



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*

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Micro Loans and Technical Assistance for Housing:

A Tool for the Poor to Access the Market

PRODEL's Experience

In Nicaragua, Central America, PRODEL has been a pioneer since the early 90's in housing microfinance and technical assistance in construction. This article, the first of two, describes the experience of supporting microfinance institutions to develop and introduce micro loans and technical assistance in construction for low-income families.

Background

PRODEL was created in 1993, by agreement between the Nicaraguan government and the Swedish International Development Cooperation Agency, Sida, to improve the living conditions of urban and peri-urban low-income families in Nicaragua. After 10 years of operating as a government program, PRODEL transformed into a national non-profit Foundation in 2003.

PRODEL is a second tier institution, which has two main programs, each with different financial modalities. The Credit Program provides funding at market rates to

microfinance institutions, (MFIs), which give loans for micro-enterprise, and incremental construction and home improvements. The Infrastructure Program provides non-refundable grants which together with community and local government counterpart contributions provide access to basic services and infrastructure for the poorest neighborhoods.

Currently PRODEL works with eight of the largest microfinance institutions, which have 77 branch offices providing access to housing improvement loans in 25 cities nationwide.

This integrated approach which offers individual loans for housing to families with capacity to pay, together with the installation of infrastructure in the poorest communities, where affordability is the key constraint to better living conditions, is core to PRODEL's poverty reduction mission.

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A home in a Nicaraguan community before receiving construction assistance



The same home after receiving a microloan and technical assistance from PRODEL

Why Loans with Technical Assistance?

PRODEL's low income housing product aims to offer loans with technical assistance in construction. The complementary product, of both financial and non-financial services is provided for a number of reasons which respond to the nature of low-income housing needs in this country context.

In Nicaragua, as in much of the developing world, the vast majority of the poor build their homes themselves incrementally, with modest investments over time pooled from family resources and with materials and structures which often are rudimentary, and temporary or of poor quality. This self-help process and the piecemeal construction method are often carried out without any technical orientation, by builders with scant training or knowledge of construction standards or skills. As a result houses are often built in an unorganized way, resulting in awkward distribution and use of space, poor ventilation and which ultimately, can be costly to rectify or complete.

Poorly constructed shelter jeopardizes a household's physical safety and well being, especially in a country which experiences frequent natural disasters. In this respect, PRODEL's recognizes that the challenges of attaining safe, secure and decent shelter involves more than increasing greater access to housing finance for the poor. Hence, in addition to channeling resources to MFIs, a core part of PRODEL's housing strategy is to work with MFIs, clients, master builders who are employed to carry out the building work, together with architects and engineers, to train and introduce technical assistance in

construction.

Technical assistance is a service provided by an architect or engineer. Some MFIs have created their own technical unit, to offer the complementary product, while others outsource the service. The advice focuses on ensuring safety, appropriate use of space, adequate ventilation, illumination, quality materials, as well as guidelines on how to optimize the building process to be cost effective. For smaller improvements the technical advice focuses on sound building practices and choice of good quality building materials. Thus, the technical assistance service is tailor made to the different types of home improvements loans; renovations, extension, and/or complete replacement of a unit, in a step-by-step building process. PRODEL's goal is to offer the clients solutions that are adapted to their needs and financial resources.

Value Added for MFIs

For the MFIs there are several significant aspects, including:

- Risk of over indebtedness is reduced: Clients invest wisely, and maximize the loans through savings in time and costs.
- Investment in high quality and safe construction enhances the guarantees.
- Technical assistance positively affects portfolio quality: arrears are significantly low. Families are willing to pay for a well-built house in which they have invested considerable amounts of money.
- Clients who live in safer and more comfortable homes have greater motivation to continue

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improving their houses, and are more likely to continue as loyal borrowers.

- In PRODEL's case, TA is part of the internal capacity-building and technological transfer of knowledge, follow-up and training which it provides to MFIs.

For Clients

There are many tangible benefits such as:

- Better living conditions – healthier, less cramped, and structurally safe dwellings.
- Increase in property value. According to a recent study conducted for PRODEL, some property values rose by as much as 70% after improvements were made
- Access to professional architectural services at reasonable and affordable cost
- New skills and knowledge enable clients to control and supervise the building work.
- Experience shows that borrowers are more likely to seek and/or complete the registration of their properties, as part of the process of upgrading their home and thereby legally secure one of their main assets.

