

Poor repayment woes: What stands in the way of 99-percent repayment rates?

by Karan Kennedy

At the end of FY05, the weighted average of homeowners outside of the United States and Canada that were ahead on their repayment, on time or paid within 90 days was 74 percent. Stated in yet another way, for every house that we build, we currently are returning enough money to the Fund for Humanity to build another three-fourths of a house. Our principle of a “house for a house” is even more elusive if we consider that in many countries the mortgage does not cover the complete cost in the first place or that inflation adjustments may not be consistently applied.

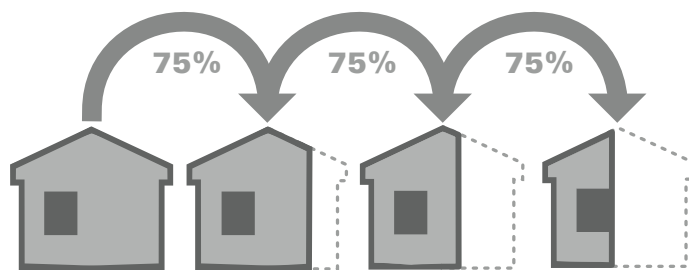
We do not have global statistics on how much is being lost in actual monetary terms. However, the Latin America/Caribbean area, with an average repayment rate of 84 percent, estimates that as much as US\$13 million was lost in their region in FY05. According to Paul Hamalian, director of Administration for Latin America/Caribbean, those funds could have helped an additional 3,200 families last year.

In past issues of the “International Affiliate Update,” the topic of repayments has been raised twice. The first time was in October 2000, five years ago.

Articles from around the world advised the following: good family selection, engaging homeowners in the process, proper education and training, continual follow-up and encouragement to repay, peer pressure, positive recognition of those who pay on time, setting reasonable payment rates and repayment schedules, and reminding homeowners that their repayments will build a house for one of their neighbors who are also in need.

build houses—and the priority has been on the number of houses built, rather than the number of dollars recovered.

Recently, Habitat has begun to partner with numerous microfinance institutions with much better results. In this issue, read about the partnership in the Philippines with CCT (Center for Community Transformation), a Christian microfinance institution that works with the urban poor and has 99-percent repay-



Repayment shortfalls hamper the “house-for-a-house” principle that supports Habitat’s revolving fund.

Yet despite our best efforts, at the end of FY05, as many as 22 countries still fell below the national organization requirement of 75 percent within 90 days. Are there other factors at work?

According to Jay Evans, HFHI global business strategist, the root cause is that Habitat has never built the infrastructure for mortgage collection. Our focus has been on mobilizing the community to

ment rates (see page 8).

How do they do it? What are the structural differences? Evans’ explanation is that the microfinance institution has one product: a loan, usually less than \$500. If they do not recover the principle from the loan as well as administrative costs, they are out of business. Their whole operation is structured around loan

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Poor repayment woes

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recovery. Habitat affiliates and national organizations are structured around training communities, family selection, sweat equity, volunteers—and building houses.

I recently participated in a national organization evaluation in southern Africa, focusing on how to strengthen the revolving fund. Repayment rates were well below the national organization requirement, primarily due to several large affiliates where homeowners had simply stopped paying. In one affiliate, when strict measures were taken to enforce the default policy by “locking” 10 houses, six of the homeowners paid the balance within 24 hours. One affiliate committee member remarked in amazement: “They didn’t even have to go to the bank to get the money. The cash was in the house.”

It was a painful lesson, but until that moment the delin-

quent homeowners had not really believed that they would have to pay. A homeowner from another affiliate explained: “Homeowners always gave excuses that they would pay after the harvest, but after harvesting they would not pay, but no action was taken.”

As a Christian organization, we like to believe that people will “want” to pay for their houses so that their neighbors will also get a house. Indeed, some will; but there are many who see Habitat as a rich, Christian organization with plenty of money—their neighbor is going to get a house whether they pay back or not. Bottom line: In those situations, the homeowner is not going to pay for the house unless he or she knows that we are serious—and that serious actions will be taken.

In addition to lack of structure, there is also an underlying belief that people who do not pay back their mortgage simply cannot. We do not want to believe that our homeowners would refuse to

pay back and take advantage of our goodwill and our ministry. Scott Metzler, national director of Habitat’s program in Malawi, has 15 years’ experience working in Africa and believes that our leniency in enforcing default policies is, in fact, contributing to a culture of dependency, rather than empowerment or sustainability.

Metzler states, “By strengthening the organization’s credit management, Habitat is obtaining better repayment from clients. This is forcing clients to learn better management of their financial resources and is fighting against the dependency syndrome. This is transformation.”

Last year, in October 2004, “International Affiliate Update” once again approached the issue of repayments. The lead article by Victor Baidoo acknowledged three root causes of non-repayment in Africa/Middle East:

- Organizational culture with little emphasis on repayment and lack of follow-up with partner families.
- Poor credit management.
- Poor risk assessment in selecting projects and families.

If the first step on the road to change is recognition of the problem, then perhaps we are headed in the right direction. Due primarily to the national organization requirements, instituted last year, repayment rates are slowly but steadily increasing.

Have we turned a corner? Not quite. We have a long way to go, but this issue of the “International Affiliate Update” chronicles some exciting examples of good credit management, software tools, new structures for increased financial sustainability, as well as new challenges. When we—HFHI, national organizations and affiliates—not only believe that it is possible, but fully expect 99-percent repayment rates, then we will have turned a corner. 🏠

ALISA PESTON



Homeowner Nomathemba Khuboni completes sweat equity working to build his Habitat house in Bhukulwandle, South Africa.

Karan Kennedy is HFHI’s director of international projects.

The Fund for Humanity: What is Habitat's revolving fund?

by Scott Metzel

The idea of a revolving fund for house building pre-dates Millard Fuller's founding of Habitat for Humanity International in 1976. The Christian community of Koinonia, located in the state of Georgia in the United States, developed a partnership housing program in the late 1960s.

