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"We are interested in the connection between financial services and the housing environment"
- Franck Daphnis

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HOUSING FINANCE FOR THE POOR

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

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ORGANIZATIONS THAT HAVE PARTICIPATED IN THE CGAP WORKING GROUP ON HOUSING FINANCE FOR THE POOR

IFC
USAID
GTZ
Cities Alliances
HFHI
DFID
IBD
MIF
KfW
Acumen Fund
Sida
CGAP
DIG
CHF
Homeless International
SPARC
ShoreBank Int.
UN Habitat

Welcome, CGAP Housing Finance for the Poor Working Group!

A Welcome Note from Elizabeth Littlefield, Director and CEO of CGAP

We are delighted to see CGAP members taking up and collaborating on important issues like housing finance. Like other CGAP working groups on - microinsurance, social performance for example - the Housing Finance for the Poor Working Group brings together the energies and perspectives of a wide range of microfinance practitioners and donors. That kind of partnership and exchange is exactly what CGAP is all about. It's also what the microfinance industry needs most. With new ideas, and new money

pouring into microfinance, the Housing Finance Working Group is helping all of us learn about and stay focused on what really works in this field.

One of the purposes of the CGAP working groups is for our members to collaborate and create knowledge in the many areas where our members have far greater expertise than the CGAP Operational Team. Often, these are issues which are not on the CGAP team's own workplan. We are very grateful to all of you

in the housing finance working group for the work you do, and all that we stand to learn from you. Please let us know what we can do to support your work.

I send you all of the CGAP team's warm regards and best wishes for a successful 2007,
-Elizabeth Littlefield

The First Newsletter of the CGAP Working Group on Housing Finance for the Poor

by Patrick Kelley, Working Group Coordinator

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. Consistent feedback from participating members led to the formation of

the Working Group's charter (on page 2 of this newsletter) which captures the group's purpose. A prominent piece of the group's purpose is collaboration and sharing of information, for which this newsletter aims to be a platform. We look forward to participant contributions of articles, ideas,

case studies, and news notes in the newsletters to come. If you would like to be added or removed from the distribution list, please email Patrick Kelley with the contact information on the back page.

Working Group Charter

CGAP Working Group on Housing Finance for the Poor

Working Group Purpose:

The purpose of the group is to facilitate alignment of donor interventions and to serve as a lateral learning platform for exchanging experiences within the industry of housing finance for the poor.

The value added of the working group:

- Donor coordination.
- Apply diverse expertise and lessons learned for problem solving and establishment of promising practices.
- To share resources and efforts in achieving complementary goals.
- Make information and technology available for learning and developing innovation.

Working Mechanisms:

The group will work collaboratively, relying heavily upon the volunteered time of stakeholders interested in the above purpose. Reasonably achievable outputs will be pursued each year through smaller sub-groups with steering committee guidance. When appropriate, and when funding is available, consultants will be engaged to complete more intensive and technical work.

Group Composition:

The group will be open for everybody with an interest in housing finance. A steering committee will guide the work and commit funds to the group's activities.

Scope of work:

The group will work in the field of housing finance. A list of prioritized areas will regularly be updated.

STEERING COMMITTEE TO MEET

- | MIF
- | Sida
- | USAID
- | EIB
- | CITIES ALLIANCE
- | DIG
- | CGAP

The above members of the working group are scheduled to meet in March with the purpose of setting an annual plan and allocating available budget. A number of organizations have offered to serve on the steering committee. Steering committee members have committed their time and resources to lead and advise on the working group's progress. The first steering committee meeting will be held March 14th, during which they will develop a working group annual plan.

Progress: CGAP Working Group Housing Finance for the Poor

Working Group Progress



Over the past few months, many of the members of the CGAP Working Group on Housing Finance for the Poor have been interviewed about prioritizing objectives for 2007. Five topics have emerged as the top priority sub-categories of Housing Finance for the Poor – Private Sector Involvement, Subsidies, Remittances, Guarantees, and Slum Upgrading. Member organizations with particular

experience and expertise in each topic are being asked to write short (500-1000 words) "Framing the Debate" papers to advise the steering committee and future subgroups on how to pursue research and/or collaborative progress in each thematic area.

