, if not owners, then at least legitimate occupiers. For the same reason, the proof of property tax payment sanctions the mutual recognition of rights between occupier owners and authorities. As a demand for fulfilling the obligation to pay taxes reconfirms the authorities’ recognition of the prospective borrower’s rights, even an official notification of tax arrears to the semi-formal occupier-owner may serve as a proof of ownership.

Figure 5: Proof of Payment of the Property Tax Bills

Sr. No	Particular	Rateable Sys. Arrears	Areabase Arrears	Areabase Current Tax	Center	Dindoli Civic
1	Property Tax			599.76	Financial Yr.	2010-2011
2	Water Charge			180.00	Amount In Word	One Thousand Two Hundred Eighteen Rupees Only
3	Drainage Charge			90.00		
4	Solid Waste			240.00		
5	Education Cess			108.00		
6	Total Education Tax			108.00		
7	Total Property Tax			1109.76	Cashier No.	99462
8	Rounding			0.24	Cashier Name	Patel Nirav A.
					Cashier Signature	

Payment Mode	Amount	Institute	Detail	Date
Cash	1698.00			

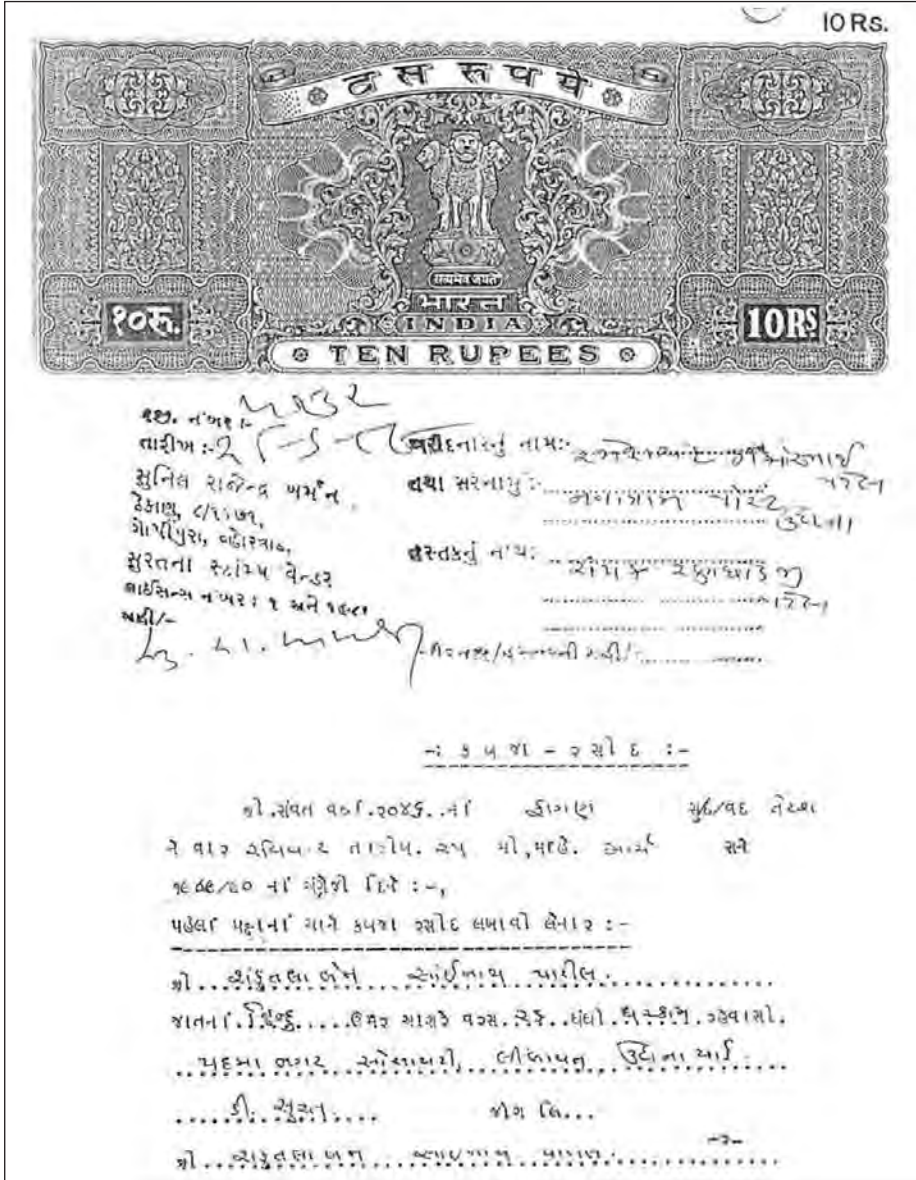
More than one receipt is prepared on such payment

Last but not least, MHT collects the Kabja Rasid, or sales contract, which serves as the loanee’s proof of property purchase. In this regard, it is again crucial to understand that it is not the lack of a property transaction but the

⁸ Again, obtaining the permit is costly: the fee is 30 per cent of the land value. The exorbitantly high fee itself appears to be one driver of informality. It is just more attractive to informally sell the land rather than formally obtaining the permit before selling it.

lack of its formal registration that renders the prospective borrower to semi-formality.⁹ In other words, the sales contract helps MHT's clients prove they have acquired rather than invaded the land they occupy and are semi-formal owners, a status that grants them respected property rights. (This acknowledgement of the difference should not be confused with the authors' approval of eviction of squatters/invaders. On the contrary, forceful eviction without alternatives violates international law and is neither a sustainable nor equitable solution).

Figure 6: Kabja Rasid



Note: The sales contract for the property proves that the informal transaction is acknowledged with the INR 10 stamp duty. This is the case even if the property has not been registered with the land management authorities because registration would have been prohibitively expensive. Page two of six displayed only.

