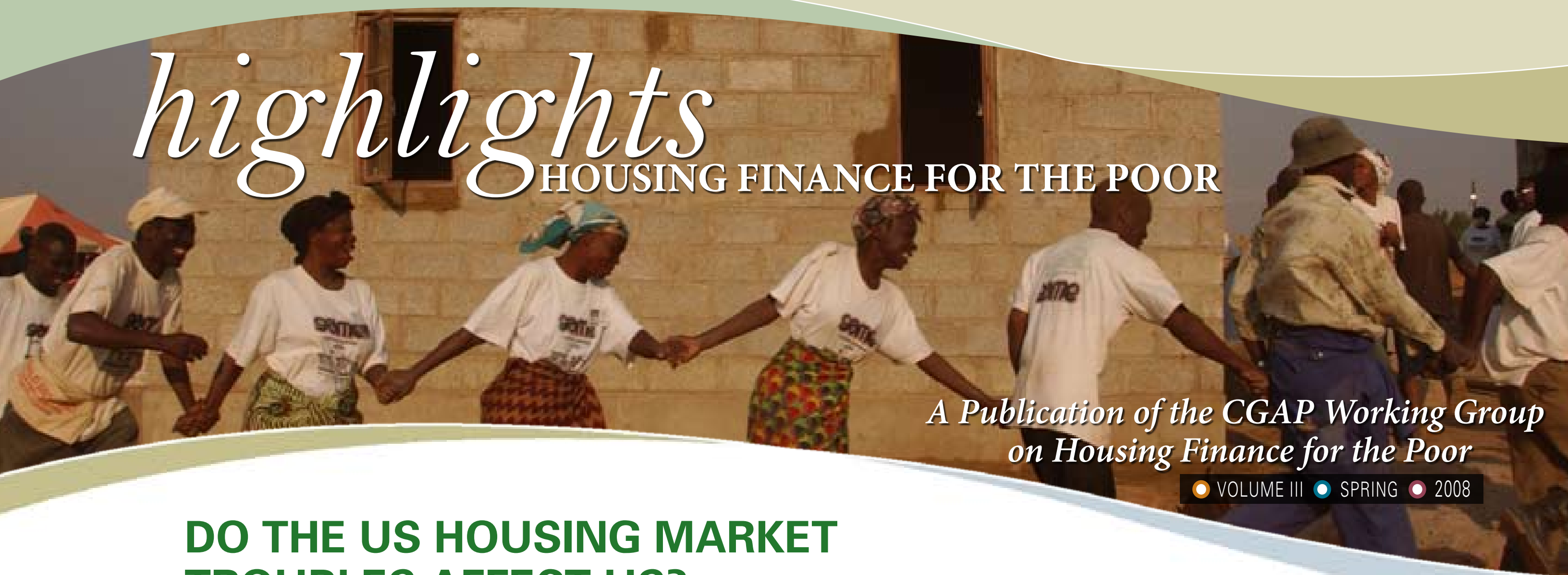
The CGAP Working Group on Housing Finance for the Poor has emerged as a community of practice from the interest of individuals and organizations interacting at various urban development and financial sector development events. We welcome participant contributions of articles, ideas, case studies, and news notes to be shared in this newsletter. For more information, contact the Working Group coordinator Patrick Kelley at pkelley@habitat.org.



highlights
HOUSING FINANCE FOR THE POOR

A Publication of the CGAP Working Group on Housing Finance for the Poor

VOLUME III • SPRING • 2008

DO THE US HOUSING MARKET TROUBLES AFFECT US?

YES, NO OR MAYBE – *Five subject matter experts address whether the financial market turbulence caused by the meltdown in the US Housing Market* ***has or will affect housing finance and microfinance in developing markets.***

YES: Frank Brown, Senior Investment Officer
Gray Ghost Microfinance Fund

We have seen two or three Microfinance CDO funds delay closing because of low investor demand. Our intuition tells us that, since CDOs were a major source of debt capital for MFIs over the past 18 months, the disruption in CDO formations should cause the cost of debt available to MFIs to rise -- via both lesser supply and wider spreads. Thus far, however, it appears MFIs have successfully resisted an up-tick in debt costs. In summary, we regard this as evidence that the disruption will eventually affect MFI debt financing.

