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**NOTES**  
on a  
**FRAMEWORK**  
for a  
**NATIONAL HOUSING POLICY**  
for  
**SRI LANKA**

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The opinions expressed in this document are those of the authors  
and do not necessarily express the views of the United Nations or the Government of Sri Lanka

## EXECUTIVE SUMMARY

### Rationale

The government of Sri Lanka has a wide range of housing commitments (including those to the Millennium Development Goals (MDGs) and tsunami reconstruction) ranging across different departments, agencies and programmes. These need to be brought together and extended into a coherent national housing policy that places the housing sector in the context of national development.

Whilst rural housing needs attention, the predominant focus of policy should be on urban and peri-urban areas.

### Global policy trends

International settlement policy imperatives are primarily focused on enabling strategies in which government plays a facilitating role in support of formal and informal private sector initiatives and local government, civil society and community-led development, based on the principles of subsidiarity, participation and partnership. The GoSL subscribes to this policy goal.

### Issues to be addressed by policy

The housing policy should be developed on the basis of demand, rather than supply. This entails addressing the needs of the following categories:

- Upper income group: incentive for the development of mortgage finance by commercial banks
- Middle income group: expansion of HDFC-type of finance facility; quality control of developer-produced housing; difficulties of acquiring land
- Lower income group: extension of the NHDA capacity to support land acquisition and house building, particularly in urban and peri-urban areas
- Lowest income groups: community organisation; security of tenure to land; infrastructure and environmental upgrading; technical assistance and financial support for house improvement and building
- Rental housing: incentives for private sector developers to produce affordable rental accommodation in urban areas for young households and employees who need to live away from their homes
- Slum upgrading, urban planning and relocation: urban planning and strategies to set priorities for land development; support to REEL-type approaches to optimise land values and bring the lowest income groups into the urban housing market
- Integrated infrastructure provision: co-ordination of providers; encouragement for ULAs to invest in infrastructure extension and development.

### Going to scale

All likely policy components have been tested and demonstrated in Sri Lanka in the past. There is no need for more pilot projects. The national housing policy should set a strategic framework for country-wide implementation. Central to this is the need to establish mechanisms for co-ordination between different ministries and agencies engaged in housing production and management and to re-examine the mandates and operations of different agencies.

The policy should learn from the long and varied history of housing in Sri Lanka and must be based on a clear vision and mission statement with high-level political support.

## 1. RATIONALE

Sri Lanka's commitment to the Millennium Development Goals (particularly Goal 7, Target 11 to address the plight of slum dwellers) and the focus on the reconstruction of some 90,000 dwellings that were destroyed or damaged by the tsunami, have highlighted the need for a national housing policy and a coherent set of instruments for its implementation.

Some 90% of the new dwelling units<sup>1</sup> constructed annually in Sri Lanka are built by the private sector (formal and informal), the vast majority with family capital and savings and individual responsibility for the procurement process. Seven public sector agencies, currently spread across four ministries have responsibility for the remaining 10 percent of the housing production process, almost exclusively in support of the lower income groups (see Annex).

A housing policy is needed to ensure that national development goals are reflected in the shelter sector and supported by it. To this end the policy should address the sector as a whole to ensure the most effective and efficient use of resources at the same time as protecting and extending the wellbeing and productivity of all sections of the population<sup>2</sup>.

Instruments for the implementation of policy should embrace the supports and controls to be developed by government across the whole sector – all suppliers (public and private; corporate and individual; formal and informal) and all consumers (urban, peri-urban and rural; high, middle and low income groups). However, particular emphasis will inevitably be given to the roles of public institutions and programmes for support to those households and communities that are marginalised and excluded from the housing market as a result of poverty.

Emphasis will also be given to urban housing and those living in plantation estate lines. Whilst the quality of much rural housing is poor and sanitation inadequate, housing conditions are generally adequate and are improving. In urban areas, however, a significant proportion of the population live in overcrowded underserved settlements with insecure tenure and no incentives to improve their domestic environment; many families who could afford adequate housing are denied access to the market because of failures in supply; there is a severe shortage of rental accommodation for young households and those on limited employment contracts; and exclusive residential developments for the wealthy are springing up in peri-urban areas with little regard to their impact on the environment or the capacity of infrastructure and service networks.

