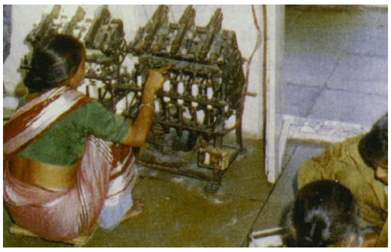
Housing Microfinance Initiatives

EXECUTIVE SUMMARY with SEWA, GRAMEEN, & GENESIS



THE CENTER FOR URBAN DEVELOPMENT STUDIES
HARVARD UNIVERSITY GRADUATE SCHOOL OF DESIGN

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EXECUTIVE SUMMARY

Background

In just two decades, housing microfinance programs have attained a prominent position among organizations addressing the shelter needs of the urban and rural poor in many regions around the world. At the request of the U.S. Agency for International Development Microfinance Office, the Center for Urban Development Studies at the Harvard Design School, working through Development Alternatives, Inc., undertook an assessment of current microfinance practices and the linkages between housing and microfinance. The tiered network that has developed among local lending institutions, governments, NGOs, and international organizations including multinational and bilateral development aid organizations was studied, and case studies were selected that illustrate recent trends including diversification of services, financing mechanisms, and methods of capitalization, as well as promising avenues for adjusting program structures and improving outreach. The report provides useful background information for those involved in or planning to expand into housing microfinance initiatives, and for international and bilateral agencies interested in developing effective poverty alleviation strategies.

The objective of this report is to assess the nature of housing microcredit products that are currently being offered by microfinance organizations. The capacity of microfinance methodologies to deliver credit adapted to the living conditions and earning patterns of lower income families offers useful concepts and instruments for the housing finance industry to expand its own efforts to reach down.

The paper clearly will not answer all the questions that prospective providers may want to know and is not is it intended to do so. The cases reviewed were selected to illustrate a range of approaches and broad geographic coverage. There are many criteria by which success and sustainability can be gauged in different macro-contexts and local situations. The cases presented in this paper are clearly outstanding examples and they should not be regarded as the only valid models of housing microfinance.

Report Structure

The report has three main sections. Section I includes a Synthesis that is subdivided into four parts. The first identifies the characteristics of the target population of microfinance programs, with an emphasis on sources of shelter finance and a description of how, for many lower-income households, housing functions as a shelter, a commodity, and an investment. The influence of location and tenure relative to household investment strategies are also highlighted. The second part introduces the two types of housing microfinance programs, microcredit to housing finance (MCHF) programs and shelter advocacy to housing finance (SAHF), and documents their differences with respect to evolution, vision, objectives, focus, service package, and loan terms and conditions. The third part assesses the delivery of shelter finance to different target groups. It discusses client eligibility requirements, loan terms and conditions, housing portfolio characteristics, shelter scarcities, and the different programs' capacity to access capital. The final segment of the synthesis briefly delineates the challenges facing the housing microfinance industry today.

Section II comprises Regional Summaries and Case Studies for South and South-East Asia, Latin America, and Sub-Saharan Africa. Each summary introduces the critical land, shelter, and infrastructure problems and challenges in the region, and describes innovative housing microfinance initiatives in operation. The summaries are followed by detailed case studies selected to illustrate specific aspects of the housing microfinance industry in each region. Six cases are covered in detail: Grameen Bank in Bangladesh; SEWA Bank in India; the Center for Agricultural Development (CARD) and Payatas Scavengers' Association in the Philippines; the South African Homeless People Association; and Genesis in Guatemala.

To assist readers interested in further research, Section III includes an extensive Annex consisting of a bibliography and list of references, and a comparative table highlighting similarities and differences among the six regional case studies, plus a synopsis briefly describing other examples of microfinance initiatives.

Key Findings

The research for this background report uncovered two basic types of housing microfinance programs. The microcredit to housing finance (MCHF) programs initially began as microcredit initiatives for small and micro-enterprises. Their aim was the expansion of economic development opportunities for socio-economically and politically marginalized groups. However, microfinance institutions have frequently observed that their clients borrow for income-generation purposes, yet channel the funds into housing improvements; therefore, over time, drawing on their experience in microcredit, these institutions broadened their lending portfolio to offer a range of housing finance products for new housing construction and home improvement projects. The strong connection between the home as both shelter and a place to house or support income-generating activities made this a logical evolution and eased the transition to new financial products, structures, and loan terms.

The second approach, shelter advocacy to housing finance (SAHF) programs, arose out of an original advocacy agenda defending the right of the poor to equitable access to resources, particularly land and shelter, as well as adequate infrastructure and services. Their overarching vision is the empowerment of disenfranchised community members, particularly squatters and the homeless. In addition to community organizing and political lobbying, several advocacy groups have gone on to develop microcredit programs that enable the poor to access serviced land and acquire shelter. The decision of shelter advocacy groups to expand into micro-lending for housing was inspired by the flourishing of microcredit, pioneered by Grameen Bank and emulated by hundreds of microfinance initiatives. Most SAHF initiatives operate on a small scale within limited local boundaries, although some have begun to scale up and have joined regional or national federations of community-based organizations to further communication and the exchange of information and, more importantly, to gain political visibility in lobbying government to redistribute services or effect policy changes.

Challenges

At present, the housing microfinance industry is faced with two challenges. The first deals with housing-related loan products that are as yet not well developed, namely land acquisition and infrastructure provision. While most housing microfinance programs surveyed have acquired considerable expertise in administering new construction and home improvement loans, only a few programs provide loan products for land acquisition and infrastructure provision. The second challenge concerns reaching two groups within the industry's target population that are not currently being served by housing microfinance programs. The first group consists mainly of moderate income households that are ineligible for public assistance yet are not being reached by microfinance programs either because they do not operate within the informal economy or because their earnings exceed the threshold set by microcredit programs. The second group consists of the poorest of the urban poor, including squatters on remote or unutilized land and those living in rental arrangements in overcrowded inner-city slum tenements. The development of appropriate financial instruments to meet the shelter needs of this latter population group is without doubt the greatest challenge facing the housing microfinance industry today.

Case Study
SEWA BANK, INDIA

Date Organization Started:	1972
Date Housing Loans Started:	1976
Type of Program:	Micro-Credit to Housing Finance Programs
Size of Housing Loan:	Maximum Rs 25,000
Interest Rate for Housing Loan:	13.5% for HUDCO-funded loans 17% for SEWA-funded loans
Term for Housing Loan:	For urban areas 35 months and for rural areas 18/20/36 months Maximum term is 60 months
Required Collateral:	Savings and recommendation from area leader
Default Rate:	6%
Exchange Rate:	Rupees 42.7 : US$1 (February 1999)

Country profile[1]
India's population was estimated in mid-1997 at 955 million inhabitants, of which 26% live in urban areas and 74% in rural areas. The country's population grew at an average rate of 1.8% per annum during the 1990s. According to the 1991 census, its largest urban areas were Mumbai (Bombay) with 12.6 million, Calcutta with 11.0 million and Delhi with 8.4 million. Next came Chennai (Madras), Hyderabad and Bangalore with 5.4, 4.3 and 4.1 million respectively. Ahmedabad, located in the Gujarat state and where the surveyed initiative is located, ranked seventh with 3.3 million, with a population growth rate of near 20% in the decade from 1981 to 1991, according to a World Bank study.

