



Microfinance and Urban Development: Slum Improvements and New Settlements

On the afternoon of Wednesday, April 8, **Webby Mate**, Executive Secretary, Association of Microfinance Institutions of Zambia, chaired the Summit’s workshop on “Microfinance and Urban Development: Slum Improvements and New Settlements,” which featured remarks from **Liz Case**, Chief Operations Consultant, UN-HABITAT; **Patrick Kelley**, Director of International Housing Finance, Habitat for Humanity International; **Ezekiel A. Esipisu**, Regional Director East Africa and Middle East, Habitat for Humanity International; and **Bezant Chongo**, Regional Microfinance Specialist, PlaNet Finance Southern Africa, who focused on effective strategies for using microfinance to address the housing needs of the poor, particularly those living in urban slums.

The workshop resulted in a rich discussion of best practices, innovations and practical solutions to financing housing for the poor, either through new construction or housing renovations. Some of the key themes that came out of the discussion were the enormous unmet client demand among the poor for housing; the great opportunities for microfinance to play a key role in the housing sector; taking a holistic, community-based approach to housing for the poor; addressing risk; land rights; and the use of multiple sources of finance and subsidies to develop housing for the poor, especially the poorest.

Liz Case, Chief Operations Consultant for UN-HABITAT, launched the discussion with an overview of the sector and the market for housing in the developing world. She pointed out that every year the developing world spends over US \$330 billion on housing. The majority of that money is spent by the urban poor, so the poor in urban areas are spending more than 50% of that total on home building expenses. Additionally, close to a billion people live in slums, and there are another 2-3 billion more middle-income people who would like to improve their housing situation and need affordable housing.

“The unmet demand for improved housing ... is a huge opportunity for microfinance institutions, [spanning] both their product and their market base,” Ms. Case opined. The experience that microfinance institutions have with providing credit to the poor puts them “in a much better place to understand and deal with the risk of lending to this market.” However, the challenges and complexities become apparent “when we get to levels of income that cannot [and should not be expected] to pay the full cost of slum upgrading.”

“Undertaking slum upgrades [for large populations] without some form of subsidies is virtually impossible, so we need to find ways to blend the finances so the market portion ... remains financially viable and even profitable, and the projects themselves are affordable,” Ms. Case explained. “There is a big role for MFIs to play in bringing together organized community groups [to address housing for the poor]. It’s not just about the finance; it’s finance *plus* concept.”

Wednesday, April 8, 2010

3:30 PM – 5:00 PM

Impala/Lake Turkana

Panel:

*Chair: Mr. Webby Mate,
Executive Secretary,
Association of
Microfinance
Institutions of Zambia*

*Ms. Liz Case, Chief
Operations
Consultant, UN-
HABITAT, Kenya*

*Mr. Patrick Kelley, Director
of International
Housing Finance,
Habitat for Humanity
International, USA*

*Mr. Ezekiel A. Esipisu,
Regional Director East
Africa and Middle
East, Habitat for
Humanity
International, South
Africa*

*Mr. Bezant Chongo,
Regional Microfinance
Specialist, PlaNet
Finance Southern
Africa*

For example, in order to help MFIs engage in complicated slum upgrades, recently “[UN-HABITAT] established ‘local finance facilities’ in Ghana, Indonesia, Sri Lanka and Tanzania,” Ms. Case continued. “[These] non-bank financial institutions [are] capitalized at about US \$1.5 million [each], and they’re designed thereafter to be financially self-sustaining. At the moment [they generate income] through interest, ... [so] we’re looking at ... other mechanisms [as well].” Primarily, “the local finance facilities ... offer credit enhancement, but for the most part, guarantees. [They] guarantee the lending of either the MFI or the domestic bank into the slum upgrading project that is to be developed. It doesn’t just have to be in the form of guarantees.... In some cases it has been [construction] bridge financing.... [They] don’t do any direct lending through the local finance facilities but [their primary] goal is to encourage domestic banks and microfinance institutions to lend to these projects” in order to develop housing models that ensure affordability for the poor.

