

# Increasing Access to Housing and Financial Services Sida Experiences in Central America



# Regional Context

## The Regional at a Glance at the Outset of the Programmes

Two decades ago - with the exception of Costa Rica and Honduras -

The region was emerging from decades of civil war:

- Nicaragua, El Salvador (80's) and Guatemala (90's).
- Highly polarized and deeply divided societies
- Collapsed economies - Nicaragua had the highest recorded inflation

Introduction of structural adjustment measures resulted in

- High unemployment and underemployment
- Increased vulnerability and poverty

General exclusion from financial services

# Regional Context

## The Urban Challenges throughout Central America

Rapid urbanization has put pressure on basic services

42% of the urban population live in informal settlements, illegal land occupations, tenements or slums

Existing housing stock is deteriorating, and in urgent need of upgrading and renewal

Access to housing finance both public and private is limited. Except Costa Rica: - where State subsidy reaches the lowest income, Produces some 11,000 new units annually, although the influx of migrants has increased growth of informal settlements

**Generally Central and S. America are characterised by huge inequality in income distribution**

# The Nature of the Challenge

Housing in informal settlements is extremely precarious



How to increase access to financial and non financial services for the poor?



# Integrated Services Approach

Sida's poverty reduction strategy in urban development and housing is based on:

## **An Integrated Services Approach**

- A combination of financial and non-financial services, for housing and basic infrastructure provision.
- Mobilization of individual family and/or community savings, complimented by small, repeat loans

## **Institutional Capacity Building**

- Down scaling banks and upgrading micro-finance institutions
- Second tier institutions play an important role in developing capacity of retail providers
- Strong retail providers that seek to diversify and introduce housing products

# Main Features

## Loans for Housing with Technical Assistance in Construction

- Micro credits for the repair, extension and progressive construction of houses – loan size US \$500 -1,500, short loan term 18-36 months, and flexible guarantees
- New housing (including up front state subsidies), family savings, labour contributions – longer terms up to 15 -20 years

## Basic Services and Community Infrastructure

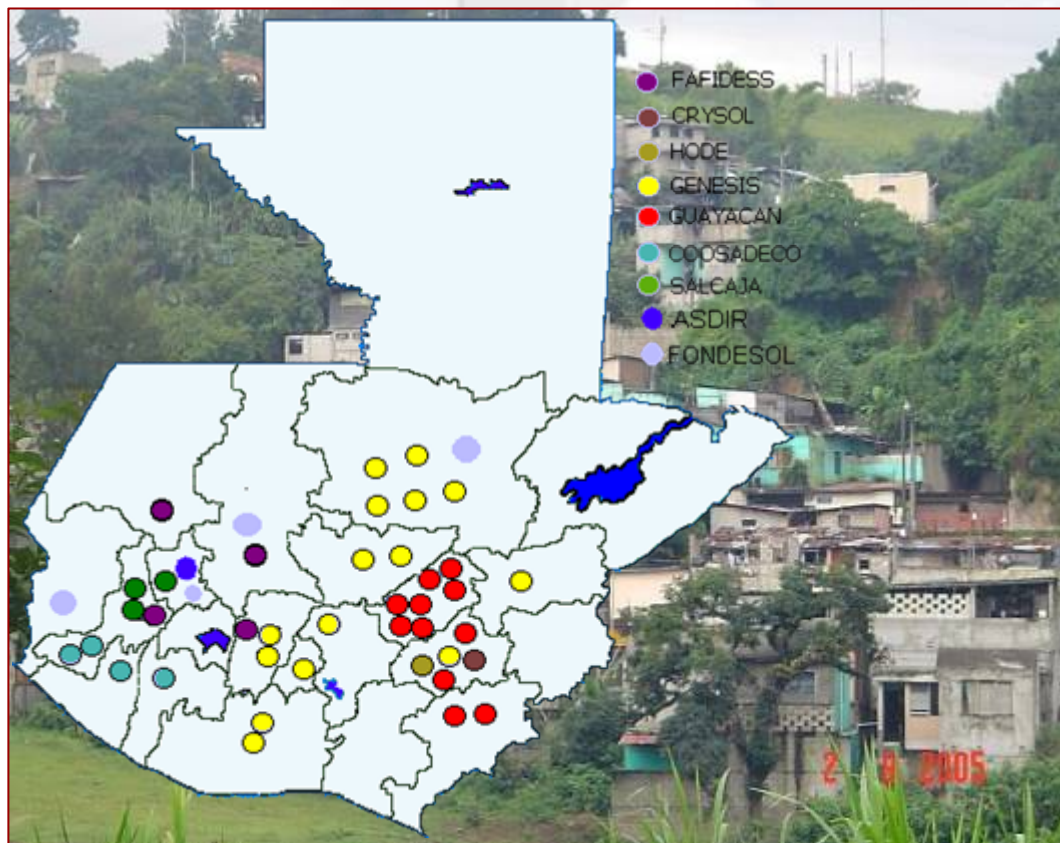
## Different financial modalities to reach target sector

