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## Strategies for affordable housing finance in Sub-Saharan Africa

### Introduction

In Africa, as on many other continents, urbanization has occurred at a faster rate than economic growth. Many of Sub-Saharan Africa's urban poor live in slums or inadequate formal housing. Consequently, housing micro finance has emerged over the past decade as a crucial component in facilitating housing in slums and for low income groups. However, the provision of affordable housing finance has been a major challenge in implementing adequate housing programs in Africa.

There are both financial and political reasons that support the importance of housing finance for low income groups. Housing is not just a social item but also a commodity - homes act as a crucial utility and capital asset for families. However, many of the world's urban poor, while they aspire to 'formal' housing, live in informal or semi-formal homes, which are often inadequate and do not act as an asset. They have little to no access to formal financial institutions to secure capital to improve their housing situations; banks tend to see these households as risky. Often the investment needed to improve homes without financial assistance is larger than these households can afford. Housing micro finance allows households to improve their home as an asset which then



Participants keenly listening to Oliva van Rooyen, Executive Director Kuyasa Fund, at the regional housing finance workshop held in Cape Town, in April, 2006. Left to Right: Olivia, Martha Chitando, Zimbabwe; Mercy Chana, Tanzania; and Paul Munene, Kenya.

provides a basis for other financial services.

Private commercial finance sources, which provide credit at market rates, often avoid involvement in housing finance provision for low income groups due to their lack of solid collateral, low and/or irregular incomes and high default risk. Low income households often operate mostly in the informal economy and have therefore been excluded from accessing capital to build their houses. Providing housing micro finance could bridge the gap between the formal and informal sector.

Housing micro finance practitioners recognize that the poor can incrementally and affordable

improve their housing. With this recognition is also the acknowledgement that loan finance can increase vulnerability by

### In this issue

Strategies for affordable housing finance in Sub-Saharan Africa .....	1
Kenya: National Housing Cooperative Union (NACHU) .....	7
South Africa: Kuyasa Fund: A micro finance organization best practice .....	9
Tanzania: WAT-Human Settlements Trust ....	11
South Africa: Utshani Fund .....	13
Monitoring and evaluating micro finance institutions .....	15
Kuyasa Fund: Client default study : .....	17
NACHU: Case surveys .....	19
SINA Forum .....	20

## Editorial

October 13, 2006 Oslo Norway - Bangladeshi economist Muhammad Yunus and the Grameen Bank he created win the Nobel Peace Prize.

For over two decades the Grameen Bank and other micro-credit institutions have been creating wealth for the poorest members of our society. By lending small amounts to individuals they have allowed thousands of people the opportunity to better their lives.

The enterprise micro-credit industry is a mature element of the financial marketplace. The Grameen Bank alone had \$US 427.5 million in loans outstanding at the end of 2005. In comparison, the housing micro-credit sector is in its infancy. While it is true that many enterprise micro-loans have been used to assist borrowers in improving their living environment, the majority of these loans have been granted on the strength of the enterprise supporting the borrower without acknowledgment that they are housing related.

Housing related micro-finance is as different from enterprise micro-finance as a traditional homeowner's mortgage loan is from a business' line of credit. Different tools are used to evaluate the loans and different measures are used to evaluate the success of various loan products. The creation of the tools that are applicable to the housing sector of the micro-credit industry is just beginning.

Providing business advice is an important element of enterprise micro-lending. The housing development process is as complicated, if not more so, requiring knowledge of architecture, engineering, city planning to mention only a few, yet the provision of technical services to borrowers of micro-credit for housing is not required (or encouraged) by many institutions. Regardless of whether the provision of technical services is integrated in the Housing Micro-Financing Institution or provided by third parties it is a critical element in reducing the risks inherent with housing finance.

There are hundreds of millions of dollars capitalizing the enterprise micro-credit industry; some sourced from the saving of the borrowers through credit unions and the like, some sourced from international donors, and some sourced from wholesale lenders. The loans provided in enterprise micro-lending turn over very quickly, usually within a year and are significantly smaller principle amounts than are necessary for housing. Housing micro-loans are much larger and the repayment term is much longer. The challenge for housing micro-credit providers is to source the larger pools of capital that housing loan products demand.

The people and organization profiled in this edition of SINA are the pioneers of the Housing Micro-Finance sector. I take my hat off to them in their struggles to provide safe, secure, and affordable housing and the necessary finance to some of the poorest in our society.

Jamie Ritchie, Rootops Canada/Abri International, Technical Advisor

### Editors

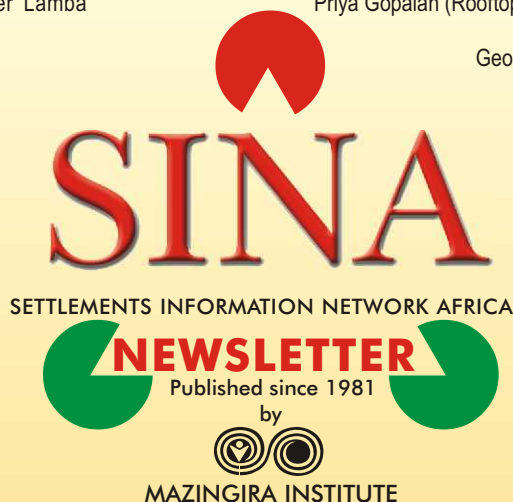
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providing access to loans that the very poor cannot afford. In general, housing improvement for the poorest should be facilitated through grants and subsidies. There is a critical balance between institutional sustainability and the organization's poverty alleviation objectives, which impacts on how the organization defines its target group, the design of products offered and flexibility of the terms of borrowing.

In human development terms, the benefits of providing micro finance are substantial in that housing impacts the well-being of people - education, health and social aspects of people's lives. Savings could be used as a critical lever for social impact. Housing Microfinance Institutions (HMFIs) are now seeking ways to assess their impact on the lives and living conditions of clients. The methodology is evolving and some organizations are piloting impact assessment studies. The Millennium Development Goals (particularly Goal 7, Target 11) provides a starting point for assessing the housing impact.

### About Rootops Canada

Rootops Canada has provided technical expertise and leadership in urban low-cost housing and human settlements development around the world since 1984. It is the international development program of the Canadian cooperative and social housing organizations. It works in partnership with community based housing groups, NGOs, local and senior levels of government, and the private sector. It draws on the experience of the Canadian housing sector and its overseas partners to help meet the long-term needs of local communities in Asia, Africa, Latin America, the Caribbean and Europe.

Rootops Canada's approach to housing is guided by a vision of integrated sustainable human settlement development. Its programs are developed with the following principles in mind: basic human rights, including the right to housing to be respected and fulfilled; empowering civil society and good governance; women's right to own and inherit land and housing; and developing partnerships with stakeholders at all levels.

Rootops Canada's programs with overseas partners emphasize capacity building projects leading to long-term sustainability. The ultimate goal for the capacity building process is to enable partners to support low income communities to improve their housing and human settlement conditions. The principal tools to support the process include technical assistance, program funds generally financing pilot or model initiatives and networking for learning through exchanges, study visits, workshops and documentation. The lack of systems to finance housing is a key limiting factor for low income communities. Therefore Rootops





Barry Pinsky, Executive Director, Rooftops Canada/Abri International, giving a briefing on the housing finance workshop and on Rooftops. To his left are Jamie Ritchie, Consultant, Rooftops Canada and Jane Dache, NACHU, Kenya.

Canada and partners are collaborating on the design and delivery of appropriate finance products, including the raising and management of funds for capital investment from both local and international sources.

With the support of the Canadian Co-operative Association (CCA) and the Canadian International Development Agency (CIDA), Rooftops Canada implemented the Regional program in Eastern and Southern Africa to design, pilot, assess and disseminate alternative housing finance mechanisms for co-operatives and co-operative like groups. The program focussed on building their capacity both to design and manage appropriate housing finance products for low income co-operatives, and to raise capital funds from local sources (members savings and financial institutions) and from international sources. The program contributed to the documentation and regional dissemination of the learning experiences and results. This was done in partnership with the Settlements Information Network Africa. The key partners in this project are the National Co-operative Housing Union (NACHU), Kenya, WAT - Human Settlements Trust (WAT), Tanzania and the Housing People of Zimbabwe (HPZ), Zimbabwe. While NACHU and WAT are now evaluating ways to scale up their activity, HPZ has presently suspended all micro finance activity because of the economic and political situation in Zimbabwe.