⁹ Before 2008, registration fees and stamp duty due on a real estate transfer in Gujarat amounted to 11.9 per cent of the property's market value. Obviously, the urban poor are neither able nor willing to pay such a high price for the formal registration in the land cadaster as this entry is considered of secondary importance compared to the physical need for housing, basic consumption and family maintenance (including food, transport, health, and school fees) that logically must have a higher priority. Even if fees have been significantly reduced to 5.9 per cent, they remain unaffordable to the urban poor. It would therefore be more desirable to reduce the registration and stamp duty fees to a marginal and flat amount (e.g. INR 500) to cover administrative costs. The public revenue loss may be offset by a marginally higher property tax, which spreads the costs over multiple years and, thereby, serves as a surrogate for credit and makes the formal property acquisition more affordable.

Lastly, based on the collected documents, MHT rates the de-facto tenure security that the prospective land may possess. The rating is possible through MHT's knowledge of the land administration system. The following examples illustrate the approach:

- The name of the loatee should be identical to the name on the property tax documents in order to indicate occupation/possession/ownership of the house. The longer the time period for which the name appears on the documents, the better.
- If the house is on private land as opposed to government land, tenure security is rated higher because it is virtually impossible for a formal owner as registered with the revenue regime to evict an owner-occupier who can prove the purchase of the land with a Kabja Rasid.
- If both the formal owner as registered in the land cadaster and the loatee have mutually signed the Kabja Rasid, then the tenure security is higher vis-à-vis a contract signed by one or more intermediaries that may have been involved in facilitating earlier property transactions (see above).
- The Kabja Rasid must be notarized, which means the transaction must have taken place in the presence of and be acknowledged by an authorized government representative.
- Finally, the land should not be under litigation.

Step 3: Screening the Underlying Asset's Compliance with the Urban Planning Regime

In this third step, MHT determines the location of the land in relation to urban plans and the land's compliance with respective development control regulations.¹⁰

Firstly, MHT checks both the status and the content of the relevant Town Planning Scheme (TPS). In practice, once the draft scheme is sanctioned, it is highly unlikely that changes potentially resulting in the removal of existing structures, like the repositioning of roads or bridges, will occur. Thus, for the purpose of credit-making, as long as the underlying asset of the proposed loan is not in conflict with it, any stage of the sanctioned draft scheme may be considered as providing high de-facto security of tenure (**figure 8**).¹¹

¹⁰ To further improve the screening mechanism, MHT considers investigating whether other provisions for the land exist, such as reservations through the Land Ceiling Act even though such provisions likely reflect in the planning and revenue documents screened already.

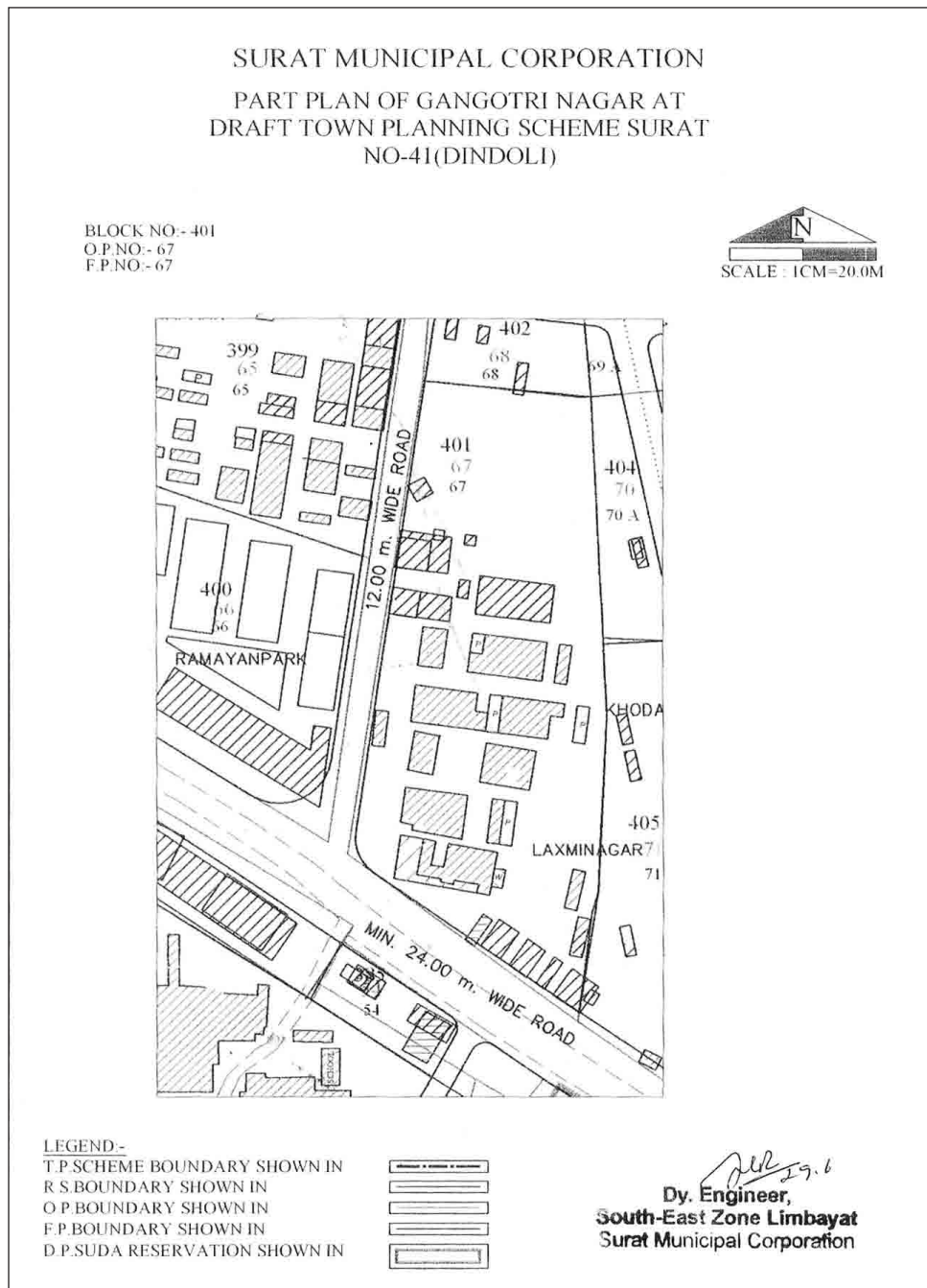
¹¹ The more advanced the procedural step that a TPS has passed, the more secure is the validity of the information given. Or, the more advanced the process is, the better is the de-facto tenure security as any demolition of any existing building in compliance with the current plan becomes more and more unlikely, and thus the lending risk is lower. As the Government of Gujarat has put in place an online database for monitoring the TPS progress, obtaining this information appears to be simple. However, ironically, the paper-based records are apparently updated more frequently, so it is more reliable to use the paper-based system than the online information. The procedural steps of tenure security (lowest first) are: (1) Chief Town Planner Consultation; (2) Declaration of Intent; (3) Public meeting; (4) Draft TPS Publication; (5) Draft TPS Submission to Government; (6) Draft TPS Sanction by Government Notification; (7) TP Officer Appointment; (8) Award Notification for the Preliminary TPS; (9) Preliminary TPS Submission to Government; (10) Preliminary TPS Sanction by Government Notification; (11) Final TPS Submission to Government; (12) Final TPS Sanction by Government Notification. For further reference, the content and procedures of steps are well explained in Ballaney and Patel (2009) as well as in the Gujarat Town Planning and Urban Development Act (1976).