## 2. POLICY TRENDS & COMPONENTS

Globally, the prevailing trends in public housing policy centre upon government withdrawing from the production of dwellings and taking on the role of facilitator to private sector (formal and informal) initiative and investment. Based on the principles of

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1. Central Bank of Sri Lanka, *Annual Report 2003*.

2. See: *Sri Lanka New Development Strategy: Framework for Economic Growth and Poverty Reduction*, Ministry of Finance and Planning discussion paper, 2005.

subsidiarity<sup>3</sup>, participation<sup>4</sup> and partnerships<sup>5</sup>, the central argument for government to take this position is that only if decisions are made and actions are managed at the lowest effective level<sup>6</sup> will they be efficient (most economic use of resources) and effective (maximum positive impact). However, for private sector developers and communities and households to take this responsibility they must be empowered and enabled by government. Empowering<sup>7</sup> and enabling<sup>8</sup> become the central concerns of policy and programmes and projects for its implementation. The GoSL explicitly subscribes to these principles.

A basic observation in support of government as 'facilitator' of peoples' housing processes, rather than 'provider' of housing is that: "*People will live with their own mistakes, but not with those of others, particularly those of government*". The devolution of responsibility to the most effective level embraces the devolution of problems to the level where they are best understood can most effectively be resolved.

A facilitating policy for housing does not mean that government plays a passive role. It must play a highly a proactive role in the provision of enabling supports. A comprehensive national housing policy must embrace the issues of land, infrastructure and finance as well as the capacity of the building materials and construction industries and the capability and aspirations of people to 'house themselves'. In Sri Lanka, each of these components of housing falls under a different administration, with different controls, traditions and values that have to be brought together in a single government policy for facilitating the production and maintenance of the country's housing stock and ensuring that it meets the demands of the people.

### 3. ISSUES TO BE ADDRESSED BY POLICY

Because of the wide range of issues to be addressed by the national housing policy, and to help understand the requirements and 'meeting points' between the different sectors

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3. Subsidiarity is the devolution of decision making and decentralisation of management to the lowest effective level (see footnote 6).
4. Participation is the active contribution of all major stakeholders in local governance and decision making in connection with the level and field of operation with which they are concerned - housing.
5. Partnership is a relationship between different actors in the management of the implementation of development decisions in which the partners (government and community, or public and private sector institutions) share both the risks and benefits of development programmes and projects.
6. The 'Lowest Effective Level' is the level that engages the greatest number of users or beneficiaries in decisions that are made. Decisions made at too high or too low a level are unlikely to be effective or the results to be efficient. For instance, decisions about a dwelling can only effectively be made at the level of the household; those concerning a neighbourhood, such as the use and location of public space, are made at the level of the community; those to do with the supply of water or power in a town can only be determined at the level of the urban or municipal council.
7. Empowering means devolving authority and decision-making to the lowest effective level, and to the most engaged actors.
8. Enabling means providing the legal, managerial, professional and appropriate technical and financial support and access to information that will allow all actors to make rational decisions and to implement them effectively.

involved, it is useful to examine them from the point of view of 'demand' (the users) rather than the more traditional standpoint of 'supply' (providers). This approach also helps to reinforce the understanding of the difference between the actions of government as 'facilitator' rather than 'supplier', and the strategic implications of implementing such a policy.

Therefore, the first part of this section examines the principal issues to be addressed by the national housing policy in terms of a broad breakdown of affordability groups<sup>9</sup>.

### **3.1 Upper income groups (>Rs.25,000/month) c.3% of the housing market**

The housing needs of the upper end of this group (>Rs.100,000 per month) living mainly in urban and peri-urban areas, are well served by the formal private sector housing market and have little recourse to intervention by government, other than the provision of connections to public infrastructure and access to services. However, the housing policy should recognise the land needs and characteristics of this sub-group, which have to be provided for and controlled by land planning and development controls.