India's 26 states have limited powers of taxation and rely on central transfers, despite new efforts to increase decentralization beyond the state level to local government structures. Arguably, the nation's most daunting challenge is the existence of major socio-economic disparities between the different states. Poverty and underdevelopment are concentrated in some northern and eastern regions, primarily Bihar, Uttar Pradesh, and Orissa. For example, whereas the national literacy rate in 1991 was 52%, a wide discrepancy existed between states: Kerala had a high of 90% and Bihar had a low of 38%. Moreover, the gap between the few richer states and the rest of India is widening. Wealthier states include Maharashtra, Delhi, Goa, Haryana, Punjab, Gujarat, and Kerala, in addition to a recent take off-by Tamil Nadu, Karnataka, and Andhra Pradesh. However, conditions in the populous and politically powerful northern states of Bihar, Uttar Pradesh, Madhya Pradesh, and Rajasthan, which comprise almost 40% of India's population, are further deteriorating.

In 1999, the average commercial bank prime lending rate was 12%.

The housing micro-finance institutions surveyed addressed infrastructure issues in various ways, most often by extending loans to beneficiaries to finance infrastructure connections, or through partnerships with public authorities. SEWA featured the most advanced program for addressing this issue, through their participation in the Slum Networking Project in Ahmedabad. Each rupee of savings raised by SEWA members leverages one rupee from the private sector and seven rupees from the Ahmedabad Municipal Corporation towards the provision of infrastructure.

The government provides subsidies to individuals with monthly incomes of Rs 2,100 (US$48) or less. The majority of SEWA's constituency has an average monthly income of only Rs 1,000 (US$23), and

[1] The primary source for this section is: Economist Intelligence Unit: 'Country Profile: India 1998/1999'. EIU Country Reports, November 1998.

an average monthly household income of Rs 2,500 (US$58), as reported in the SEWA report to the World Bank. Accordingly, SEWA's program caters to lower income groups than are served by government subsidies.

Institution profile

Self Employed Women's Association

The Self-Employed Women's Association (SEWA) was established in 1972 in Ahmedabad City as a trade union with the goal of organizing low-income women working in the informal sector. SEWA targeted what amounted to 96% of employed women in India who worked in the informal sector with no rights, security, or protection. SEWA borrowers are either self-employed or work as casual laborers (SEWA categorizes informal sector workers into three categories: 1) vendors/ hawkers, 2) home-based workers, and 3) manual laborers and service providers); they maintain little or no savings and hold no assets. The main goal of SEWA, as articulated by its founder Ela Bhatt is to empower 'invisible' female informal sector workers and help them become self reliant, with employment security, income security, food security and access to social services such as health care.[2] Through SEWA, female members accessed many services including capital from savings and credit groups, health and child care, which have evolved to become autonomous cooperatives operationally and financially. By the end of 1999, SEWA had a total membership of 220,000.

[PLEASE SEE GRAPHIC AT END OF SECTION]

SEWA Bank

Access to capital, one of SEWA membership's most important needs, led to the establishment of the association's largest cooperative entity. In 1974, the Shri Mahila SEWA Sahakari Bank, known as SEWA Bank, came into existence by way of small deposits (Rs10 or US$0.23) from 4,000 self-employed women, totaling most of the Bank's initial working capital of Rs60,000 (US$1,382). SEWA Bank was established as a cooperative bank fully owned by SEWA shareholding members who elect the board. The board, of which 10 are trade leaders, formulates the bank's policies, oversees the management, and approves the disbursement of bank loans. The Reserve Bank of India determines areas of operation and the proportion of deposits that can be loaned. In the past it also determined interest rates on loans and deposits but interest rates in India are now fully decentralized.

The bank originally served as an intermediary between low-income households and formal finance institutions so that poor people would have access to loans. From 1974 to 1976, a total of 6,000 members received Rs2.5 million (US$57,564) in loans. In 1976, however, SEWA Bank began providing its own loans. By 1999, SEWA Bank had 112,750 depositors and 35,936 borrowers, with a working capital of Rs259,226,000 (US$6,070,800).

Mahila Housing SEWA Trust

Mahila Housing SEWA Trust (MHT) was formed by SEWA, SEWA Bank, and other partners to enable self-employed women to improve their shelter conditions. The organization's objectives are to improve housing and infrastructure conditions for SEWA members, to create improved access to services such as housing and infrastructure finance, legal and technical assistance, and to influence urban development policies and programs.

[2]Ghatate, Smita. Credit Connections: Meeting WSS Needs of the Informal Sector through Microfinance in Urban India. Mahila Housing SEWA Trust and World Bank, 1999.

Capitalization of portfolio targeting low-income families

The initial funding for SEWA Bank came from the first 4,000 women members who contributed Rs10 each (US$0.23). The credit fund, as reported in a study, was kept supplied by depositors' savings, from 1974 to 1997. In 1998, HUDCO loaned SEWA Bank Rs28.8 million at 9% for use in long-term housing and infrastructure loans (HUDCO loan's interest rates increased to 10.5% in December 1999). In 1999, HDFC loaned SEWA an additional Rs27 million at 10% interest for housing and infrastructure finance.

By the end of 1999, SEWA Bank had awarded a cumulative total of 33,975 loans, of which 50% were housing loans, for a cumulative amount of Rs468.99 million, of which Rs198.09 million were for housing construction or repair. SEWA Bank had achieved an average liquidity ratio (loans to deposits) in 1999 of 52%, which compares very favorably with public and private sector averages.

SEWA Bank

Year	No. of Shareholders	Share Capital ($)	No. of Depositors	Deposits ($)	Working Capital ($)	Profit ($)
1977-78	7,044	1,867	11,656	29,185	33,355	316
1982-83	8,398	4,520	19,057	116,514	133,910	2,678
1987-88	11,329	20,355	23,146	258,635	343,795	8,520
1992-93	15,454	49,097	35,443	1,231,181	1,545,570	19,047
1997-98	22,205	193,645	87,779	3,500,513	4,825,659	40,479
1998-99	24,045	240,773	112,750	4,132,014	6,070,867	52,904

Source: Ghatate, Smita. Credit Connections: Meeting WSS Needs of the Informal Sector through Microfinance in Urban India. World Bank Sponsored Report, 1999.

Product purpose, structure and terms

SEWA Bank offers three categories of financial products to its borrowers. The first and largest, until recently, is loans for income-generating enterprises. The second consists of loans for housing and for participation in the Parivartan scheme, aimed at providing members with infrastructure. The third comprises funds disbursed as safety nets, including schemes for life insurance, work security, and maternity benefits, plus occasional emergency loans.