MAYBE: James Hokans and David Porteous, Founders
Bankable Frontiers Associates

The sub-prime mortgage market crisis, plus other structural problems, may end up having a severe effect on the US economy as a whole. Countries with dollarized currencies or with close trade ties to the US may suffer, thereby casting a pall over equity markets, economic growth and possible household demand for microfinance. However, the US crisis is not likely to cause to dry up the overall demand for or supply of funds for housing microfinance, which carries very different risks to sub-prime or so called Alt A mortgages. On the contrary, the US crisis may have salutary effects for HMF, reminding lenders that it is always risky to rely on agents with no skin in the game, investors to be

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"Do the US housing market troubles affect us?"
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more diligent, and regulators that they need to pay early attention to possible credit bubbles. This kind of 'anti-body' effect may reduce the likelihood of credit crises elsewhere.

MAYBE: Helen Ng, Housing Portfolio Manager
Acumen Fund

My answer is really yes and no…so maybe was the result of averaging. If we are talking about housing for the global middle and upper class , then yes, there generally will be a drying up of credit and affordable debt from traditional Western sources as a result of the US meltdown, with the caveat that money will probably more fluidly come from the Middle East and Asia. For the very poor with housing and microfinance, the sector (housing in particular) is in its infancy and there is a growing pool of capital looking to invest in this direction. As the formal housing sector for the poor hardly exists -- conversely, the poor hardly exist in the eyes of the formal sector -- those of us engaged in this arena have been creating our own rules and products in the process. As a result, the opportunities we see are partly shielded or excluded from the turbulence of the US housing market.

YES: Lauren Moser, Vice President
Shorebank International

A large percentage of $11 trillion of U.S. mortgage debt was securitized into various marketable instruments over the years and sold to investors around the globe. The downside of this globalization of capital was felt when the U.S. markets began to stumble and eroded international investor confidence in the capital markets. As a result, liquidity has tightened globally and all types of debt have been impacted. This lack of liquidity is a result of the perception of risk, leading to repricing, as well as tightening due to losses.

Emerging market mortgage lenders that are more linked to global capital markets have seen their funding (especially long term) become more scarce and expensive. This could force lenders in these countries to take more conservative lending decisions. Those less dependent on international capital markets may be better off, including MFIs. Capital markets for MFIs are less developed, and the informal sector borrowers typically weather these storms better.

MAYBE: Multiple Investment Officers, *FMO*

What we notice is that fear has arisen to invest in the housing sector. In our opinion this fear is not always justified. Our clients put a lot of emphasis on affordability. Only people who have an income, or a track record, can apply for a loan. The loan amount is based on a sound loan-to-income ratio and often people have to make a 10 to 20 percent down payment. This reduces the risks. Still, we see that local banks suffer from the negative sentiment, which affects their funding capabilities. The appetite for investing has decreased and funding has become scarce. Funding is becoming more expensive, resulting in more expensive mortgages. Affordability is becoming an even bigger issue than it already is. Countries that depend on international markets are most vulnerable. Some banks use repayments to meet their own obligations and are no longer able to lend money. One consequence is that developers lack access to funding, which has an impact on the availability of affordable housing.

Some of our respondents had a bit more to add on housing market troubles—read their extended responses **CLICK HERE**

Promising Practices and Lessons
New Distribution Channels: Holistic Housing Finance Services for the Poor

By Irene Vance

The global market opportunity in low cost housing is immense. In Latin America alone, an estimated 100 million dwellings are substandard. Most low-income households cannot afford a mortgage from a commercial bank. Hence the vast majority of the poor build their own homes using family savings and labor, a process that can take 10 to 20 years to complete. Lack of access to credit has been, and will continue to be a core obstacle for improving housing conditions for the poor. According to CGAP estimates, some 3 billion people still lack access to basic financial services. Over the last few decades, a number of microfinance institutions have demonstrated that small loans, at market rates over slightly longer terms than micro-enterprise loans can complement and enhance the incremental construction process of low-income families. However, the supply of housing microfinance is modest compared to demand. Housing still remains a small percentage of total portfolio lending even amongst the MFI leaders. But this may change, as financial service providers (banks and MFIs) will increasingly have to compete with new players entering the market. Large corporations seeking to expand business opportunities at the bottom of the income pyramid is a growing trend. Market research on the incremental building process has led building materials manufacturers and retailers to craft packages of services which fit with how poor people acquire housing.

