

# Microfinance



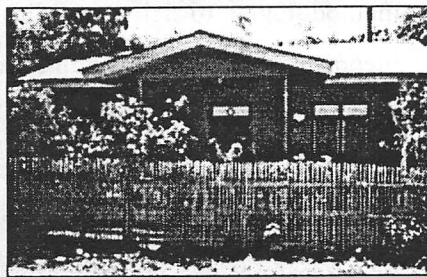
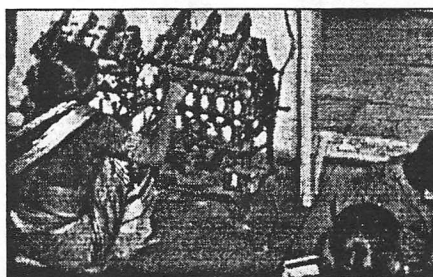
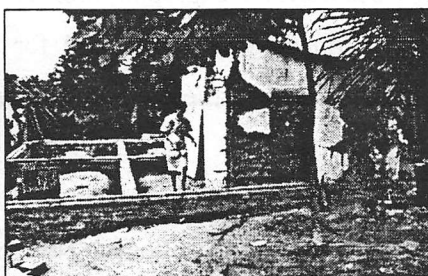
**Housing Microfinance Initiatives**  
Center for Urban Development Studies  
Cambridge, MA; May, 2000

# Housing Microfinance Initiatives

## SYNTHESIS

And

### REGIONAL SUMMARY: Asia, Latin America and Sub-Saharan Africa with Selected Case Studies



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

Development Alternatives Inc. (DAI)  
Bethesda, Maryland

USAID MicroEnterprise Best Practices

USAID/DAI Prime Contract  
PCE-0406-C-00-6004-000

May 2000



## 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 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.



# Microfinance



## **Riceland**

Kim Wilson, Catholic Relief Services  
Baltimore, MD; September, 2000

(including presentation slides)

## RICELAND

Lena lives in Riceland and is the Director of a microfinance program called Common Cents. Riceland is very poor. Common Cents was designed to assist the self-employed activities of women in the urban center. It began seven years ago as a project of a large multi-purpose NGO called Riceland Development.

Lena has worked very hard with great success. Her program now reaches 20,000 clients and employs more than 120 staff. Common Cents covers almost 100% of its costs from interest income.

Common Cents uses a Village Banking methodology. This has been very important to the mission of the organization in that village banking helps foster democratic decision-making. Clients vote on their officers and who can and cannot receive a loan. This method has fit neatly into the Riceland Development mission statement: *To serve the poorest in urban Riceland with essential services to improve the quality of life of local residents.*

Just recently, Lena proposed that Common Cents begin looking at disbursing housing loans to its proven clients. The loans would constitute a completely new product. Current loans have six-month terms with a maximum loan size of \$200. Housing loans would be for \$1,000 for a 10 year term. To make this portfolio a success, Common Cents would require millions of dollars in additional capital and/or the ability to take savings deposits.

The Board of Riceland wants to spin off Common Sense into a separate institution. The stress of having so many staff absorbed in a financial activity has put pressure on Riceland Development. Staff working in other areas such as health and agriculture have become disgruntled. The Board is now facing the challenge of just what kind of institution should Common Sense become. Here are the two choices:

- ***A Savings and Credit Institution.*** This is a formal financial institution regulated by the Superintendent of Banks. A Savings and Credit Institution can mobilize savings and can access commercial loan funds. It is a for-profit corporation licensed by the Superintendent of Banks. Its minimum capitalization requirement is \$3 million. Common Cents could only bring \$1.2 million to the table at the moment.
- ***A Non-Profit Microlending NGO.*** This is a non-profit corporation and is not regulated by any central body. A Microlending NGO cannot take savings deposits. It can access commercial funds if it chooses but commercial lenders are very strict about lending to an unregulated institution.

### Group 1: Assignment

Your group must come to consensus and speak with one voice. The collective group is a member of the Riceland Board of Directors. Your group must nominate someone to act on behalf of all members of your group.



As a Board Member, you want to act in the best interests of the organization. During the day, you work as a **senior level project officer at the local USAID mission**. What would you advise the board and Lena to do?

1. What institutional form will best allow Common Cents to achieve its twin goals of creating a housing product and maintaining the mission of the parent organization?
2. Can you use your position (senior level project officer at the local USAID mission) to assist Common Cents in any way in its efforts to specialize? How?



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## Group 2: Assignment

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As a Board Member, you want to act in the best interests of the organization. During the day, you work as a **senior official in the Riceland Government (Ministry of Finance)**. What would you advise the board and Lena to do?