- Matching counterpart Funds (for poorest) leveraging local savings +municipal investments + grants
- Loans to private sector, small business development, that provide basic services

# FLDG

## Trust Fund for Local Development Guatemala

Operates as a Second Tier Service Provider to Financial Institutions



# Guatemala

## Current outreach

10 institutions:

6 MFIs

3 Cooperatives

A Large Commercial Bank

5 work in housing microfinance

## Expanding Services

Introduce housing microfinance methodology with construction assistance in several major banks

Partnerships between Banks and private sector: small scale builders enterprises as technical assistance providers.

# Costa Rica

## FUPROVI

### Foundation for the Promotion of Housing

Housing Specialist Institution: Provides professional services for the complete housing production cycle:



- Land acquisition and titling
- Legal Advise services
- Participatory Planning and Design
- Community Skills training
- Supervised self-help assisted construction
- Post-construction community management and local authority engagement







# El Salvador

## FUSAI – INTEGRAL S.A.

### Salvadorean Foundation for Integral Support

A Foundation and a regulated financial institution, which promotes integral housing solutions .

### Tested Various Housing Products

- New housing in organized settlements  
full range of planning, design, and financial services
- Sites and Services
- On-site new construction
- Incremental housing improvements

Constraints for scaling up are multiple:

lack of suitable and affordable land  
high costs of provision of basic services  
distance from sources of employment

Sida



# El Salvador

## Pilot Phase of new product for remittance flows and housing

INTEGRAL seeks to capture and channel US\$ 14.5 million in transfers to housing, and develop three products based on remittance flows

### Characteristics of potential Clients

58% of the recipients are women

36% own their home in rural areas

13% lack electricity

35% lack potable water and sanitation

Average Loan Size Desired by the Migrant: US\$ 20,000

Loan Term: 12 years

Product: Purchase of new unit

INTEGRAL and partner institution in the US share the due diligence

The key challenge is to create know-how in a US partner to provide client outreach – promotion services, due diligence, underwriting etc.

The challenge remains bridging the gap between informality of migrant workers and the formal market.

# Honduras

## FUNDEVI FUNDEVI

### Foundation for the Development of Urban and Rural Social Housing.

The Government of Honduras had housing subsidies focused attention on:

- regularizing land tenure;
- reducing the number of inhabitants per household through progressive housing construction; and
- providing access to basic services.

FUNDEVI's housing finance programs work along side government subsidies.

Subsidies are combined with obligatory savings and loans.