The second of a two-part article on housing and technical assistance looks at recent developments and predicts that new distribution channels, as well as partnerships between banks and small developers which provide holistic services to the poor show promise in changing the speed and scale of housing provision in emerging markets in the future.

CEMEX is the largest cement manufacturer in Mexico and third largest in the world. The informal construction sector accounts for almost 40% of cement consumption in Mexico and represents a potential annual market of US$ 500 – US$ 600 million. Moreover, the segment has shown stability even during the economic crisis of the mid 90´s. The goal of CEMEX's Patrimonio Hoy, PH program

was to develop a delivery chain that responds to low income households. In order to tap this market, CEMEX had to adapt its existing business model based primarily on selling its cement via large distributors to a scheme that offers savings and credit combined with technical assistance, and engages directly with thousands of low-income customers.

The target communities are those with family incomes of 10-15 USD a day. CEMEX's market studies showed that obtaining credit is the one of the main barriers for the poor. They also found that women traditionally save in clubs called tandas. Hence, Patrimonio Hoy is based on adaptations to the traditional saving clubs. Three-person savings groups are formed; housewives in the communities are enrolled as of promoters of the program, and are responsible for sales sessions and the collection of membership fees. The only requirement for membership is a commitment to save a fixed amount for a definite period, usually 70 weeks.

Upon enrolment each member saves for five weeks,

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PROMISING PRACTICES AND LESSONS

Q&A with James Magowan

HOUSING MICROFINANCE

James Magowan
Co-founder and a Managing Director
Housing MicroFinance, LLC

By Patrick Kelley

James Magowan is a co-founder and a Managing Director at Housing MicroFinance, LLC, an organization founded to develop housing finance instruments and technical assistance to address the long term funding needs of low and moderate income borrowers in emerging markets. The Housing MicroFinance management team represents a diverse set of experiences in real estate, microfinance, banking and international financial institutions.

Q: James, in this issue we've interviewed a number of sector experts for their opinion on whether there is any evidence that the financial market turbulence caused by the meltdown in the US housing market has had, or will affect housing finance and microfinance in developing/emerging markets. What's your take?

A: Most certainly there has already been a substantial effect on emerging market housing finance systems to the extent they have been designed as part of the global securitization network. The housing finance companies that have been substantially reliant on securitizing assets in global financial centers have been unable to refinance their portfolios.

For those transactions that are aimed at housing and microfinance we have seen only moderately increased credit costs. International Financial Institutions that are behind many of these transactions are aware of their roles as both market developers and counter-cyclical capital providers. Global investment banks have remained solidly behind the microfinance sector aware of both its lack of correlation to the emerging market financial sector and to the abundance of double bottom line investors.

Data and expert opinion also suggests that the world can no longer rely on the US consumer, who is over indebted by all measures now, to fuel global growth. In comparison, finance of all types to emerging markets are likely to grow in the medium and long term, including that for housing credit.

Q: What do you consider key differences (and similarities) between housing microfinance and the US subprime situation?

A: At first glance housing microfinance might seem to be an extreme version of sub-prime lending as both aim to provide financing to lower income, self-employed, low credit or no credit populations where traditional credit has been absent.

The comparison really stops there. Housing microfinance is built upon cash flow lending process which analyzes the borrower's ability to conservatively repay loans at current income levels and is typically held in the portfolio of originating institutions. The microfinance underwriting process is very intensive, involving site visits, construction of income statements and balance sheets. Repayments of housing loans may be collected on a weekly or biweekly basis by the MFI. Housing loans are typically fully amortizing. In most cases the credit incentives of loan officers are tied to the performance of the loans with arrears rates directly linked to compensation. In a majority of cases, housing microfinance loans will stay on the balance sheets of MFI's and will retain substantial servicing revenue from loans even if sold to third parties.