Rooftops Canada has organized two regional workshops on the issue, developed pilot programs, and provided operational and technical support to partners around specific issues. The workshops included other regional housing micro finance practitioners such as the Kuyasa Fund, and the Utshani Fund (both from South Africa) and included representatives from housing advocacy

groups and banks from the region. Documentation and dissemination of experiences and best practices is a critical component of the project and the Settlements Information Network Africa (SINA) was integrated in this process to strategically disseminate results and lesson learned.

The workshops identified and discussed challenges and issues, requirements for a good housing micro finance program, the impact of HIV/AIDS on micro finance and institutional models that partners have adopted. In this issue, we profile housing micro finance programs of NACHU, WAT, Kuyasa Fund and Utshani Fund and discuss their key strategies, challenges and lessons learned. The next section discusses general principles for monitoring and evaluation for housing micro finance programs along with some examples in improving performance management and impact assessment from Kuyasa Fund and NACHU.

#### **Key issues, challenges and lessons learnt**

Both workshops identified a number of other pertinent issues concerning micro finance; sourcing capital; appropriate loan products; tools for assessing loans; appropriate systems for micro finance operations; obtaining real costs/benefits of micro finance operations; assessing affordability; collective loans vs. individual loans; managing human resources in the organization; assessing loan security; financial ratios; compliance with policy framework and legislation; monitoring and evaluation; creating measures for impact assessment; collaboration with partners; and regional cooperation issues. Some of these are discussed here in some depth.

## REQUIREMENTS FOR A GOOD HOUSING MICRO FINANCE PROGRAM

- Clear understanding and agreement of target group otherwise programs tend to drift 'upmarket'
- Clear understanding of role and limits of micro finance as a development tool, and its relationship to other interventions
- Prior practical exposure to as many housing micro finance models as possible.
- Commitment to match micro finance strategy to realistic, feasible building processes not 'dreams'
- Clear subsidization strategy who is being subsidized, why, how and by how much
- A governance structure that 'ring fences' micro finance from other programs both financially and strategically
- Sufficient internal capacity to model the program properly and monitor it as it develops don't rely on TAs!
- Sufficient operational funding to cover the learning curve of approximately four years
- Sufficient full time staff to perform essential tasks borrowing time from other programs doesn't work
- Commitment to stop micro finance if it is not working well

### Institutional approach and framework

In general, approaches to housing micro finance can be classified as either the “product approach” or the “process approach”. The product approach is usually an expansion of the micro finance lending portfolio to include housing loan products. It has evolved from the realization that many loans are channelled into housing improvements. As a result, institutions began to offer a range of housing finance products for new housing construction and home improvements. The strong connection between the home as both shelter and a place to house or support income-generating activities made this a logical evolution and eased the transition to new financial products, structures, and loan terms. The “process approach”, is often adopted by NGOs, resource and advocacy groups and is an extension of their efforts to secure affordable and adequate housing. As part of the empowerment agenda (including community organizing and political lobbying), several organizations have developed micro credit programs that enable the poor to access serviced land and acquire shelter. This approach is characterized by capacity building, leadership development and technical assistance as part of the housing finance package. Some organizations, such as WAT, also adopt a product-process approach where they separate the technical assistance components from the housing micro finance activity.

Institutions have thus found different mechanisms to

either build on or use micro enterprise principles in different ways, all with pros and cons:

- Housing micro finance that emerges from an existing MFI, such as the Grameen Bank can cross subsidize transaction costs by lending to established clients. However, loans often are abused and cause the housing micro finance program to grow unsustainably.
- Standalone HMFIs, such as The Kuyasa Fund can, by being independent of other responsibilities, be very specialized and therefore devote all of their time and resources to develop useful models and practices. However, they cannot cross subsidize any costs and can have a more difficult time accessing capital than other institutions.
- Cooperatives can be successful in mobilizing savings and developing social capital, but they are generally not well-suited to the very poor.
- Community Revolving Funds can be very flexible and reach the very poor, but lack good track records and tend to have trouble actually 'revolving'

### Balancing long term sustainability with social responsibility

HMFIs have to maintain the tenuous balance between meeting the immediate needs of specific beneficiaries versus the long term needs of the system. In order for HMFIs to improve the housing situation for many urban poor through housing finance, the issue of land tenure and the state regulation of urban settlement must be recognized. Without tenure and the existence of appropriate and useful urban settlement regulations, improving housing in urban areas for the poor can be especially difficult.

HMFIs have proved that competent financial institutions can provide financial services to the poor at scale and on commercial terms. The client base values access to credit more than its cost. Stringent lending conditions are not a deterrent for potential borrowers as long as products are suitable and competitive.

A housing micro finance organization needs to consider the following elements in designing a financial model: defining the target group; economic characteristics of the target group; location and the branch network; payment mechanisms; loan size; charges and interest rate; savings; training; and discipline peer pressure and incentives. In addition, risk management has to form an important part of the model, which implies on-going monitoring and impact assessment.

The model would depend upon the objectives of the organization: social or developmental; institutional and social circumstances in the area of operation; opportunities available in the country for establishing micro finance organizations; and potential obstacles.



### **Defining an appropriate target group and developing suitable products**

In their quest to balance sustainability with meeting their poverty alleviation objectives, HMFIs must define their objectives in relation to specific target groups. This has to be based on accurate data about the target population. Products and policies have to be developed for specific target groups. This baseline information is important for monitoring and evaluation as well.

Product development for housing micro finance requires a significant level of investment in market research, concept formulation, planning, piloting and systems development. Targeting housing micro finance to low income earners requires the development of innovative approaches and products. Products have to be suitable and accessible. Products that mimic traditional and incremental building practices are more accessible and affordable to low income households. Loan products have to inculcate financial discipline and be synchronous with the practice of incremental construction.

Processes have to incorporate technical assistance to improve plans and designs, educate and mobilize communities, build consensus on housing norms suitable to the community's needs and financial capacity, develop models they can construct themselves and increase their capacity to negotiate with and through bureaucracy.

### **Sustainability**

One of the most insidious 'errors' a HMI can make is to incorporate subsidies without knowing why, how much, for whom and how long. Subsidies in credit programs are more likely to benefit only a small number of less well-off clients than a large number of deserving households. Subsidies, especially when funded by overseas donors, are inherently unsustainable. Organizations can appear to have very few prospects in expansion due to their implicit dependency on donor funding. Indeed, it can be the case that subsidies are needed, as with the Kuyasa Fund, but seeing them as necessary only during a defined time and space to allow pilot projects, experimentation and learning by doing, is crucial.

In order to create and maintain sustainability, HMFIs must develop the best model possible for the work that they do, as discussed above. One way to ensure this is to develop and preserve a HMF network, which will facilitate the learning process through peer support, constructive feedback and review.

One strategy to ascertain operational sustainability is to separate the costs of the organization by functions, e.g. the cost of advocacy and MF functions of the

organization should not be lumped together. NACHU will soon separate budgets relating to each function. NACHU needs a loan portfolio of KShs. 100 million to be sustainable and aims to achieve this by 2009. WAT is proposing to separate its financial and technical assistance functions. Kuyasa Fund is focused on the sustainability aspect. At present level of operations, Kuyasa Fund has a cost recovery ratio of 65% (April 2006) and needs to achieve a loan portfolio of R 12 million to be sustainable. The current deficit is funded by donors.

### **Scaling up**

Because there is an urgent need for housing finance in lower income households, many HMFIs have an intense desire to scale up their activities to meet the need of the urban poor and to gain organizational sustainability. However, scaling up without responding to existing institutional and management challenges, or by gaining exposure to different models may result in poor decision making and weak performance. Organizations must deal with competing perspectives, such as, in NACHU's case, those from the federation, technical resource groups, and lenders, before determining the most appropriate method of growth. Practitioners should develop the best possible plans to make the program as effective and as sustainable as possible. It is often more effective for each individual organization to examine their core businesses before responding to external influences.