This program was based on the concept that what the poor need to improve their housing conditions is capital, not charity. Nonprofit housing loans were given to those in need of better housing who could not qualify for conventional housing finance. These loan clients, or partners, contributed labor toward the house to keep the cost low. Repayments went into a revolving fund called the "Fund for Humanity"; these funds from house repayments were used to purchase more building materials to build additional houses for people in need of them.

Millard and Linda Fuller had been at Koinonia and were instrumental in setting up the partnership housing program with Koinonia's founder Clarence Jordan. The concept of the Fund for Humanity was directly incorporated into the Fullers' work as missionaries in Mbandaka, Zaire (now the Democratic Republic of the Congo), in the early 1970s. Then, when the Fullers founded Habitat for Humanity International in 1976, the Fund for Humanity was an integral part of the ministry.

There are many types of revolving funds, but Habitat for Humanity's revolving fund is specifically to ensure longevity in providing housing assistance in affiliated communities.

The concept of the Fund for Humanity is simple. A Habitat for Humanity affiliate receives money for the provision of housing assistance to families. It uses the money to purchase the necessary



BRIAN HYRICK

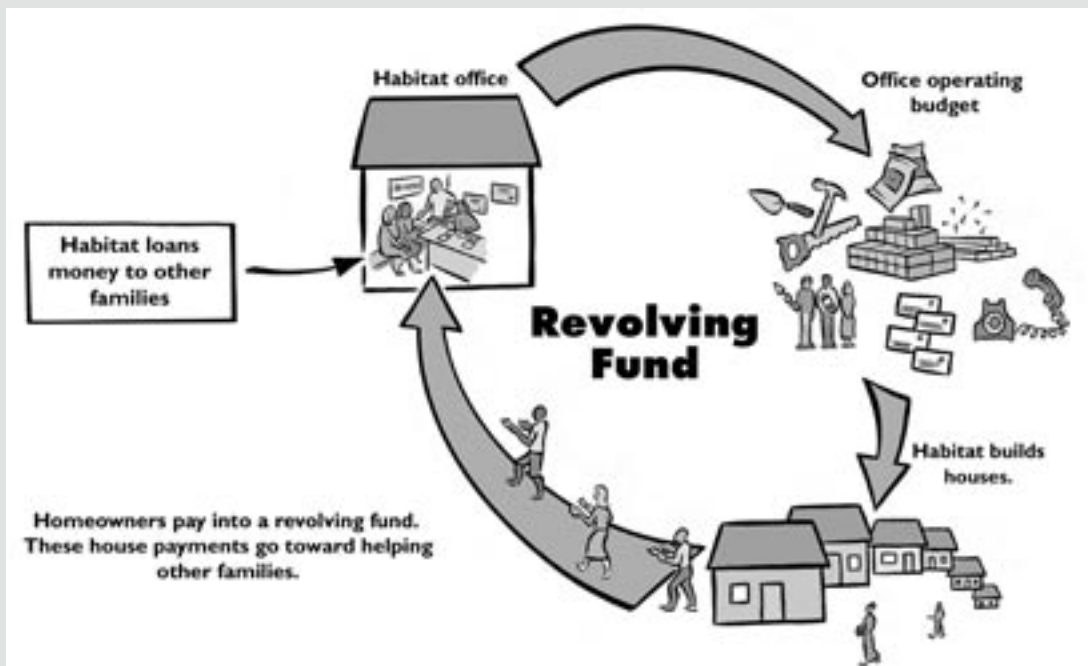
Habitat homeowner Martha Bachelor of Immokalee, Fla., USA, made her final house payment in December 2000. She is pictured here at the symbolic burning ceremony of her mortgage deed.

building materials to complete a house or houses. Funds are also used to meet operating expenses. Selected homeowners construct their homes and then repay their mortgage—the cost of the house plus an administrative charge—back into the Fund for Humanity so more houses can be built and more families assisted.

By the mid-1980s, hyperinflation was quickly eroding Habitat's revolving fund in Zaire, Uganda and other countries. Habitat began to learn that operating the Fund for Humanity in practice was difficult. The concept of "house-for-house" repayment or "block-for-block" repayment began to be introduced to reinforce the idea that each homeowner should pay back the full value of the house—rather than a fixed monetary value that quickly loses value in real terms.

Various types of inflation adjustment mechanisms were introduced throughout the 1980s and early 1990s, but few were effective at protecting the revolving fund while simultaneously allowing homeowners to see that their mortgage balances were declining with each payment despite the inflation adjustment.

One method developed in 1991 that later received widespread use by Habitat for Humanity in Africa and *continued on page 4*



The Fund for Humanity: What is Habitat's revolving fund?

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the Middle East was the “cement index.” The cement index divides the total cost of a completed house by the cost of one bag of cement. The homeowner’s mortgage agreement is then stated in an equivalent number of bags of cement owed to Habitat. A given number of bags of cement are paid per month at the current price at the time of payment until the entire balance in bags of cement is cleared.

As funding has become more and more difficult to access, the sustainability of the Fund for Humanity has become more critical for affiliates and national organizations. A strong revolving fund ensures that funds can be effectively recycled to implement Habitat’s mission. A weak revolving fund requires more funds to be injected into affiliates if work is to continue. Over time, more threats to the revolving fund have become apparent. Some threats to maintaining a healthy Fund for Humanity include:

1. Nonpayment: If people do not pay what is owed or do not pay on time, it slows the velocity of the revolving fund. Nonpayment may

be due to houses not being affordable, poor family selection, external causes, poor credit management, poor collection systems, deliberate default, erosion of trust between Habitat and the homeowner, or any other factor that results in the partner not paying what he or she owes to Habitat.