Figure 7: Status of the Town Planning Scheme

DETAILS OF SANCTIONED DRAFT TOWN PLANNING SCHEMES											
SR. NO.	NAME	AREA (IN HECTARE)	DATE OF CONSULTATION	DATE OF INTENTION	DRAFT SCHEME SUBMITTED TO GOVT. ON	DRAFT SCHEME SANCTIONED BY GOVT. ON	TPO APPOINTED ON	AWARD DECLARED ON	PRELIMINARY SCHEME SUBMITTED TO GOVT. ON	EFFECT	REMARK
SMC											
1	T.P.S.NO.24 (TUNKI)	107.36	23/09/93	16/03/94	06/06/95	25/06/96	15/10/96	12/08/05	04/10/05		Preliminary Submitted to Govt. by TPO
2	T.P.S.NO.25 (TUNKI-SINGAPORE)	115.50	14/01/95	17/02/95	05/11/96	22/07/98	15/09/98	31/03/06	11/05/06		Preliminary Submitted to Govt. by TPO
3	T.P.S.NO.27 (BHATAR-MAJURA)	167.67	09/11/93	06/06/95	27/02/97	22/07/98	15/09/98	31/12/07	23/01/08		Preliminary Submitted to Govt. by TPO
4	T.P.S.NO.29 (RANDER)	97.46	21/09/96	24/12/96	07/09/98	06/05/99	22/07/99				Work in progress by T.P.O.Preliminary sanctioned by Govt. on 16/09/99
5	T.P.S.NO.33 (DUMBHAL)	114.00	20/01/97	21/04/97	08/02/99	21/01/00	12/07/11				Preliminary scheme has been refused to sanctioned by Govt. Notification No. GH/V/92 of 2010/TPS-1408-5492-L, Date : 01/07/10, TPO APPOINTED DT.:19/11/99, P.T.P.S.SUBMITTED TO GOVT.ON DT.:06/11/08
6	T.P.S.NO.35 (KATARGAM)	102.54	03/04/97	21/04/97	02/12/99	17/05/99	21/08/99	30/07/08	09/09/08		Preliminary Submitted to Govt. by TPO
7	T.P.S.NO.38 (NANA VARACHHHA)	116.00	12/05/98	12/10/98	26/04/00	11/04/01	22/11/01				T.R. completed by T.P.O.
8	T.P.S.NO.39 (UDHANA-LIMBAYAT)	133.00	17/12/98	08/02/99	26/04/00	27/07/00	10/11/00				Work in progress by T.P.O.
9	T.P.S.NO.40 (LIMBAYAT-DINDOLI)	130.00	17/12/98	27/01/00	31/03/01	30/01/03	28/04/03				Draft scheme sanctioned vide not. No. GH/V/24 of 2003/TPS/142001/1110/L.DT. 30/01/2003. TPO appointed vide not. No. GH/V/92 of 2003/TPV/102003/638/V
10	T.P.S.NO.41 (DINDOLI)	130.00	14/09/98	27/01/00	27/12/02	25/10/04	24/03/05	31/01/09	04/04/09		Draft scheme sanctioned vide not. No. GH/V/132 of 2004/TPS/1202/1091/L.DT. 25/10/2004. TPO appointed vide not. No. GH/V/142 of 2005/TPV/102004/8603-V DT. 24/3/2005. Preliminary Submitted to Govt. by TPO
11	T.P.S.NO.42 (JAHANGIRABAD)	115.00	17/12/98	16/10/99	19/08/00	27/06/02	28/04/03	07/06/10	21/08/10		Preliminary Submitted to Govt. by TPO
12	T.P.S.NO.43 (JAHANGIRABAD)	91.00	17/12/98	14/07/04	03/10/05	07/08/06	28/12/06	03/09/10			
13	T.P.S.NO.44 (JAHANGIRABAD)	100.00	17/12/98	27/01/00	05/01/01	15/06/01	23/11/01	30/03/07			Award Declared By T. P. O.
14	T.P.S.NO.45 (JAHANGIRPURA-PISAD)	110.00	17/12/98	07/12/00	28/11/01	19/02/03	19/11/03	12/02/09	04/04/09		Preliminary Submitted to Govt. by TPO
15	T.P.S.NO.46 (JAHANGIRPURA)	95.00	28/11/01	25/01/02	21/01/03	25/10/04	24/03/05	30/11/07			Award Declared By T. P. O.
16	T.P.S.NO.47 (BHESTAN)	71.00	17/12/98	16/10/99	15/09/00	29/08/03	27/01/04	30/03/07	13/07/07		Draft scheme sanctioned vide not. No. GH/V/158 of 2003/TPS/142000/3528/L.DT. 29/08/2003. TPO appointed vide not. No. GH/V/8 of 2004/TPV/102003/8124-2V DT.27/1/2004. Preliminary Submitted to Govt. by TPO