### **Risk management**

HMFIs work in an environment that has a lot of uncertainty. It is, therefore, important to acknowledge and analyze risks and mitigate them effectively. Some risk mitigation strategies are: diversification of products, strengthening arrears collection mechanisms, good information systems to provide accurate and up-to-date information, and building reserve funds to account for default due to circumstances such as HIV/AIDS. Special mention is made here of collateral and collective lending as methods in risk management.

### **Security and collateral**

Housing Micro finance Institutions (HMFIs) do not typically use conventional mortgages as security for housing loan products. The emphasis is on tenure security rather than legal tenure or title. This is reinforced by the fact that a client is likely to absorb debt for home improvement or construction only if they are unlikely to be evicted or displaced from the site of settlement. Even where legal title is available, it is legally cumbersome and expensive (with respect to the cost of the loan) for HMFIs to attempt to foreclose on this title.

The preferred strategy to reduce and mitigate risks



*Left to Right: Eric Mkemwa, WAT Human Settlements Trust, Tanzania; Innocent Mujajati, Housing People of Zimbabwe (HPZ), Zimbabwe and Barry Pinsky, Rooftops Canada/ Abri International, Canada, concentrating on presentations being made at the workshop*

associated with default is a thorough analysis of the borrower's ability to afford the element of housing development and his/her capacity to service the debt. Home loan products are more commonly secured by co-signers/ guarantors, hard collateral or other assets, deposits against loans, group and peer pressure. Savings capacity prior to loan approval also tests future ability to repay loans.

#### **Collective loans Vs. individual loans**

While group solidarity has been an important factor used by micro finance institutions in protecting against default, housing micro finance practitioners are moving away from lending to groups to lending to individuals. Housing loans have longer terms of repayment and are of larger amounts, imposing greater risk on group members. Group lending is preferred for certain shelter related investments such as land purchase and infrastructure improvements, making such investment more affordable.

#### **HIV/AIDS and housing micro finance**

HIV/AIDS is a housing issue, especially among women and children who constitute the majority of slum dwellers. Inadequate housing increases the risk of opportunistic infection. Without proper water and sanitation infrastructure, these risks are much greater. Families coping with HIV/AIDS are not able to contribute to housing because of lost income and medical expenditures

It is crucial that all HMFIs take the reality of HIV/AIDS into consideration when planning programs. Due to

disease, some of the fundamental operating principles that MFIs rely on are no longer appropriate. The impact of HIV/AIDS on HMTI constituencies manifests as lost income, decreased economic productivity and dramatically increased expenditure on care of the sick person.

HIV/AIDS affected clients may not continue to borrow thus eroding the client base. If they do borrow, they may not do so in stepwise increments. The quality of the portfolio may deteriorate due to increased delinquency, particularly if affected households have been encouraged to borrow beyond their ability to repay. As the infection rate increases, the cost of expanding the HMTI's client base also increases.

Clients affected by HIV/AIDS need to access a wider range of financial services, particularly access to safe and flexible savings. Clients' willingness to continue in programs may depend on their ability to stop borrowing for a period, or on having flexible access to accumulated savings.

HIV/AIDS also has an organizational impact. Staff are from affected households as well, leading to increased benefit costs, increased absenteeism, and increased staff deaths.

Organizations have to recognize the impact of HIV/AIDS on their constituencies and their business model. The changes that HMFIs must make in order to assist those affected by HIV/AIDS will vary, depending on the organization's target populations' experiences

with HIV/AIDS. New forms of risk management and different types of insurance are possibilities for the development of programming to suit the needs of those infected and affected by HIV/AIDS.

NACHU has developed a HIV/AIDS organizational policy, which addresses the issues of non-discrimination, confidentiality, continuation of employment, education, mainstreaming of programs and support. NACHU will pay specific attention to the gendered dimensions of HIV/AIDS.

WAT has encouraged its constituent groups to become members in the WAT-SACCOS (Savings and Credit Co-

operative Societies) to provide access to financial options to build up a stronger safety net to draw on when crises occur. WAT has developed a brochure on micro finance, gender and HIV/AIDS, and trains client groups in affordability with relation to housing. WAT is proposing the development of a HIV/AIDS Reserve Fund as a mechanism to hedge against risks to its housing micro finance program.

Other strategies being considered include mitigating non-payment through credit control and bad debt provisioning. Organizations are also encouraging clients to build business and entrepreneurial skills to strengthen informal and small business undertakings.

## PROFILES

### Kenya

### National Housing Cooperative Union (NACHU)

The National Housing Cooperative Union (NACHU) is an umbrella organization for 251 affiliated housing cooperatives in Kenya. It provides financial and technical services that are related to housing and shelter.

NACHU's Board consists of 9 members, 7 elected to represent individual provinces and 2 others elected at large to offset any gender imbalances. The overall policy of the organization is decided in the Annual General Meeting. The General Manager is responsible for the operations of the organization and leads a team with responsibility for: Finance and Administration, Training and Micro Finance, and Technical Services.

Since it was registered in 1979, NACHU has tested traditional housing finance products and systems with varying degrees of success. They have modified their approach based on housing micro finance principles and the micro finance department is piloting a housing micro finance program currently targeting 35 primary cooperatives.

#### Target market

The demand for decent, affordable low-cost housing in Kenya is quite high. NACHU targets cooperative societies. Loans are made to individual members of cooperative societies. To be eligible clients need to have secure tenure (either a title deed or an allotment letter) and earn a regular income of Kshs. 3,000 to 10,000 (1USD=70 Kshs.) from either formal or informal

employment. The member has to save an amount equivalent to 20% of the value of the loan before it is granted.

#### Products being offered

NACHU provides loans for new housing and rehabilitation; infrastructure e.g. water; start-up capital for small businesses and for their expansion for land purchase. It provides technical services such as survey and design for the houses to be built.

#### Business model

Loans are given to individuals or to cooperatives. The maximum group loan is Kshs 3 Million and the term is 3-4 years. It is most suitable for community infrastructure, land purchase or commercial property. Individual loans are for longer duration, from 4 to 6 years. The interest rate charged is 15% on a reducing balance system. In Kenya, the cost of a 48 sq.m two-roomed house is Kshs 200,000. To date, the majority of loans have been issued to cooperatives based in either Nairobi or Nakuru. Many members borrow to build a complete house.

A loan application is made by an individual and guaranteed by the other members of the co-operative. When assessing loan requests from individual clients, overall household income is used as an indicator for loan approval. It is approved at various levels, by the co-operative and by the regional board member before NACHU approves the loan. The Technical team and the Finance Department have to approve the loan before it





Photo: Mazingira Institute

*Paul Munene, National Cooperative Housing Union (NACHU), Kenya giving an insight into the operations of NACHU's housing finance programme. To his right is Martha Chitando, HPZ, Zimbabwe.*

goes to the Committee—comprising the General Manager, Finance and Technical services for final approval. The process takes a month. The borrower is expected to pay 20% as cash deposit and is given a grace period of six months before beginning to repay the loan. The first disbursement is 50% of the loan approved and the cheque is issued to the co-operative. NACHU provides training on usage of the loan and on technical aspects.

The cooperative collects the money from the member concerned. The money is banked into NACHU's account. NACHU tracks repayment on a monthly basis and after three months of non-payment, initiates debt collection proceedings.

A business loan ranges from Kshs 30,000 to Kshs 150,000. The term of this loan is one year. Housing loan ranges from Kshs. 55,000 to 200,000. The minimum cost to build one room is 55,000. The maximum term is 4 years. For new housing, the maximum amount lent is Kshs 500,000 at an interest of 15 % per annum.

NACHU's capital comes from an ethical loan fund offered by the federation of housing cooperatives in Montreal, Canada (FECHIMM) and wholesale funds from a local bank. The average cost of capital is 7.5%. NACHU has so far used only external sources of capital, and not its members' savings, although it now intends to retain 50% of member savings and use the balance as loans.

One important challenge facing NACHU is to separate its housing micro finance activities from its other activities; and to separate accounts for the distinct micro finance products to determine the performance of the housing micro finance portfolio.

### **NACHU's HIV/AIDS policy**

While default is still hard to track and control, NACHU has realized that some default is due to HIV/AIDS. In Nyanza, there were four defaulters due to HIV/AIDS.