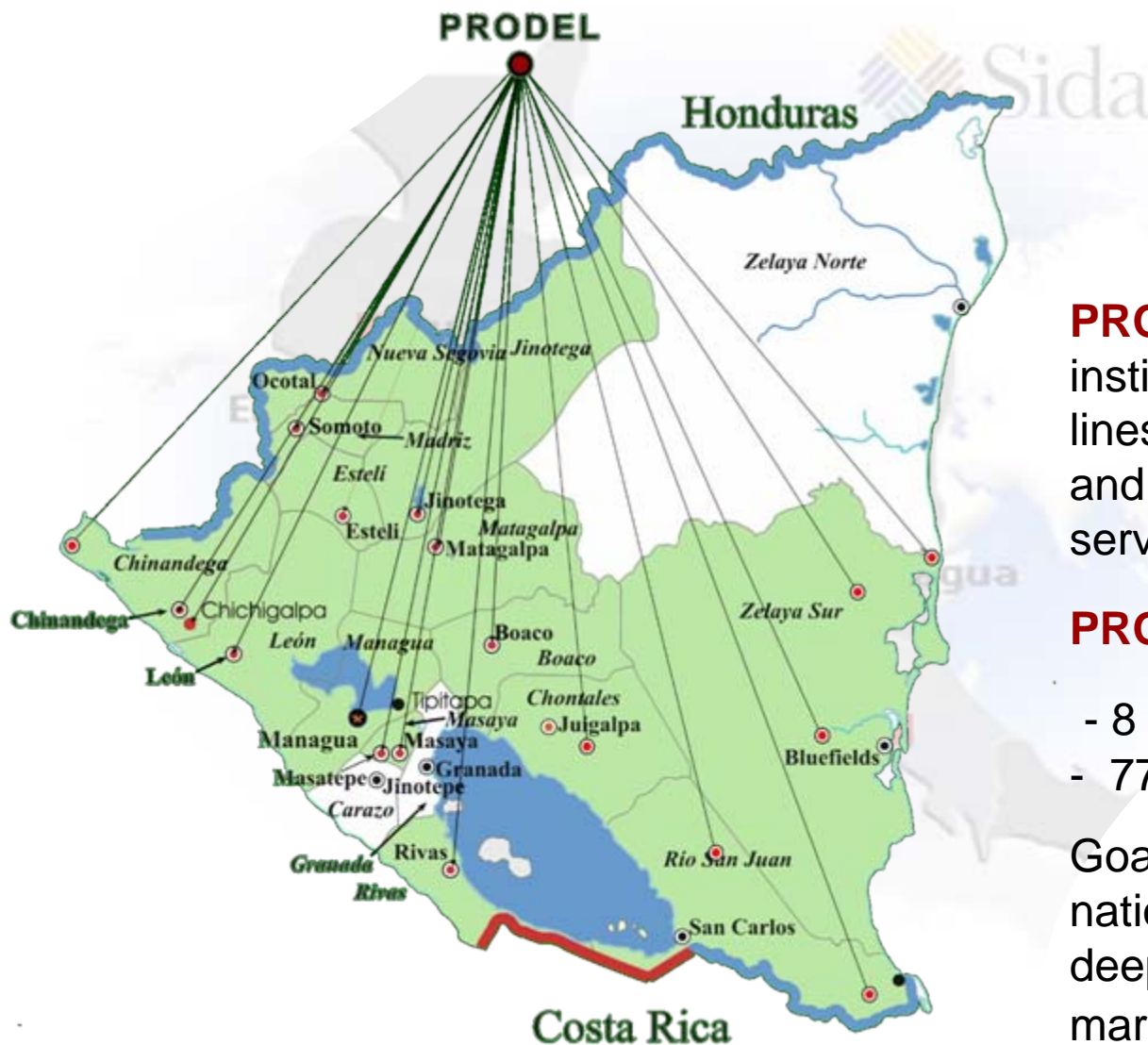


### **New Product Development**

Loans for basic services and infrastructure improvements