After determining the TPS' status, MHT checks the actual content and the provisions for the relevant plot: for example, if the original plot is located on a new/final plot,¹² then it is highly unlikely that the property will be forcefully removed by the public authorities to realize any planned development; however, if a road is proposed for that property, then the building would be at the risk of demolition. Semi-formal owners of land that is reserved for social housing enjoy the highest security against eviction. As insightful public planners have often zoned informal settlements for this social purpose, this security against evictions is a frequent and welcome surprise of the investigations. Planned residence in social housing is therefore a strong argument in favor of granting credit to the applicant.

Figure 8: Partial Plan Showing the Provisions of the Preliminary Town Planning Scheme



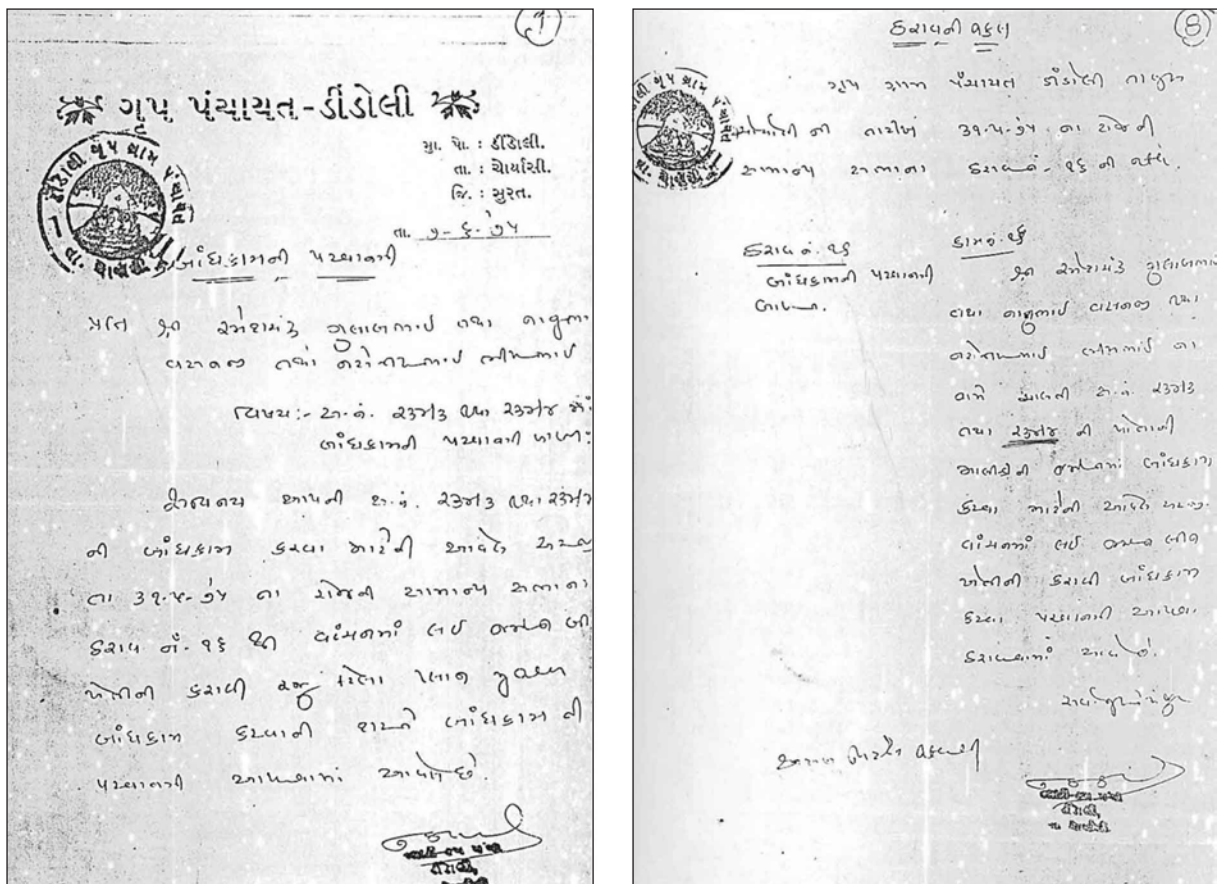
Note: For the area under investigation, the Preliminary TPS has been submitted to the government.

¹² A TPS differentiates between an Original Plot (OP) and a Final Plot (FP). An OP is often oddly shaped: it is usually an old agricultural plot. On the contrary, an FP is derived through land pooling, deduction of approximately 45 per cent of the land in exchange for infrastructure development, and readjustment of shape and sometimes location in order to improve the economic value of land allocated. For further reference, see Ballaney and Patel (2009) or the Gujarat Town Planning & Urban Development Act (1976).

Thirdly, MHT also cooperates with the municipal corporation in order to confirm that the metropolitan Development Plan (DP), which makes provisions such as zoning and layout regulations, does not conflict with the underlying collateral. To avoid such conflict, MHT collects partial TP and/or DP plans authorized by the municipal corporations or urban development authorities. In most cases, residential is a permitted use (and small-scale, home-based commercial is at least a tolerated use) so that the DP is hardly an obstacle to credit. Buildings may not formally require layout provisions, and this is typically not a problem as long as the owner-occupier has acquired some variation of a construction permit.