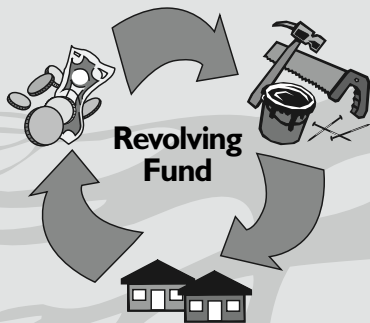
2. Inflation: Inflation erodes the real value of the asset in the revolving fund if no inflation adjustment is made.

3. Loss of inventory: If inventory is purchased but is physically lost through mismanagement, damage, not being properly charged to homeowners, etc., the money spent on the items cannot re-enter the revolving fund.

4. Under-pricing of houses: If the final purchase price of the house is less than the actual cost of replacing the house, the revolving fund is reduced. The mortgage must be signed for no less than the full replacement cost of the house.

5. High administrative costs: If the cost of administering the affiliate (non-construction expense) is greater than the administrative charge to clients, there is a loss to the revolving fund.

6. Demand/construction rate: If the construction rate is low, it



The roots of the Fund for Humanity: Examining Clarence Jordan’s writings on the revolving fund

by Jay Evans

One of the most tangible expressions of Habitat for Humanity’s ministry is the Fund for Humanity. The concept of the fund has been around since Habitat was founded nearly 30 years ago. Yet, very little has been written about the fund’s core principles and its importance to the ministry.

The basis for the fund is clearly stated by Clarence Jordan in his “Letter to the Friends of Koinonia”: “[The Fund for Humanity] will give away no money. It is not a handout. ... There is no need to pay interest. This is extremely important, for under the present system a farmer with an investment of \$150,000, will pay \$10,500 a year in interest alone when figured at 7%. Thus...the farmer would have to produce 35,000 bushels just to pay his interest. He simply can’t bear this crushing load.”¹

Jordan further states that “...the partner family will gradually free the initial capital to build houses for others, and will be encouraged to share at least a part of their savings on interest with the Fund for Humanity. Even as all are benefited, so should all share. ... Even the poorest should not be denied the extra blessedness of giving.”² This portion is often referred to in justifying Habitat’s policy of mortgages and house repayments instead of creating a giveaway program; however, Jordan appears to be speaking of a payment on top of the monthly house payment.

Through reviewing some of Jordan’s early writings on the Fund for Humanity, we can determine that the core components of the fund are:

- Habitat should not create a “crushing load” on families by charging high interest rates.
- The program is not a giveaway; families must repay their loans to the fund.
- Each family should pass on a portion of their savings from not paying interest as a blessing to others.
- The capital in the fund should be used to build houses with others in need of decent, affordable shelter.

The Fund for Humanity creates the foundation from which affiliates and national organizations can build their programs to best address the housing needs in their city, district or country. It also provides the “blocks” for affiliates or national organizations to build well into the future and continue to pass on the blessing of homes to families who need them. 🏠

Jay Evans is a credit consultant for Habitat’s programs in Latin America and the Caribbean.

¹ A Personal Letter from Clarence Jordan to Friends of Koinonia, Oct. 21, 1968, pg.4

² A Personal Letter from Clarence Jordan to Friends of Koinonia, Oct. 21, 1968, pg.5

can lead to a high percentage of non-construction costs and contribute to loss through high administrative costs. If there is no construction, the local revolving fund at an affiliate cannot replenish itself, and funds must be transferred to an active revolving fund to be effective. Essentially, low construction results in a high percentage of administrative costs and loss from unrecovered expenses.

7. Mismanagement of funds: If funds are lost through misappropriation, negligence, poor record-keeping or theft, the revolving fund is reduced.

8. No or low fund raising: If no new funds are brought into the revolving fund, it cannot grow.

9. Damage/loss of houses: If a house is destroyed and must be written off, it is a loss of the asset. Damage that must be replaced by Habitat at no cost to the homeowner is a loss to the fund.

10. Insecure assets: Assets that are not legally secure could be a threat if challenged. This may not be a direct threat in itself, but may result in or complicate issues of nonpayment.

Once a certain number of houses are built at an affiliate, the affiliate's work could continue indefinitely if the Fund for Humanity is adequately protected against threats and drainage. For example, if a house cost 50 bags of cement, and the monthly payment is one bag, once there are 50 houses the affiliate should be able to build one house per month as long as everyone pays on time. Habitat for Humanity affiliates and national offices that seriously guard the Fund for Humanity are well positioned to implement Habitat's mission over a long period of time and are an attractive investment for donor funds because the money will "revolve" and continue to serve many families even after the initial donation. 🏠

Scott Metzel is the national director for HFH Uganda.



Examining causes and implications of poor mortgage repayment

by Emmanuel Kwaa and Dorothy Prah

At this stage in the history of Habitat for Humanity, we are looking at almost 30 years of building simple, decent and affordable housing with people all over the world. During this period, Habitat for Humanity has built more than 200,000 houses. Considering the global variations in house cost, which may range from about US\$40,000 per house in developed countries to about US\$1,000 per house in parts of Africa and Asia, we may be looking at an investment of several hundreds of millions of dollars that can be collected and plowed back into building more houses with those in need of shelter. With this achievement, probably one of the major sources of income for the continued operation of the mission is recovering repayments from already served families to reinvest into constructing more simple, decent and affordable housing—that is, using the Fund for Humanity. Unfortunately, collecting mortgage repayments continues to be a challenge in some countries, especially the developing countries, thus depriving Habitat for Humanity of vital income for continued operation.

There are definitely reasons for poor mortgage repayment; a few that we are familiar with in Habitat's programs in Africa are outlined in the table below.