Sub-prime lending is built upon credit scoring models and securitization. The sub-prime originator incentive structure is geared toward high yield/ high risk underwriting. Upon origination of housing portfolios, the sub-prime originator often securitizes without retaining servicing, thereby removing incentives to maintain high quality portfolios. The loan products offered may have one or more high risk features such as negative amortization, interest only, and so called teaser rates. The originator has very little information about the borrower and quite often that information is incorrect.

Q: What, then, are some of the most important lessons we can take away from the situation?

A: Housing finance companies and MFIs should offer loan products with incentive structures that promote low arrears rates and should innovate slowly. Emerging market originators should expand domestic and global sources of long term financing, including the ability to take deposits.

Q: What are some of the difficulties you encounter as an investor in housing financial services?

A: When housing finance systems are working properly, a low margin, high volume business model develops. Making the numbers work is always a challenge. Scale is key.

Q: What challenges do you see MFIs encounter? What advice would you have for them?

A: As MFIs move into housing they have to think about the reasons for going into the business. I think many are entering housing defensively, as they see banks poaching their best clients. Look at housing finance as an engine for growth. Build a separate housing finance business as a spin off from the mainline business with separate resources and management. Sell housing finance to clients as a savings product, rather than a loan product. Use the long term housing finance relationship to sell other savings products, working capital loans and related services to clients. Use third parties to appraise and inspect properties. Build databases of property values. Offer loan officers well designed incentive programs. Partner with home construction and home building materials providers to reach scale quickly. Develop relationships with insurance companies and encourage them to develop appropriately downscaled products. And don't be afraid to ask for help – technical assistance is available.

Q: What do you see as some of the compelling questions or knowledge gaps in the industry?

A: Many smaller MFIs are loathe to sell loans to third parties. With proper incentive structures, selling portfolios of originated housing loans allows MFIs to quickly grow their operations to scale. Matching maturities becomes much more complicated and may require more sophisticated treasury risk departments. Pay attention to what customers are doing with the borrowed funds. Building standards and quality are essential as loan sizes increase, particularly in disaster-prone areas. Property data is severely lacking in many markets. Collect and understand as much of it as possible.

Q: As an investor what are the main things, besides profitability and good financials, that you look for in selecting institutions?

A: We look for MFIs with demonstrated access to credit. Institutions that can manage their currency and term risk well. Institutions with experience in mortgages, titles, home improvement and home construction. Institutions with good governance structures… who's responsible? Institutions that are really lending to micro-entrepreneurs, not salaried workers

Q: What are the three recommendations you would give to MFIs searching for funds?

A:
1. Develop a separate housing finance business unit and create goals for this entity.
2. Mix local with external funding, and sell a portfolio of the housing portfolio.
3. Don't be hesitant about asking for technical assistance.

Industry Highlights & News

CGAP Working Group hosts Remittance for Housing Forum

February 14, 2008, Washington, D.C.

On February 14th, a group of practitioners were invited to discuss how the CGAP Working Group on Housing Finance for the Poor could provide a platform for the sector to collaborate and advance the practice of connecting remittance flows to housing strategies for the poor. In his introductory words of welcome, Don Terry, Director of the Multilateral Investment Fund (MIF), reminded the audience of the global importance of remittances; one in every ten persons in the world is affected. Yet the scale of remittances is often poorly understood. Transnational flows are greater than development aid, with some US$ 300 billion dollars being transferred annually. Harnessing remittances for development holds great promise, yet much of this vast sum still remains outside the formal financial system. Don referred to the relevance the CGAP platform for its role in collecting and disseminating emerging practice to put lessons learned into action.

The dialogue on February 14th was stirred through five presentations that were prompted to elicit operational challenges, perceived knowledge gaps, opportunities for research, and space for cross-organizational collaboration. Romi Bhatia led off with the experiences of the Microfinance International Corporation, followed by Acción International's Senior Directors of Remittances and Housing, Maria Jaramillo and Mery Solares' insights on a pilot project with FAMA in Nicaragua to link remittances and home improvements. The experiences of four practitioners from remittance receiving countries were then provided –Fermin Vivanco presented for Banco Solidario in Ecuador, Víctor Rosal for Cooperativa Salcajá in Guatemala, and to close presentations, Kathleen Towle of Su Casita illustrated challenges around operating remittance mortgage businesses between the US and Mexico. Participants dug into questions around sector challenges and gaps between each presentation.