Finally, to fulfill the construction permit requirement, MHT also collects any documents demonstrating public approval of the construction. If the land is fully formal and the construction would comply with official standards, this approval may be provided in form of a No Objection Certificate (NOC) as issued by the municipal corporation or through other means, such as a village committee resolution or a “plan pass”. MHT collects construction permits more often in rural areas or in formerly rural areas that have been included into urban areas. For example, the Gram Panchayat may have recorded and approved construction plans for a dwelling, but if the land status changes from rural to urban, then the dwellers usually lack such permissions for any subsequent construction (e.g. an incremental housing expansion as is typical for the low-income segment). If this situation has occurred, the rural NOC provides a high level of de-facto security for a loan.

Figure 9: Plan Pass and Village Committee Resolution



Note: A Plan Pass and Village Committee Resolution serve as substitute for a construction permit.

Step 4: Emulating the Mortgage with the Advanced Power of Attorney

This step is crucial for creating a legal contract that allows using the house as collateral. The Advanced Power of Attorney (APOA) seeks to emulate a mortgage as closely as possible and, therefore, is always notarized. The APOA basically ensures that the credit cooperative is able to take over the possession of the property in case of default—even if the property cannot be foreclosed according to the existing mortgage framework as the latter has not been able to accommodate~uncertainties inherent in the semi-formal nature of the property. Nevertheless, the emulation of a mortgage reduces lending risk and thus permits a reduction in interest rate, which is key in improving the affordability of housing and reducing urban poverty.

How Does the Advanced Power of Attorney Work?

MHT and the credit cooperatives use the advanced power of attorney (APOA) in order to emulate a mortgage in the case of semi-formal real estate. With the APOA, the borrower basically transfers the rights to represent himself/herself and to sign on his/her behalf to another party (in this case to the lender, the MHT-supported credit cooperatives). As a result of holding the advanced power of attorney status, the lender is able to sign any document in the lender's own favour. Thus, in case of default, it is easy to take the case to court and then to transfer the underlying asset (i.e. the land and the house) to the lender. In addition, the advanced power of attorney empowers the seller/lender to impose a stay order against sale or transfer of the property until the loan is repaid in full.

How is the Advanced Power of Attorney Different from a Mortgage?

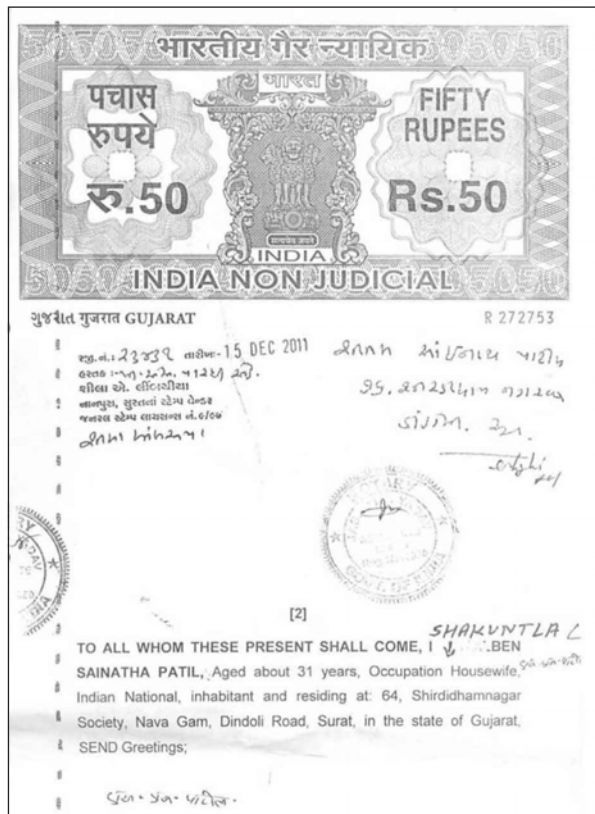
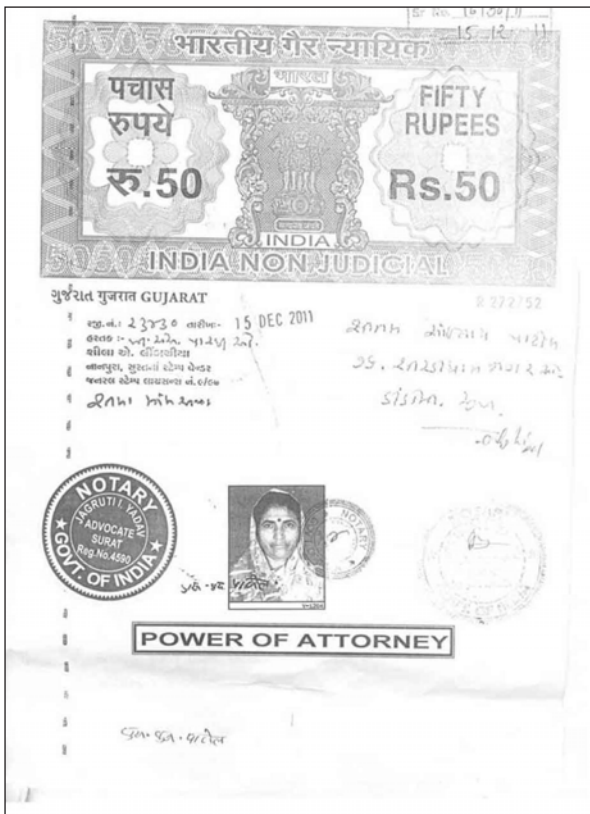
In case of a mortgage, the bank basically takes over the de-facto ownership of the mortgaged property and keeps the proof of ownership, including the title documents, in the bank until the mortgage is repaid in full. Therefore, in case of default, the bank has the power to foreclose the mortgage and take over de-jure possession of the property without any action of the court. With the advanced power of attorney, on the other hand, the lender must take the borrower to court, which costs time and money. However, as stipulated by the APOA, the lender has obtained the right to represent the defaulting loanee in court and sign off any documents required to take over possession of the property. In comparison to a regular law case with two opposing parties representing their own view of the case, a court trial based on APOA is much simpler and safer in that the lender is able to represent itself and the defaulting borrower. Thus, the advanced power of attorney squares somewhere in between the traditional, real mortgage and a typical uncollateralized loan. This obviously reduces legal risks, saves time and money, and allows reducing the lending rate as compared to the unsecured loan.