The lower end of the upper income group is also reasonably well served by the formal private sector, though there is a growing need for easy access to mortgage finance. The housing policy should provide legislative and budgetary support to encourage an increase in the capacity of the principal housing banks (e.g. SMIB, NSB, NDB) and the development of long-term loan and mortgage facilities, at acceptable interest rates. Currently the banks have only very limited, if any, sources of long-term finance, with the majority of their deposits maturing within a year or two, curtailing their ability to on-lend on a long-term basis.

### **3.2 Middle income groups (Rs.15-25,000/month) c.14% of the housing market**

Only a few households at the top of this income group can afford to borrow on the open mortgage market for the construction or purchase of acceptable housing. The rest are dependent upon the semi-public HDFC Bank and SMIB for access to housing finance. However, these are unable to meet more than about 20% of the estimated demand for loans in this and the lower income groups, which has been growing at an average of 16% a year over the last five years<sup>10</sup>. So there is an urgent need for the housing policy to address measures to stimulate and/or support the expansion of this growing segment of the market.

Though private sector developers are responding to the increasing demand for urban and peri-urban housing for the upper end of this group, particularly in Greater Colombo Metropolitan Area, there is no consistent mechanism to control the quality of their products, which reportedly are often of a low standard of construction and under-serviced, with no concern for post-occupation operation and maintenance. Therefore, the housing policy should address the need for quality controls and the independent monitoring of new private sector housing developments.

Where the private sector is not responding adequately to the demands of the middle income group the housing policy should examine possible incentives to encourage private sector developers to construct.

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9. Income groups adapted from current HDFC lending categories and Central Bank income statistics 2003. The income levels used to categorise each group seem low and probably need to be adjusted upwards, which may impact on the percentage distribution of each group.

10. Central Bank statistics.

The major part of new additions to the middle income group housing stock dwellings is contributed by individual householders using family savings and local small scale contractors. The principal constraint to this process is the difficulty of acquiring land (that is normally required by private finance institutions as collateral). The alienation of state land for housing and the procedures for the sale, registration and transfer of private land parcels are widely recognised as lengthy, tortuous and costly. Land supply and transfer mechanisms for housing need to be addressed by the national housing policy.

### **3.3 Lower income groups (Rs.7-15,000/month) c.70%<sup>11</sup> of the housing market**

The greater part of this income group is denied access to the formal housing market, particularly in urban areas, by their low incomes, lack of savings and need for collateral, though the upper end of the scale is characterised by regular wage earners in both the public and private sectors. The HDFC Bank provides favourable terms to small borrowers with an element of cross-subsidy between the different income categories. However, it is unable to reach very far down in the income group. The NHDA, on the other hand, is able to reach the lower end of the scale with its short-term 'Sustainable Village' lending programme (8.5% interest), 'Settlement Development Programme' and similar lending and small grants programmes. However, these are almost exclusively confined to rural areas, though they are equally applicable to most urban and peri-urban locations. But the NHDA is currently only able to meet the needs of some 6-8,000 households a year with very small loans and basic technical assistance.

The growing community-level co-operative, thrift and credit societies (Sansa) and the Women's Bank are able to reach even lower down the housing market and to operate with enviable financial and administrative efficiency. However, they are constrained by their inability to access formal financial markets or issue treasury bonds, limiting their ability to expand.

The NHDA facilitating programmes are based on the enabling and participatory principles of subsidiarity outlined above. They not only provide access to affordable finance, but also, the provision of support to strengthening community based organisations and help to develop local (grass-roots) governance and management capacities, thereby relieving higher levels of public administration of many acrimonious and scarce human resource-intensive responsibilities.

The housing policy, therefore, should develop and promote mechanisms and procedures that will enable the NHDA and/or similar institutions and programmes, including NGOs, to develop and expand this type and style of support to community based housing delivery in rural, peri-urban and urban areas throughout the country. This will entail the determination of policy interventions in the processes of community development and organisation and the devolution of financial and technical management to CBOs and the lower levels of local government (GN divisions and urban and rural local authorities).