Housing Loans

Approximately half of SEWA Bank's loan portfolio is invested in housing. Over the years and in response to a growing demand from its members, SEWA Bank has steadily increased the proportion of housing loans to the total portfolio. By the end of 1999, housing loans totaled $4.64 million (Rs198,092,021), awarded to approximately 14,905 women.

SEWA Bank first ventured into the field of housing loans in 1976, two years after its inception. In 1981, only 9 housing loans were provided. In 1986 the number had climbed to 322 and in 1999 it was 2,192. In 1992, the board of SEWA Union decided that housing-related activities needed more specialization, and SEWA Housing Services was established with the goal of improving housing for its members. In 1994 the new entity was officially registered as Gujarat Mahila Housing SEWA Trust.

Table 1: Evolution of Housing Finance by SEWA Bank. Selected years.

Year	Number of Women	Loan Amount (US$)
1976	3	35
1986	322	50,239

1997	1,712	706,812
1999	2,192	773,260

Smita Ghatate. Bridging the Market Gap. Housing Finance for Women in the Informal Sector. Gujarat Mahila Housing SEWA Trust. Ahmedabad: 1998.

In the scheme called "My Own Home Scheme," participants save a fixed amount every month towards repairing, upgrading or buying a home. Typically, prior to obtaining a housing loan, SEWA members live in semi-permanent structures with mud walls and floors with thatch or tiled roofs. With a SEWA housing loan, members can incrementally transform their temporary structures into permanent brick dwellings, plastering the interior walls, upgrading flimsy roofs with concrete, tiling the floors, and/or installing windows for light and ventilation.

The maximum housing loan is Rs25,000. SEWA Bank charges an interest rate of 14.5% on funds provided by HUDCO at 10.5%. On non-housing loans drawing on deposits by the Banks' members, the interest rate charged is 17%. Housing loans have to be repaid back over a period of 60 months. Since SEWA borrowers typically operate home-based micro-enterprises, the Bank allows its borrowers to obtain a housing loan as their first loan, without requiring prior participation in a micro-enterprise cycle. This arises from the fact that for a wide range of occupations by women in the informal sector, their home is a productive asset. It is their workplace, warehouse, sorting place and/or shop.

To become eligible for a housing loan, the borrower must begin by opening a bank account and saving regularly for a minimum of one year. This requirement helps the members in developing a habit of saving, and the deposited funds can be held as a lien by SEWA Bank against the loan. The member then submits an application which is evaluated based on the demonstrated savings pattern, the household income, the depositor's employment/business, her ability to make the payments or her successful repayment of previous loans (if any), the proposed use of the loan, and a cost estimate. The main criterion in the evaluation process is a recommendation from the area fieldworker, following a visit to the applicant's home.

The borrower must secure two guarantors to co-sign the loan application, one of whom must have a pay slip or income certificate. The Bank uses the previous year's savings to secure the loan; it does not require its borrowers to possess a land title for loan disbursement. However, SEWA Bank insists that the housing loan and the ownership of house be in the woman's name, not her husband's.

Prior to submitting an approval, the Bank sends a staff fieldworker to conduct a field inspection to verify the application. For loans less than Rs 5,000 (US$115), the Managing Director can approve the loan based on the staff person's recommendation, but, for loans greater than Rs 5,000 (US$115), the Managing Director, two Directors, a Manager, and a Loan Officer must all approve the loan. Once approved, the Bank disburses the loan by making the funds available in the borrower's savings account.

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Housing and Micro-enterprise Loans

SEWA reports that 37% of SEWA's housing loan borrowers operate small enterprises. Since many SEWA members work out of their home, home improvements are productive investments that increase both income and household assets, especially when facilitating the growth of these enterprises. An addition to a house that provides storage or work space, or a better roof that improves the working environment for a home-based micro-industry, can directly improve business conditions and spur higher sales figures.

> For many self-employed women like garment stichers, weavers and bidi rollers, their home is their work place. Women who work outside the home, like vendors and rag pickers also use their home to store, sort and process their products. Her home, in the form of shelter, is not only an asset in the traditional sense, but also a productive asset. This is even more true of poor and working women. (World Bank Report 1999)

Thus, for SEWA members working in the informal sector, the home is a productive asset and housing loans are seen as productive investments.

Although housing loans are generally substantially larger than micro-enterprise loans and despite the fact that most women's daily income ranges between Rs60 to 100 (US$1.23 - $2.30), many borrowers choose to pay off their loans over a shorter term than contracted, on average over three years. Usually, all the income earners in the household contribute toward the cost of the house. Indeed, low-income households show themselves willing to spend or exceed 30% of their income on housing, especially when they hold title to the asset (mostly it is informal ownership).

Infrastructure loans

SEWA, SEWA Bank, and the Mahila Housing SEWA Trust (MHT) are involved in a scheme called "Parivartan" (meaning transformation) or Slum Networking Project. The project's goal is to provide each family with on-site infrastructure, which includes individual water supply, underground sewerage, individual toilets, solid waste disposal service, storm water drains, internal roads and paving, street lighting and landscaping. Plus, the Ahmedabad Municipal Corporation (AMC) provides written land tenure security for a minimum period of ten years to all of the participants of the Slum Networking Project.

SEWA Bank and MHT, acting as financial and technical intermediaries respectively, motivate slum dwellers of Ahmedabad city to join the scheme, wherein each family contributes Rs2,100 (US $48.35) towards the receipt of an infrastructure improvement package ranging between Rs14,500 to Rs15,000 (US $333 to $345). Local industry matches the family contribution with Rs2,000 (US $48) and the balance is provided by the AMC. SEWA Bank makes available loans of up to Rs1,600 (US $37) to each family to meet their contribution. Loans may be repaid monthly in installments of Rs100 (US $2.30) or as a lump sum. The interest rate is set at 14.5%. As things stand, 18 slum communities have been identified for Parivartan.

For the three slums completed thus far, evaluation studies documented an average increase of Rs50 per day (US$1.15) in the net earnings level of members in these communities. Fruit and vegetable vendors, for instance, are able to wash their produce at home and do not have to wait in long water queues. This allows them to get to market at 6:00 a.m. and spend more time in selling.

Product performance

The repayment rate of loans administered by SEWA Bank was reported at 96% in 1999. While the breakdown of default and arrears was not specified, SEWA evaluation studies mentioned that the majority of non-repayments were not defaults, but rather short-term arrears due to such circumstances as illness or pregnancy.

Subsidies in the credit delivery system

From 1974 to the end of 1997, SEWA Bank operated without receiving subsidies. Funds were raised from members at an interest rate of up to 13.5% and lent at 17%, thus covering all costs associated. However, due to the special characteristics of housing loans, which are typically of a larger volume and have a longer repayment period, re-finance was sought by SEWA Bank. Since 1998, two capital sources have provided SEWA Bank with subsidized funds. HUDCO loaned SEWA Rs28.8 million at 9%, and subsequently 10.5%, for use in long-term housing and infrastructure loans. In 1999, HDFC loaned SEWA an additional Rs 27 million at 10% for housing and infrastructure finance. Both sources are below the country's average prime lending rate, which in February 1999 was 12%.