REASONS FOR POOR MORTGAGE REPAYMENT	
<i>External causes of poor repayments— outside of Habitat's control</i>	<i>Internal causes of poor repayments— within Habitat's control</i>
High inflation rate in most developing countries that leads to homeowners making monthly payments over the years at an ever-increasing face value, causing frustration and repayment fatigue.	Poor family selection: Sometimes we do not take the trouble other financial institutions take to assess the capability of applicants to repay long-term loans.
Poor economies with no arrangement to support the poor.	The rate of inflation in some of the developing countries and the inflation adjustment methods are quite unfriendly and make the repayment process difficult and frustrating.
Economies that are rural and agricultural with unreliable seasonal incomes.	The general education to applicants and homeowners has also sometimes portrayed Habitat as a helper of the poor and seemingly a charity organization.
Most applicants, prior to getting a Habitat house, lived in family houses or their own dilapidated houses. Having never paid rent, they find the new culture of a regular mortgage repayment, when they get their Habitat houses, strange and difficult to adjust to.	Until recently, when the Standards of Excellence criteria established repayment as an important issue, Habitat did not have a very strong culture for debt collection.
Though most applicants were living in poverty housing, they seem not to have considered a decent house a real priority. They will readily, therefore, choose to spend money on an expensive funeral instead of paying for their Habitat house.	Our overuse of volunteers, especially for the collection of debts, is not a very effective practice. Debt collection is a difficult and serious activity, which must be done with a lot of commitment and dedication.
Court systems in most developing countries are slow, adjourning and postponing cases so often that defaulters tend to assume nothing can be done to them if they are taken to court.	Homeowners tend to exploit the Christian identity of Habitat when they default. Sometimes local affiliate leaders have found it difficult to prosecute defaulters for fear of being branded as "bad Christians."

While we may have little control over the external causes, we can and should do something about the internal causes of poor repayment in our programs. We can change our attitude, use well-motivated and dedicated debt collectors, pursue more aggressive mortgage repayment collection policies with serious court actions on defaulters and repossession of houses, and not feel guilty about being a Christian organization—for Christ himself, when he found the people turning his Father's house into a market, drove them out aggressively with a whip (Matthew 21:12-13). 🏠

Emmanuel Kwaa is the national director of HFH Ghana. Dorothy Prah is the programs manager for HFH Ghana.



Habitat partner families as 'clients': A challenge to the organization's traditional values?

by Zoran Kostov

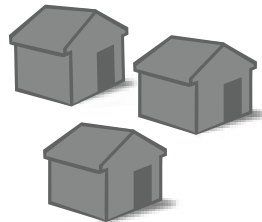
Earlier this year, Habitat for Humanity Macedonia and Moznosti, a local implementing partner of the global microfinance coalition Opportunity International, initiated a partnership through an innovative program in Macedonia. This is the first partnership of its kind in the Europe and Central Asia area.

The program has set up a credit line that provides small loans for the reconstruction and renovation of substandard homes. The credit line is a disbursement tool of the "Home Improvement Fund," established through the joint financial contribution of HFH Macedonia and Moznosti. The program also provides non-financial services in the form of advice and training for the loan beneficiaries.

The loan approval process has two phases: HFH Macedonia assesses the need of the partner families and their poverty status, while their financial screening and loan processing is assigned as part of the responsibilities of Moznosti. Non-financial services are Habitat's responsibility as well.

It is expected that the same mobilization of funds will result in at least three times more partner families served compared with the traditional Habitat program.

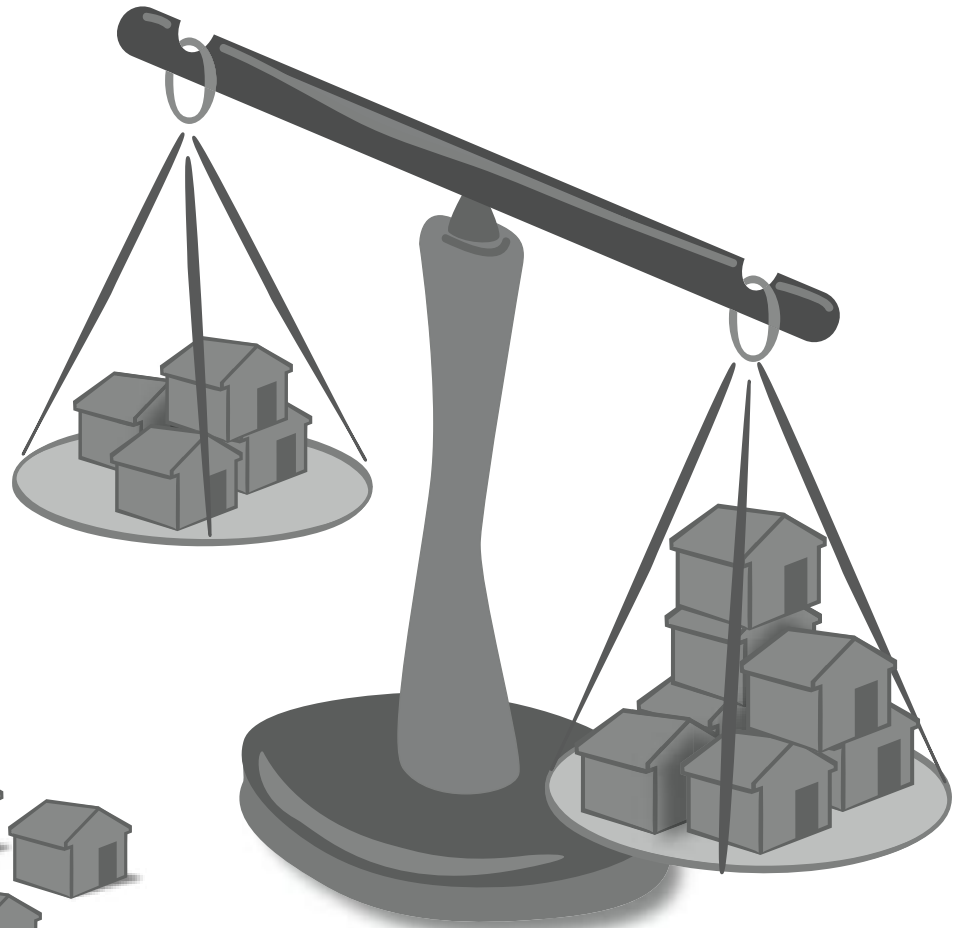
Generally, the goal of this approach is to address poverty housing in Macedonia on a scale larger than the traditional Habitat program, in terms of the number



of partner families served. It is expected that the same mobilization of funds will result in at least three times more partner families served compared with the tradi-

tional Habitat program.