What Steps Are Necessary to Finalize the Advanced Power of Attorney?

The credit cooperative and the prospective loanee sign the advanced power of attorney in front of a notary. The contract gives the lender the right to sign on behalf of the loanee and thus to more easily possess the collateral in case of default. In order to supplement the power of attorney with as much evidence as possible on the multiple ownership rights that the semi-formal owner-occupier holds, the documents collected during steps two and three are attached to the advanced power of attorney.

Finally, to withstand any challenge in court, all attached documents—not only the advanced power of attorney—should be officially verified. However, a caveat exists: the stamp duties payable for the official verification of so many different documents would amount to approximately INR 5,000. This fee would be prohibitively expensive and make the loan unattractive if not unaffordable. Therefore, MHT and the credit cooperatives have resorted to a practicable shortcut: the advanced power of attorney also stipulates that the lender may collect the verification at any later date (i.e. if the loan enters into default) and add the full verification cost to the outstanding loan balance. Thereby, in case of default, the lender can obtain all documents that may be required for a successful trial but avoid any unnecessary charge on its poor customers.

Figure 10: Advanced Power of Attorney



[3]

WHEREAS due to my pre occupation I am being unable to look after my personal property, I am desirous of appointing some fit and proper person or persons to look after the same and accordingly requested SHREE SURAT MAHILA SEWA NAGARIK-DHIRAN SAHAKARI MANDALI LTD., a Co-operative Credit Society registered under the Gujarat Co-operative Societies Act, 1961(Act X of 1962) and having its registered office at: 18/141, Khatodara Housing Colony, Bethi Colony, Udhana Darwaja, Khatodara, Surat-02, through its Managing Director/ General Manager/Manager or any other person duly authorized in that behalf (hereinafter called "THE ATTORENEY") to act for us in our name and to look after our below stated property to which the attorney has consented to do.

NOW KNOW YE AND THESE PRESENTS WITNESSETH THAT I, the above named and undersigned do hereby nominate, constitute and appoint ATTORNEY, as my true and lawful attorney to act in conduct, manage and look after the property being all that piece and parcel of the property situated at District Surat Sub-District Choryasi City of Surat Mouje Navagam Revenue Survey No.234/3-4, Block No.372-375 land of Shirdidhamnagar Society, Sub-Plot No.64, admeasuring about 12 Ft. x 35 Ft. and for the purpose as aforesaid I hereby confirm upon the Attorney the following powers and authorities.

(1) a) To manage my aforesaid immovable property belonging to me in my name either directly or indirectly and to let, to give notices to tenants or occupiers thereof, to accept surrender any tenancies and to take proceedings against tenants, occupiers or trespassers and also against any person or persons regarding any rights-affecting the said property and to repair the same to collect rent and other income thereof.

b) To sell my aforesaid immovable property in such price and on such terms as the Attorney think fit and sign, execute,

[4]

delivery, present, register and perfect and carry out any agreement for sell, Deed of conveyance, Assignment to receive consideration, issue receipt, and to accept or give such declarations, covenants, indemnities in connection with title or otherwise in connection with any sale, or otherwise as the Attorney think fit.

(2) To appear on my behalf and represent our interest before income-tax offices, Appellate Tribunal and wealth-tax, Gift-tax, Expenditure-tax and other taxation Authorities concerned with taxation of income or capital or properties or estates and also all other officers or authorities or bodies, municipal or revenue or judicial or under any Act, before any public officer or body or authority whomsoever and sign and file any application, returns, statements, claims, objections and appeals reviews, revisions refund applications as the said Attorney may think fit.

(3) To sign, to execute, to present, to deliver and to register or otherwise perfect or cause to be signed, executed presented, delivered, registered and perfected any agreement, lease, conveyance and other documents and assurances.

(4) Generally to manage all affairs in respect of aforesaid property belonging to me in such manner as the said Attorney may think fit, and to sell, sign, transfer, assign and dispose of and to make any arrangements or payments in respect of said property.

(5) AND IN GENERAL to do all such other acts, matters, deeds, and things whatsoever in respect of said property, on my behalf in doing all acts, deeds and things herein either particularly or generally described as apply and effectually and to all intends and purposes as I could do in my own personal capacity as well during our absence as during our presence at the same time and place.

Figure 10 (continued): Advanced Power of Attorney

[5]

AND I hereby for myself, my heirs, executors and Administrators agree to ratify and confirm all and whatsoever our said Attorney shall do or purport to do or cause to be done by virtue of these presents.

IN WITNESS WHEREOF I SHAKUNTALABEN SAINATHA PATIL, has hereunto set and subscribed my hand at SURAT on this Thus day of 15th December, 2011.

SIGNED AND DELIVERED BY THE WITHIN NAMED

Shakuntalaben Sainatha Patil
SHAKUNTALABEN SAINATHA PATIL

WITNESS :

[Signature]
Identify the Signatory Person & Explain Documents by the Advocate

[Signature]

Solemnly Affirmed
Signed & Declared
Before Me

[Signature]
JAGRUTI YADAV
Advocate & Notary
S. P. B. CHANDRA
Govt. of GUJARAT
Reg. No. 411945/2007

Sr. No. 1638/11
Date 15/12/2011

M. 99090 09122
JAGRUTI YADAV
ADVOCATE & NOTARY
Parivar Appt., Sayan Road,
K... 08, SURAT. (Guj.) INDIA

Step 5: Loan Closing

If all documents are collected in steps one to four and all information verified, then the cooperative makes the credit decision based on this information. In the case of a positive decision, the following documents are prepared. Only the first two documents differ significantly from traditional micro-lending.