Housing Finance Discussed at KfW Symposium

Connecting Low-Income Groups to Markets



KfW organized a Financial Sector Development Symposium in Berlin in November 2006 focused on connecting low-income groups to housing finance. The goal of the symposium was to focus on how to develop housing finance as an integrated and sustainable part of financial systems in developing and transition countries and to explore how access to housing finance by low-income groups, particularly those currently lacking access, can be facilitated and improved.

The challenge is to bring poor families innovative housing finance in a scalable and sustainable way. Housing finance for the poor includes both extending the

availability of mortgage loans and reaching out through housing microfinance. Poor people can also access housing through social housing programs. But even with its rapid growth, formal housing finance has limited reach and housing microfinance offers only home improvement loans and has little impact on quantitative housing deficits.

Low income households have a risk profile that prevents them from accessing formal housing and financial markets. Poor people often face a situation with insecure tenure and property that cannot serve as acceptable collateral. Another problem is that subsidies still allow inefficiencies in housing markets to continue.

An issue that needs to be considered is that increased housing finance availability can translate into higher property prices, enriching the upper and middle classes but locking out the poor from secure or adequate housing.

During the symposium there was an intensive discussion about how to develop the financial sector in developing countries even though the focus was not always on how to reach out to the poorest. But the symposium participants seemed to agree it is difficult to include the poorest even with a more developed financial sector. Therefore, the important question of how to connect low-income households to markets remains unanswered. However, the discussion resulted in a clearer picture of the issues that still need to be addressed.

Click to view link: [2006 KfW Financial Sector Development Symposium](#)

SEEP AGM -Practitioners Discuss Scaling Up Housing Microfinance

Accion International, Habitat for Humanity, and CHF International discuss the challenge of scaling up housing microfinance.

The annual general meetings of the Small Enterprise Education and Promotion Network (SEEP), a leading international network and promoter of best practices in enterprise development and financial services, are known for providing cutting-edge practitioner workshops on microfinance. Although housing has not been formally discussed in the meetings in the past two years, this trend changed at the annual general meeting in Washington, DC, in October, where representatives from Habitat for Humanity International, CHF International, and Accion International presented a workshop on the challenge of reaching scale in housing microfinance.

Christy Stickney represented Habitat for

Humanity International, a global housing and shelter organization. Richard Shuman represented CHF International, which specializes in housing finance. And Nino Mesarina represented Accion International, a microfinance specialist organization moving into housing as a mainstream program. All three panelists represented various perspectives from the supply side of housing finance.

Mesarina presented the results of a study conducted by Accion International and Habitat for Humanity on Accion's Latin American institutions with housing products. Accion has network members in Latin America with more than five years' experience in housing loans, and a total housing and home improvement portfolio of \$189 million. The

study found that the housing loans had higher repayment rates than microenterprise loans and that the loan terms tended to be slightly lower interest but with longer term and higher loan amounts. The study also confirmed that the underserved market for housing microfinance is perceived as "vast" by the Accion network microfinance institutions (MFIs). Another prominent conclusion was that reaching scale was largely something institutionally self-imposed. In other words, the microfinance industry often perceives housing issues and related products as outside their organizational mission and expertise.

New Company in Ghana to Provide Housing Microfinance

CHF International and HFC Bank in Ghana launched a new microfinance service company,



Boafo MD Michael Ossegge during staff interviews

Boafo's shareholders complement and bring a strategic fit to the Ghanaian microfinance market. CHF International has development finance operations in ten countries and an outstanding portfolio of more than \$60 million, of which 30 percent is made up of home improvement loans. CHF pioneered progressive-building loans in the 1980s and is recognized as a leader in housing microfinance. CHF has also worked with commercial banks to provide microloans in several countries. HFC Bank is a private Ghanaian bank and is the country's leading mortgage lender. It has a strong branch network in three key urban centers, new deposit and loan products, and a management team committed to extend its outreach to low-income Ghanaians.

titles, so loans will be secured by a combination of other guarantees, including co-signers and salary deductions. At the end of three years, the company plans to be profitable, with a portfolio of \$3.4 million, including \$1.1 million in housing loans. HFC and CHF envision Boafo as a pilot that could be replicated in other West African countries over the next several years.

by Richard Shumann, CHF International

In December, CHF International and HFC Bank in Ghana launched a new microfinance service company, Boafo Micro Finance Services Ltd. Boafo, which means "helper" in the local language, is a joint venture between Ghana's largest mortgage lender and the pioneer in housing microfinance to provide the first non-mortgage housing loans in Ghana. Financing for the company will be provided by HFC, CHF, the Global Development Alliance (GDA) of USAID and the United Nations Slum Upgrading Facility (SUF). The new company, majority owned by HFC with CHF having a minority stake, plans to make its first loans in the first half of 2007.