NACHU has invested in insurance to protect against default but this adds 2% to the cost of the loans being issued.

In 2003, NACHU began integrating HIV/AIDS programs into its mandate when feedback indicated that at least one member in every ten co-operative societies had died due to AIDS. Three societies out of ten had at least one member suffering from AIDS and/or at least had one AIDS orphan.

NACHU conducted a survey with their members in order to determine to what extent they were aware of and how affected they believed they were by HIV/AIDS. It was discovered that some NACHU members had little to no HIV/AIDS knowledge, had not discussed HIV/AIDS with family, and/or were largely unaware of the situation. Some had been greatly affected by relatives' or neighbors' illness, but did not know where to go to find assistance. NACHU believes that if members' are infected or otherwise affected by HIV/AIDS, certain obligations to the organization may become a small priority. For example, instead of building capital, members may spend their savings on medical care, rather than investing in loan repayments.

NACHU has developed an HIV/AIDS organizational policy, which addresses the following issues:

- Non-discrimination – no member of a housing cooperative or an employee will be discriminated against on the basis of their known or assumed HIV status.
- Confidentiality – information regarding the HIV status of members, employees or their relatives will not be divulged to a third party without the written permission of the infected person.
- HIV/AIDS screening – no person will be screened for HIV/AIDS for the purpose of employment, promotion, training or so as to access NACHU loans
- Gender dimension – HIV/AIDS programs need to address gender disparities and reduce the vulnerability of women to the disease.
- Continuation of employment – HIV infected persons will not be terminated from employment on the basis of their HIV status.
- HIV/AIDS education – all members, employees and their families, will be provided with HIV/AIDS education. They will also assist in HIV testing.
- Mainstreaming – HIV/AIDS programs will be fully integrated into all NACHU's policies, strategies and programs.
- Support – by networking with other organizations, NACHU will assist in developing more effective strategies to combat and deal with HIV/AIDS



## Kuyasa Fund: A micro finance organization best practice

The Kuyasa Fund (KF) emerged out of Development Action Group (DAG) in 1999, based on of a need to find alternatives for accessing housing loans for the poor. The catalyst for Kuyasa's formation was the strong belief that the South African government housing subsidy scheme provided people with an opportunity to invest in and improve housing through a mechanism of savings and loans. The South African government gives a housing subsidy to people earning less than Rand 3500, sufficient to build a starter home of 32 sq.m.

Kuyasa Fund sets out to provide micro finance services to those with secure occupational rights and who are excluded from formal finance. It aims to create sustainable households and communities through facilitating access to housing finance as a tool for improving well-being and supporting the development of a financial sector for the poor. The concept of savings as a basis for accessing credit and building equity is fundamental to Kuyasa's approach. The immediate benefits are seen in the aesthetic, functional and, in some cases, sanitary improvement to their living conditions, and through providing a bulwark against the degradation of their peri-urban townships. There are also some indirect benefits, including improvement in the value of homes, the creation of home environments that are conducive to learning and studying and the creation of social capital within communities.

The goal is to use a model that focuses on providing a financial service that is affordable to its users. The organization has focused on the sustainability of client households before the sustainability of institutional operations. The fund is currently recovering 65% of operating costs (April 2006) and anticipates achieving full sustainability by 2007.

The Kuyasa Fund believes that the poorest of the poor are credit worthy, and through mobilizing savings they are able to build financial and social capital. It thus uses micro finance as a tool to improve housing conditions for poor people in the Western Cape, supporting community groups to save towards housing and by granting loans to individuals qualifying for the government housing subsidy. It maintains a close relationship with its clients throughout the life of the loan agreements, stimulates and rewards a culture of savings and payment for services and seeks to achieve the delivery of a socially beneficial service that is efficient and cost effective.

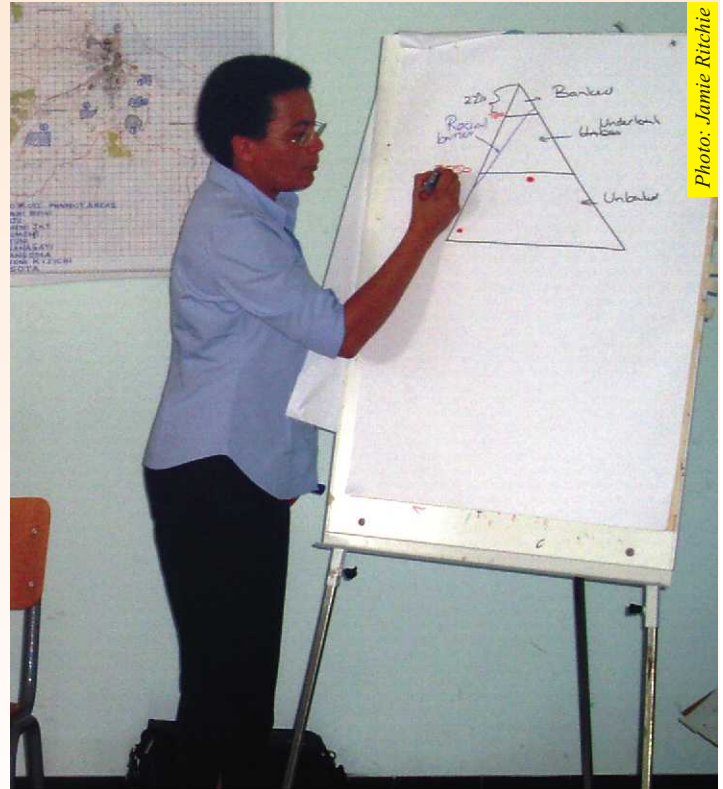


Photo: Jamie Ritchie

*Olivia van Rooyen, Executive Director, Kuyasa Fund, explaining three income groups found in South Africa, those who are able to build own houses, those able to access government subsidy and those who do not qualify for a subsidy or the subsidy is not sufficient to build a house which is adequate for their needs.*

### Objectives

The objectives of Kuyasa Fund are:

- To provide responsible access to credit to those outside the formal banking sector, particularly to traditionally vulnerable groups including women and the elderly;
- To support this access to credit through promoting savings groups and regular repayment;
- To provide credit with the aim of improving housing and building social capital;
- To enable clients to build adequately sized houses that meet their needs; and
- To provide an example of successful lending to the financially marginalized and to pioneer a methodology for finding sustainable solutions to poverty.

### Current services

The services currently provided by Kuyasa Fund are:

- provision of loans for housing on serviced sites;
- non-subsidy linked and non-project linked housing loan products;
- loans for improvements and extensions to housing; and
- hostel redevelopment.

## Target Market

In South Africa, commercial banks have started taking an interest in micro finance but do not wish to carry the costs associated with lending in this sector. Governmental pressure is being put on the banks to engage in addressing the housing backlog and to help create a secondary housing market. This would enable people to improve and extend their government subsidy built homes, which currently are improved through micro finance loans.

The state subsidy (given to those earning under Rand 3,500 equivalent to approximately US \$500) is sufficient to build a 32 sq. m home. However, in order to extend the house or to renovate it, owners require loans and commercial institutions are not willing to lend to the poor. KF is among the housing micro finance institutions in South Africa that try to fill this void. KF clients are mostly women, those with household incomes of less than Rand 3,500; and 60 % of clients earn Rand 1,500. The houses built through KF's assistance are on average between 54 to 60 sq. m, more than double the subsidy-housing norm.

## Loan criteria

The loan limits are between Rand 1,000 and Rand 10,000 and the maximum repayment period is 30 months. The interest rate is 32% per annum (compared to commercial banks which charge 64% to 95%). A 10% cash deposit is required and held for the period of the loan and a Credit Bureau check is done to verify credit worthiness of the clients.

In order for a household to be eligible for a loan, the client should have saved for at least six months with a savings group and is eligible for a loan upto three times the amount of savings accumulated with the group. The applicant must have a regular income, either a wage, remittances or social welfare grants. There should be an established security of tenure.

## Impact assessment

Kuyasa Fund has now been in operation for 5 years. An impact assessment is being designed to assess the



*The tall building in the photograph was built through the government subsidy and two loans of Rand 5,000 from Kuyasa Fund. The owner would not have been able to build the house purely with the subsidy from the State.*

impact of finance on clients. It will be used both for improving the product and services provided by Kuyasa as well as providing a detailed analysis of Kuyasa's impact on the lives of its clients.