# Nicaragua



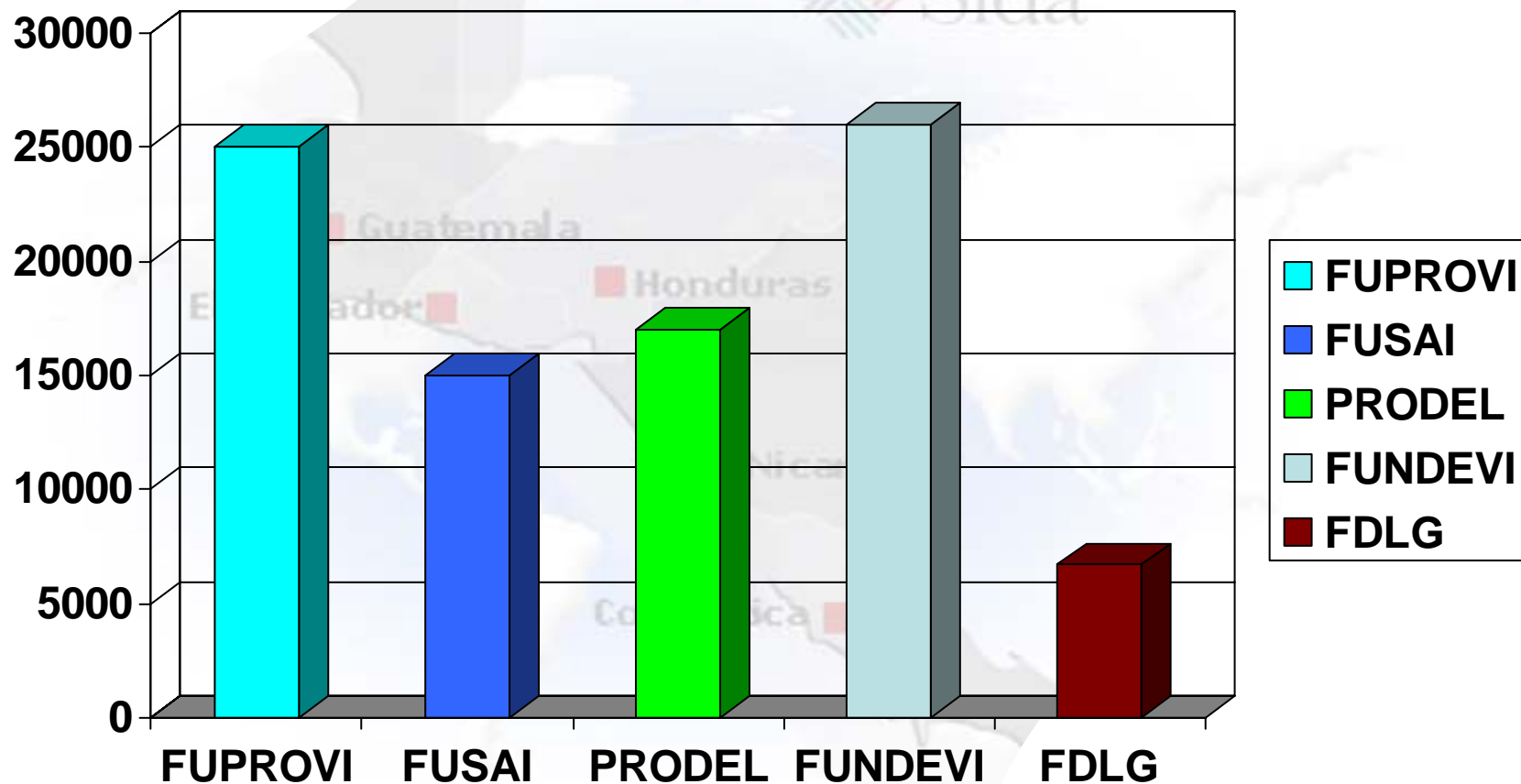
**PRODEL**, a second tier institution, provides credit lines, ratings, supervision, and capacity building services to MFIs.