Ghana's estimated 1.9 million urban poor face limited access to credit to improve or build their homes. While microfinance institutions have expanded their outreach in recent years through business loans, none have products adapted to housing. Boafo will meet this demand and intends to provide both housing and business loans to low-income Ghanaians in three cities.

Boafo will function as a service company model wherein HFC provides loan funds on a commercial basis to Boafo, and provides access to its branch infrastructure. Boafo will originate and service the loans on behalf of the bank in return for fees and commissions. CHF will provide the technical expertise to develop the loan products, hire staff, establish systems and procedures, and be responsible for initial management of the company during the first eighteen months. Mr. Michael Osegge, a Ugandan national with extensive experience in microfinance in the region, is a CHF employee seconded to Boafo as its first managing director.

At least on-third of the loans are expected to be for home improvements, strengthening the most important asset of low-income families. Loan amounts, terms and payments will allow urban Ghanaians to make substantial changes in their homes, such as adding rooms, improving roofs, and adding utilities,

while remaining affordable. The vast majority of urban Ghanaians lack full land



HFC Office in Accra

HOMELESS INTERNATIONAL

- A Profile of a CGAP Working Group Member Organization

Homeless International is a UK-based charity that emerged from the International Year of Shelter for the Homeless in 1987. The organization supports partners in Africa and Asia who are working with slum communities to reduce poverty and improve living conditions. We believe that poor communities have a right to safe and secure housing, and that through working together to express their ideas and needs, they can play a central role in creating equitable cities.

How Homeless International works:

-We create lasting relationships with our partners, within which there is confidence to create solutions to the challenge of urban poverty.

-We support projects that are led by poor communities, and provide resources and technical assistance as necessary.

-We provide a range of financial services that organizations of the urban poor need in order to realize their rights to safe and secure shelter.

We provide a means for exchanging ideas between a wide range of people and organizations concerned about urban poverty.

-We use our networks to promote community-led processes, and to advocate for policy changes that will allow community-led development to be carried out on a larger scale.

-We raise awareness about the growing problem of urban poverty and keep it firmly on the international development agenda.

Slum communities in developing countries are becoming organized, and collectively undertaking small-scale slum upgrading projects using a combination of community savings, charity grants, and government subsidies. In many cases



they have established their own capital funds, generally known as Urban Poor Funds, to provide the start-up finance that is needed. Through carrying out pilot projects, poor communities have developed the skills, organizational capacity and knowledge needed to scale up these initiatives to a settlement or even citywide scale. This has been greatly helped by networks such as Slum/Shack Dwellers International (SDI), and the Asian Coalition for Housing Rights, with whom we have worked for many years.

By the late 1990s, it became clear to Homeless International that although Urban Poor Funds fulfilled a very valuable function, they rarely had sufficient capital to finance the large-scale upgrading projects that were needed. At the same time poor communities faced enormous difficulty in obtaining loan capital from banks. Financial institutions have traditionally been wary of lending in cases where they had little knowledge of the borrowers' ability and willingness to repay loans. In addition, banking systems have not historically been designed to provide project financing to projects managed

by community groups, many of whose members will have only informal sources of income. To overcome this shortage of suitable capital, Homeless International has been working for more than ten years on innovative financial arrangements to provide easier access to affordable loans with help on financial management to reduce risk.

We established an international Guarantee Fund in the mid-1990s, which provides hard currency, guarantees to back bank loans to community organizations investing in slum upgrading and infrastructure provision. The scheme has been used in India and Bolivia by a range of our partner organizations. We also coordinate the Community Led Infrastructure Finance Facility, which provides capital financing to support scaling up of community led housing and infrastructure projects.

For more information visit our website www.homeless-international.org

An interview with Franck Daphnis – President and CEO of Development Innovations Group



by Patrick Kelley – Director of International Housing Finance, HFH

Franck has been involved with the CGAP Working Group in the past, having drafted a document for the working group that explored the key challenges for donor support to increased outreach of housing finance in developing countries.

Patrick: Tell us about DIG, its mission and purpose.

Franck: First and foremost, thanks for asking me to participate in this interview, and congratulations on getting the working group off the ground. I think it will be an important forum for the international housing finance community, and we are looking forward to all the good work that will be catalyzed through your efforts.