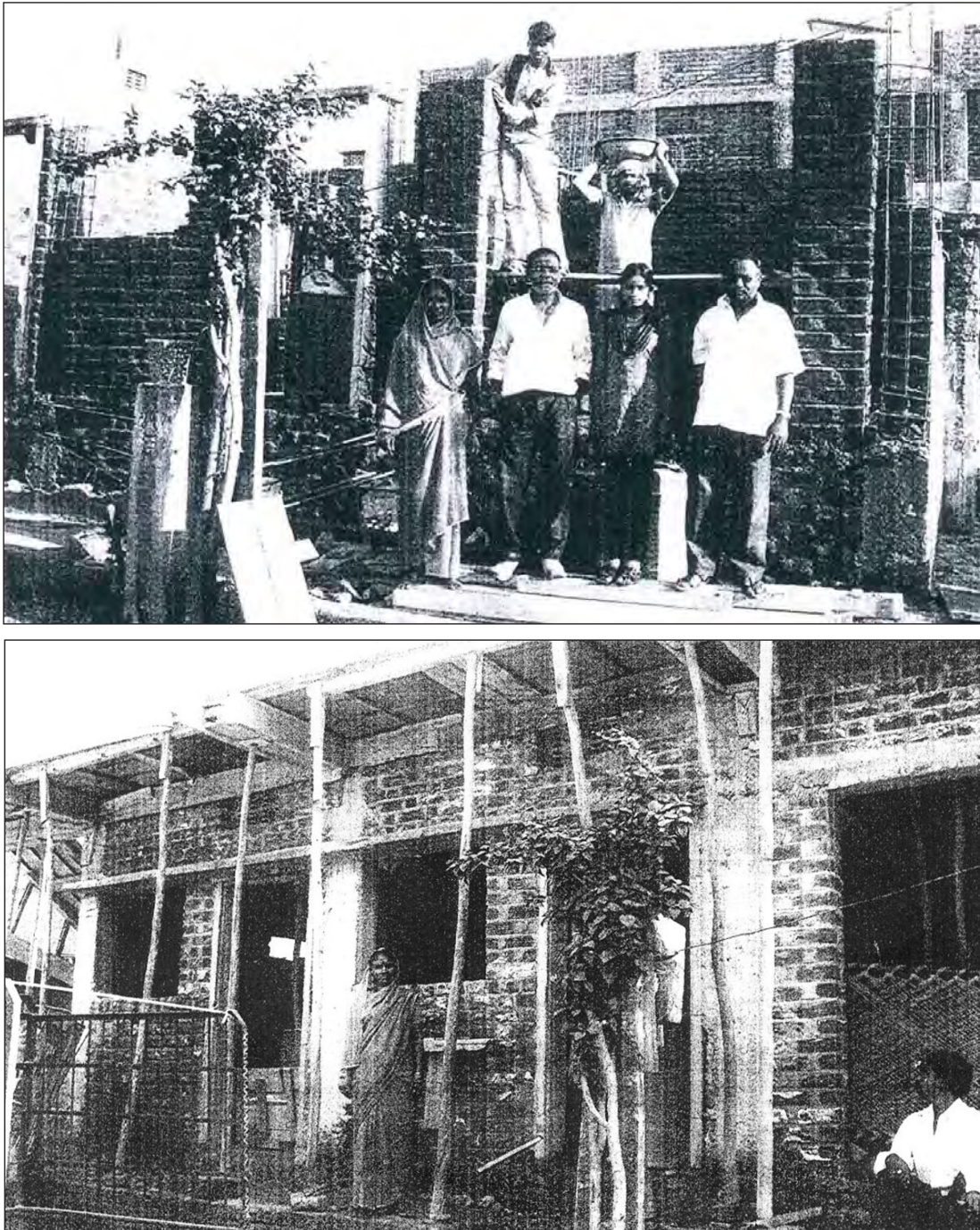
- Loan contract stipulating the loan properties, including stage-wise disbursement details and default proceedings. (If the borrower turns more than three monthly installments in late, then the credit cooperative has the permission to take possession of the property.)
- Affidavit for the exclusivity of collateral stating that the loanee has not mortgaged/collateralized the underlying asset with any other party.
- Government-certified demand promissory note stating loan amount and interest rate.
- Letter of lien proving the borrower's acceptance of the lending rules through her signature. Through a separate, second signature, she further gives permission to the credit cooperative to possess "anything" in case of default, including any savings or other assets with the credit coop.
- Declaration to pay monthly equal installment (EMI) of a given amount for a given time period. This document is basically a duplication of a section of the letter of lien in order to collect further evidence that the loanee understands her financial obligations.
- Loan closure document (*dhirela nana ni kabulat*), including the loanee and guarantor information, which is certified with any government-owned bank.

The reader will observe that the information in the above documents is purposefully redundant. For example, several documents contain the information on the loan details; several documents contain the information on the borrower and her acceptance of the credit cooperatives taking possession of the property in case of default, etc. Even though the documents could be "streamlined", the lender adheres to the cultural standard of producing as much evidence as possible as the redundancy will help to withstand any legal challenge.

Step 6: Loan Disbursement

After calculating a disbursement fee¹³ (that is later deducted from any payout), the lender releases the loan amount in multiple installments. The disbursement procedures differ from traditional micro-lending as they include technical checks on the construction process in order to ensure that the capital is truly invested in the collateral so that it could be recovered in case of default. Checks and disbursements are made at completion of (i) plinth level; (ii) lintel level; (iii) slab level; and (iv) completion of all finishings. Upon completion of a respective construction step and upon request of the loanee, an MHT engineer visits the construction site and checks if everything is on track. If so, MHT staff issues a technical certificate that is a necessary trigger for the release of an installment: the credit cooperative issues a cheque to the borrower.

Figure 11: Documentation of Technical Checks at Slab Level and after Completion of Finishings



¹³ After closing, the lender issues a notice on the disbursement fee calculation and the deduction from payout(s).



AWAAS SEWA PRIVATE LIMITED
THE SOCIAL HOUSING ENTERPRISE FOR AND BY POOR WOMEN

Work progress certificate

21/7/12

on the date of inspection, we have observed that progress of work as below.

Name :- Pratibha Vitthalbhai Patil.