1. What institutional form will best allow Common Cents to achieve its twin goals of creating a housing product and maintaining the mission of the parent organization?
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### Group 3: Assignment

Your group must come to consensus and speak with one voice. The collective group is a member of the Riceland Board of Directors. Your group must nominate someone to act on behalf of all members of your group.

As a Board Member, you want to act in the best interests of the organization. During the day, you are a senior level official in the Municipal Office of Housing. What would you advise the board and Lena to do?

1. What institutional form will best allow Common Cents to achieve its twin goals of creating a housing product and maintaining the mission of the parent organization?
2. Can you use your position (Senior Official in the Municipal Office of Housing) to assist Common Cents in any way in its efforts to specialize? How?

#### **Group 4: Assignment**

Your group must come to consensus and speak with one voice. The collective group is a member of the Riceland Board of Directors. Your group must nominate someone to act on behalf of all members of your group.

As a Board Member, you want to act in the best interests of the organization. During the day, you are a businessman. You joined the Board to help the local community. What would you advise the board and Lena to do?

3. What institutional form will best allow Common Cents to achieve its twin goals of creating a housing product and maintaining the mission of the parent organization?
4. Can you use your position (businessman) to assist Common Cents in any way in its efforts to specialize? How?



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**Workshop on User-owned Microfinance Institutions  
East Anglia, August 2000**

**Session 3:  
The Promoters – Providers Continuum**

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**Promoters**

- Self help Groups ( India)
- Cooperatives/Credit Unions
- Financial Service Associations (West and East Africa)

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**Providers**

- Village Banks ( Latin America)
- Financial NGOs
- MF Banks
- MF units of commercial banks

**Promoters help low-income people to set up financial systems they themselves own and control. Promoters do not provide financial services like credit or deposit facilities. They provide technical support to autonomous, community-based financial institutions.**

**Providers control the entire process of delivery of financial services to low-income people. For credit delivery or collection of savings they may work through groups or directly with individuals. They operate like banks, and often acquire the legal status of a bank when operations expand.**

**Growth and outreach of some of the donor-assisted microcredit providers has been impressive. Promoters of ‘financial self-help institutions’ claim greater self-reliance and long-term sustainability.**

# **The Institutions**



- ⌘ Some 100 Northern multi-lateral NGOs (PVOs).**
- ⌘ Hundreds of local institutions springing up!**
- ⌘ Local institutions now starting to form local in-country networks**
- ⌘ A handful of major, 'successful microfinance' institutions.**

# **What is Microfinance?**



- ⌘ Poverty lending?**
- ⌘ Village banking?**
- ⌘ Grameen banking?**
- ⌘ Micro-enterprise development?**
- ⌘ Small credit and savings?**
- ⌘ Microcredit?**



# Answer



⌘ **All of the above! Now called microfinance: a new focus on savings, not just credit.**

⌘ **Why?**

⌘ **Helps poorest build assets**

⌘ **Plus: There is a demand!**

# What are the roots of these methods?

Kim Jensen / International Education Program / 2006 / Center for Global Development Studies -- 4

- ⌘ **Rooted in traditional systems**
- ⌘ **ROSCA's: Savings and Credit Associations**
- ⌘ **Examples: Tontine, Ifagong' ho (Tanzania), Dhikuti (Nepal), Jam'aia (Egypt), Kikosi (Kenya), Iqub (Ethiopia)**

# **ROSCAS: Why do they work?**




- ⌘ Benefits easily, immediately understood**
- ⌘ Procedures extremely simple: LOW HASSLE FACTOR**
- ⌘ Results tangible and meet local and immediate wants/needs**
- ⌘ Everyone wins!!!**
- ⌘ Based on trust, everyone knows everyone**



# Our Programs Operate on the Same Principles

John Wilson : International Development Program • 2000 • Center for Urban Development Studies -- 6



⌘ **Trust**

⌘ **Benefits easily understood**

⌘ **Everyone wins!**

# Let's Start with Village Banking

Jim Wilson: International Education Program 2000 // Center for Urban Development Studies -- 7

- ⌘ **CRS chooses a local NGO partner**
- ⌘ **Works with them on project design**
- ⌘ **Partner hires staff**
- ⌘ **Key staff is a promoter (also called animator, credit officer)**
- ⌘ **Promoter job is to organize Village Banks**
- ⌘ **Extend services (loans, savings)**

# Loan Services

- ⌘ **Anyone in the village bank can apply for a loan**
- ⌘ **Village Bank must approve the loan**
- ⌘ **First loans start small (often \$30-50)**  
**Bosnia: Up to \$500**
- ⌘ **Next loans are a % of savings during the period plus the last loans**
- ⌘ **e.g. First loan is \$50. Client saved 20% or \$10. Next loan can be \$60.**

# Savings Services



- ⌘ Typically village members save a minimum amount
- ⌘ Village Bank can lend member savings in short-term loans to other members and to non-members.
- ⌘ Interest rate on these savings loans can be very high. Are set by village bank members.