## **PRODEL works with:**

- 8 financial institutions
- 77 branch offices

Goal is to achieve nationwide coverage and deepen the housing finance market

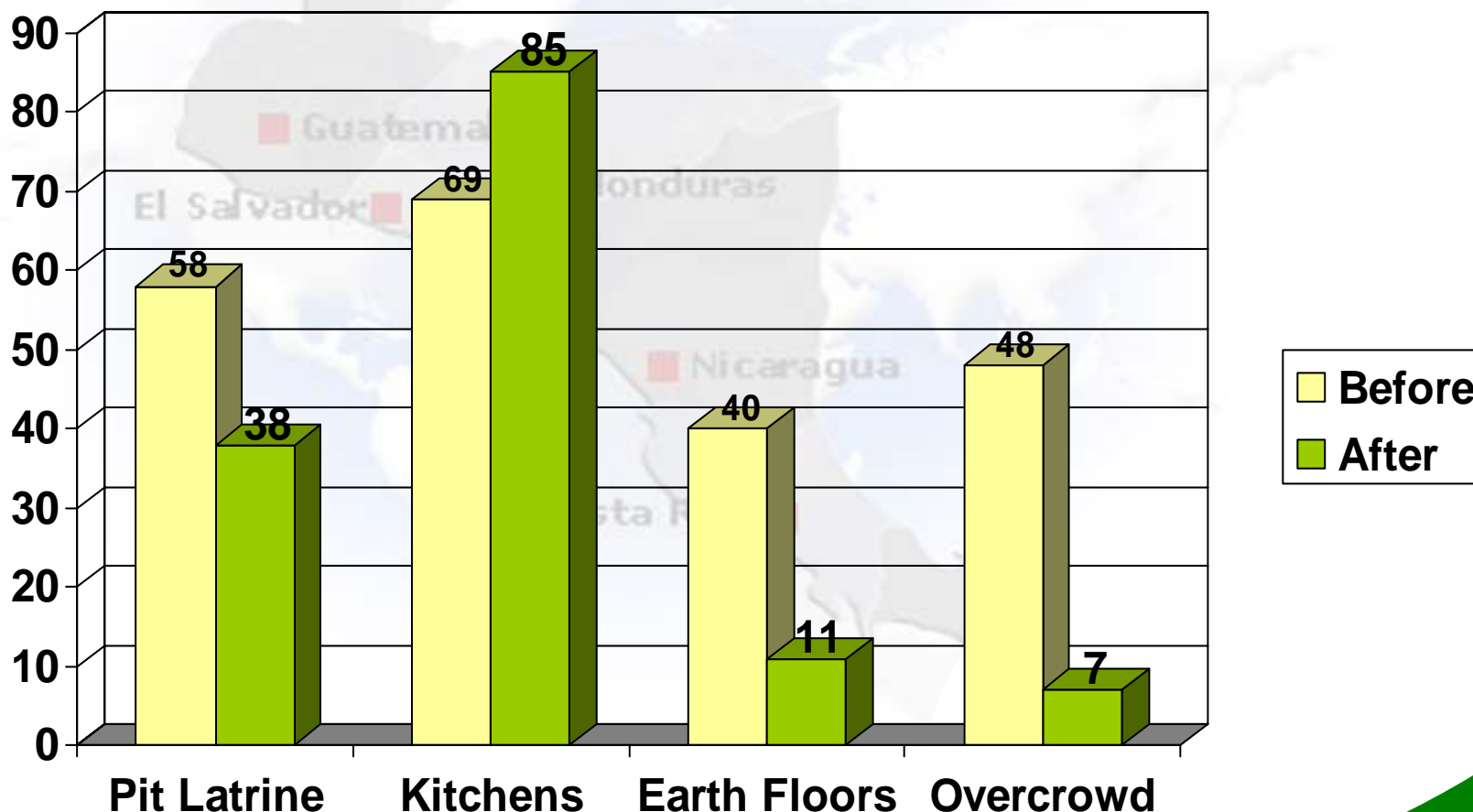
## TOTAL HOUSING LOANS 89,700\*



\* Includes some loans with other resources i.e, KfW in FUNDEVI – it does not include the MFIs own resources, nor the total housing portfolios of MFIs in Nicaragua and Guatemala

## Effects of housing improvement loans

### PRODEL: Some effects of housing improvement loans (% of households)



Source: FIDEG (2006) 'Reducción de la pobreza y mejora urbana en Nicaragua', PRODEL.