View the event agenda and presentations **CLICK HERE**

CGAP Working Group designs a Housing Finance Track at the Asia Pacific Housing Forum

September 24-26, 2007, Singapore

Lessons and ideas were exchanged at the recent 1st Asia-Pacific Housing Forum organized by Habitat for Humanity's Asia-Pacific area office and Singapore Institute of Planners. About 230 government officials, academics, housing specialists, planners, bankers and activists from 30 countries converged at the forum in Singapore to glean insights from experts who shared knowledge, housing solutions and best practices.

The forum was especially pertinent given that more than 550 million people in Asia are in need of decent housing and have virtually no basic access to water and sanitation.

A range of topics was covered through roundtable discussions, plenary sessions, panel presentations and breakout sessions. Delegates examined housing needs in terms of scale, ownership, financing and policies. Members of the CGAP Working Group on Housing Finance for the Poor planned and sponsored the Housing Finance Track, which consisted of presentations on: Housing Finance in Urban Informal Settlements and Land Markets; Private Sector Engagement in Financing Housing for the Poor; The Challenge of Scale; and Private Financial Institutions & Slum Upgrading. The speakers each brought unique perspectives to the panels, and they represented institutions such as UN-Habitat, the Asian Development Bank, Acumen Fund, SEWA Trust (India), the Center for Community Transformation (Philippines), Sida, and Development Innovations Group (Capstone India), among others.

Because so much of the dialogue at the CGAP Track of the APHF centered around informal settlements, UN Habitat committed to develop a list of "Dos and Don'ts" of Financing Slum Upgrading. Please see page 10 to view this list.

CLICK HERE to view the presentations

Creating a Learning Network within the Working Group

February 19, 2008, Washington, D.C.

A core objective of the CGAP Housing Finance for the Poor Working Group (HFWG) is the gathering and dissemination of knowledge and current practice. To that end, the Working Group recently formed a Knowledge Management subgroup, and CGAP hosted the subgroup's first meeting on February 19th. The overall aim was to explore the interest and added value of creating a knowledge management thematic sub-group within the HFWG to increase knowledge among donors, investors and private sector, as well as retail institutions working in housing finance. The participants included representatives from the WG Steering Committee and other members that have strong Knowledge Management departments, including the MIF, USAID, FMO, WOCCU, and CGAP. Participants shared how information on housing finance is currently managed within their institutions, and they also discussed immediate steps for dissemination of information to a wider audience.

A very first step for the subgroup is to revamp the HFWG website. The site is currently housed on Habitat.org, but will migrate to another host in the near future. Please assist us in making the website an engaging, user-friendly resource by providing your feedback to this survey. Those who complete the survey are eligible to win a copy of the book, Housing Microfinance: A Guide to Practice, by Franck Daphnis and Bruce Ferguson.

Find the HFWG Website Survey **CLICK HERE**

Promising Practices and Lessons

New Distribution Channels: Holistic Housing Finance Services for the Poor

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whereupon CEMEX provides the first installment of credit through the delivery of materials, equivalent to 10 weeks worth of collections. Savings and credit are at the core of the model. Prices of materials are at market rate and remained fixed during the 70 week cycle. By making small regular payments the poor benefit from the competitive pricing. For CEMEX and the distributors this represents a continual revenue flow. Supplies are guaranteed and warehousing services are included; these services have significant value added for low income customers since it avoids deterioration of stored materials. Deliveries are made in stages providing several cycles of extended credit for the duration of the building process.

Each customer receives personalized technical advice from an architect, in the planning of the incremental construction. All costs, including technical assistance are covered by the weekly membership fee. The package of services – credit, design layout, warehousing, and transportation of building materials - has resulted in benefits for the customer by reducing the time to add

> *"Taking the bank to the community, requires a paradigm shift for bank personnel."*

a room from 48 to 16 months, as well as a reduction in costs by more than two thirds. For CEMEX the program operates at a profit, and additional revenue have come from sales to non PH customers via exclusivity agreements with distributors that participate in the program. Currently there are 86 service centers in 42 cities in Mexico. At the time of writing, US$ 82 million has been loaned in credit, and 185,000 families reached. With sustained growth in the new client base, CEMEX's projections are to expand the services in the next five years via 1,600 offices and to 2 million families. According to PH´s General Manager, continual fine tuning in the internal alignment of the program as well as the development of new products are needed.