Given the purpose, the business model has several distinctive components: faster turnover of the funds and guaranteed repayment.



These components combined are to provide long-term sustainability of the program and, in time, will generate income necessary to cover the program's operational expenses.

Challenges for the new model

Logically, the new model has a range of challenges to face and implications to anticipate. Of the many, one deserves particular attention: the new relationship between partner families and Habitat for Humanity.

The main interest of modern microfinance institutions is

to deliver their product: the loan. In that respect, they look for "customers." Habitat for Humanity is dedicated to transforming the lives of those who have no access to other sources of funding. HFH Macedonia has the same dedication; however, the financial credibility (creditworthiness) of the prospective loan beneficiaries is also a primary focus. If their creditworthiness is good, the home partners will quickly get the loan.

In return, the beneficiaries feel that their primary responsibility is repayment of the loan. They expect more flexible obligations in regard to Habitat's tra-

ditional methodologies—particularly in terms of sweat equity and house design. In other words, not everybody wants to be told about the best way to spend the loan that he or she pays for.

Under this new microfinance model, there are similar implications upon family education and community building. Based on the “first come, first served” principle, loans are not concentrated in one community. They are randomly disbursed all over the country, making the community building and family education components difficult to implement.

So we come to the challenge implied in the title of this article: Is the new relationship with the beneficiaries the same partnership model that we are used to having in traditional Habitat for Humanity programs? The first instinct is no: The formal loan agreement between the two parties appears to be more like the standard provider-client type of relationship.

The second glance at the issue, however, requires us to check our covenant. After carefully reading its chapters, the no turns into a triple, flexible yes: Do we select families based on their need? Yes! On their ability to pay? Certainly, yes! On their willingness to partner? They sign the loan agreement of their free will—yes again!

This way, the challenge becomes a strategic question, widely debated these days: Do we prefer to deliver the content (our values and principles) or the numbers (houses built/families served)? Although we would like to have them both, it comes out that the emphasis on content leads us to serving “partner families,” while the emphasis on larger numbers leads to serving “clients.” 🏠

Zoran Kostov is the executive director of HFH Macedonia.

Global Church Partnership campaign excites congregations around the world

by Pam Campbell

By Dec. 26, 2005, the first anniversary of the devastating tsunami in Asia, five families who lost their homes in the storm had moved into their new houses in the Kanyakumari region of India, thanks to the efforts of a new partnership between Granger Community Church in Indiana, USA; Habitat for Humanity; World Relief; and the Bible League. Within the next two years, this partnership will result in the construction of 100 houses in India.

United Methodist churches in Missouri have joined with a Wesleyan congregation in the United Kingdom to build 75 houses over the next three years in partnership with Methodist churches in Mozambique.

Churches in El Salvador will host visiting church teams over a five-year period to complete an ambitious 500-house, church-sponsored campaign.

All of these projects are part of Habitat for Humanity's Global Church Partnership campaign, which brings together churches from different parts of the world to work together in holistic ministry.

In Global Church Partnership programs, visiting and host churches partner together to raise the money and provide the labor and prayer support to build Habitat houses in communities around the world.

Typically, visiting churches provide approximately 90 percent of the funding and contribute a portion of the labor by sending work teams to the building projects. The host churches and communities provide the majority of the labor and match approximately 10 percent of the fund-ing and material resources.

By working together, Habitat for Humanity and churches are able to exemplify faith in action, building houses and bringing hope to families who experience firsthand the love and compassion of Jesus Christ.

Find out more about how you can participate by reading the new, full-color brochure that explains the Global Church Partnership program. The brochure is available on PartnerNet at <http://partner-net.habitat.org/intradoc/groups/public/documents/discussion/pnetdoc022811.pdf>.

Pam Campbell is a writer/ editor with HFHI's Church Relations department.





Partnering with microfinance institutions to help increase repayments: A case study of the CCT-Habitat Katuparan Project

by Charlie Ayco

After some months of informal meetings, Habitat and CCT staff agreed that the two organizations should craft a partnership framework. The result was the CCT-Habitat Katuparan Project.

In 2003, Habitat for Humanity Philippines was facing serious challenges in its program. House construction had declined from a total of 1,087 units in FY02 to only 884 units in FY03. Repayment, which was already a problem, was also on the decline from a national average of 68 percent in July 2002 to only 54 percent in June 2003. There was no indication that this trend would change.

But, in General Santos City in southern Philippines, some Habitat staff noticed that a Christian microfinance institu-

its repayment problem?

After some months of informal meetings, Habitat and CCT staff¹ agreed that the two organizations should craft a partnership framework. The result was the CCT-Habitat Katuparan² Project.

Partnership framework

Both Habitat and CCT agreed that a partnership framework between the two organizations should clearly show the transformative aspects of development. This would enable both organizations to understand their specific roles and contributions to the development of the communities they were going to serve. The partner-

components, including savings mobilization and loan collection under the Save & Build approach of Habitat, but this time using CCT's microfinance methodology.

As a Christian microfinance institution, CCT works with poor women in urban communities who are organized into "fellowship" groups of 20 to 30 members. It is through these groups that key transformational activities are undertaken. The groups also serve as savings groups, with a collection system using peer pressure for borrowers to honor their loan obligations.