Sustainability and Some Lessons

PRODEL's experience shows that clients appreciate the added value that technical assistance provides, this

is especially so for women, who are the majority of borrowers. Like any other service it is financially viable if it is competitively priced, accessible to the client, and delivered effectively and efficiently. Some aspects of technical assistance that should be taken into account by MFIs seeking to offer home improvement loans are as follows.

- Analyze local market conditions
- Manage a target number of cases to have scale
- Availability of human resources
- Technical assistance, if provided, should be charged to the client.

PRODEL's key to success in seeking to provide a housing micro loan product with technical assistance to the end users, on the one hand is the result of developing, testing and refining the model, keeping the end user needs firmly in mind, and on the other, thorough analysis of the MFI's performance and efficiency with close accompaniment during the design, piloting, introduction and expansion of the product in the market. Additionally, the ongoing search for more efficient and tailor made ways to provide technical assistance is key to be able to respond appropriately to clients' demands and preferences in the future. ☺

¹Poverty reduction and urban improvement in Nicaragua: 10 years of improvement.. Local Development Promoting Foundation. 2006. PRODEL's Annual Summary 2005.

To follow up the PRODEL article, please proceed to the box below introducing the first article in a series of "Promising Practices and Lessons" for housing finance for the poor.

Promising Practices and Lessons of Housing Finance for the Poor #1: Technical Assistance

One important goal of the CGAP Working Group on Housing Finance for the Poor is to provide a platform for sharing experiences and learning in the sector that contribute to a body of promising practices. Because an atmosphere of innovation is still required in this emerging sector, a set of Best Practices could be premature. Therefore, the working group will begin by recording preliminary Promising

Practices and Lessons based on practitioners' experiences. PRODEL, the organization highlighted on the front page, is a non-profit provider of construction technical assistance that complements market rate financial sector loans to the poor in Nicaragua. Frank Daphnis, co-author and editor of "Housing Microfinance – A guide to practice" follows up the PRODEL article with analysis of the

Promising Practices and Lessons experience for technical assistance provision. More articles containing sector Promising Practices and Lessons analysis by leading practitioners will follow in future newsletters or be posted to the working group website. If you have ideas for features, see newsletter contact information on the back page. ☺

Promising Practices and Lessons of Housing Finance for the Poor: Construction Technical Assistance

Franck Daphnis and Thea Anderson Development Innovations Group

Promising Practices and Lessons

#1 Construction Technical Assistance

Many microfinance institutions (MFIs) around the world, like PRODEL in Nicaragua, offer construction assistance as an integral component of housing microfinance lending. Before delving into the “Promising Practices and Lessons” of construction assistance, an institution must first decide whether they should or should not provide the construction assistance in the first place. This decision can be based on several factors, the most prominent being the mission of the institution itself.

At one end are housing microfinance providers that view home improvement loans as a means toward the goal of providing quality, affordable housing for the poor. Habitat for Humanity and CHF International are two examples. Alternatively, many microfinance institutions offer housing microfinance loans as one among many individual consumer loan products. Mi Banco, BancoSol, and Tameer Bank are notable examples of organizations with that approach. For these, the ultimate mission of the institution is not focused on shelter or housing quality, but rather on providing access to capital to the poor. The ultimate use of the loan, then, is up to the client. By not providing assistance, these institutions are not damaging their overall mission.

In our experience, it has yet to be proven that the provision of construction assistance leads directly to a higher quality loan portfolio (something the PRODEL article suggests). Rather, portfolio performance is a function of whether a loan officer originates a good loan in the first place. In fact there are MFIs that do not offer construction assistance for housing microfinance loans that maintain portfolios at risk in the 2 to 3 percent range, including Mi Banco, Banco Sol, and AMEEN in Lebanon. On the other hand, examples exist in the literature of MFIs that do provide construction assistance and that have portfolios at risk of 7 percent or higher. Portfolio

quality generally results from diligent client management and from consistent client follow up by the loan officer. Construction assistance can, of course, be a form of follow up post-loan origination; but it is not the main predictor of repayment performance given studies to date.

For those institutions that decide to provide construction assistance to their housing microfinance clients, that assistance can come at two basic levels: pre-loan assistance and post-loan assistance. Pre-loan assistance can be classified as the necessary due diligence to ensure sound technical design, budgeting and affordability. Post-loan assistance tends to focus on compliance and construction quality.