Use to which investments are put

A large majority (70%) of SEWA Bank's housing loans disbursed as of 1999 were utilized for general repairs or house upgrading, expansion of the house by adding a room, kitchen or toilet and sometimes for rent deposits. Only 30% of the loans were used for buying or constructing a new house. About three-quarters of the 151 families in Panna Lal ki Chali, a slum in Ahmedabad took out loans—in amounts ranging between Rs3,000 and Rs3,500 (US $69 and $80)—to install toilets.[3] Monsoon-proofing is another major category of home repair, accounting for 11% of loans in 1997.

Motiben

Motiben has lived in Ahmedabad ever since her marriage, more than forty years. The mother of a son and five daughters, she works in her home spinning thread on two very noisy electric charkhas that sit on her porch. This has been her work for 35 years, and the size and condition of her home have had a direct impact on her productivity and her ability to contribute to the family income. Motiben and her husband live with their son, his wife, and granddaughter Chetna. The family has always lived in a house made of pakka with a steel roof, but over the years they have made improvements to it with the help of loans from SEWA. Motiben began a savings account in 1988 and took her first of five loans in 1989. Three of these have been housing loans. The first, for Rs 4,000, she used to plaster her walls. The second, also for Rs 4,000, she used to install a stand-up kitchen. Her third loan was for Rs 10,000, and this she used to replace the house' clay floor with cement and tile, and to extend a covered porch in front of the house. This porch became her work area; she can work longer hours there, since the noise doesn't bother the other people in the house any more. The cement floor means she can work year round and keep her supplies dry in the rainy months. She also has more work space now which means she can leave her equipment and supplies set up, plus she was able to put in a larger charkha which enabled her to double her output of spun cotton thread. Today, she has tripled her income compared to 1980.

Extracted from "The Use of Housing as a Productive Asset: A SEWA Perspective." by Laurie de Freese.

Nanuben

Nanuben and her husband migrated to Ahmedabad 16 years ago. At that time they had only Rs 7 between them and the clothing on their backs. Today they have a thriving business worth over Rs 400,000 which they run from their three-room pakka house in Vastrapur Village, just outside Ahmedabad. Along the way, they have relied on wise business decisions, hard work, and institutions such as SEWA Bank. Nanuben's house is integrally linked with her economic productivity: it is both workshop and storehouse, and it is where the employees of the business, her family members, live.

[3] Credit Connections

Nanuben and her husband are old clothes vendors. They used to lose much of their stock during the monsoon, when their clay hut would flood and the clothes would be soiled and wet. Over the years, Nanuben has taken fourteen loans from SEWA Bank to improve her house, increase her stock of used clothing, invest in machinery and tools for her business, expand her house, or purchase land to expand the lot on which her house stands. With her growth in income and successive loans, she has been able to strategize and invest, and she has become a shrewd businesswoman.
Ibid.

Characteristics of borrowers
All depositors and borrowers from SEWA Bank are self-employed women. Urban members comprise 70% of the total, and the remaining 30% are in rural areas. Urban members are predominantly vendors, laborers or home-based workers. A survey on a sample of SEWA borrowers in 1998[4] showed that 76% had annual household incomes below Rs 18,000 (US$415), and half of these had annual household incomes below Rs 12,000 (US$276).

New members are recruited by means of the SEWA organizers working in the field, or through existing members or via word of mouth. Also, members serving as area community leaders encourage local women to open accounts with SEWA.

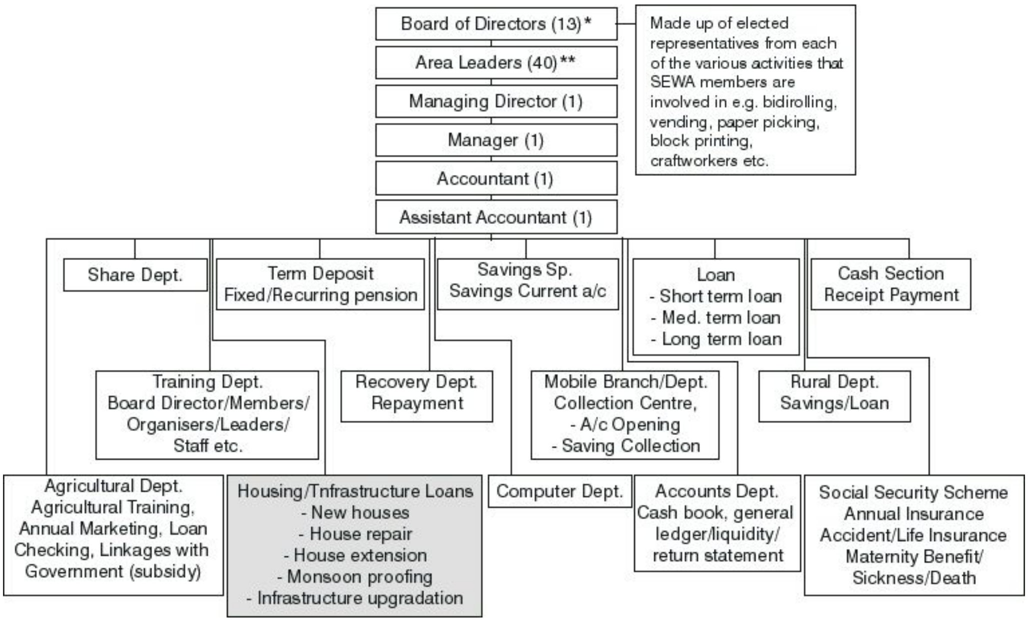
Accessibility of products offered, particularly to poorer female head of households
All SEWA members, including SEWA Bank's depositors and borrowers, are women. They are all engaged in the unorganized sector.

Other successes
SEWA Bank's housing loan program has led to major direct and indirect benefits. As a result of the infrastructure project Parivartan, informal interviews revealed that health problems and serious illnesses, including typhoid, malaria, diarrhea and skin disease, have been reduced by 75%. In addition, after the success of the project, members of SEWA Bank were inspired to take out a collective loan in the amount of Rs25,000 (US $575) per household for home improvements.

"We have taken loans from SEWA Bank for Parivartan and now we will take loans for making pucca houses, so that our goods are not ruined in the monsoon. Our house is our storage place, our warehouse, and SEWA bank our mother." Kamlaban, a SEWA Member and Parivartan participant stated, in "Credit Connections" Report.

Finally, technical assistance, in the form of construction related assistance and training programs, is provided to borrowers if needed. Mahila Housing SEWA Trust has also facilitated the formal registration of Community Based Organizations (CBO's) in the Parivartan slums. Members can also attend the SEWA Academy where they are taught the necessary skills to work for SEWA in their communities.

[4] Smita Ghatate. Bridging the Market Gap. Housing Finance for Women in the Informal Sector. Gujarat Mahila Housing SEWA Trust. Ahmedabad: 1998.