The hypotheses used for the study are that improvements were made to the clients' houses by mobilizing savings and that there was an increase in social capital. Through the impact assessment, the intention is to measure much more than just the outcome of the work Kuyasa has done. Beyond the new houses and extensions Kuyasa has helped to build, Kuyasa wants to assess the impact on the lives of clients. The impact assessment will be conducted to identify changes that have occurred as a direct consequence of Kuyasa's programme.

## Impact indicators

Under the UN Millennium Development goals, Goal 7, Target 11 is that by 2020, countries should have achieved a significant improvement in the lives of at least 100 million slum dwellers. According to UN-HABITAT, a slum household is a household that lacks any one of the five elements identified below. These are also the indicators used in the study proposed by Kuyasa Fund to identify impact of its housing micro finance activities.

- Access to improved water (access to sufficient amount of water for family use, at an affordable price, available to household members without being subject to extreme effort);
- Access to improved sanitation (access to an excreta disposal system, either in the form of a private toilet or a public toilet shared with a reasonable number of people);
- Security of tenure (evidence of documentation to prove secure tenure status or de facto or perceived protection from evictions);
- Durability of housing (permanent and adequate structure in non-hazardous location); and
- Sufficient living area (not more than two people sharing the same room).

The first three elements are already met by Kuyasa clients and therefore are not relevant for their Impact Assessment. They will concentrate on the durability of housing and sufficient living area, as these are two elements Kuyasa strives to achieve. These will be used to measure the impact Kuyasa has on the standard of living of clients and on attaining MDG goal 7, Target 11.

## Methodology

The methods used will comprise a structured questionnaire, providing quantitative data on household budgeting and decision-making. A selection of clients will be invited to participate in focus groups in order to obtain a more qualitative understanding of those trends identified in the statistical analysis. A number of past clients will also be interviewed to provide contextual background to Kuyasa's work.



## WAT-Human Settlements Trust

**W**AT - Human Settlements Trust, formerly Women Advancement Trust, was established in July 1989 to promote the advancement of women. Since its formation, WAT has promoted gender equality through training, education and advocacy. This includes equal rights in access to land, property ownership, adequate housing and inheritance. WAT also encourages self-reliance among women and is actively involved in the fight against HIV/AIDS.

WAT established the Shelter Loan Revolving Fund (SLRF) in 1999 with support from Rooftops Canada/ Canadian Co-operative Association (CCA). The fund, added to by the Norwegian Federation of Co-operative Housing Associations (NBBL), has a current loan portfolio of approximately Tsh 42,204,500 (approx. US\$ 38,300). WAT has used the SLRF as one component of a broader housing and development approach to support housing development activities land purchase, surveys, infrastructure and services, new construction and house upgrading. WAT managed the Shelter Loan Revolving Fund and applied stringent financial rules and processes with relatively good success. The SLRF grants loans to groups and co-operatives.

The SLRF has shown two positive effects. First, it has created possibilities for households of very low income to receive loans for housing development. Even if the loans are very small, clients can undertake housing improvements in cost effective ways. Second, the fund has made it possible for housing groups to acquire land and presents the possibility for groups to take loans to construct houses. Some groups plan to establish systematic cooperation between the members in their construction process, for instance by jointly

acquiring their own brick-making machine and the joint production of roof tiles.

The funds available with the SLRF are too small for the growing needs of WAT's clients, therefore loans are of short duration. The short repayment period, a necessity from a banking perspective, is a major constraint for the borrower. For low income earners, short repayment periods make it impossible to take on large loans, particularly to acquire plots and to build a house.

In 1998, WAT initiated the WAT SACCOS, a Savings and Credit Co-operative Society under the Cooperative Act of 1991 Section 15, with the objective of facilitating the provision of small loans for housing. The WAT-SACCOS focuses on consumer and small business loans, has a growing membership, strong financial base, good management and governance systems. In 2002, WAT-SACCOS undertook a modernisation program, involving renewed membership systems, computerization and training of staff, with the assistance of the Développement International Desjardins (DID), a Canadian co-operative financial institution. As of July 2006, over 4600 members with Tsh 403 million in savings, Tsh 337 million in loans, and cash reserves of Tsh 23 million. The SACCOS does not presently offer any housing loan products. While a housing loan product has been added to the business plan for the current financial year, WAT-SACCOS requires additional capital to include housing finance products in its portfolio.

Much of WAT's experience with housing microfinance has been acquired through implementation of the SLRF and in systems and default tracking through the WAT-



Photo: Jamie Ritchie

Tabitha Siwale, Chief Executive, WAT Human Settlements Trust (right) with staff members in front of the building which houses the Trust.

SACCOS. WAT promotes and facilitates the formation of groups, partners groups through the development process, builds capacities to undertake housing development, and trains housing groups and co-operatives in project management.

Some of the lessons learnt from this process are: training and sensitization help to build financial discipline; communities need technical assistance to facilitate effective housing development; group lending - enhanced understanding of upatu structure and operations; international technical assistance has helped build institutional capabilities; institutional separation of finance and development; availability of capital; building technology promoting quality, alternate technology and updated standards; and housing microfinance facilitates women owning property.

### Lessons learnt

*Training and sensitization help to build financial discipline*

Low income households in Tanzania typically build incrementally using local artisans or informal trades people and in accordance with their



flow of income over 2 to 10 years, financed from informal non-loan sources. WAT targets a market which has no access to financial institutions for borrowing and is not used to long term financial commitments or regular loan repayments.

Training has helped build financial discipline, value for credit and respect for financial commitments. Loan products encourage savings as a pre-condition to provide access to affordable credit. It has had substantial impact in relation to women's rights to own land and on inheritance rights. This has resulted in women owning plots in housing co-ops / groups.

#### *Communities need technical assistance to facilitate effective housing development*

All categories of the target market need technical assistance to facilitate control over site and house plans, financing, the construction schedule and procurement methods. WAT's experience in the capital city of Dodoma was especially instructive in determining the necessary relationships between housing product, affordability, loan product and borrowing capacity. When groups were walked through the actual costs of housing versus income and saving capacity, they were able to appreciate that the dream of housing is grounded in a hard financial reality.

#### *Group lending - enhanced understanding of upatu structure and operations*

WAT has used the traditional Upatu (merry-go-round) group as the primary channel for lending and housing development. The Upatu has worked very well for WAT and the SACCOS for short term housing related loans. The SLRF experience has shown that the Upatu has its limits particularly in the context of longer term loans. In the long term, there is a risk due to factors associated with social relationships. The higher value of housing loans imposes financial pressure on the group and this could also impact on their social cohesion.

#### *International technical assistance has helped build institutional capabilities*

WAT and WAT-SACCOS have made significant progress in setting up systems related to savings, contracts, and loan procedures. International co-operation and technical assistance through Rooftops Canada, NBBL and DID has been invaluable in building WAT's institutional capabilities to manage the SLRF program and has helped WAT and WAT-SACCOS recognize the issues and challenges in scaling up their approach.

#### *Institutional separation of finance and development*

WAT finances various aspects of housing construction through the SLRF. WAT's technical assistance has been necessary to create viable and affordable housing for groups in informal settlements. WAT's role as a financier



*Eric Mkemwa, WAT Human Settlements Trust, Tanzania, giving a briefing on operations.*

has been necessary and useful, but with scale, WAT realizes that there is a potential conflict of interest in its role as a promoter and technical resource group for housing services and as a financier of housing projects. Monitoring and enforcing repayments become more difficult when WAT is entrenched in project management as well. Similar conflicts are being faced by other Rooftops Canada partners in Kenya and Zimbabwe and is validated by international trends in housing microfinance. WAT is therefore in the process of separating the components of finance and technical assistance while ensuring that both services are provided to the client.

#### **Availability of capital**

The SLRF enabled WAT to finance land purchase for two housing co-operatives. The availability of capital at the right time enabled WAT and the co-operative to take advantage of an opportunity as it arose. In this pilot program, WAT has land purchase and survey products to enable more families to buy and register plots.