Although documented examples of experiences that operate along similar principles as the CEMEX program are scant, there is however, growing evidence that not only are the largest manufacturers and building materials distributors tapping into low income markets, but this trend is also taking place in smaller and local building materials retailers . Further research on this would be timely.

Additionally, new partnerships between profit and non-for-profit organizations, that is between business and citizen sectors are emerging. Each provides added value to the housing delivery value chain for the poor. The partnership between Holcim, the cement manufacturer and the Housing Federation, Fedvivienda, a specialist housing NGO in Colombia, is one such example of private sector and NGO collaboration. The partnership begun in 2007, piloted a housing program in Ciudad Bolivar, a large low income community in Bogota. Fedevivienda provides the architectural services to borrowers, for the participatory design of homes. Efforts are placed on hiring masons from the same community, and training in building skills. In 2005, Holcim formed a partnership "Housing for Life" in Sri Lanka with Ceylinco Grameen, a microfinance provider which offers home improvement loans. Holcim provides the initial funds and technical skills, and the MFI administers the loans.

Banks and Credit-Plus Housing Products

Generally banks do not meet low income housing needs, since mortgages are beyond the reach of the majority in most emerging markets. However, driven by greater competition, and to some degree drawing on the positive experience from MFI banks, such as Grameen and Sewa Bank amongst others, some large commercial banks are beginning to look down market, to the low income segment for new business, offering a broader integrated services approach.

> *"There is a gradual and sustained trend among financial institutions and large firms to develop products that put housing firmly into housing finance."*

G & T Continental, the second largest bank in Guatemala, with over 1.6 million clients and 220 branches has been involved in mortgage lending since the 60's. In February 2006, the Bank established a microfinance unit within the Bank's structure, taking advantage of its back office and I.T. platform and its extensive network of branch offices. A range of products and services, including, productive loans for SMEs, housing improvement loans, and new construction, land purchase, and legalization as well as micro insurance and micro pensions are offered.

The target segment is families with monthly income of between 200 – 600 USD, that is, families that qualify for State housing subsidy. The microfinance department includes a technical assistance in construction unit, with a full-time Manager and a team that provide personalized advisory services to clients. The loan officers are architects or engineers that have been trained in credit analysis. The service includes technical evaluation of the home improvement plans, review of budget and costs, selection of building materials, layout, and supervision throughout the construction process. The introduction of the housing improvement product is supported in the start-up phase by The Trust Fund for Local Development in Guatemala, FDLG, a second tier facility financed by the Swedish International Development Cooperation Agency, Sida. FDLG currently works with 11 financial institutions, (Savings and Loans Associations, MFIs, cooperatives and G & T Bank), building capacity to carry housing products for the bottom of the income pyramid.

According to the General Manager of the Microfinance Unit of G & T, one of the main challenges for the Bank is the adaptation of its traditional front office services to connecting clients within the neighborhoods. That is to say, taking the bank to the community, requires a paradigm shift for bank personnel. Likewise, the shift in understanding and attitude of the Bank's executive management is instrumental, for example, recognition and adoption of some of the fundamental underwriting criteria of micro lending, namely that less than perfect land title is not an impediment to lending, and technical assistance is an added value, in incremental upgrading of low income housing.

G & T Bank, Genesis Empresarial, and cooperatives Guayacan and Salcaja, and other partners of FDLG, offer housing loans with technical assistance. In each case, the technical assistance is incorporated into the institution; it is not outsourced. The methodology is generally similar; in Genesis the technical unit trains and supervises staff; just over half the advisers are exclusively dedicated to housing, and have backgrounds in technical drawing or architecture. The other half offer multi-products. They have been trained to read and prepare plans, and provide advice to clients using leaflets, and a computerized inventory of costs of materials.

The examples discussed above suggest that there is a gradual and sustained trend among financial institutions and large firms to develop products that put housing firmly into housing finance. From this perspective the starting point for product design is to tackle some of the inefficiencies and obstacles that have impeded do-it-yourself construction. Hence, although construction assistance is fairly new, there are indications that loans for housing improvements and incremental construction combined with assistance may get up to the speed and scale that is needed to tackle the vast unmet demand, especially so, if the large, medium and small manufacturers and retailers continue to compete with traditional financial institutions for clients.