Source: SEWA Bank

Source: 1 Credit Connections

Case Study:
GRAMEEN BANK, BANGLADESH

Date Organization Started:	1976
Date Housing Loans Started:	1984
Type of Program:	Micro-Credit to Housing Finance Programs
Size of Housing Loan:	Tk5,000 to Tk30,000 (US$100 to US$600)
Interest Rate for Housing Loan:	8%
Term for Housing Loan:	Tk1,000/year (US$20) for loans <Tk10,000 (US$201) or 10 years for greater loans
Required Collateral:	Group accountability through collective signature
Default Rate:	<2%
Exchange Rate:	Taka 48.500 : US$1.00 (January 1999)

Country Profile[5]

The population of Bangladesh was estimated in 1997 at 124.3 million, with approximately 20% living in urban areas and 80% in villages. At that time it was estimated to be growing at an average rate of 1.82% per annum, but by 1999 the rate had slowed to 1.59%. Although industrial development has prompted migration to the cities, Bangladesh is one of the least urbanized countries in South Asia. There are three major cities: Dhaka, the capital and the largest, with a population of 6.95 million; Chittagong, the country's major port, with a population of 350,0000; and Khulna, with 1 million inhabitants. A number of industrial areas, such as Kalurghat, Sholashahar, and Faujdar Hat, have developed around Chittagong. Khulna, in the southwest, has become a commercial and industrial center; the opening of the port of Chalna nearby and the expansion of the Daulatpur industrial area have spurred its population growth.

Despite sustained domestic and international efforts to improve economic and demographic prospects, Bangladesh remains one of the world's poorest, most densely populated, and least developed nations. The economy is largely agricultural, with the cultivation of rice the single most important activity in the economy. Major impediments to growth include frequent cyclones and floods, the inefficiency of state-owned enterprises, a rapidly growing labor force of 56 million people that cannot be absorbed by agriculture, delays in exploiting energy resources (natural gas), inadequate power supplies, and slow implementation of economic reforms. Severe floods, lasting from July to October 1998, endangered the livelihood of more than 20 million people. The floods increased the country's reliance on large-scale international aid. So far, the East Asian financial crisis has not had a major impact on the economy.

Rural areas throughout Bangladesh are so thickly settled it is often difficult to distinguish individual villages. There are, however, some definable patterns. The inundation of most of the fields during the rainy season makes it necessary to build houses on higher ground. Continuous strings of settlements along roads are common in areas south of the Ganges and in the floodplains of the Mahananda, Tista, Jamuna, Ganges, and Meghna rivers. Similar settlements are also found in the hilly regions of southern Sylhet and in the Chittagong region. Settlements are more scattered in parts of southwestern Bangladesh, along the Bay of Bengal, in the floodplains of the Brahmaputra, in eastern and southern Sylhet, and in parts of Chittagong. In central and western Sylhet and in the Chittagong Hill Tracts, settlements occur in a nucleated, or clustered, pattern. The traditional character of rural villages has changed with the addition of prefabricated one- or two-storied structures scattered among the thatched bamboo huts. Supplies of electricity and safe drinking water are often inadequate.

[5] The primary source for this section is: Economist Intelligence Unit: "Country Profile: Bangladesh 1998/1999." EIU Country Reports, November, 1998.

In 1999, life expectancy at birth was 60.6 years and the national literacy rate was 46.2% (52.1% for males and 33.3% for females). According to the World Bank's 1998 Poverty Assessment, the percentage of the population below the poverty line was 39.8% in rural areas and 14.3% in urban areas, while the overall unemployment rate was 35.2%.

Institution Profile

Background
In 1976 Muhammad Yunus established Grameen as a rural bank designed to provide credit and organizational help to poor women (94% of borrowers), using group responsibility in place of standard collateral requirements.

To participate in the loan program, a member must gather 5 people with similar economic and social backgrounds who will agree to apply for and sign together on loans. A cluster of groups (between 2 and 10) constitutes a center that is presided over by two officials: an elected chief and a deputy chief. The center chief directs the meetings and is responsible for making sure the center adheres to the Grameen philosophy. The regional offices have some autonomy in making decisions in their locale and report to the head office in Dhaka, which oversees the entire program.

[PLEASE SEE GRAPHIC AT END OF SECTION]

Capitalization of Portfolio Targeting Low-income Families
In 1983, the rural bank was formalized and registered as Grameen Bank. The original rural bank members provided 40% of the initial capital needed and the government of Bangladesh cooperated by contributing the remaining 60%. The bank has since increased its self-sufficiency dramatically and the government holds less than 10%.

Financial Update as of February 2000 for Grameen Bank

Item	**Numbers**		**Item**	**Million (US$)**
Number of branches	1,148		Cumulative Amount Disbursed	3,027.57
Number of villages	39,857		Amount of Housing Loans Disbursed	185.68
Number of members	2,355,985		Cumulative Amount of Savings in group fund	233.69
Cumulative number of houses built with Grameen Housing Loans	515,396		Balance of total savings (excluding group fund)	22.46

Courtesy of Grameen Dialogue, December 1999

Product Purpose, Structure, and Terms

Background
Prior to the establishment of Grameen Bank's housing loan program, Bangladesh Bank had made only one attempt at providing housing for the poor. Only half the proposed houses were ever constructed, and the program failed to reach the poorest of the poor, owing chiefly to their lack of collateral. As a result, residents were forced to borrow from local informal lenders at exorbitant rates.

In 1984, Grameen Bank introduced housing loans, partly in response to an improvement in members' income-generating capacities. The aim of the program was to make funds available to members in good standing for building new houses or rehabilitating their old ones. The Bank disbursed 317 housing loans in its first year and by May 1999 had given out some 506,680 housing loans. The average repayment rate on these loans was 98%. Loans are currently available at 8% interest, which compares very favorably with the 20% interest charged for regular or short-term loans. The only bank branches eligible for housing loan disbursement are those that are at least two years old, have demonstrated an efficiency and organization in accounts and meetings, and have demonstrated that all borrowers have perfect repayment histories.

Procedure

Funds for the program accumulate in two ways. Each group member is required to deposit as personal savings 2Taka (4 cents) per week into a group fund, and for every loan disbursed, a deduction of 5% of the loan amount—a group tax—is deposited into the group fund. At the discretion of the group, the money from this fund can be used for member loans, and after 10 years the members can withdraw the savings and collect interest. Each member must also deposit weekly savings into an emergency fund, as insurance against default, death, accident, or other disasters.

Under the program, housing loans are made only to qualifying individuals. The applicant must have a history of regularly attending weekly meetings, must provide evidence of having acquired savings, and must prove that she has an adequate income and has successfully repaid one or more previous loans. She must then submit a proposal on the type of house planned and devise a repayment schedule.

Regular micro-enterprise loans are typically disbursed for one year to individuals and are paid back in weekly installments at 2% of the loan amount, usually no more than $20 for the first loan. When borrowers have repaid a first loan, they become eligible for a larger loan, culminating in housing loans of up to $300. To qualify for a housing loan, a member must provide legal documentation of land ownership where the house will be built. If the member does not own land, she is encouraged to use the loan towards land purchase.