DIG is a young organization. It was created in February 2005, so we are closing in on our second anniversary. We are a private organization focusing on development finance, urban and community services, and fund management. Development finance, in our view, encompasses interconnected aspects of financial services to the poor, including notably microfinance, small enterprise finance, savings services, urban/municipal finance and housing finance. We have worked with a range of clients, including the World Bank, KfW, SIDA and the European Investment Bank. I would say, however, that a key focus for us has been to assist private commercial banks in setting up development finance ventures. These have included specialized microfinance banks such as TAMEER Bank in Pakistan, which we assisted from strategic planning to product development, operations design and staff training; as well as large commercial banks in India and Lebanon, where we help in their efforts to set up and manage microfinance or housing finance operations.

Patrick: What are the connections between development finance, community services and fund management?

Franck: Good question. DIG's founders have been careful in the selection of these three areas of practice, and we do indeed see them as inter-related. For us, access to finance is more than just microfinance support. So, to speak of housing finance, urban finance, and savings services for example is critical, and takes us away from the tunnel vision that characterized the early days of microfinance, and away from the debates you used to witness between the proponents of poverty lending and individual microenterprise finance, for instance. Thankfully, I hasten to note, the microfinance community has moved away from this constrained vision of itself.

We see the formerly un-banked as our core area of focus; and helping the un-banked access a full range of services is what we seek to promote. It is fair to say that we see development finance as an all-encompassing continuum and we help our clients design services that fit within that entire continuum.

Further, we are interested in the connection between financial services and the built environment. For instance, slum improvement is not just about housing finance, it is also about the provision of integrated community services; though financing is an important

part of it. I suppose my background as an urban planner and my business partners' experience in overall community development make that connection an easy one for DIG. Finally, our interest in fund management derives from both the opportunities we have had as a young firm to assist commercial banks to manage development finance portfolios, and in our belief that development finance can be a profitable business proposition.

Patrick: Your website mentions a new four-year, multi-country program that will advance the state of knowledge on housing finance for the poor. Can you give a little background on this?

Franck: We have recently launched the CapStone initiative, with some support from the Bill and Melinda Gates Foundation and in partnership with several local institutions, in order to support innovative initiatives focusing on housing finance for the poor. It's a four-year initiative supporting efforts to learn and catalyze scalable innovations in the areas of housing microfinance, mortgage finance for the poor, smart subsidies, slum improvement, and housing finance in emergency settings. The CapStone initiative can be described as a fund that provides technical support and matching capital to local partners. It is also as an "action research" platform that will seek to learn by doing and that will endeavor to disseminate the findings of this learning process.

cont...An interview with Franck Daphnis – President and CEO of Development Innovations Group

Patrick: Can you give us an example of action research and the advantages gained from that methodology?

Franck: One initiative we are supporting through our CapStone fund is a newly established mortgage finance company in Pakistan. As you well know, mortgages are not instruments that poor people have been able to access at any scale in the developing world. Yet important innovations are taking place we can all learn from, albeit at a limited scale. In India, we now see 20-year mortgages extended to very poor people, along with financing for the acquisition of homes in the \$5,000 range. How is that possible, you may ask, when one of the sacred tenets of microfinance is that the poorer the client, the shorter the repayment period in order to reduce the risk of default? Now, the example I have cited from India takes place in rural contexts, where land tenure issues are not problematic and where most clients are salaried employees. Nevertheless, it shows that under certain conditions long-term lending to the poor for housing is not an impossible feat. How can we adapt what we see in India to urban situations and to informally-employed clients? What mix of incentives would help a major player in India, Pakistan, or elsewhere develop a product that serves such a market? This is a good example of a situation where we can come in, provide a blend of technical support, partial guarantees, and management training and offer the “additionality” that helps a major bank enter the housing finance for the poor market: the “action” part of action research. We are committed to publishing and disseminating, in a comprehensive and hopefully thoughtful manner, all that we discover once we are engaged in an initiative such as the one I have just described. We are also

committed to submitting our research to discussion and criticism. We believe that, as was demonstrated by the microfinance revolution, a lot of what we find can be replicated and adapted.

Patrick: Which countries will this take place in? Will the research emphasize the problems within the urban context?