### **3.4 Lowest income groups (<Rs.7,000) c.13% of the housing market**

This group is in many respects excluded from the housing market by its low incomes and lack of resources. It is characterised by urban squatters and slum dwellers, and by landless labourers and estate workers in rural areas and coastal fishing communities.

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11. The distribution of 'lower' and 'lowest' income groups need to be verified. It is likely that the 'lowest' category is significantly underestimated.

The environmental conditions of many urban slums and shanties are a major contributor to ill health and low productivity. Respiratory and intestinal diseases that are directly caused and spread by unsanitary conditions and overcrowding that are in danger of becoming endemic, particularly amongst children, in some urban areas<sup>12</sup>.

The housing policy should embrace strategic approaches to social inclusion and enabling the lowest income groups to gain security of tenure to land and access to basic infrastructure and services that will enable them to enter the market, by giving them the incentive to invest in the improvement of their housing and providing a security against which they can borrow. Inevitably this will require a certain level of grant assistance and subsidy, but this should be treated with caution and set in a broad framework of medium- to long-term sustainability within the sector. The policy instruments should include and expand environmental upgrading programmes, such as the Urban Settlements Improvement Programme (USIP) and the Clean Settlements Programme that preceded it. These and other such initiatives going as far back as the UNICEF Urban Basic Services (UBS) programme of the 1970s and the Peripheral Housing Development Programme for plantation workers and Fishermen's Community Villages (Dheewara Gammana), have demonstrated the importance of integrating service delivery and community management. The vestiges of the UBS community development councils (CDCs) remain in many areas and should be revived and strengthened, as is happening in the CMC and some post-tsunami recovery and reconstruction projects.

Particular policy attention needs to be given to vulnerable groups' access to secure and decent housing, especially that of women headed households and the disabled in the low and lowest income groups.

### **3.5 Rental housing**

The sections above have given emphasis to the development of policy instruments for facilitating property ownership in the housing sector. However, there is a significant demand for affordable rental housing, particularly in urban areas, by new young households, not ready to invest in real estate and those who need to live away from their homes for extended periods for reasons of employment. The upper end of this demand (principally foreigners) seems to be well catered for, at least in Colombo, but for those in the middle and lower income groups there is reported to be a serious shortage of adequate, affordable rental accommodation<sup>13</sup>.

In response to this, the Government has initiated a tax incentive scheme to encourage house builders and property developers to produce affordable rental accommodation. The national housing policy should embrace and extend this facility on the basis of a better understanding of the market. However, in line with the guiding principles of the policy and drawing on several decades of experience in Sri Lanka and throughout the developing world, it is important that the policy does not slip back into the production of public rental housing. The burden of maintenance and management, coupled with occupant dissatisfaction, in government-owned rental accommodation are now well understood and not to be revisited.

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12. Greater Colombo Waste Water & Sanitation Master Plan, 1993.

13. The impact of the Ceiling on Housing Property Law 1973 remains in the memories of many potential developers and renters, deterring them from investing in rental housing, despite the high returns that can be gained.

### **3.6 Slum upgrading, urban planning and relocation**

The concept of subsidiarity and the lowest effective level of decision making can lead to conflicts in setting policy priorities. One such conflict that frequently arises is between the needs of good urban planning and the economic use of land for the benefit of the urban population at large, and the needs and rights of low-income communities to benefit from, and invest in, the land that they inhabit (whether tenured or squatted). The housing policy should establish mechanisms to address such conflicts, which can be politically explosive.

The Real Estate Exchange Ltd (REEL) programme in Colombo is an innovative initiative to finesse a 'win-win' strategy to release high-value centrally located land, occupied by low-income households, onto the private sector property market and in doing so, provide its former occupants with secure and saleable property, also in the city centre, at no cost to them. Clearly there are limits to such a strategy, but the housing policy should learn from, and develop, the REEL programme amongst other approaches to effective urban land development that concomitantly meet the social, economic and housing needs and demands of low income households and communities.