Pre-disbursement assistance includes:

- Basic construction design to ensure that the proposed intervention complies with basic safety and legal requirements;
- Budget verification to ensure that the proposed cost estimate for the intervention is appropriate and matches the client's loan request;
- Guidance on materials and labor procurement, tapping into the provider's knowledge of these markets to help clients make cost effective decisions; and
- Assistance with permits and other legal requirements.

Post-disbursement assistance ensures clients fulfill the original purpose of the loan but also includes:

- Construction oversight to ensure that the builder or contractor faithfully executes the work for which he has been hired; and
- Verification that the construction has been completed in accordance with the MFI's agreement with the client or in compliance with applicable law.

For either assistance method, institutions well-versed in individual lending methods do not gain by segregating loan officers for housing microfinance from other loan officers. Instead, the MFI should ensure all loan officers

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Working Group News

Progress as a Working Group on Housing Finance for the Poor

CGAP Working Group Steering Committee formed:

On March 14, a meeting of stakeholders involved in catalyzing the CGAP working group on housing finance for the poor convened and formed a steering committee. The steering committee includes representation from UN Habitat, USAID, the Inter-American Development Bank/MIF, the World Bank, OPIC, International Finance Corporation, Sida, and Development Innovations Group.

The steering committee affirmed that the working group will concentrate on knowledge sharing of what is working well and under what local conditions, and will also commit to being open and frank about what isn't working. Working group efforts, therefore, will focus on exchanges and the search for standards on emerging and promising practices in a given socio-economic and political context.

Many of the steering committee organizations committed not only to governance and ideas to the meeting but going forward have actively dedicating staff time to achieving working group goals.

Upcoming Events

The Steering Committee has been actively seeking appropriate opportunities to advance the platform the working group can create for lateral learning and exchange. Two such events are now on the schedule:

- 1.) The Asia Pacific Housing Forum – September 24 – 26, 2007. The CGAP Working Group on Housing Finance for the poor facilitated a track within the Forum on housing finance for the poor.
- 2.) Housing and Remittance Forum – December 13, 2007 in Washington, DC. Location TBD. Watch for details on the website: http://www.habitat.org/housing_finance/cgap_working_group

Sida Raises Commitment with Secretariat support

Habitat for Humanity International has been working on a contract with Sida with administration and coordination of the working group since 2006. Sida has recently

recruited the advisory services of Irene Vance. She will provide support for the implementation of the group activities and contribute to the consolidation, organization and the launch and pursuit of its goals.

Profile of Irene Vance, new advisor to the group

Irene Vance began her housing career some 20 years ago in cooperatives in London, followed by several years in Bolivia with UN Habitat. Since 1999 to the present, she has worked as an adviser to Sida supported programmes in Central America, involved in the development of innovative financial



models for housing construction and progressive improvements and the expansion of housing microfinance.

Based in Nicaragua, she guided the process of institutionalization and

transformation of a government programme to a private non-profit organization, Foundation PRODEL. Working within the broader regional context she has acquired direct hands on experience with the challenges and opportunities of microfinance and the current debates such as reaching scale, new product development and long term financing.

The most recent assignments for Sida are with the partnership initiatives with the Inter-American Development Bank/Multilateral Investment Fund-MIF, in a joint venture for financial innovations, including the development of local capital markets, securitization of micro finance portfolios and projects with link remittance flows to housing.

–“I am privileged to have the opportunity to join this dynamic group and be part of the creative thinking and work with them in the pursuit of common goals” – said Irene. ☺

Q&A with Marja Hoek-Smit



*Marja C. Hoek-Smit
Director, International Housing Finance Program
Wharton School, University of Pennsylvania*

Marja Hoek-Smit is the Director of the International Housing Finance Program of the Wharton School Zell/Lurie Real Estate Center, and an Adjunct Professor in the Wharton Real Estate Department and Department of City and Regional Planning of the University of Pennsylvania. Her work focuses on housing and housing finance policies, particularly for low-income groups, housing demand and affordability analysis, the development of monitoring and evaluation systems for urban housing programs, and training in housing finance, housing market development, and urban development.

Q: After being involved in housing finance policy for many years, are you bullish on the prospects of scalable housing solutions for low income segments of the population in the developing world?