# Impact is Visible and Tangible

## Before and After - Neighbourhood Upgrading



The upgrading of neighbourhood infrastructure stimulates family investments in housing - demand for housing finance increases



# Progressive Change

## MICRO CREDIT FOR HOUSING Progressive Improvements



With 5-7 loans a makeshift temporary shack can be transformed into a solid home.

Primary School Teacher



# Outcomes

Sida funding has been a catalyst for the introduction of housing products

Housing Microfinance services have increased throughout the C.A. region

- 17 financial institutions are working with housing products

Diversification of portfolios

- 10% - 30% of total portfolios are currently in housing micro finance

Scaling up is gradual

- 6.4% of all residents living in informal neighborhoods have gained access to housing finance
- Graduation to commercial and local sources of funding has taken place

# Lessons For The Future

Reaching scale will remain challenging: demand still far outstrips outreach.

Replication of proven models although desirable, proves difficult: penetration rate at all levels is incipient – government, private sector, donor knowledge transfer – a “start from scratch” approach, rather embracing tested practice prevails.

Products and methodologies should be flexible and respond to changes in the type of housing demand.

The market is often working well, but housing finance for the poor is only one part of creating better shelter and services. Creative alliances between banks and other service providers are needed.

**EXPANSION – INNOVATION – EXPANSION!**

# New Challenges

## **MIGRATION – Generating a new type of client**

How to respond to shelter needs - and provide financial services - for an increasingly mobile population?

Migration brings greater risks and opportunities for regions with high out migration:

- Concentration of poorer people, and risk of being left behind.
- Remittance flows channeled to housing has much potential

Responses may require some shift in conventional definitions and thinking around:

- Composition of the Household
- The applicant - youth, immigrants
- Conventional eligibility criteria: - fixed abode, proof of residency, income verification



# Opportunities

## Remittances – Can part of this flow be directed to housing?

Remittances of US\$ 300 billion annually surpass official development assistance and direct investment.

➤ Latin America is the largest recipient worldwide – US\$ 64 billion annually

*To harness these resources will require new ways of capturing savings.*

Remittances from Spain are more likely to help family out of poverty, than those sent from the USA\*

Spanish banks have the lowest transfer fees in the world and encourage senders and recipients to open bank accounts\*.

77% of Latin American workers transferring back home have bank accounts in Spain, compared with 27% in the USA\*.

# Opportunities

## **HARNESSING TECHNOLOGY – Promising Perspective for Achieving Scale**

New generation of clients request a new kind of service

Cell phones lower administration costs - cell phone sales are growing faster in emerging economies, especially Africa.

Can we in short, have immigrants guarantee for family back home, the amount needed to commence building a new house through the web?

E-banking and ATM penetration are positioning themselves to revolutionize outreach on a massive scale

# Sida supporting innovation

## Sourcing Long Term Finance – Building Local markets

The demand for long term finance remains a key need for the expansion of housing financial services to the poor

Building local capital markets can go along way to raising the amounts of capital that are needed to reach the un-serviced majority.

In Nicaragua, Sida together with IADB-MIF are supporting the securitization of housing microfinance portfolios.

Cheaper capital - should help in to achieve more competitive pricing: Interest rate does matter for the poor!

# Opportunities

## **NEW PLAYERS – Promising Perspective for Achieving Scale**

New players are entering the field of financial services, hence increased competition for conventional banks, and MFIs.

New distribution channels include building materials suppliers - Home Depot, Cemex, local building materials suppliers.

They offer multiple services: “one-stop shop facilities” for clients – building materials, loans, technical assistance, door- to-door delivery, and credit on attractive terms.

New competition is helping the poor obtain more efficient and effective services at better rates.

**Housing is not only about finance!**



## Further Details

**For further details of Sida experience in Central America please contact: INEC/Urban Division, Sida – [per.froberg@sida.se](mailto:per.froberg@sida.se)**

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