Project implementation and adjustments

CCT and Habitat formed a Project Management Committee (PMC) to exercise an oversight role, making sure that the objectives of the project were met and to exercise supervisory function over the project manager. The PMC had five members—three came from Habitat and two were from CCT.

Homepartners were identified from the members of CCT groups who had established a good credit record in the microenterprise program. To avail of Habitat housing assistance, these homepartners were required to save the equivalent of one-third of the house renovation cost. These savings were separate from what they were saving for their microenterprise loans.

As the project was being implemented, CCT was confronted with some program

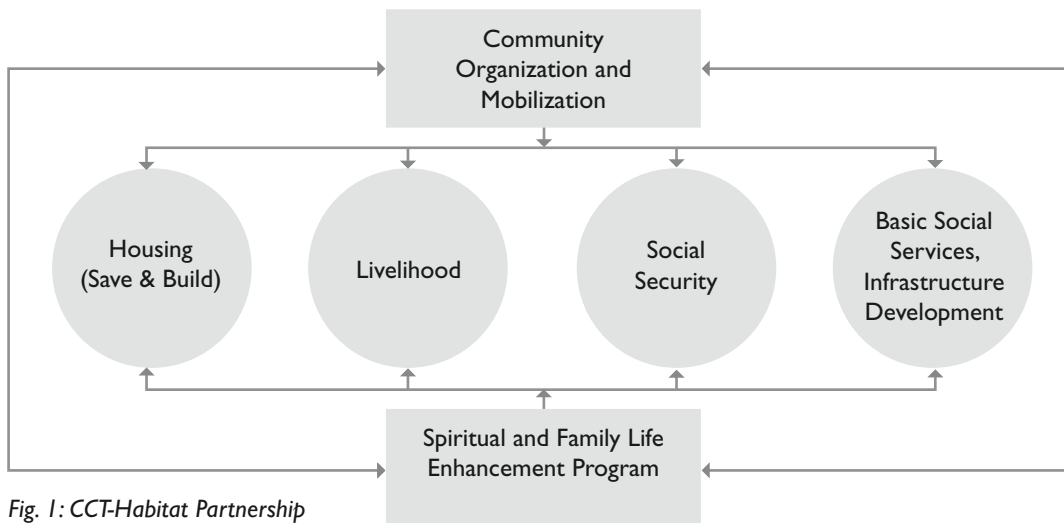


Fig. 1: CCT-Habitat Partnership framework

tion, the Center for Community Transformation (CCT), was running a credit program among the urban poor and yet managed to get repayments as high as 99 percent! Would CCT be interested to work with Habitat to help solve

ship framework shown in Figure 1 (above) was agreed upon.

This framework clearly shows that housing is only a component of a larger transformative program. Habitat would focus on housing, while CCT would handle the other

¹The main staff members involved were Leonilo Escalada of HFHI, Pedro Macurol of HFH Philippines and Romil Napila of CCT. They were in constant consultation to check on Habitat policies and program options.

²CCT President Ruth Callanta suggested the Tagalog word "Katuparan" to signify the fulfillment of the dreams of the poor to get a decent house.

³The exchange rate at that time was US\$1 = PhP50.

issues, which affected the way it was traditionally operating as a Christian microfinance institution. First, the credit facilities of CCT were intended to finance microenterprises. However, with the introduction of housing as a new CCT product, some of the potential borrowers (who really needed housing assistance) were not engaged in microenterprise—for example, there were those who were marginally employed. Should CCT open this new product to them as well? Second, the clients of CCT were urban poor women who were organized into groups. But when it comes to housing, CCT believes that, consistent with the gospel values, the father should take a leadership role as the head of the family.

To respond to the first concern, CCT decided to accept borrowers who wanted to avail only of housing assistance. Housing actually became a blessing for CCT because this new service enabled CCT to potentially support all families in the community. Whereas before their members were only those engaged in microenterprises, with housing as a new product, those who were previously excluded in the lending program became qualified to become CCT members. Thus, they could also avail of other services such as life insurance and other family enhancement programs. In effect, the whole community could potentially become a CCT-Habitat community.

As to the role of the fathers, CCT decided to form new groups focused on housing attended by both the husband and the wife. Initially, the husbands were shy, and the wives made an extra effort to bring their husbands along to fellowship meetings. But this soon changed as the fathers became more assertive when it came to housing issues. This was important because it would be

difficult to do house renovations without the consent and support of the husbands, who consider housing as a male domain. The active participation of the husbands also ensured that both the husband and the wife recognized the loan liability.

With both the husband and the wife involved in the project, it was easy to bring in the children. With the whole family involved, it became the setting for family spiritual and value enhancement interventions. In this way, the transformation of the community started at the family level with housing as an entry point.

Partnership results

The table in Figure 2 (right) presents the results of the partnership over two reporting periods.

The project updates also showed that the homepartner families were regularly attending Christian Family Life Fellowships, and couples who avail of the housing program become part of this fellowship together with their children. Homepartners are also active in the microfinance program and other services of CCT. They are also enrolled in CCT's in-house insurance program as

well as in the health care program of the government.

Impact of the partnership on CCT

How did the project impact CCT? First, CCT homepartners expressed satisfaction over the fulfillment of their dreams to own affordable and durable houses. Habitat provided this opportunity to their members. The homepartners were confident in the housing program because of Habitat's presence.

Second, CCT's credibility was positively affected by the provision of housing loans. More community members joined CCT from the early months of project implementation when community members heard that CCT was in partnership with Habitat for a

housing program. This led to an increase in savings generated. In fact, savings from CCT members doubled.

Finally, the project enabled CCT to work with whole families (instead of only the women). This sets the stage for community transformation beginning with the families. Also, the whole community is now involved, unlike before when CCT could minister only to those engaged in microenterprises.