# Marketing & Organizing a Village Bank

K. W. ... / Center for Urban Development Studies -- 10

- ⌘ **Promoter visits village leaders and asks for assistance**
- ⌘ **Makes clear bank will target the poorest, focus on women**
- ⌘ **Gather villagers to meet and explain services and ground rules**
- ⌘ **After several meetings (1 to 2 months), village organizes into a Village Bank**

# **What were the 'old' challenges?**

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Lin Wen - International Management Program : 2000 // Center for Urban Development Studies -- 11

- ⌘ **Would peer pressure work?**
- ⌘ **Would poor borrowers pay back?**
- ⌘ **Would they know how to use the loans for productive uses?**
- ⌘ **Then ...**
- ⌘ **Would people pay back at an interest rate that would allow organizations to cover costs? (Self-sufficiency)**



# What are the 'new' challenges?

Wilson : 2000 // Center for Urban Development Studies -- 12

- Meeting customer needs ...  
stemming attrition
- ✕ Ensuring continuity of services
- ✕ Staying competitive in urban  
environments
- ✕ Maintaining a focus on the poor
- ✕ Introducing new products

# **1. Meeting customer needs**



**⌘ NGOs not accustomed to business-like practices**

**⌘ In business, customer is the focus**

**⌘ NGOs the program is the focus**

**⌘ Services tend to get very rigid**

**⌘ E.g One year loans paid back weekly.  
Must meet weekly**

**⌘ People dropping out**

## **2. Continuity a question?**

From Wilson, Governance and Institutions, 2000, pp. 100-101, Urban Development Studies -- 14

### **Why**

- ⌘ **Currently. Many small players (local, unsophisticated NGOs)**
- ⌘ **Weak governance structure**
  - ☐ **provincial boards cannot open doors to wider world**
- ⌘ **Lack of knowledgeable leadership in management**
  - ☐ **Most experienced only in non-profits**

# **Continuity a challenge**



- ⌘ Multi-purpose nature of organizations threatens success**
- ⌘ Tapping into larger financial resources is limited**
- ⌘ Cannot mobilize savings**

# What is the new trend?



- ⌘ **Formalization. Transforming non-profit programs into formal financial institutions**
- ⌘ **Permanent Access of Services for the Poor**
- ⌘ **Ability to Mobilize Savings**
- ⌘ **More Professional Governance Structures**
- ⌘ **Less Legal Vulnerability**

# **New Issues**



- ⌘ Can we find the management?**
- ⌘ Can we find the board?**
- ⌘ Do we have the know-how to act as responsible shareholders?**
- ⌘ Are the legal structures in place?**
- ⌘ How do we balance a social mission with a shareholder's requirement for Return on Investment**



### **3. Staying Competitive in Urban Environments**

Kir W. Scott, Director, National Housing Program, 2009, Center for Urban Development Studies -- 18

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- ⌘ Customers savvy, pick the best deal**
- ⌘ Look for low hassle, value, good service**
- ⌘ Many programs NOT customer oriented, program oriented**

## **4. Maintaining a focus on the very poor**

Kenneth Wilson / International Education Program / 2009 / Center for Urban Development Studies -- 19

### **⌘ Current services:**

- ☐ **focus on funding microenterprises**
- ☐ **require regular meetings**
- ☐ **require regular pay-in of savings**

# **The poor are often excluded**

Wilson : 2000 // Center for Urban Development Studies -- 20

## **⌘ The poor:**

☒ **Often do not own a microenterprise.**

**Domestic workers, day laborers,**

☒ **Do not have time to attend meetings.**

**Or can not justify attending meetings**

☒ **Have uneven cashflow making regular deposits in regular amounts difficult**

**⌘ Conclusion: The poor are a hassle to reach. More efficient not to**

# 5. Introducing New Products

in Mexico: International Trade Program : 2000 // Center for Urban Development Studies -- 21

⌘ **Savings**

⌘ **Insurance (Health and Life)**

⌘ **Housing!! (For new construction and home improvement)**

☐ **Challenges: Much longer loan terms (risky)**

☐ **Much higher amounts**

# Microfinance in the US



## ⌘ Challenges

- ☐ Diversity of population and languages
- ☐ Fewer self-employed
- ☐ Higher costs
- ☐ Widespread availability of credit
- ☐ Training needs, less credit

# Comparison



## ⌘ United States

- ⌘ Focus on committed  
Self-employed
- ⌘ Business  
Development  
Strategy
- ⌘ Focus on training and  
financial services
- ⌘ Not sustainable

## ⌘ Overseas

- ⌘ Focus on  
Economically Active
- ⌘ Poverty Alleviation  
Strategy
- ⌘ Focus on financial  
Services
- ⌘ Sustainable