Learning Curves
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Independent Evaluation ADB

Does Low-Income Housing Finance Help the Poor?

Careful poverty analysis and proper selection criteria, as well as more pro-poor loan procedures and flexibility in the loan size, term, and use would enhance the inclusiveness and beneficial impacts of the project.

Urban slums are a global issue. If nothing is done, the number of people eking out a living in slums will reach some 900 million by 2020, up from 820 million today, according to an estimate by the UN Habitat. These problems are particularly urgent in Asia, with more than 500 million slum dwellers. To respond to this urban housing problem, the Asian Development Bank (ADB) has provided about $1.65 billion in loans and grants over the past decade to help the governments in the region.

The impact evaluation looks at low-income housing finance project in Sri Lanka. It assessed the socioeconomic impact of the project's housing loans on household welfare change, based on six sets of household-level outcome indicators: (i) housing quality, (ii) household income and expenditure, (iii) household completeness, (iv) labor force participation, (v) education of school-age children, and (vi) health indicators.

The Project

The project was started in 1998 and completed in 2005. It cost $103 million, of which about $27 million was used for housing finance.

The project aimed to increase the access of low-income households to housing finance. Photo (above) shows a newly-built house of a beneficiary. Photo by Binh Nguyen.

The housing finance component had three objectives: (i) to increase access of low-income households to market-based housing finance through the formal sector; (ii) to facilitate improvements in housing conditions and quality of life; and (iii) to promote formal banking sector interest in serving the low-income sector of the housing market. The project required that only households with monthly incomes below the 55th percentile of Sri Lanka's income distribution be eligible to borrow. Housing loans were provided through local banks and financial institutions. At completion, the project provided 28,378 housing loans.

Key Findings

The study found that only about 1% of project beneficiaries were from the lowest 10% income group, while about 60% were near the middle income level, and about 25% were at the middle income range. The fact that the project set loan eligibility for people with household incomes below the 55th income percentile, and that participating credit institutions applied conventional loan

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procedures and standards of creditworthiness, including having loan collateral, the project housing loans were in effect not available to the very poor.

The study found that housing loan impacts on physical housing conditions were generally robust, but they were much less so on household welfare measures related to education, health, and labor force participation. More particularly, impacts on education and health, while positive, were mixed and limited to specific social groups. The results showed a statistically significant beneficial impact on school attendance and absenteeism for girls aged 5–19. But, there were beneficial effects on girls' study hours only among girls from households in the higher education group and a marginally significant beneficial impact on boys' absenteeism. As for health indicators, a significantly lower proportion of household members became ill or were injured, with these impacts strongest among households in the higher education group.

According to the study, this was because a majority of project households were already near the middle income level and generally not the very poor. This majority group had generally good health, their children were already enrolled in school, and the adults were educated and working. In addition, the average housing loan represented only about 4.5% of housing present values and many project households therefore borrowed more from other commercial sources to improve their houses. This extra financial burden perhaps makes households less attentive to welfare improvement, such as through education or health. Relatively modest loans for home improvement could not exert substantial influence on welfare outcomes for these indicators.

The study also found that the project achieved its objective of facilitating access to formal sector housing finance; project households were able to leverage better. In comparison to the non-project households, project households had average non-project loan amounts of about twice the size, obtained about 50% more credit in total, and had fewer loan application rejections . The average credit secured by project households from all sources during 1998–2011 was nearly triple the average project loan.

Lessons

The study highlighted two key lessons. First, the weak project impacts found on household welfare measures (education and health) might be because most beneficiaries were not very poor. Targeting poorer households could make the project welfare impacts more robust. Second, the project loans were too small. Many project households had to borrow more from other commercial sources to improve their houses, adding immediate repayment pressures. Providing housing loans with a higher ceiling and longer repayment periods would better help the borrowers.

Feedback

The study was completed in August 2011. The Chair's Summary of the Development Effectiveness Committee (DEC) welcomed the study's useful insights into the development effectiveness of housing finance loans. Some DEC members saw scope for improvement in increasing the welfare impact of housing loans by improved targeting of the poor. The DEC encouraged staff to monitor the rates of interest at which loans were on-lent by participating financial institutions and also to devise terms useful for the poor, in terms of particularly appropriate maturities.

Recommendation

Improve the analysis and design of housing finance projects for better targeting and greater welfare impacts. Low-income housing loans were supposed to help poor households improve their living conditions and subsequently their welfare. Careful poverty analysis and proper selection criteria and more pro-poor loan procedures and flexibility in the loan size, term, and use would enhance the inclusiveness and beneficial impacts of the project.

QUICK LINKS

Asian Development Bank's Assistance for Low-Income Housing Finance in Sri Lanka (Main Report)
http://beta.adb.org/documents/asian-development-bank-assistance-low-income-housing-finance-sri-lanka

ADB Management Response
http://beta.adb.org/documents/management-response-impact-evaluation-study-asian-development-bank-s-assistance-low-income

Chair's Summary of the Development Effectiveness Committee (DEC)
http://beta.adb.org/documents/chairs-summary-committee-discussion-29-september-2011