A: I am fairly optimistic about the expansion of mortgage markets for lower-middle income households in

an increasing number of developing countries -- let us say down to the median income level or even below that. With financing available, the formal market will be able to produce housing at scale for that segment, since the demand is enormous. I am less bullish about the implementation of scalable housing solutions for low-income groups for whom formal production markets do not work yet. At the same time, the relative number of low-income households is too high to rely on upward filtering as a solution for the poor. Moreover, buying used housing requires mortgage credit as well, to which the below median household does not have access.

Q: What do you highlight as the main policy obstacles to housing solutions for the poor?

A: There are several obstacles at work at once in most countries. Local governments have a poor track record in putting in place facilitative regulations for higher density or incrementally constructed housing and infrastructure, nor is there a process in place to assist developers who want to build for that market. Rather the opposite. Second, low income housing development invariably requires a government subsidy. In many countries subsidies are, however, tied to mortgage-finance and therefore

not accessible to low-income groups. Few countries have subsidy funding available for land development for low-cost housing through, for example, public-private partnerships. But it is precisely the land market failure that needs to be addressed in the low-income market.

Q: What are some of the better policy innovations you have observed?

A: There are several policy innovations that, in combination, can have a powerful effect. Local governments can prepare for large scale opening up of land, whether public or private, and facilitate mixed use and higher density developments in areas close to employment. Central governments can provide some type of block grants to provide incentives to local governments to implement a variety of low-cost developments. They can also stimulate the scale development of housing microfinance by encouraging new entries into the sector, or by providing technology support or liquidity finance. Supporting down-market expansion of private mortgage lending is another important task for central government. There are now many successful experiences with short-term government interventions to alleviate perceived risks or high costs in moving down-market. These

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subsidies are then phased out when the private sector can absorb those risks and costs. Mexico's SHF has several good examples of such types of incentives to the mortgage market that are worthy of note for other countries.

Q: You've spoken before about misperceptions in lender risks to the underserved market. What suggestions do you have to overcome these misconceptions?

A: We should share information on these and other myths about lending to the poor. Much more systematic country and industry data should be made available in the public domain. We hope that the Housing Finance Information Network or HOFINET, a new NGO affiliated with the Wharton International Housing Finance program, can begin to fill this gap.

Q: What product design innovations do you consider to be noteworthy and promising?

A: In the microfinance for housing area the new MiCasa (Peru) credit product for individual service connections is promising. Households in regularized and legalized neighborhoods can apply for a short-term loan to pay for the connection to the main water, sewer or electricity lines. Another innovative area is developing around the linkage of remittances to regular repayment of domestic mortgages or HMF loans and the inclusion of the remittance cash-flow in the affordability calculation.

Q: What role does non-mortgage housing finance have in improving the living conditions of the world's poor?

A: Housing microfinance—savings, credit and insurance-- is still small in scale in most countries and interest rates are often very high because of the lack of competitive markets. When non-collateralized lending becomes more widely available through different types of competing lenders, its use for home improvements will increase. Detailed studies by the World Bank of the Tu Casa improvement program in Mexico have shown how home improvements such as putting in a cement floor, a new roof or an electricity connection can improve the quality of life of poor households. So I am very hopeful about the positive impact an efficient HMF sector will have on the gradual improvement of existing housing. An expanded HMF sector can also complement subsidy programs that provide households with a serviced site and/or a starter home. It is not suitable for the financing of scale development of unsupported new housing, however.

Q: There has been a lot of renewed talk of usury laws recently in India, what is your perspective on that and on consumer protection policy in general?

A: A good starting point is Jack Guttentag's first rule of consumer protection "DO NO HARM." Blanket usury laws are a very blunt instrument to protect the consumer;

when interest ceilings are set too low, no loans are made and when they are set too high that rate becomes the de facto "market" rate. Government should rather focus its attention on creating a competitive market that will drive rates down. If government feels compelled to control prices it may focus on limiting the total fee amount that lenders may charge. The most useful way to protect consumers is to put in place disclosure requirements for the lender. Such disclosure has to be done selectively so as not to confuse the borrower. The focus of foreclosure laws should be on those issues that are disadvantageous to borrowers and that vary from lender to lender rather than the standard issues regulated in the mortgage law. For example, one requirement may be to disclose the interest rate and the use of a standardized way to calculate the interest rate. This will assist the borrower to shop for a loan.