If a borrower must rely on bulk income to pay her loans (such as money from a harvest), there are provisions for the member to pay whenever possible, as long as she demonstrates goodwill by providing token payments, although this arrangement is relied on only rarely. For the very poorest members, these requirements are more relaxed if the member is faced with a dire need for shelter.

The borrower's group and center members must agree to stand behind the loan for the individual member. Groups and center members are responsible for checking on the loan use, and if the borrower is not able to pay back the loan then the group and center members are held accountable. Furthermore, the members must promise not to transfer ownership of the house until the loan has been repaid in full. All center members must be present at the time of loan disbursement.

Usually the loan application process takes 3 to 4 weeks, although in urgent cases members can receive money in less than 10 days. The Area Manager must appeal to the Zonal Member for approval. Only 4 to 5 percent of loan applications are rejected, usually for lack of paperwork regarding land ownership.

[PLEASE SEE GRAPHIC AT END OF SECTION]

Types of Housing Loans

Five categories of housing loans are available: Housing, Basic Housing, Pre-basic Housing, Homestead Purchase, and House Repair. The basic housing loan is for TK12,000 ($242) and the larger standard housing loan is for amounts up to TK30,000 ($600). The maximum amount for a homestead purchase loan is TK10,000 ($202) and the house repair loan is TK5,000 ($101). The basic house proposed by the bank's housing program measures 12' by 18' and has a two-sided tin roof, four RCC (road cement and concrete) pillars, one wooden door, and two windows; it can be extended and modernized if desired. The standard house measures 15' by 21' and has a four-sided tin roof, eight RCC pillars, one wooden door, four windows, and a fence.

Basic Housing Loan Cost Breakdown

Item	Amount in $
Reinforced concrete pillars at $7.65 each	31
Eighteen corrugated metal sheets	91
Sanitary latrine	10
Other materials, including roof frame, etc.	110
Total	242

(Steele & Serageldin 1997, 77)

For loans of TK10,000 ($202) or less, members pay TK1,000 ($20) per year, and for loans greater than TK10,000, they divide the amount over a ten-year period. There is a maximum repayment period of ten years. Repayment is weekly, usually around TK 20 (40 cents) per week.

The borrower is responsible for the design of the house, but the bank makes sure basic health and safety requirements are met. The house must meet minimum Grameen standards, including having a pit latrine (since mid-1998, the bank has required members to install a latrine manufactured by the Grameen production facilities). Because bank officials are not technically trained in construction, the quality of the housing can be inconsistent and some unstable houses have been constructed as a result of inadequate technical assistance. However, in general the homes built under the program represent a substantial improvement over traditional low-income housing.

Product Performance

As of November 1999, the size of Grameen Bank's total portfolio was $2,951.78 million, while the size of the housing portfolio was $185.32 million, or 6.6% of the whole. The rate of repayment for all loans is 98%, and for housing loans it is close to 100% as they are available only to borrowers who have demonstrated a perfect repayment record.

Subsidies in the Credit Delivery System

Grameen Bank does not rely on donor funding. It obtains funds from the Central Bank of Bangladesh and lends them on to its borrowers at a higher rate of interest. The institution declares that it is able to operate profitably due to its high loan recovery rate, which allows it to make a small annual profit.

In 1987, after a devastating flood that destroyed 2 million houses in rural areas in Bangladesh, Grameen Bank received grants from UNDP to strengthen reconstruction efforts. In early 1988, Grameen Housing Programme received US$675,000; later, after having demonstrated successful management, two consecutive grants of US$500,000 and US$1 million were awarded.

Use to Which Investments are Put

All the Grameen Bank housing loans are given to rural residents and are used to construct housing. In some cases, the loan is used to purchase the plot of land upon which the house is built.

Characteristics of Borrowers

In November 1999, Grameen Bank had a total of 2,352,867 members, all of whom lived in rural areas. Only one candidate per family may apply to become a member of Grameen and they must not own more than 0.5 acre of land or have assets beyond the market value of one acre of land.

94% of Grameen Bank borrowers are female, and women also comprise the large majority of housing loan borrowers. In order to qualify for a housing loan, the homestead must be registered in the borrower's name. Thus, women own most of the land on which houses are built using loan funds.

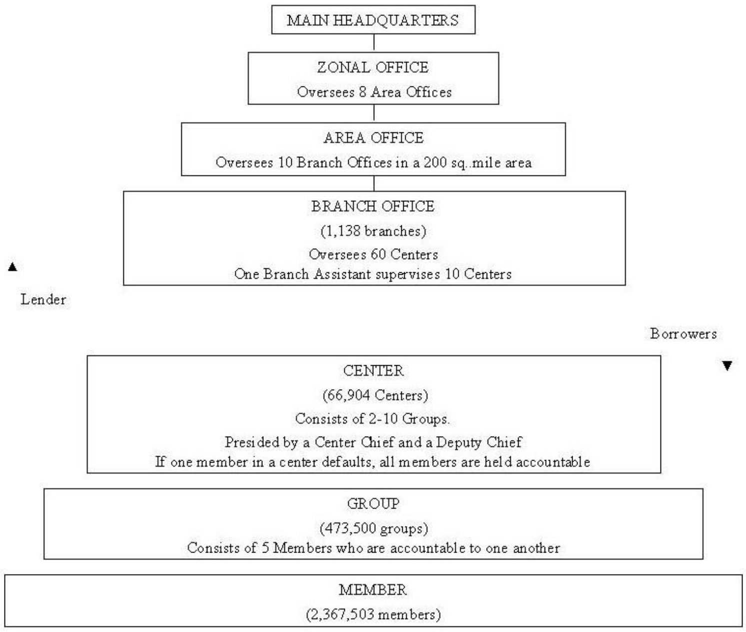
Other Successes

The Grameen Housing Program operated successfully right from the start, but it was not until the tremendous flooding of 1987 that the full impact of the program was realized. The houses that had been built under the Grameen guidelines were markedly more sturdy than the typical low-income dwellings, traditionally constructed of jute stick or bamboo, that required constant, costly annual upkeep and were very unstable, especially in any type of heavy rain or flooding. The new Grameen homes with their tin roofs and walls and sturdy pillars suffered far less structural damage.