#### *Building technology Promoting quality, alternate technology and updated standards*

Tanzania is still using building standards from the colonial period. Improved and updated standards are part of WAT's and Habitat Forum of Tanzania's (HAFOTA for more information see SINA 56) advocacy agenda.

WAT has built demonstration houses using soil cement bricks and alternate technology to convince its clients to adopt lower cost options. Construction monitoring and advice needs continued emphasis. WAT is discouraging improper construction practice (such as making 50 bricks instead of the recommended 30 bricks from a bag of cement) through technical assistance, training and sensitization.

#### *Housing microfinance facilitates women owning property*

WAT was formed to promote the advancement of women and a significant achievement and learning of the microfinance program and the SLRF has been to

enhance women's property ownership.

In the housing groups WAT works with, 53% of the members are women (though the ratio varies within each group). In the WAT-SACCOS, 57% of individual and 64% of group membership is women. WAT emphasizes the co-ownership of women (with men) in

the home construction and improvement process. This emphasis will be continued in WAT's programs along with continued advocacy and awareness on issues of inheritance and women's property rights. This is particularly relevant in the context of HIV/AIDS where women are often denied the right to their husband's property in the event of death due to AIDS.

## SOUTH AFRICA

### Utshani Fund

**U**tshani Fund is a not for profit housing finance and development company operating in South Africa since 1994. It works with community based organizations practising the principles of the Shack Dwellers International Network or similar principles suited to the context. As of January 2006, approximately 100,000 households were involved in Utshani Fund supported activities. Once linked to the People's Dialogue, an NGO that helped support the South African Homeless People's Federation to emerge in the early 1990s, the Utshani Fund has developed its own internal management and independent operating capacities since 2004.

Utshani's mission is to develop and deploy financial and technical tools in support of a community based process to improve relationships within poor communities, and between poor communities and the state around issues of human settlements development and livelihoods. Since 1995, Utshani has invested over Rand 100 million (approx. USD16 million) in partnerships between organized slum dwellers and the South African government.

Although Utshani performs many housing delivery functions, the primary objective is to support the formation of social capital in South Africa's slum communities, to broker partnerships with the South African State that makes use of this social capital and to support efforts to scale up this model of community led human settlement development. This is done through precedent-setting examples of people-driven housing, coupled with a strategy to encourage their adoption within South Africa's subsidized housing services.

Utshani Fund has gone through changes in the past five years. It has consolidated lessons learnt and identified key strategic thrusts. These are discussed below.

#### Key lessons learned

The three critical lessons learnt by Utshani Fund were:

- Subsidies coming in did not equal loans going out. Subsidies and loans were not the same because of: lack of support in provincial and local government;

political reluctance to support the Federation; unsystematic approach to subsidy recovery; and insufficient incentives for the Federation to assist the government in carrying out its tasks.

- Most of the Federation households did not see Utshani Fund as their asset, but as another form of housing subsidy; they thought of themselves as members and not as part of the organization and felt that loans were being used to mobilize the communities. There was lack of enforcement of rules and dependence on 'political sustainability'.
- It costs money to assist households to build houses using the subsidy and this has to be justified strategically.

#### Core strategy

Utshani Fund will restrict itself to activities that involve partnering with the state by demonstrating viable alternatives within the South African housing system, in order to change how it operates.

It will not support activities that substitute for the State. Utshani Fund will approach all of its activities on the basis of maximum effectiveness of resource deployment, and will carefully assess the cost-benefit of all supported projects. In general, Utshani Fund will focus on fewer, larger projects in major urban centres that will maximise the effectiveness of their scarce support resources.

Utshani Fund's main functions are:

- Acting as an institutional and financial intermediary of the South African housing subsidy system for the organized communities supported.
- Providing end-user credit in a way that encourages and strengthens internal savings and credit practise and builds social capital in supported communities.
- Acting as a strategic investor to enhance development outcomes and create revenue streams for the fund and its community partners.

In the early stages of operation, the Utshani Fund gave out bridge finance to communities for the governments housing subsidy program. The bridge finance was discontinued in 2001.



## Key strategic thrusts

### *Revitalizing governance and management*

With the establishment of the Utshani Fund as an independent company, better governance and management has been identified as a key strategic thrust. The Board of Directors has been reconstituted with four new directors and two new members, bringing in new experience. Community members constitute 50% of the board. A new executive director has been appointed and regular board meetings are held. Clear roles for all stakeholders have been identified and delineated Utshani Fund, community partners, and other NGOs. No financial support for operating costs is attached to these relationships. The organization will re-focus on its core mission and on policy change and try to increase its own income.

Through a new Articles of Association, Utshani Fund reserves support for organized communities who practice certain core principles. The fund has put in place procedures for which support should be given, namely: multiple membership-based organisations; use of savings or other practical activities that bind poor people together and promote community-driven actions that address needs; a primary role for women in community-based structures that do not exclude men; a positive approach to engagement with government and other stakeholders; minimal hierarchy; accountability and transparency; flexible, 'arms-length' relationships with other NGOs, professionals, and government.

### *Reorganizing the portfolio and weeding out stalled and infeasible projects*

The strategy is to complete projects that are feasible,

withdraw from projects where there is no reasonable prospect of timely completion; and/or households are so few and/or the project is so remote that the investment of scarce resources is not justified; and/or the state of the community in question makes it impossible for Utshani Fund to provide support; and it is still ethically and practically possible to withdraw. The Greenfields project, stalled since the 1990s, is an example of a project that the Utshani Fund plans to weed out.

## Challenges

Utshani faces capacity constraints in terms of professional staff. There is a need for a more "managed" approach, particularly since housing delivery slows down when housing is through self-building. Utshani is pursuing this approach, with fewer choices for community partners.

Another challenge is that the many households, particularly those associated with the Federation, are unable to understand the Fund's strategic shift and assume that Utshani Fund is responsible for meeting their housing needs. There is also the expectation and desire for a return to discontinued 'bridging loan' policy in some areas.

## Conclusions

The Utshani Fund has been instrumental in providing financial resources to enable poor people, especially women, to demonstrate the possibilities of the People's Housing Process and through their example influence South Africa's national housing policy. The fund correctly identified the policy's tendency to discount people's own skills and expertise as the key constraint to



Photo: Mazingira Institute

Ted Baumann, Executive Director, Utshani Fund (in blue T-shirt), explaining the Utshani project on the site where the Fund operates. From left to Right: Jane Dache; Kenya, Jamie Ritchie, Canada; Paul Munene, Kenya; Zarina Ishani, Kenya; Ted Baumann; South Africa; Martha Chitando, Zimbabwe; and Mercy Chana, Tanzania.



realize South Africa's dream to house its poor. By providing the equivalent subsidy upfront to the poor, the Fund enabled poor people to demonstrate the potential of the people's housing process.

While the impact of this cannot be underestimated, Utshani Fund believes that direct end user credit is not practical or developmental for very poor households and in a social movement context. Bridge financing the subsidy is expensive and must be strategically justified.

Utshani Fund will therefore act as an institutional and financial intermediary of the South African housing subsidy system for the organised communities that they support. The intermediation will be on two levels: technical - between State and community around flows of resources; and strategic—between innovative projects and the State around learning. However, any intermediation will be only occur after a careful cost-benefit analysis and with specific policy outcomes in mind.

## Monitoring and evaluating micro finance institutions

A number of housing support groups and dedicated financial service organizations are piloting housing micro finance as an essential tool to support low income groups in order to improve their housing and consequently their quality of life. It is important to monitor and measure the results of their work. Monitoring can be defined as the regular, systematic collection and analysis of information to track the progress of project implementation. Monitoring produces timely, accurate and adequate information about the impact of a project. Regular monitoring ensures that the organization is measuring performance according to plans.

Workshop participants agreed that their work has to be monitored and measured at the level of: outputs, outcomes and effects.

- Outputs—this means monitoring and documenting what the institution is actually producing. It implies the registration of loans, amounts, clients, etc.
- Outcomes—this refers to changes resulting directly from the outputs. For example: new houses built, houses renovated, better sanitation, lower costs of housing.
- Effects/Impact— this refers to the broader results for the target group, resulting from the outcomes: less poverty, better health, better education, higher self esteem, better security. These are the components of development impact.

