Preliminary Report on Financial Solutions for the Royal Initiative on Affordable Housing in Jordan

By

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Table of Contents

Executive Summary

- A look at the distribution of the applications by income groups clearly shows that the applicants have been attracted by the inherent subsidy element of the Initiative. People at higher income brackets, where the subsidy is either not there or not substantial enough, will not go for the Initiative at all.
- The existing approach to the Initiative, where the government will meet the subsidy, is clearly unaffordable as it will increase the Government's fiscal deficit by about 2.4%.
- In addition, the existing scheme does not ensure the beneficiaries a single window clearance. Beneficiaries of the age group of 45 or above will be disqualified.
- Hence, we had to think of ways of eliminating or neutralizing the subsidy altogether.
- After analyzing 5 such options that eliminate or neutralize the burden of subsidy, we have zeroed down on the Lease Scheme with Profit sharing.
- The most attractive feature of the Scheme is that the beneficiary can stay in an apartment for 20 years, making a monthly payment not exceeding 1/3rd of his salary. At the end of the term, he has a redemption option or a purchase option. In essence, the beneficiary may, at his option, stay in the house for free for 20 years, and yet get a share in profits of something that he never paid for in the first instance.
- In case he opts for the redemption option, the beneficiary will get a refund of all that he has paid over 20 years, along with a share in the profits of the property.
- In case he opts for a purchase option, he may buy the property at a substantially cheaper price, such price a fraction of the-then prevailing price of the property. He gets full credit for all that he has paid, plus a share of profits in the property.
- From the viewpoint of the government, the government essentially finances the subsidy portion, which will be recovered out of the "profits" of the property, that is, the excess of fair market value of the property over the amount refundable to the beneficiary.
- The subsidy portion funded by the government is not a dead loss but an investment in property values. Assuming a certain rate of appreciation in property prices, the government should be able to earn sufficient rate of return on the subsidy portion to meet the servicing cost.
- Essentially, from a funding viewpoint, the cost of the apartment is split in 2 parts – the present value of the monthly instalments payable by the beneficiary, and the subsidy part.
- The present value of the monthly instalments may be funded either by bank lines of credit and/or by sukuks. We recommend that the government use this opportunity to start a sukuk issuance. We recommend that while the securitization law may be passed soonest, the government may use a 1981 law on Islamic bonds, amend its ambit and permit entities approved by the government to issue Islamic bonds under that law.

- The subsidy part may be funded issuing “social housing bonds” with a tax incentive in case of domestic investors. We feel that such a government-sponsored small savings scheme is much needed for Jordanian public, particularly where the investment is going into a socially relevant investment exercise and directly added to gross capital formation.
- In view of our recommendation for a single-window clearance of the beneficiaries, we suggest that National Company for Development and Housing, currently a subsidiary of HUDC, may be de-subsidiarised and may be the key “originator” under the Scheme.