10 HIGH-LIGHTS

Financing Slum Upgrading

The CGAP Working Group on Housing Finance for the Poor has committed to exploring promising practices in this nascent but rapidly expanding field by creating ongoing Dos and Don'ts. This list of Dos and Don'ts has been prepared by UN Habitat based on their accumulated experience in the upgrading of informal settlements.

✓ DO	✗ DON'T
Ensure that financing for slum upgrading is recognised as a priority within national development planning and as a key investment element contributing to economic growth. This emphasis should be reflected in a slum upgrading budget line within national and local authority budgets.	Don't rely on one off poverty-focused upgrading projects.
Encourage local and international banks and micro finance institutions to become active participants in financing upgrading as part of their core business.	Don't rely solely on housing or government finance institutions.
Ensure that guarantees are available to encourage banks to lend to slum upgrading projects.	Don't provide guarantees that support interventions based on political patronage.
Build investment in slum upgrading on a firm foundation of community based savings and loan systems and local authority commitments to provide in kind and monetary allocations on an annual basis.	Don't assume that community involvement is best restricted to cost recovery and loan repayment and that local government has no responsibility for planning investment in upgrading.
Recognise that financing for slum upgrading requires a mix of short, medium and long-term loans, integrating finance for building, infrastructure and livelihoods.	Don't assume that one financial product fits all.
Provide mechanisms to blend municipal finance, cross subsidies and beneficiary contributions to ensure financial viability of upgrading projects and home improvement programmes.	Don't rely on government subsidies or on full cost recovery from slum dwellers.
Develop a process for sharing risk analysis and planning for risk mitigation and management with all the key stakeholders.	Don't expect residents of slums to be the only risk takers in developing new approaches to upgrading.
Plan projects on a mixed-use basis with revenue generating elements such as saleable residential units and rentable commercial space in order to maximise financial viability.	Don't assume that lending for slum upgrading will necessarily be asset-based. Where banks do lend for this purpose lending is more than likely to be revenue based.
Ensure that subsidies are effectively targeted so that the benefits reach those for whom they are intended and build on the basis of long term engagement.	Don't assume that all the problems of a slum can be addressed quickly with the framework of a single project.
Recognise that not everyone who lives in a slum is poor. Where an area upgrading strategy is to be implemented provision needs to be made for a range of income groups with steps taken to ensure that the poorest are not excluded.	Don't insist that interventions should only benefit low-income families.
Recognise that home ownership is not the solution to everyone's problems. Provision for the development of affordable rental property is an important component of financing slum upgrading.	Don't restrict interventions to developments based on clear land title and private ownership of property.
Make the real cost of finance very clear so that people clearly understand the commitments they are making to loan repayment.	Don't hide the real cost behind misleading promotional messages.
Where appropriate establish local upgrading finance facilities so that funding is locally available.	Don't assume that existing finance institutions will have the capacity to deliver the full range of financial services required.
Explore options to use land allocation, readjustment and sharing methods to release finance for upgrading.	Don't place unnecessary restrictions on land use.

Events of Interest to Working Group Members

Practitioner's Workshop: Growing Sustainable Housing Micro Finance Options in Sub-Saharan Africa

May 19-23, 2008 *Dar Es Salaam, Tanzania*

FinMark Trust
MAKING FINANCIAL MARKETS WORK FOR THE POOR

Access to housing and housing finance by low-income earners is a critical development issue facing most countries around the globe. In sub-Saharan Africa, notwithstanding increasing attention by governments on the need for sound housing and housing finance systems, and increasing activity by commercial players to engage further down market, housing affordability remains a critical issue. A UN Habitat report suggests that within the next 20 years it is unlikely that conventional sources of finance will be available in many developing countries for investment on the scale needed to meet projected demand for infrastructure and housing. With deficits in public budgets and the persistence of weak financial sectors, the situation seems untenable.