Impact of the partnership on Habitat

The project had a huge impact on Habitat in the Philippines. For FY05, HFH Philippines was able to serve the housing needs of 3,287 families (from a target of

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Indicator	As of Sept. 2004	As of Nov. 2004
a. Number of houses renovated	946 units	1,347 units
b. Loan released (principal)	PhP22.6 million	PhP32.8 million
c. Equity collected	PhP7.5 million	PhP10.9 million
d. Total loan outstanding	PhP24.8 million	PhP33.5 million
e. Repayment rate	99%	99%

Fig. 2: CCT-Habitat Partnership results

Project objectives

1. To provide 800 families with decent, durable and affordable housing units;
2. To develop strong family relationships among the 800 families through family life-strengthening activities (one-day family activities; couples retreat; two-day couples fellowship; annual family day celebration—50 percent of the homepartners' children enrolled in weekly kids fellowships);
3. To enable the 800 families to have regular sources of income;
4. To help the 800 families avail of basic social services and infrastructure facilities as evidenced by enrollment in the social health insurance program and in the life insurance program; and
5. 100 percent on time repayment on housing loans.

The average cost for each house renovation and/or core house construction was estimated at PhP30,000 (US\$600).³ One-third of the project was to be funded out of the savings of the homepartners, which CCT was going to mobilize. The remaining two-thirds were to be funded out of Habitat to be released to CCT as a project trust fund.



New credit policy allows for higher effectiveness of the Fund for Humanity

by Manuel Mancuello

“...we have reduced the portfolio in arrears by approximately 50 percent.”

—Hugo Ochoa, national coordinator for portfolio follow-up

In July 2004, Habitat for Humanity El Salvador started the implementation of a new credit policy. The results? After more than a year, the Fund for Humanity is more effective than ever. The recovery rate for loans is high and the recovery period is short—meaning that the recovered resources can be reinvested promptly to

construct more houses with Salvadoran families.

“When the implementation of this new credit policy started,” explains Hugo Ochoa, national coordinator for portfolio follow-up, “delinquency was 70 percent. Now, we have reduced the portfolio in arrears by approximately 50 percent. As of Aug. 30, 9 percent out of the 3,451 active families in our portfolio presented overdue payments, with delays greater than 61 days.”

at those responsible for fee collection and the proper moment for loan recovery through legal action.

“The new credit policy provides us with tools and clear instructions on how to proceed when a segment of our portfolio is at risk, identifying who should or should not be subject to repossession,” adds Ochoa.

The implementation process

According to Ochoa, the implementation process has been a titanic task. The cooperation of staff and volunteers from the national office and affiliates has been essential for the achievement of the implementation. “We are all responsible for the process. We all try to keep a good management of the portfolio. We all have committed ourselves to keep high recovery rates for our portfolio. The process has demanded a change in mindset and work dynamics throughout the organization,” he explains.

The implementation of the credit policy started in July 2004. “Initially, some people were reluctant to face the change, but once we saw positive results, those people became partners and promoters of the new policy,” explains Ochoa.

HFH El Salvador has invested a lot of time and resources in workshops and training. Additionally, credit analysis tools were developed, as well as application forms, data forms and debit notes with some level of information. Processes were standardized. Everyone knew the next step. In addition to this, affiliates have the

The new credit policy

According to Ochoa, the most significant aspect of the new policy is the creation of new guidelines for credit approval.

This new policy establishes administrative, social and economic guidelines to be considered for credit approval through HFH El Salvador. These guidelines are complemented by the procedures developed on the basis of this same policy.

The policy helps define who is eligible for credit and the credit amount, defining maximum terms, and every direct and indirect factor constituting the cost of the house. It also indicates those responsible for approval and follow-up.

“In the past,” affirms Ochoa, “we used to include a percentage of administrative expenses in the house costs. Today, we charge 100 percent of administrative costs incurred by the affiliate, plus 30 percent of the national office expenses.”

In addition, the new policy defines the actions to be taken if partner families are delayed with house payments, pointing



National Director Maria Chomyszak and Program Officer Kenneth Sinnare talk beneath a chart of homeowners and their mortgage payment status at the Nkinga affiliate in Tanzania in 2002.

KIM MACDONALD



STEFAN HACKER

Habitat homeowner Dulce Maria Bautista and her daughter Anna Julia Bautista live in Nagua, Dominican Republic. The family runs a shop out of their Habitat house that helps to pay the monthly mortgage.

support and advice of the “portfolio follow-up unit” members, who decide on the strategies and guidelines, thus achieving more effectiveness in their procedures.

The portfolio follow-up unit at the national office is supported by the affiliate teams that ensure compliance with the credit policy and keep delinquency rates low.

Required changes

The credit approval process is not the volunteers’ entire responsibility now—Habitat staff members manage 75 percent of the process, while volunteers take 25 percent of the responsibility. Both the staff and volunteers have the right to vote for the approval of loans. The person in charge of granting the loan directly is responsible for follow-up, thus making sure credit is recovered.

“It is difficult to demand volunteers to go after people and demand them to pay their overdue fees. However, this is not the case with employees. We can certainly demand them to do so. That works out pretty well for us,” says Ochoa.

In the past, volunteers used to approve forms and forget about the rest. Now, they take part in the credit approval, pay visits with

regional coordinators, participate in credit committees along with the coordinator and the credit manager, and support the follow-up process, which safeguards the Fund for Humanity.

“Years back,” asserts Ochoa, “Habitat was strongly focused on construction, construction and more construction, with no proper attention to the implications of a deficient credit approval, knowing that we would manage a loan for 12 years. Nowadays, we worry not only about the families’ need for a house but also about the families’ ability to make payments. This way, we help a greater number of families.”

Families, for their part, understand that Habitat does not give houses away, but facilitates the access to housing through non-profit credit. “Many times, during the selection process, we identify people who need a gift, not a loan. Therefore, we need to search other alternatives for this type of family,” explains Ochoa.