Franck: We are looking at India, Pakistan, Lebanon, Morocco, South Africa and Peru as focus countries. We are looking at other countries such as Indonesia, Mexico and Turkey to help supplement the findings of our action research. India, Morocco and South Africa have been interesting laboratories for slum improvement initiatives; so yes, we are hopeful there will be a significant urban dimension to the work we perform.

Patrick: How would you like to see the industry move forward in the coming years?

Franck: I think we have just entered an era of significant innovation in housing finance for the poor. Perhaps we can compare the present time to what was happening with microfinance 20 years ago. The industry needs its market leaders – its Grameen Bank and its Banco Sol –and we have yet to have a training forum as important as the Boulder Microfinance Training Program. But as was the case for microfinance two decades ago, innovations are taking place, new products are emerging (housing microfinance, being only one of many) and more importantly, the private sector is beginning to look at the “bottom of the pyramid” as a source of profit on the housing front. Hopefully we can be more successful than microfinance has been in ensuring that access and affordability go hand in hand. In other words, we at DIG hope we can control for high interest rates by involving large private institutions from the beginning and reap the rewards that economies of

scale can bring. We shall see. But I am optimistic.

Patrick: As you know, the CGAP working group is largely comprised of donor agencies, but also contains some practitioners. What do you see as emerging challenges and opportunities for them?

Franck: I think, as mentioned, that our understanding of what a practitioner is will expand in the coming years. While NGOs and donors are helping to define the “space,” I would not be surprised to see profit-seeking private institutions as the ones to take housing finance for the poor to the next level. Perhaps I should rephrase and say that I hope regulated financial institutions will find value (and profitability) in what we are all doing through the working group, and will help the poor access housing finance services at a scale far exceeding what NGOs and donors can provide. Our challenge is to help create and define that “space.”

Patrick: What do you see as threats to advancing affordable housing finance for the poor?

Franck: My colleagues and I at DIG are optimistic on that front. We do not see the pendulum swinging back. Our own work at DIG over the past couple of years has strengthened our belief that this not a passing phase. Providing financial services to the poor is no longer just an obligation of governments and donors. It is emerging as a potentially lucrative business proposition. Our challenge is to keep innovating, matching poor people with the appropriate level of financial services, and doing it at scale and profitably. If we can keep working towards that goal – no small task I grant you – the working group will play its small but important part in helping make the world a better place.

Franck Daphnis is President and CEO of the Development Innovations Group www.developinnovations.com
He has recently edited the book *Housing Microfinance: A Guide to Practice* (Kumarian press, 2004)

cont...SEEP AGM-Practitioners Discuss Scaling Up Housing Microfinance

Shuman shared the challenges of reaching scale among the CHF institutional partners. He also showed the changing profile of CHF and its partners, namely that housing microfinance was reducing as a percentage of the total portfolio. He identified a convergence, therefore, as MFIs with a focus on enterprise loans were diversifying into housing, while housing finance specialist institutions were diversifying their portfolios towards business and enterprise lending. Constraints to profitability discussed were the cost of architectural assistance and the ability of an institution to process loans efficiently.

Finally, Stickney shared some of Habitat for Humanity's lessons learned from partnering with MFIs dedicated to serving very poor clients, and helping them to introduce products tailored for housing. These tended to be partners in very poor countries (e.g., Rwanda, Haiti, and Vietnam) and those that used group methodologies, which often attract poorer clientele for whom individual products are not an option. Stickney concluded that limits to scale lie in resolving the questions of 1) how to view housing products as institutionally mainstream rather than side projects, 2) the loan officer's role in providing technical

assistance and construction technical assistance in general, 3) institutional issues of integrating housing products into operational branch structures and processes, and finally, product's affordability balanced with its profitability.

For more information click on text to visit our website: www.seepnetwork.org

Related Publications

Click on text to go to websites

- | CGAP's Donor Brief on Housing Microfinance
- | KfW's 2006 Financial Sector Development Symposium
- | Finmark Trust's Financial Diaries with Conclusions on Housing
- | Housing Microfinance, A Guide To Practice - by Franck Daphnis and Bruce Ferguson



Upcoming Events

March 15-16

Access to Finance: Measurements, Detriminants, and Impact. Conference organized by the World Bank. For more details click on text to go to link: [The World Bank](#)

June 4-14

Wharton Course on International Housing Finance for more details click on text to go to link: [Wharton University of Pennsylvania](#)



For questions, contact information for individuals and organizations highlighted in this newsletter, or ideas and submissions for future newsletters, please contact us anytime.

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