### **3.7 Integrated infrastructure provision and management**

The provision and supply of infrastructure and services (water, sanitation, power, access, etc) is central to all housing areas and new developments. Without them shelters are basically uninhabitable. However, the components of infrastructure and services are supplied and administered by several different departments and agencies of both central and local government. Therefore, there is a fundamental need for the housing policy to address mechanisms for the co-ordination of infrastructure design departments, funding agencies and service providers at the outset of any new developments and upgrading programmes.

Though central water and power agencies set standards and bulk-supply services, the responsibility for their delivery and the extension of networks is that of local authorities. The decentralised budget is the main funding source for this. However, there is a tendency for local authorities to focus their development initiatives on revenue-generating projects, which generally do not include the extension or maintenance of infrastructure for low income housing and settlement upgrading. So, it is important that the housing policy provides strategic mechanisms and support to encourage pradeshiya sabhas and urban and municipal councils to undertake integrated infrastructure programmes in close collaboration with community based organisations, NGOs and other relevant civil society organisations where appropriate.

It is also important that the housing policy instruments empower and enable local authorities to negotiate with donor agencies and technical assistance programmes (and, where feasible, private investors) for the financing of infrastructure projects.

## **4. GOING TO SCALE**

### **4.1 Institutional rationalisation and coordination**

The implementation of the strategic programmes and projects of the housing policy on a national scale is central to its success. Almost all of the policy components and strategies outlined above have been 'tested and demonstrated' in Sri Lanka at some time over the last 20 years. First-hand experience of their operation and effectiveness



exist. The need for pilot projects is past. It is now time to 'go to scale' with a co-ordinated package of policy measures. However, in order to do so will require a high level of co-ordination between different ministries, agencies and programmes or the merging of some of them to create a more 'manageable' portfolio (see Annex). Any such measure will require a high level of political commitment and decision.

Whatever the vehicle for co-ordination, it should be reflected at all levels of government and at the interface between government and its partners in civil society and community organisations. If a cabinet sub-committee structure is adopted for co-ordinating the sector, it should be reflected by an executive committee of secretaries. Similar arrangements should be made for the heads of departments and at the district, division and the municipal/urban council levels<sup>14</sup>.

New institutions may have to be created. However this should not happen before examining the mandates and capacities of existing institutions organisations and agencies. Several of them, and related programmes and projects, already have the authority, skills and experience to take on new roles or to return to their original responsibilities<sup>15</sup>.

#### **4.2 Initiating the policy formulation and implementation processes**

Under the current ministerial structure, responsibility for the development of the national housing policy clearly rests with the Minister for Housing and Construction Industry. However, as indicated above, it is extremely important that at least the Minister for Urban Development and Water Supply is also fully engaged in the policy formulation process. Other ministries and/or departments as well as representatives of the private sector<sup>16</sup> should at least contribute inputs and commentary at appropriate stages of the policy preparation process.

It is important that the policy formulation process at least acknowledges, and at best learns from, the history of housing and related policies and programmes in Sri Lanka, regardless of their political origins. There has been a great deal of innovation, many

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14. CMC has a Housing and Community Development Committee (HCDC) that brings together the mayor, relevant councilors, heads of departments, technical officers and community and private sector leaders on a monthly basis to debate issues of contention in the sector and the implementation of housing and community development policies and programmes. HCDCs, chaired by the GA have existed at the district level in the past.

15. For example:

- the UDA, which was established to lead and direct urban development nationally has taken on a major responsibility for the administration of development control regulations, which, under the principles of subsidiarity, should be devolved to local authorities, thereby enabling the UDA to return to its original mandate for leading urban policy and planning;
- the NHDA, which was created to support the upgrading of underserved settlements and the construction of affordable housing, developed an impressive capacity for community organisation and participation. But it has been marginalised from urban areas and starved of public funds, forcing it to become self-financing and to operate on a very small scale, thereby defeating its aim of providing secure and decent housing to the lowest income groups throughout the country;
- the Urban Settlements Improvement Programme (USIP) is the only organisation explicitly charged with urban environmental improvement and infrastructure provision in the poorest underserved urban settlements, yet it is entirely dependent upon project-based donor funding and has no formal link to related national agencies such as the NHDA, NWS&DB, CEB.