Benefits of the change

“At the closing of the past year, we went 25 percent beyond the goal we set for the recovery of the established fees,” affirms Ochoa.

The portfolio quality has been compensated with the investment: Only US\$95,000 out of US\$7.8 million is in arrears, with a decreasing tendency. “This would not have been possible without teamwork and the support of the management,” states Ochoa.

A shorter term allows for faster recovery and reinvestment of the capital, which leads to the construction of more houses. In addition, the introduction of down payments of approximately US\$90 reduces the investment made by Habitat.

By establishing the real cost of credit, Habitat cuts several expenses, such as administrative costs. Therefore, equity is not affected, but safeguarded for the future.

Future challenges

The installation of an online information system is under discussion, as well as the pursuit of the program’s sustainability through a healthy portfolio. Delinquency is expected to be reduced 0.7 percent, approximately US\$8 million. The objective is to allow people to pay under less pressure and make Habitat spend less resources on a consuming recovery process, continue to promote a culture of efficient and effective portfolio management, and make employees consider portfolio administration as an element of their duties with the same significance as house construction. 🏠

Manuel Mancuello is writer and editor for the Communications department of Habitat for Humanity Latin America and the Caribbean.

A case study of the CCT-Habitat Katuparan Project

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2,400). CCT accounted for 1,042 families, assisted mostly through house renovations.

The project became the catalyst for more partnerships with other NGOs and MFIs. A number of projects using similar partnership schemes are now ongoing, while new agreements are being negotiated and finalized. For FY06, HFH Philippines plans to assist 5,000 families in their housing needs. The existing 29 Habitat affiliates in the Philippines could only assist an estimated 2,000 families, or 40 percent of the total target. In contrast, CCT targets to assist 2,000 families (40 percent) while another 1,000 families (20 percent) will be assisted through Habitat partnerships with other NGOs and MFIs.

Repayment has improved nationally, although it remains a concern among affiliates. But now there is a growing recognition that high repayment is attainable given the proper approaches and lessons from the best practices of MFIs.

The project with CCT and the growth of partnerships with NGOs and MFIs also helped to institutionalize the Habitat Building Center. This innovation resulted in greater technical capacity of the national organization and places it in a better position to assist affiliates in technology transfer, training and project management assistance.

Finally, the CCT project and the subsequent partnerships with NGOs and MFIs enabled the Habitat national organization to leverage its housing fund. For FY05, these nontraditional alliances accounted for 50 percent of the local resource development funds, amounting to PhP90 million (US\$1.8 million). 🏠

Charlie Ayco is director of regional programs for Habitat’s programs in Asia and the Pacific.

New beginnings in *2006*

'International Affiliate Update' evolves

It is time for the IAU to re-examine its mission, its format and even its name. We are pleased to announce our new publication: "The Forum."

Just over 11 years ago, in October 1994, the first "International Affiliate Update" was sent to affiliates and fledgling national organizations in 40 countries. The publication arrived on the heels of the first Global Leadership Conference and one year after the international board of directors passed the Entebbe Initiative, an action that officially established the goal of creating national organizations as a way to spread the mission of Habitat for Humanity around the world.

The purpose of the publication was to create a communication link between and with Habitat partners. "A Borderless Habitat" was the theme. The new publication was a way to share information, present actions of Habitat for Humanity, communicate reports from training and workshops, and create a "blueprint for steady growth" of the total Habitat organization.

For 11 years, the IAU has achieved this mission through regular quarterly publications, printed in four languages. It is the only HFHI publication that has served this particular audience in their own language. We celebrate the accomplishments with special thanks to Anita Mellott, who has guided the publication for the past 10 years.

We also recognize that the organization has changed and will continue to change as we move to the next phase of our development: We are now working in 100 countries, we have constructed more than 200,000 houses, and we have a new CEO.

It is time for the IAU to re-examine its mission, its format and even its name. We are pleased to announce our new publication: "The Forum."

"The Forum" will provide a way to explore ideas, share concerns, challenge our standard ways of operating and share the collective knowledge that we have gained through working every day to achieve Habitat's mission. We want to raise the level of discussion and dialogue between affiliates, national organizations and Habitat for Humanity International.

Each publication will focus on a topic or issue that is critical to Habitat's mission, philosophy or operations. An editorial board of experts will be created for each issue. The editorial board may be composed of HFHI staff, national directors, national staff and/or affiliate staff. If you are interested in participating in this way, please let us know.

In addition, we will be creating an electronic version of the publication with a place in PartnerNet for readers to easily access past publications by date and topic. While we will still distribute paper copies

to our international partners, we will no longer be mailing the issue to readers in the United States or Canada. **If you wish to receive the electronic copy of "The Forum," please send your request and e-mail address to IAU@habitat.org.**

Finally, we want to hear from you. Let us know what topics you would like to see explored this year. **Send comments, suggestions about this issue or your ideas for this new direction to IAU@habitat.org.** We are excited about this change and value your feedback. The value of "The Forum" will depend on the active participation of those of you who work every day to forward Habitat's mission. 🏠



1995—first design created for IAU newsletter

1997—design simplified; added "Ideas to Keep" supplement

1999—returned to four-column format with updated design



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HFHI Mission Statement

Habitat for Humanity works in partnership with God and people everywhere, from all walks of life, to develop communities with people in need by building and renovating houses, so that there are decent houses in decent communities in which every person can experience God's love and can live and grow into all that God intends.

International Affiliate Update Mission Statement

The mission of the *International Affiliate Update* is to promote a borderless Habitat for Humanity by providing information, training and communication around the world by creating:

1. A vehicle of communication between Habitat for Humanity International and local Habitat affiliates.
2. A vehicle for sharing and communicating among local Habitat partners.
3. A blueprint for steady growth of the total Habitat organization and of the various local affiliates that make up the organization.