Although “our programs are quite new,” she noted, “we are starting to see a lot of [progress] in Indonesia, Sri Lanka [and] Ghana.... [The view is] that these local finance facilities could work quite [well] with ... either MFIs that are regulated and [interested in larger loans], or smaller community based, non-regulated MFIs [that] are looking to access capital from domestic banks themselves for their kind of projects that they’re doing.... The whole point is to share the risk between the local finance facilities, the banks, the MFIs and the communities.... and this where housing microfinance can differ somewhat from [more traditional] microcredit.”

“The loans are longer, they’re larger and depending on how [they are collateralized],” how should default be managed?” Ms. Case asked. Should the house be included as collateral? “[That] is the [big] question, because in the developing world, ... the house is often the only [asset] and the biggest asset that families may have, and ... it’s our moral obligation to do everything we can to make sure that people are not put into the position where they will lose their homes.”

The panel discussion continued with remarks from **Patrick Kelley**, Director of International Housing Finance for Habitat for Humanity International. He noted that, “In [Habitat’s work across] just under 90 countries, typically [less than] 10% of the population ... is able to access formal housing finance.” Therefore, it is no surprise that “[MFIs] are finding that their microenterprise loan funds do leak towards [housing needs], with 20-30% frequently quoted. Microfinance institutions are just starting to [look at how their loan products could be] designed for housing,” but until these products become mainstream, housing growth through microfinance will continue to be limited.

Mr. Kelley also highlighted the relationship between savings and housing in developing countries. He pointed out that in Tanzania, 98% of housing is non-mortgaged; it is done in stages, step by step. Salaried, middle-class people in Tanzania, and in many countries throughout Africa, pursue their housing through that type of process, and it is estimated that 75-90% of housing globally takes place through an incremental savings process. In the meantime, a lot of microfinance institutions struggle to create the incentives for clients to save effectively. “So we [see great potential] in complementing savings services with shelter needs,” he confirmed.

Lastly, “housing microfinance was always done with an individual loan—that was

the conventional wisdom,” Mr. Kelley remarked. “[But now] we’re actually seeing sort of a throwback to using group lending or urban development. There’s even a new term that’s emerged called ‘metafinance,’ where a group loan can be used for community infrastructure needs such as water and sanitation needs, and not just the individual shelter of one person.”

Furthering the discussion, **Ezekiel A. Esipisu, Habitat for Humanity International’s Regional Director for East Africa and the Middle East** provided some local insights from Habitat for Humanity’s activities in the region. Specifically in Tanzania, “we emphasize demand-driven affordable projects for poor and low income people.... We believe that low-income households should be the originators and drivers of their housing activities. We don’t go to the community with designs and say, ‘This is what we have designed. [Now,] construct this house.’ [Instead], we go to them and say, ‘What is your need?’ ‘How do you want to get this need solved?’ ‘Is it a wall that [you] want fixed ... [or is] the floor [your] priority?’” For example, a common issue is when a “homeowner wants to [build an extension or] build a little shop and attach it to the house.” Habitat then provides the borrower with a loan which ranges from US \$150 to \$1,150 and has repayment terms of 24 months or less. Added Esipisu, “What we focus on at Habitat for Humanity is how financing can be used for completion [of a task].”

The workshop’s closing speaker was **Bezant Chongo, Regional Microfinance Specialist, PlaNet Finance Southern Africa** who addressed the question – “How can housing microfinance be used to mitigate the risks which are faced by slum dwellers?” PlaNet Finance is currently taking a bottom-up approach to implementing a program in the Western Cape of South Africa called the MicroEnergy Alliance. He explained, the “Alliance ... [includes] a microfinance institution ... [that provides] microloans to local microentrepreneurs who ... source and provide renewable energy products ... [such as] solar photovoltaic heaters,” from larger suppliers to sell to low-income residents in their communities. As these renewable energy products are typically costly, local “housing microfinance institutions provide microcredit to their clients, [enabling them] to purchase renewable energy products [for their homes],” resulting in a sustainable ecosystem, which benefits all of the participants. This structure could also be used for other renewable energy or energy efficient products such as biogas, insulated roofing, specially-designed energy efficient plaster, or solar water heaters.