Q: For those of us trying to find solutions for directing investment towards housing solutions for low-income households (most of us involved in the CGAP working group) do you expect that the US housing problems and subsequent credit squeeze will make gains in the developing world increasingly difficult?

A: No, I do not expect a severe or lasting impact of the current volatility in the international financial markets on the expansion of household credit in developing countries. It is, however, not yet clear which
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Rockefeller Foundation hosts Bellagio Urban Forum:

The Rockefeller Foundation convened some 260 urban experts at the Foundation's Bellagio Study and Conference Center in July to take part in Innovations for an Urban World: A Global Urban Summit, with the many challenges of globalization and urbanization serving as the backdrop. Over the course of the conference, participants presented, developed, and refined promising solutions to key urban challenges. Topics ranged from building resilience to the impacts of climate change to urban population health systems to U.S. transportation policy.

Financing was also a focus at the Urban Summit. An estimated 940 million people—nearly one sixth of the world's population—currently live in squalid, unhealthy neighborhoods, mostly without access to clean drinking water, sanitation, and public services. Financing is a necessary component to addressing this wide gap in coverage, though traditional models are not meeting the challenge. Columbia University's Center for Sustainable Urban Development assembled an unparalleled constellation of experts to identify innovative approaches to financing water, sanitation, and shelter in the developing world. Representatives from private banks and hedge funds rolled up their sleeves with community activists from groups like Slum/ Shack Dwellers International and Pamoja Trust. The unique interfaces created by this collection of actors led to exciting and actionable solutions. Before the week closed, a number of "deals" were initiated among participants, many of which are now in the midst of cultivation.

FinMark Trust promotes access to housing finance in Africa:

The FinMark Trust and Habitat for Humanity International are working together on a series of studies into the housing finance sector in individual African countries. The reports, to be drafted by local, in-country consultants, will set out the status quo of the housing finance sector, with special attention to how the very poor finance their housing situations, whether formally or informally. As each is finalized, it will be distributed publicly and its availability will be announced in this newsletter. These reports will form part of the agenda at the "Access to Housing Finance in Africa Conference", to be held in March of next year, co-sponsored by FinMark Trust, Rooftops Canada, and other partners. For more information, please contact Kecia Rust on kecia@iafrica.com.



FinMark Trust explores the nature of the housing asset: this South African farmer grows and sells corn at his home in the province of Mpumalanga.

Building the World's First Housing MicroFinance Fund

Housing MicroFinance, LLC ("HMF") is developing the world's first collateralized debt obligation backed by loans to microfinance institutions to underwrite loans to purchase, construct and improve homes. The \$100 million Housing Microfinance Securities I ("HMFSI") debt instrument will provide funds to microfinance institutions in Latin America and the Caribbean ("LAC") on 10-year

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terms in local currency. The research conducted by HMF indicates that access to long-term, local currency funding was key to expanding access to home financing in LAC.

Slated for closing in late 2007, HMFSI is being developed with the Netherlands Development Finance Agency, FMO, and TCX, an affiliated local currency fund. HMF is working with Fitch Ratings to structure an investment-grade rating on its senior tranche. The project will be serviced by Symbiotics, a Switzerland-based microfinance specialist.

HMF's founders are James Magowan and Dinos Constantinou, who have backgrounds in real estate capital markets, banking and microfinance.

Other news:

☪ **CGAP Working Group on Housing Finance for the Poor** designed a Finance Track for the Asian Housing Forum held in Singapore on September

24-26. For more information on this recent event go to www.aphf.mpinetwork.com.

Rooftops Canada, with support from the Canadian International Development Agency (CIDA) convenes an Advisory Group whose aim is to contribute to research and networking in housing microfinance. The group, composed of experts from the Canadian housing and banking community, will have met four times by October, and among other activities the Group is helping to design an instrument to finance housing with international partners in Sub-Saharan Africa.

CHF Mexico's home improvement loan program (HILP) first highlighted in the latest edition of the Academy International Affairs Working Paper Series "US-Mexico Border: A Symposium." ☪

Q&A with Marja Hoek-Smit

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institutions are most exposed to the current credit risk in the US sub-prime securities markets. Some international banks operating in emerging markets may be directly exposed and may, in the short term, limit household lending. And some domestic banks may have a harder time raising funds in the international capital markets. However, an increasing number of emerging market countries show strong economic fundamentals and an ability to issue debt in local currency, which decreases financial market vulnerability. The crisis also does not put into question the importance of a well developed financial sector for economic development.