16. Notably the construction and building materials industries, as well as developers and the banking sector.

successes and some salutary lessons. It should also build upon recent inputs and advice from consultative processes, think-tanks and task forces<sup>17</sup>.

There are many ways of conducting an effective policy formulation exercise<sup>18</sup>. However, it is unlikely that any will be effective if it does not start with a clear vision and mission statement. These must be made public and used to test any proposed policy instrument and planned activity. The vision and mission are political goals and objectives, against which performance will be measured. Housing is part of the basic livelihood package of every individual and family, yet it has been a low political priority in Sri Lanka for the last 15 years. This is because there has been no clear vision for the sector and no policy.

## 5. RECOMMENDATIONS FOR IMMEDIATE ACTION

The starting point for policy development is access to adequate information. Many of the issues raised in these notes are based on an accurate, but general, understanding of the situation. However, for policy makers to be able to draw comparative conclusions, set priorities and make strategic choices, more reliable and accurate data are needed than seem to be readily available at present.

Therefore it is strongly recommended that the Ministry of Housing and Construction Industry establishes a National Housing & Infrastructure Database and puts in motion a series of studies in key areas of housing and related infrastructure demand and supply. It is of fundamental importance, however, that this exercise does not hold up the policy formulation process itself. The universal tendency to delay action because of insufficient background knowledge and information should be strongly resisted. To this end it is important that the initial studies are carefully selected and designed to ensure economy of effort and information. Many ready-made lists of 'basic information' and indicators for the housing sector exist and they should be used to assist the Database design process<sup>19</sup>. But they tend to be universal and attempt to be exhaustive and should be used selectively in response to the immediate needs of the policy formulation process.

In conclusion, it is recommended that early action should be taken to commence the process of preparing the National Housing Policy at the same time as designing and setting up the National Housing & Infrastructure Database and commissioning the initial studies required by it. In doing so it is important to distinguish between the needs of policy (national and local goals, objectives and strategic approaches) and mechanisms for policy implementation (operational programmes and projects).

The United Nations Human Settlements Programme UN-HABITAT is well placed to support this process.

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17. Notably *The Urban Sector Policy Framework (USPF) for Sri Lanka: Report of the Inter-Ministerial Task Force 2003*, set up by the Ministry of Policy Development and Implementation and the *Report of the Presidential Task Force on Housing and Urban Development, 1998*, Chaired by the Minister for Housing and Urban Development.

18. Viz: *The Urban Sector Policy Framework (USPF) for Sri Lanka 2003*, Appendix IV.

19. For example: the UN-Habitat Global Urban Observatory Human Settlements Indicators.

## Annex 1

### PUBLIC SECTOR AGENCIES RESPONSIBLE FOR HOUSING PRODUCTION

Ministry	Agencies & major projects
1. Housing and Construction Industry	1. National Housing Development Authority (NHDA) 2. Housing Development Finance Corporation (HDFC)
2. Urban Development and Water Supply	3. Urban Development Authority (UDA) 4. Real Estate Exchange (Pvt) Ltd. (REEL) 5. Tsunami Housing Re-construction Unit (THRU) *(Urban Settlements Improvement Programme (USIP) *(Lunawa Env. Improvement & Com. Dev. Project)
3. Estate Housing, Infrastructure and Community Dev.	7. Plantation Human Development Trust
4. Fisheries and Aquatic Resources.	8. Department of Fisheries * major projects

## Annex 2 PEOPLE CONSULTED

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Susil Siriwardana Former Chairman NHDA	Lalith Mirihagalle Executive Director Real Estate Exchange Ltd (REEL)
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