Address :- 79, Shirdidham, Navagam, Dindoli, Surat.

Progress Report :- i) slab level is complete
ii) plaster work is also complete.

A. J. Nayak

Last but not least, upon completion of the new house and after disbursement of the final installment, a hypothecation tablet is attached to the new property, indicating that the property is in lien with the credit cooperative. The tablet stays until the loan is fully repaid.

Conclusion

The collective of MHT and the partner credit cooperatives possess multiple comparative advantages over other potential lenders in the one to five lakh housing segment—be those large banks catering to the middle and upper class or microfinance institutions catering to poorer clients. MHT entered the housing finance space after the organization had already developed (1) technical expertise in construction, (2) social expertise in mobilization and organization of low-income communities for self-help, (3) financial expertise in micro-savings and credit, and (4) legal and technical expertise in screening as well as improving de-facto tenure security in slums (for example, see Nohn et al. 2007; SEWA 2008; Rusling 2010; Obino 2013).

Moreover, MHT's (and its partners') capability to innovate the low-income housing finance sector is described in the following table, distinguishing activities that a lender must pursue in order to ensure portfolio health and those that the lender may pursue in order to create additional public value. MHT had not only populated all four obligatory interventions before moving into the space, but the organization also engaged in additional, optional interventions that create social impact in the community. The trust that thereby forms between MHT (i.e. the lender) and the community (i.e. the actual borrower as well as many further prospective borrowers) is essential for generating the information that made MHT and its partners comfortable with the idea to experiment with this innovative financial product.

Table 1: Activities that a Lender Must and May Pursue

Services	A financially-sustainable program must provide	A financially-sustainable program may provide	Cooperating partner with the highest competency
Social	Check social collateral of informal borrower	Build strong communities as development platforms	MBO, CBO, NGO, social movement
Financial	Check capacity and willingness to pay	Train in financial literacy Assist in budget allocation Provide insurance Combine credit and savings	Bank, MFI, NGO
Technical	Check structural safety of the house	Improve structural safety Increase disaster resistance Reduce construction cost	Technical NGO, developer, university
Legal	Check de-facto tenure security	Assist in obtaining more secure or full de-jure tenure	Public administration, technical NGO

Note: Some activities are compulsory for ensuring financial viability; on the other hand, some optional activities have the potential to create additional impact in the community and to augment the business model. The additional activities tend to profit from economies of scope and agglomeration and may be viable in conjunction with the obligatory services even though they might not as a stand-alone activity.

Last but not least, it must be mentioned that the flexibility of the two credit cooperatives, driven by the demand of their members and the willingness to take the risk inherent in any “trial-and-error” approach, has been crucial for producing this innovation. Thus far, the credit cooperatives have proven right: not a single collateralized housing loan for the described “semi-formal properties with high tenure security” went into default.

To build on this success, MHT plans to scale collateralized housing loans of semi-formal properties with high tenure security to the national level and is willing to support other organizations in replicating the approach.

This Technical Brief supports this effort because MHT's innovation may aid in overcoming the devastating impact of blacklisting and the systematic exclusion from financial markets that prevents individuals (as well as whole communities) from upgrading their habitat. Besides the experience collected by SEWA through their day-to-day work with excluded communities, numerous international scholars—including Jane Jacobs (1961), John FC Turner (1968 and 1976) or Hernando de Soto (2000)—have written about the negative impact of systematic financial exclusion and the need to overcome it. MHT's innovative risk screening method and the consecutive mortgage emulator through an advanced power of attorney shed light on one possible solution.

Figure 12: The Negative Effect of Blacklisting and Systematic Exclusion



Figure 13: Upward Socioeconomic Mobility Supported by Home Improvements

At the global scale, MHT's innovative approach may serve as a case study that helps governments and markets to find new means for assessing and potentially improving security of tenure, particularly but not exclusively for homes occupied by urban poor households. This could positively affect approximately 500 million non-formal dwellers¹⁴ and, amongst them, assist those that can afford larger housing investments to get more affordable finance. The ability to assess security of tenure and, thus, to better understand lending risk is a binding constraint to expanding market access as well as to setting more affordable interest rates and, thereby, making housing more affordable for many more urban households.

Ultimately, MHT's innovation may make a contribution to reducing the forecasted increase from one billion urban slum dwellers today to up to two billion by 2030 by making market-based housing finance solutions accessible to more urban households. MHT's innovation will not directly benefit the poorest of the poor. It was never invented to do so—the mortgage emulator finances homes that are more expensive than the typical incremental housing improvements that poorer clients can typically afford. However, it still helps poor households. Further, by reducing the magnitude of those households that depend on state support as they cannot afford market products, governments can be enabled to support a smaller, more manageable number of ultra poor households more effectively.

¹⁴ Estimated at 19 per cent of the current urban population in middle and lower income countries (according to UN-Habitat 2003), even though the share is probably higher today.

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About Inclusive Cities: The Inclusive Cities project aims to strengthen membership-based organizations (MBOs) of the working poor in the areas of organizing, policy analysis and advocacy, in order to ensure that urban informal workers have the tools necessary to make themselves heard within urban planning processes. Inclusive Cities is a collaboration between MBOs of the working poor, international alliances of MBOs and those supporting the work of MBOs. For more information visit: www.inclusivecities.org.

About WIEGO: Women in Informal Employment: Globalizing and Organizing is a global research-policy-action network that seeks to improve the status of the working poor, especially women, in the informal economy. WIEGO builds alliances with, and draws its membership from, three constituencies: membership-based organizations of informal workers, researchers and statisticians working on the informal economy, and professionals from development agencies interested in the informal economy. WIEGO pursues its objectives by helping to build and strengthen networks of informal worker organizations; undertaking policy analysis, statistical research and data analysis on the informal economy; providing policy advice and convening policy dialogues on the informal economy; and documenting and disseminating good practice in support of the informal workforce. For more information visit: www.wiego.org.



Women in Informal Employment
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