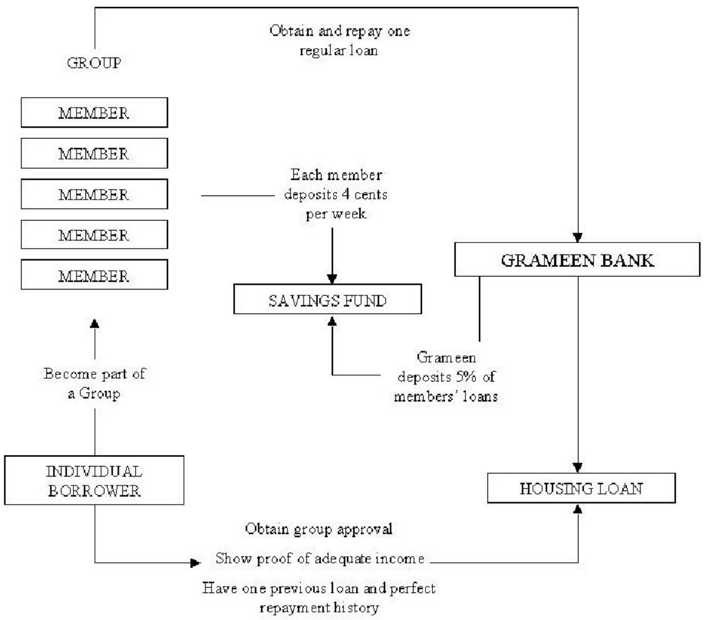
A sturdy, well-built house is a symbol of social status, so the standing and dignity of borrowers within society has improved. Bigger houses are also better work and study places, so housing loans can directly contribute to higher levels of income generation, and it is estimated that 95% of borrowers' children attend school.

By demanding standardized construction practices such as the use of cement pillars and installation of sanitary latrines, Grameen Bank assists in improving the health and safety of borrowers. In one survey, the general health of those with the new Grameen houses versus those with pre-existing or more traditional houses was greatly improved. Fever, influenza, and typhoid (among others) were down by almost 50%.

GRAMEEN BANK
ORGANIZATIONAL CHART



GRAMEEN BANK
HOUSING LOAN PROCESS



Case Study:
GENESIS EMPRESARIAL: COMMUNITY INFRASTRUCTURE LENDING PROGRAM, GUATEMALA[6]

Date Organization Started:	1988
Date Infrastructure Loans Started:	1988
Type of Program:	Shelter Advocacy to Housing Finance Programs
Size of Infrastructure Loan:	Q800-3,000 per Household (US$120-450)
Interest Rate for Infrastructure Loan:	21% to 30%
Term for Infrastructure Loan:	1-4 years
Required Collateral:	Group lending, one member's property as collateral
Default Rate:	7.74%
Exchange Rate:	Quetzal 6.67 : US$1.00

Country Profile[7]

In 1998, Guatemala's population was estimated at 10.8 million, with approximately 39% living in urban areas, making it one of Latin America's least urbanized nations. In 1998, the largest metropolitan area by far was Guatemala City, with 2.4 million inhabitants. The devastating civil war in Guatemala ended in 1996, and reconstruction subsequently commenced. One of the nation's important challenges is the social and economic development of its rural marginalized and largely indigenous population, which is faced with a very inequitable land distribution and has very poor access to educational and health services. Among Latin American countries, Guatemala has the highest percentage of population living in poverty, followed by Bolivia.[8] Genesis Empresarial ("Genesis" hereinafter) estimates that less than 30% of the rural population has access to infrastructure, and only about 50% of the urban population. Only about one-third of the adult population is employed in the formal sector. The national illiteracy rate, 44%, is among the region's highest, with the majority of the illiterate in rural areas. Life expectancy in 1995 for males was 63 years, and for females 68 years.

Genesis Empresarial's involvement in financing community-based delivery of infrastructure in rural areas grew out of the presence of major obstacles associated with the provision of water and electricity for rural communities. INEG, the state-owned enterprise in charge of rural electrification, requires communities desiring electric supply to form a committee, submit an application for cost estimate, and decide on the amount of community equity to be contributed toward the project. Next, the committee must apply for a state or municipal subsidy to cover the remainder of the cost. Upon approval, the committee must hire a private construction firm which will be overseen by a representative of INEG.

For water supply, the communities need to follow the same steps, in addition to meeting other requirements, i.e., to commission and pay for a study on the quality of local water sources, and to maintain the system after delivery. These procedural requirements have proven unrealistic for most rural communities, which typically lack financial resources to satisfy the cost-sharing requirements, organizational skills and capacity to administer the process, and political power to obtain sufficient subsidies.

Institution Profile

The overarching vision of Genesis Empresarial, established in 1998, is to improve living conditions for the rural poor in Guatemala. In line with that vision, Genesis offers its rural constituency group loans

[6] This case study draws heavily from a 1998 Report on the Genesis.

[7] The primary source for this section is: Economist Intelligence Unit: 'Country Profile: Guatemala 1998/1999'. EIU Country Reports, November 1998

[8] Zoraida Portillo: Latin America: No end on Poverty in Sight. Inter Press Service: January 5, 1998

and technical assistance for micro-enterprises and infrastructure retrofitting. It also offers micro-enterprise loans for individual borrowers, provided that they have a guarantor with full-time formal employment. In just over a decade, the institution has reached a total of 23,500 borrowers, through a network of 38 branch offices (13 major centers and 25 mini-centers) in Guatemala City and 16 other localities. The institution's staff numbers 153, of which 38 work in the main office, 53 loan officers extend micro-enterprise credit, and 13 development officers handle infrastructure initiatives.

Through its Community Infrastructure Lending Program (CILP), the focus of this research, Genesis has provided its constituency with financial and technical assistance. By the end of 1998, the institution had reached more than 10,000 households in 210 communities, issuing group loans with a total volume of Q35 million. Infrastructure loans specifically target the delivery of water and electric supply.

[PLEASE SEE GRAPHIC AT END OF SECTION]

Genesis has received technical assistance from international institutions such as USAID and Accion International and from Fundacion Solar and Plan Internacional on the national level. The Central American Bank for Economic Integration (BCIE) and several national commercial banks provide financial support and collaboration. The current challenge facing Genesis, as outlined in a detailed study on the institution's future restructuring, is its transformation into a formal financial institution, within which micro-enterprise and infrastructure operations will be administered separately.

Capitalization of Portfolio Targeting Low-income Families
Genesis is the largest provider of micro-loans in Guatemala, in terms of both portfolio size and number of members served. In June 1998, the outstanding overall loan portfolio exceeded Q74 million (US$11.2 million), while for the Community Infrastructure Lending Program the figure was approximately Q13 million (US$2 million). The total amount disbursed to date in the CILP exceeds Q35 million (US$5.25 million). In 10 years, the Foundation built an equity of about Q25 million (US$3.8 million).

Product Purpose, Structure and Terms
Genesis offers two types of loans, both at interest rates that exceed average commercial loan rates, which were generally ranging around 18% in 1999.

Micro-enterprise Loans
Genesis offers its urban and rural members micro-enterprise loans ranging from Q100 to Q25,000 (US$15 to $3,970) at a monthly interest of 2.5%. In 1997, the average interest rate for the microenterprise portfolio was 34.71%. Maturity periods range from one week to a maximum of one year. Generally, loans are offered to groups, with collective liability. However, the institution also offers individual micro-enterprise loans, conditional upon the presence of a guarantor with a full-time job in the formal sector and whose salary exceeds two minimum wages. In 1998, a total of 13,000 members received micro-enterprise loans.