The problem is quite simple: throughout sub-Saharan Africa, income levels are such that the majority of households cannot afford to buy the least expensive house, even if mortgage finance were available. Research commissioned recently by the FinMark Trust in four countries has found that at best, 17% of the population in Zambia, Botswana, Namibia and Kenya might be eligible for mortgage finance – but even here, the cost of housing has meant that such solutions are still unrealistic.

It is within this environment that housing micro lenders have emerged as an important source of housing finance for low income earners whose access to more traditional forms of credit is constrained both by their affordability, and the housing circumstances in which they live. Offering successive small loans over time, housing micro lenders support an incremental housing process that is affordable to low income clients.

However, large scale capital – institutional investors, commercial banks, and so on - struggles with the concept, as do some governments. Housing micro finance is perceived as being insignificant. The loans are small and the low-income target market is perceived as being inherently risky, demanding more intensive origination and servicing methodologies that are expensive. The housing process that such loans support is seen as overly lengthy and unable to reach the kinds of scale that the housing demand would suggest is necessary. And, its incremental nature is seen to undermine the long-term quality objectives that the housing process is expected to realize. This is not the simple, over-the-counter loan approval that commercial lenders and other financial sector players are used to.

What has emerged throughout Africa, therefore, is a dual housing finance sector. On the one hand, there is a small, but energetic cadre of grassroots NGOs and lenders seeking to deliver housing finance solutions for their very low income and disadvantaged target markets. These lenders are still in their relative infancy, many with less than a decade of experience, and they struggle with key issues of technical capacity and the necessary capital to lend to the scale of demand they see. On the other hand, the established financial sector is seeking to deliver mortgage finance in the emerging African markets. Their work is groundbreaking – in the process of delivering loans they are revising

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Events of Interest to Working Group Members

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institutional and regulatory structures and stimulating housing production. And yet, this energy notwithstanding, the affordability constraints in sub-Saharan Africa mean that loan books remain small and at nowhere near the scale required to address the housing shortage.

A key point of development, therefore, must be the alignment of these two housing finance sectors. While housing micro lenders offer products that are relevant to the vast majority of sub-Saharan Africa's populations, commercial lenders and big finance have the capital they lack. Is there an opportunity for collaboration, and what might this involve? How might financial arrangements be structured? To receive such capital, housing micro lenders would also need to aggressively build their technical and operational capacity – are there players in the sector who might provide such support, offering a bridge between the two housing finance sectors? And if the various parties were to engage in such a way, what are their respective expectations?

To answer these critical questions, the FinMark Trust, Rooftops Canada and Habitat for Humanity International have come together to host a practitioner's workshop on Growing Sustainable Housing Micro Finance Options in Sub-Saharan Africa. The workshop will take place in Dar Es Salaam, Tanzania, from 19-23 May 2008, and will bring together investors, financiers, and donors of retail housing lenders, experienced intermediaries, and retailers (HMFIs, MFIs and NGOs). Key themes will include: the state of housing finance in sub-Saharan Africa, getting housing on the ground, pursuing scale lending and growth, and identifying opportunities. The workshop will stimulate a high level of interaction, so that participants can work together to find connections, and develop solutions to the challenges highlighted. The workshop will also showcase successes and the potential for housing micro finance. Practitioners will also be invited to participate in focused sessions addressing key operational challenges that they all face.

Space is limited. For more information, please contact the organizers: Kecia Rust (Kecia@iafrica.com), Barry Pinsky (barry@rooftops.ca) or Matthew Maury (mmaury@habitat.org).

Other Events

Third Global Conference on Housing in Emerging Markets: Is the Expansion Affected by the Subprime Crisis?
World Bank, Washington, DC
May 28 – 30, 2008
CLICK HERE for more information.

Publications

USAID rounds off its online Financial Services Resources in Housing with the addition of several new reports and publications. **CLICK HERE** to access direct links to the publications.

Meditations on the U.S. Sub-Prime Crisis: Lessons and implications for the international microfinance industry. McKee, Kate. **CLICK HERE** to view the article.

Call for Letters to the Editor

We invite you to initiate and/or participate in the debate on salient themes around housing finance for the poor. Please email Jaclyn Flewelling at jflewelling@habitat.org with comments, questions, and updates, and refer to our website www.habitat.org/housing_finance/cgap_working_group for additional Working Group information.

highlights
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