In addition, HMFI's are obligated to monitor and measure their performance through many key numerical and financial values such as: Market/Client Base, Operational Results, Financial Position and Self-Sufficiency/Sustainability. Many of these can be expressed as ratios and are often measured on a monthly, quarterly and annual basis. (See box 1 for some of the key measures used.)

Monitoring the external environment is crucial since housing microfinance institutions are vulnerable to macro economic shock. For example, in Zimbabwe is experiencing spiraling inflation that reached over 1,200% in August 2006. This has led organizations such as Housing People of Zimbabwe (HPZ) to reassess their approach to micro lending and put things on hold until the situation improves.

### Evaluation

Evaluation takes an objective look at what the organization has been doing within a specific time frame. It can measure the relevance, efficiency and effectiveness of the services and programs offered by the institution and can identify the reasons for both success and failure, so that future work can incorporate learning from both.

The evaluation of a housing micro finance program will review the numerical and financial values as they have changed over time. Changes in absolute values such as number and gender of clients, number and value of loans, rates of repayment; and trends in performance ratios will be important measures of efficiency and effectiveness.

Evaluation will also measure the results of housing microfinance in terms of housing outcomes such as: reducing homelessness, increase in financial opportunities and options, improved housing quality towards achieving MDG Goal 7/ target 11, building capacities at the community level, and mitigating the effects of HIV and AIDS.

In the best case, evaluation can also contribute to assessing developmental impacts arising from housing improvements in the long term such as: poverty reduction, financial sophistication, cohesive sustainable communities, self-actualization and change in the client constituency in terms of well being, education, health, comfort, satisfaction and physical structure.

In any monitoring system or evaluation cycle the type of data and methods used to collect information must be defined at an early stage. Critical measures or indicators for an HMF program come from data about the market, the operations of the organization, the financial position of the organization, the self sufficiency or sustainability of the organization and, ultimately, the desired development impact of the program.

A baseline study is an important tool for monitoring performance and measuring change and development impact.

While the systems and methodology for monitoring and measuring the results of housing microfinance programs are

### Box 1: Some Key Performance Measures

Default Ratio	=	100%	$\frac{(\text{Interest recd.})}{\text{Interest Due}} * 100$
Loan performance ratio			$\frac{\# \text{ of performing loans}}{\# \text{ of loans on book}} * 100$
Institutional/Staff performance			$\frac{\text{HMF loan interest income}}{\# \text{ of staff}}$
Revenue per loan			$\frac{\text{HMF loan income}}{\# \text{ of loans}}$
Cost per currency Unit lent			$\frac{\text{Operating expenses}}{\# \text{ of loans}}$
Self Sufficiency			$\frac{\text{Operating expenses}}{\text{Revenues}}$
Portfolio Yield			$\frac{\text{Interest received}}{\text{Principal (Outstanding Loans)}}$

still evolving, there are several types of performance measures that micro finance organizations can undertake to measure outputs, outcomes and impacts of their operations.

#### Kuyasa Fund's approach

The Kuyasa Fund (South Africa) uses a variety of data to measure outputs and performance. These are computed at the end of every month and allow Kuyasa to compare trends from month to month as well as set targets.

#### Balances at period end

The measures are: savings deposits; live or active loans; written off loans (after every three months); uncommitted savings and loans in excess of savings.

#### Cash performance for period

This is measured by calculating the cash received and disbursed; active loan repayments and written off repayments; interest received and in arrears; and interest income per loan. The growth rate of interest income is calculated as a % percentage.

#### Staff efficiency

Total staff efficiency ratio and individual loan efficiency ratio, and interest income per loan officer is measured every month based on loan repayments made. Average portfolio per staff member; average portfolio per loan officer; average new loan per staff member; and average new loan per loan officer are all analyzed. Any loan officer who does not perform is made redundant after three months. These measures also assess the cost effectiveness of the organization in terms of staff employed.

#### Loan values

The amount of loans advanced per month; cumulative loans

since the organization began number of loans given every month; and cumulative number of loans is all computed at the end of the month. These are compared at the end of each year.

#### Costs

The cost per loan, bad debts, and bad debts paid up are measures of in terms of loans disbursed.

#### Trends in membership

The trend in membership over the years is worked out in order to determine whether the number of borrowers is increasing or in decline. The number of fully settled borrowers gives an indication of the repayment rate. Growth in loans outstanding would give the organization some idea of the demand for loans.

When assessing the development impact of housing microfinance on the lives of clients, forms of measurements that define changes in social and human capital should be applied.

Some common indicators used for measuring the development impact of housing are:

- Improved housing quality and reduced homelessness, measured by increase in access to land and services, number of newly constructed core houses, number of improved and/or extended houses, indicators of MDG goal 7 target 11 (access to improved water, sanitation, tenure, durability and sufficient living area)
- Increase in income generation opportunities measured by number of rental rooms, increase in commercial use of space
- Increased capacity built at community level measured by no of groups, measures of their effectiveness (savings, loan repayments, duration of existence etc.)
- HIV/AIDS mitigation measured by decrease in number of defaults due to death, reduced number of claims on insurance.

SINA No 60 presented Harold Lasswell's comprehensive framework used to assess human development impact. The framework measures results in relation to the values of: well-being, skills, enlightenment, power, wealth, affection, dignity and moral rectitude. Impact measurement needs to measure not only the increase in income but also ways in which improved housing has led to positive changes in wellbeing - education, health and environment; skills development for example in house construction; enlightenment gaining knowledge either through training or socializing; power any dormant leadership qualities coming to the fore for instance in the case of women; wealth income earned and saved; affection any change in behavior toward fellow beings; dignity any change in respect given and received; and in ethical behavior.

The methodology of M & E has to capture quantitative and qualitative information and involves identifying before hand the value dimensions that the organization wishes to measure. There are significant methodological issues with concerns around quality of data, analysis and establishing correlation and causation. WAT-SACCOS, Kuyasa Fund and NACHU have designed systems for monitoring loans,

portfolios and default. NACHU and Kuyasa Fund have initiated the process of measuring impact. Kuyasa Fund's client default study and NACHU's preliminary impact assessment study are summarized in the next sections. Generally there was a consensus that improvements in M & E were necessary but this would involve strengthening the human and financial resources of the organizations.

Ultimately monitoring and evaluation are necessary elements for any organization to measure results. It provides data so

that plans can be adjusted and resources managed in answer to project needs and opportunities. The goal is to record information in sufficient detail to illustrate accountability and to provide for future evaluations. Suitable monitoring produces the minimum data necessary for analysis and uses the simplest effective data collection methods. Monitoring is mainly an internal process carried out by those implementing the project. Monitoring leads to organizational learning and should be carried out at every stage of the organization's operations.

## Kuyasa Fund: Client default study

**K**uyasa Fund carried out a client default study in 2005. The study focused on analyzing default, understanding the reasons for client delinquency and making recommendations on how future strategy should be informed by default concerns.

The main objectives of the research are to:

- Examine the causes of default amongst clients
- Understand the institutional reasons for default
- Provide recommendations to minimize default

The aim of the research was to determine the best way to continue providing housing micro finance loans to those who do not have access to formal finance while limiting delinquency, maintaining growth and achieving performance targets.

The research process incorporated structured interviews with 100 Kuyasa clients who have been written-off, focus groups with 12 of Kuyasa's best paying clients and an internal audit of the loan application and approval process. The findings are summarized below:

### Reasons for non-payment

Clients interviewed put forward a number of reasons for their poor repayment history. These generally fell into one of the six categories below:

- *The sudden cessation of income*  
This might include retrenchment, end of seasonal employment, sickness or disability preventing work, business failure or a reduction in working hours.
- *Sudden, unexpected financial demands*  
These included funerals, accidents, crime and any other unforeseen events that would shift money away from loan repayment.
- *The strain of poverty*  
While Kuyasa offers finance to the poorest of the poor, a number of clients simply found that the additional pressure on their small budgets was too much, particularly those surviving below the poverty line on welfare grants, those in the

informal sector or single parents.

- *Poor budgeting*

A number of respondents gave reasons for non-payment that implied a lack of management skills, rather than financial shortfalls, including listing as unmanageable those expenses that they had declared in their loan application as manageable.