Applicants are required to attend two preparatory training sessions, after which they can develop an investment plan and structure their repayment schedule. Repayment schedules are weekly, bi-weekly or monthly. The option of using collective liability in lieu of collateral in group loans has resulted in a larger demand for group borrowing than for individual loans, which need to be co-guaranteed.

Infrastructure Loans
The Community Infrastructure Lending Program is the institution's more financially sound product, with a lower arrears rate than for the institution overall (7.74% versus 11.11%). Infrastructure group loans are offered at interest rates ranging from 21% per annum on funds from BCIE to 30% per annum

on funds from commercial banks. In 1997, the average interest rate charged on CILP loans was 25.4%. A prerequisite for participation in the program is a requirement that at least 90% of a community must agree to the provision of infrastructure. The project is then administered through groups of four to twelve families. Loans are primarily used for the provision of electric supply, administered through the CIDER program launched in 1993, or, to a lesser extent, for water supply administered through the more recent CIAR program launched in 1995.

Loans range from Q800 to 3,000 (US$120 to 450) per household, and are offered to clusters of four to twelve rural families from the same community and who share similar socio-economic characteristics. Genesis assists its borrower community in organizing and registering a project committee (for water or electricity) and helps them put together the technical study and assess estimated costs. They also help the community in filing applications for matching grants provided by the public sector, as well as helping them structure repayment terms that match their financial capacities and put together the applications for credit.

Collective liability through group pressure is the primary collateral. In addition, one household in each participating group is required to present some proof of land ownership to be detained by Genesis. The document of land ownership is not used as collateral, but rather as an instrument to pressure groups to make repayments if they are in arrears. Member groups are allowed to pay back the loan in terms that are adjusted to their income. Maturity periods range from one to four years, according to the group's capacity to repay. Individual repayments are structured according to the individual household's needs. Typically repayments are monthly, but for agricultural laborers the option of repaying after harvests is available.

Genesis monitors the repayment process periodically with the different clusters and assists communities in occasional disputes with contractors. Genesis also assists communities in dealing with their free-rider members, who decide to join the electrification program once capital costs have been paid and where the only fee is the hook-up connection.

Through CILP, Genesis provides its constituency with both financial and technical assistance. In 1997, Genesis' peak year, a total of Q18.9 million (US$2.8 million) was disbursed, divided equally between water and electric supply projects. As of mid-1998, with a head office and 12 branches, the institution had reached more than 10,500 households in 210 communities, issuing group loans with a total volume of more than Q35 million (US$5.4 million). At that time, the outstanding balance of the portfolio exceeded Q12.5 million (US$2 million).

[PLEASE SEE GRAPHIC AT END OF SECTION]

Product Performance

In the short term, the infrastructure portfolio carries more arrears than the micro-enterprise portfolio but performance improves over time, as CILP groups typically are prompter in repaying outstanding installments. In June 1998, the arrears rate (the ratio of the total outstanding principal balance of loans with installments overdue for more than 30 days to the total outstanding portfolio) was 11.11% for the institution as a whole. For the Community Infrastructure Lending Program, the arrears rate was 7.74%. When loans with overdue installments of less than 30 days are added, the arrears rate for the institution's total portfolio increases to 18.87%, and that for the CILP to 22.2%. The CILP portfolio has more delinquency in the short term than its micro-enterprise counterpart.

Genesis predictably shows a sound financial performance in the field of micro-enterprise lending, due to the influence of financial incentives in the form of following loans. However, the infrastructure loan portfolio appears to be even more financially sound than the micro-enterprise portfolio, although a

Genesis study reported that infrastructure loans were disproportionately awarded to first-time borrowers with no established loan repayment discipline. The CILP's sound financial performance is striking for first-time borrowers.

Subsidies in the Credit Delivery System

Genesis-administered loans do not carry any subsidies. The pricing of loans reflects the risk, return and transaction costs associated with different sources of capital. BCIE funds are priced at 21%, or 3 percentage points above the average commercial bank lending rate, and the interest rate on Genesis' own funds is 30%. For 1997, the return on investment over the average portfolio size was minus 1.2% for the CILP and plus 10.5% for the microenterprise portfolio. The difference was attributed primarily to the administrative cost overrun, as development officers, unlike microenterprise loan officers, have substantially larger tasks on hand. Improved performance in 1998 led the CILP's return on investment to jump to plus 1.2%.

Genesis loans do not cover all costs associated with the implementation of a given electric or water supply project. Public assistance is sought by communities and, when approved, is offered as a matching grant to the community's own contribution to the project.

Use to Which Investments are Put

The majority of CILP loans awarded by Genesis have been used to provide electric supply. The entire community gets a connection to the extended public grid and households get individual hook-ups. The electrification program, entitled CIPER, was launched in 1993. More than Q22 million in cumulative loans through mid-1998 were awarded to 8,702 participant households in 189 communities.

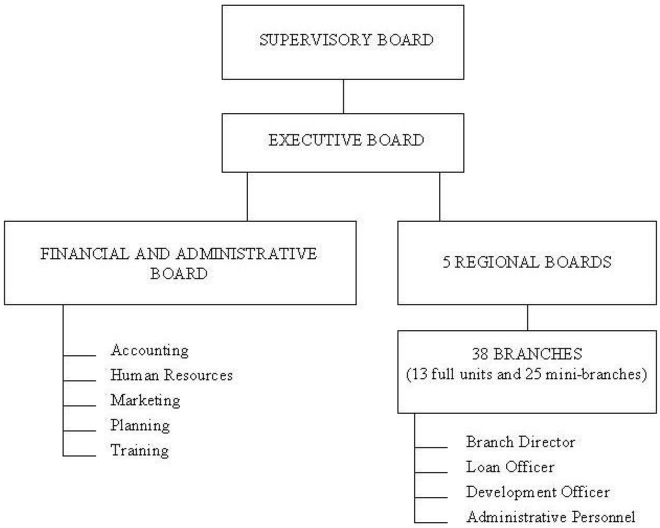
By comparison, water supply initiatives have been scarce. Typical village-type connections include cisterns or ground reservoirs to which members get individually connected. Through the CIAR program, launched in 1995, a cumulative amount of Q13.5 million was disbursed to 1,820 families in 21 communities. One of the water supply projects was an experiment in terms of scale and not only absorbed a disproportionately large sum of money but also failed to achieve the desired objectives, thus leaving Genesis in position to finance only small ventures.

Characteristics of Borrowers

All CILP customers are low-income communities living in rural areas. The monthly household income of 75% of the CILP participants is less than US$250. Other factors that increase the eligibility of a particular community include physical proximity to existing infrastructure networks, which helps keep capital costs within budgetary limits, and records of previous organizational capacity demonstrated at the community level, which helps limit Genesis' scope of involvement.

As reported, the annual household income of 75% of participants in the CILP is less than US$3,000. The CILP targets entire low-income rural communities, as attested by the requirement that 90% of the settlement residents should approve the retrofitting of infrastructure prior to proceeding. No specific gender targeting was mentioned.

GENESIS
ORGANIZATIONAL CHART



GENESIS
LOAN PROCESS