The current credit crisis does emphasize, however, the importance of transparent and well-regulated and supervised financial markets and the down-side of poor risk assessment systems and overly risky lending products. A crisis like this may stimulate the improvement of credit and real estate information systems and the enactment of helpful "truth-in-lending" legislation in emerging market countries. These critical building blocks of a sound housing finance system have been the core of our teaching in the Wharton International Housing Finance Course. ☪



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Framing the Debate

CGAP Working Group publishes series of papers on issues for the sector



The CGAP Working Group Steering Committee of donors requested experts in the field of housing finance to draft papers to help the working group consider gaps and spaces in the emerging field of housing finance for the poor. The working group aims to facilitate spaces for dialogue and emerging insights into these topics to help promote and advance the sector. Please follow the links below to read these insightful articles that discuss opportunities for sector collaboration.

Engagement of the Private Sector

http://www.habitat.org/hfhu/programs/cgap_working_group/pdf/Debate_Framing_Leveraging_the_Private_Sector.pdf

by Lauren Moser, Shorebank

This paper seeks to provide a framework to the CGAP Working Group on Housing Finance for the Poor for exploring how to leverage the private sector in developing and funding housing finance solutions for the poor. This paper reviews the importance of leveraging the private sector for this market segment and provides some examples of best practices private sector involvement and key elements for success. Finally, it poses additional areas for research and outlines possible approaches to developing scalable projects, which could be explored by the Working Group.

Housing Finance for Slum Upgrading

http://www.habitat.org/hfhu/programs/cgap_working_group/pdf/Debate_Framing_Slum_Upgrading.pdf

by Szilard Friczka, UN Habitat

This paper provides an overview of the key issues related to slum upgrading and housing finance. Part 1 summarizes urbanization and the challenge it poses for affordable housing finance (see also Annex 1). Part 2 reviews the evolution of, and lessons learned from, various policy responses to informal settlements (see also Annex 2). Part 3 examines why affordable finance has been so elusive, while Part 4 highlights some successful initiatives (more detailed examples are provided in Annex 3). Part 5 proposes several questions for further research.

Housing Finance and Remittances

http://www.habitat.org/hfhu/programs/cgap_working_group/pdf/Debate_Framing_Remittances.pdf

by Maria Saenz, Habitat for Humanity

The objective of this paper is to provide CGAP's Working Group on Housing Finance for the Poor with a framework for exploring how to facilitate the use of family remittances for housing. This paper addresses the potential of these funds for financing housing solutions, what has been learned and where to look for lessons. Finally, it poses questions and areas for research, and recommends where to start.

Public Subsidies

http://www.habitat.org/hfhu/programs/cgap_working_group/pdf/Debate_Framing_Subsidies.pdf

by Carlos Martin, Development Innovations Group

To further understand how the poor have access to, receive, and implement funds for housing, this brief explores how subsidies provide and conflict with access to private financing through the following questions: 1) Should governments and private financial service providers agree to use housing microfinance as a particular vehicle for delivering subsidies? 2) What problems might be equalized or worsened? 3) How do they—or, could they—team up without compromising missions?

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Housing Finance and Guarantees

http://www.habitat.org/hfhu/programs/cgap_working_group/pdf/Debate_Framing_Guarantees_Acumen_Fund.pdf
by Helen Ng, Acumen Fund

The purpose of this paper is to present a framework to the CGAP Working Group on Housing Finance for the Poor for the strategic use of guarantees to take housing finance to scale for the base of the pyramid (“BOP”). We regard guarantees neither as a panacea nor as a “one-size-fits-all” mechanical tool. Specific usages and mechanics will vary on a case-by-case basis and not be reflective of the dynamic and unexplored alternatives for housing. Rather, we must necessarily talk in terms of principles and guidelines for using guarantees, as well as their limits, if we are to advance the field of housing finance and develop housing choices for the BOP.🌀

Promising Practices and Lessons of Housing Finance for the Poor: Technical Assistance

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are adequately trained to balance the loan amounts needed to cover their home improvement needs sufficiently in relation to their repayment capacity.