- *Fraud*

Several clients who had taken loans were found to have absconded, having provided fraudulent information, while others admitted to having taken the loan on behalf of other people with no intention of repaying it.

- *Unwillingness to pay*

There were a substantial number of clients who did not fall into any of the other categories and who simply did not want to repay their loans, offering excuses around the logistics of repayment, including bad timing, administrative problems and Kuyasa staff deficiencies.

The study points to the importance of obtaining accurate financial information from clients to gain a better understanding of the market and to ensure that Kuyasa Fund is able to exercise appropriate decision-making. Improving information gathering and ensuring that successful loan applicants are able to repay is a key method for reducing default.

### Findings

#### Interviews

It was found that 70 clients (70%) were employed whilst the rest were unemployed.

The average monthly income was R 1,395 and monthly expenses were R 952. In terms of expenditure, food and groceries accounted for 43%; clothing 4%; debt service 4%; and hire purchase 7%.

When asked whether an unemployed client should not pay back the loan, 52% agreed. Surprisingly, 48% said clients should pay regardless of illness or



unemployment. However, they suggested suspending interest until people were able to pay.

Eighty-five percent said that they understood the loan agreement and consequences of non-repayment. Exceptions were those who received group loans. Of the three options used for consequences of default – blacklisting, repossession of goods and using the clients' house as collateral, the most unpopular was the last one as the defaulter's family was penalized as well.

The majority (95%) stated that a client should not be blacklisted for defaulting, nor have their goods repossessed. The South African National Credit Bill will make repossession much harder. One suggestion was that once Kuyasa Fund has written off a bad debt it should be impossible for a client to receive a second loan, since this gives the impression that the organization is weak.

The best method of ensuring that a client pays is to knock at their door to collect (56%) as it was a matter of disgrace to see loan officers continuously at one's door. Almost all (96%) believed that it was Kuyasa Fund's job to collect the installments. As for Kuyasa Fund being an active organization, 96% said that it was known in the community that it was an organization that took action with defaulters.

#### *Focus Groups*

Two focus groups, comprising 12 “good” (i.e. non-defaulting) clients and 12 defaulters were asked the same questions, and the following differences were noted. All good clients agreed that defaulters should be blacklisted while only 5% of defaulters agreed. Good clients agreed by 92% that defaulters should have goods repossessed compared to 3% of defaulters who agreed. Only 66% of good payers agreed that Kuyasa Fund had a strong reputation, while 98% of defaulters agreed and this is of concern. This is most likely due to good payers never having experience of Kuyasa Fund's approach to defaulting.

The reasons for repayment given were:

- Morality and honesty;
- Incentives such as securing a second loan after having repaid the first one;
- Deterrents; and
- Strict household budgeting.

#### **Preventing defaulting**

Suggestions by the clients for preventing defaulting included:

- Listening to the reasons given for defaulting and supporting clients where appropriate;
- Peer pressure - by using the community to help get the money;

- Encouraging proper budgeting; and
- Preserving Kuyasa Fund's reputation by taking action against defaulters.

#### **Recommendations**

A number of recommendations emerged from the report including: Kuyasa Fund should concentrate on attracting a large pool of applicants and ensuring loan targets can be met without putting undue pressure on loans officers to accept all applicants in order to meet targets.

The application procedure should have clear guidelines on all aspects of the loan life from initial interest charged right up to the current status of a loan and contact information. Applicants should understand the consequences of their loan, including the obligations and consequences of default. A culture of good payment from loan beginning should be created.

- Client assessment should include the analysis of client budget and affordability, willingness and ability to pay and where property is put up as collateral, ownership of property should be proven. Rigorous credit checks should also be carried out. Clients should demonstrate affordability by presenting a monthly budget, in which Kuyasa Fund installments are clearly indicated.
- Both husband and wife should be committed and signed up for the loan.
- Action must be taken quickly on late payments, with penalties imposed. Minimum collection size should be fixed so that collection cost does not exceed amount collected. When interest does not come down, it costs the organization and annoys the client.

If need be, take legal action. It is essential that Kuyasa Fund's reputation that it is seen as a serious organisation that does not let clients default without consequence. Use savings groups where possible to follow-up payment by applying pressure to defaulters.

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**Case surveys on housing micro finance in Kenya**

**N**ACHU undertook a preliminary study of four housing cooperatives in 2004 to get some idea of what had happened after the residents had taken housing loans. An accurate comparison could not be made, as a baseline study had not been carried out before this study. The variables selected for the study were: incomes per month, housing quality and default rate. Two of the cooperatives studied, Bellevue and Tujenge Makau are near Nairobi. The third, Uvumulivu, is in Athi River, while Naivasha Traders are based in the town of Naivasha.

**Bellevue**

Bellevue is a cooperative, located in Mlolongo, 10 kms. from the city of Nairobi. The residents used to reside in a slum settlement and relocated to this area in 1997. NACHU had given USD 300 loan per plot for purchasing land, to be paid over a period of four years. The cooperative has 139 plots, two thirds of which have been developed. Thirty plots have been sold to outsiders. The incomes of the households range from USD 25 to USD 400 per month. However, the repayment took a long time and in 2004 the default rate was 10 %. The quality of housing is low.



Photo: Mazingira Institute

*Type of housing found in Mlolongo, Bellevue, before NACHU assisted the community through provision of micro finance.*

**Tujenge Makau**

The slum dwellers resettled in this area in 2004. At that time, there were 600 plots, measuring 20 feet by 50 feet. Members were involved in NACHU's savings scheme and NACHU had provided training in the building of the houses. The active members numbered only 15. Households' incomes ranged from USD 20 to USD 350 per month. There is a risk that the houses will be sold off. The housing quality is low and there are no services provided by the government in this area.

**Uvumulivu**

The 25 cooperative members had Letters of Allotment from the government. NACHU had given loans, which ranged from Kshs. 50,000 (USD 660) up to Kshs. 500,000 (USD 6,600). The total amount lent out was Kshs. 5.8 million (USD 77,000). Each member had more than one plot on the same site. The household incomes range from \$25 - \$800. The residents had rented out rooms and were doing well. However, the arrears were 20%. The housing quality is good.



Photo: Mazingira Institute

*A typical house built in Mlolongo, Bellevue, after the members of the Bellevue cooperative had obtained loans from NACHU.*

**Naivasha Traders**

The settlement is in Naivasha town along the highway, 6 kms out of town. NACHU lent KShs. 500,000 (USD 6,600) for a water project. There are 832 members having 648 plots. Out of these, 62 plots have housing and a few are for rental purposes. Housing quality is good. However, the residents find it challenging to build a new estate.

**Lessons learnt**

The studies showed that for any development to occur, some of the important and inter-twined factors are security of tenure, location, services or infrastructure and capital.

In Kenya, adequate security of tenure is vital for purposes of investment since people are not willing to settle where there is insecurity. Sometimes a Letter of Allotment or title is required for people to invest in development.

Location is a crucial factor for people to invest particularly if people intend to create rental spaces. Lack of basic services and infrastructure in certain areas hinders development and people are unwilling to locate to such areas.

Loans for housing are very important to cooperatives and rental housing is an important source of income and often used to repay loans.

The studies reinforced the importance of basic and relevant data collection. The focus should be on a small set of relatively hard data income, development of plots, available services, housing quality.

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### Department of Physical Planning

My department has to constantly confront the problem of illegal settlements and squatters not only in regularization but also in the provision of alternative settlements for the ever-increasing population in our towns. The National Land Policy of Malawi sets out to address some of the problems. We would like to receive the newsletter to have a glimpse of experiences from elsewhere.

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### EACOR

We work with youth groups in the slums of Korogocho and Kaloleni in Nairobi in order to create awareness about economic, social and cultural rights and we would like share information of what we are doing with other readers.

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### Kidiruban Housing Coop Society

We have 141 service flats ready for construction but do not have the necessary funds for the construction of the flats. We support women's inclusion of women's right to possess land and inherit property. They are the mothers of our future children and if they do not inherit property then the children's lives will be ruined. Thus we do not support patriarchal customary laws.

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### Action Development Et Des Bien Communatare Aquebeco en Single

We work with homeless widows and orphans who have been displaced by the internal conflict in the Congo.

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