Following are a few key comments from the Q&A session:

Question from Kimberly Chulak of CHF International: “I used to ... do a lot of work on housing microfinance about 10 years ago, and at that time we talked about how there [was] so much demand and this was something that [was] on the top of people’s list of things that they [wanted] to do. I stepped back after a while from housing microfinance and I am looking at this again, and I have to say I am disappointed. If there is so much demand and there has been so much work on housing microfinance, then why haven’t we seen more housing microfinance?”

Answer from Liz Case, UN-HABITAT: “Yes, I would also just to say that perhaps the financing is the problem to which you alluded. MFIs have their capital, which revolves much faster, and if you are packaging housing microfinance, which probably takes five to ten years—that could be a challenge in terms of tying [up

their] capital. That is an issue. The tenure system is real. If you are doing a project in [Kenya], many MFIs actually would be concerned [about] the risk of who [actually owns this house]. The absentee landlord? The person who stays there? Or the government? So it is a big issue. “

Also, “at [UN-HABITAT we] have about 25 MFI partners and we are trying to help them think through the design and launch of housing products. Generally speaking, most of them just jump right into the whole housing idea and then become very uncomfortable with the idea of a housing loan without a lot of technical assistance.... Strangely, here we are - a housing organization - in many cases trying to convince some of these MFIs to [their dreams down a notch in regard to] how comprehensive [housing microfinance] products can be. Take the capital [and financing issues are real, requiring] two and a half years. You put into that the MFIs’ treasury management, and they have about a year and half to work with that. With a two-year loan, it’s really hard to get all the tenure for those institutions.”

Comment from Ezekiel Esipisu: “I just want to echo a big sentiment. There is a slow realization that housing microfinance can actually be profitable and is not as risky as it was initially perceived. We have to consider that, unlike typical microfinance lending, which is microenterprise lending, the loan is being used for a productive purpose, and income will be generated to repay the loan. For housing microfinance, the source of repaying the loan is not necessarily going to come from the asset which has been financed. There is a lot of uneasiness in microfinance institutions that work with housing microfinance, but slowly, as the methodology and technologies have improved, the technology allows us now to be able to assess the riskiness of plans better. You find that you can even go into housing microfinance because you feel the risk is far more mitigated now than, let’s say, 10-20 years before.”

Comment from Patrick Kelley: “For instance, there is in place a very reliable credit bureau system [in South Africa]. Even those who typically do not borrow from lenders are listed on the credit bureau. These types of technologies, to some extent, allow housing microfinance institutions to mitigate their risk. There are other behavioral sciences which ... are also being put in place, the same ones which I [use] in assessing [a microentrepreneur’s] ability [and willingness] to repay.... The rules that you use in microenterprise lending can also be applied to housing microfinance to mitigate the risk.”

Comment from the audience: “I just wanted to first refer to the ... [fact] that women can only be empowered by giving them land rights and land ownership. Seventy percent of the poorest of the world are women, and they constitute the largest homeless segment of the world population.... [Some MFIs] are not ready to give big-size loans to women. [For housing renovations,] they are there giving loans of 1,000 Rupees, but not for building or ... land. Also, [governments] in emerging economies have ... failed to fairly allot [land] to women. I [see continuing] challenges ahead.”

Answer from Ezekiel Esipisu: “On the issue of land rights for women, I totally agree with you. I think we can only say that we are an advocacy organization—raise your voice more. You need to raise your voice more because if women don’t have

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access to land rights, whom I will end up financing? I will end up financing men most of the time.... This is a big issue that I think advocacy groups must address.”



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