At the core of any housing microfinance effort, of course, is the client. The notion of “value” for money is perhaps the most important one to consider. MFIs that do provide construction assistance can ensure that housing microfinance clients tend to live in safer and higher-quality homes than others that did not receive construction assistance. This assistance does, however, typically go hand-in-hand with a higher interest rate, which not all clients would be willing to pay. An MFI that provides construction assistance should ensure that their clients perceive the service as one that brings value to their investment, rather than as an additional cost they would rather do without.

All of this knowledge can be easily summarized:

- DO know your institution’s mission and whether that extends to housing quality
- DO know your clients, and whether housing quality (or lack thereof) could in any way affect

their ability to pay their loans

- DO know your local housing market and regulatory context, and whether improved housing quality might bring a definite benefit to a client (like title, public services, or a governmental subsidy), and DO push policy-makers to give those!
- DO select the most cost- and resource-effective solution between pre- and post-disbursement
- DON’T create construction technical assistance when there is no clear benefit to your institution or your clients
- DON’T segregate your housing loan officers and staff from others in your institution. Either train all of the staff on basic construction knowledge or, if necessary, hire outside help from architects, contractors or building material suppliers
- DON’T try to assess the value of good construction on your clients’ behalf unless there is a clear safety or social need. They’ll usually know best what they can get for their money.🌀

Related Publications Click on text to go to websites

[A Report on Low Income Housing in India: Challenges and Opportunities for Microfinance.](http://www.habitat.org/housing_finance/pdf/low_income_housing_in_india.pdf)

http://www.habitat.org/housing_finance/pdf/low_income_housing_in_india.pdf June 2007. Centre for Microfinance at the Institute for Financial Management and Research and Habitat for Humanity India.

[Getting to Scale in Housing Microfinance: A Study of ACCION Partners in Latin America.](http://www.habitat.org/housing_finance/pdf/Insight_21.pdf)

http://www.habitat.org/housing_finance/pdf/Insight_21.pdf May 2007. Nino Mesarina and Christy Stickney. ACCION International: Insight #21 (see ACCION's Insight series publications #4 and #12 for more on housing microfinance).

[Access to Housing Finance in Africa: Exploring the Issues in Zambia.](http://www.finmarktrust.org.za/documents/2007/MAY/HFAfrica_Zambia.pdf)

http://www.finmarktrust.org.za/documents/2007/MAY/HFAfrica_Zambia.pdf May 2007. David Gardner with input from Kecia Rust. FinMark Trust. Comments and contributions can be sent to the FinMark Trust's Housing Finance Theme Champion, Kecia Rust on Kecia@iafrica.com.

[A Literature Review on Housing Finance Development in Sub-Saharan Africa.](http://www.finmarktrust.org.za/documents/2007/MAY/Litreview_HFAfrica.pdf)

http://www.finmarktrust.org.za/documents/2007/MAY/Litreview_HFAfrica.pdf May 2007. Mary R. Tomlinson, FinMark Trust.

[Housing Finance in East Asia.](http://www.ifc.org/ifcext/economics.nsf/AttachmentsByTitle/ea_housing_finance/$FILE/Housing+Finance+East+Asia+report+Dec+2006-final.pdf)

[http://www.ifc.org/ifcext/economics.nsf/AttachmentsByTitle/ea_housing_finance/\\$FILE/Housing+Finance+East+Asia+report+Dec+2006-final.pdf](http://www.ifc.org/ifcext/economics.nsf/AttachmentsByTitle/ea_housing_finance/$FILE/Housing+Finance+East+Asia+report+Dec+2006-final.pdf) December 2006. Loic Chiquier, The World Bank.



Events of Interest to Working Group Members

September 17-19, 2007. Washington, DC. 'Next Generation Microfinance Conference.' Sponsored by CGAP in conjunction with IFC and Visa International. >> [More](#)

September 23-26, 2007. Copenhagen, Denmark. 'International Federation for Housing and Planning World Congress.' >> [More](#)

☪ September 24-26, 2007. Singapore. 'Asian Housing Forum.' For more information, go to www.aphousingforum.org or email aphf@mpinetwork.com.

October 1, 2007. The Hague, Netherlands and Monterrey, Mexico. 'World Habitat Day.' >> [More](#)

October 3-5, 2007. San Salvador, El Salvador. 'Inter-American Forum on Microenterprise: The Road Ahead.' >> [More](#)

October 28-31, 2007. Jeju, Korea. 'United Cities and Local Government's 2nd World Congress.' >> [More](#)

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 Jaelyn 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.