



# SHELTER REPORT 20 14

▲ As schoolteacher George Phiri builds his house in Lilongwe, Malawi, he is receiving training and expert advice on building techniques through Habitat for Humanity Malawi's construction technical assistance program. Phiri, 25, also received a microloan from a partner organization called Select, which allowed him to purchase the materials and labor needed to complete the house.

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## EXECUTIVE SUMMARY

# Step by Step: Supporting Incremental Building Through Housing Microfinance

In our rapidly urbanizing world, decent living conditions are becoming scarce. By 2050, 70 percent of the world's population is projected to be living in urban areas, causing slums and unplanned settlements to swell. Slums, characterized by their lack of adequate housing, secure land tenure, and access to basic services such as water and sanitation, now house 1 billion people. This trend, combined with unsupportive regulatory environments and little access to housing finance, are leaving policymakers and developers asking, "What's next?"

Incremental (or progressive) home build-

ing, a process whereby a family builds their housing and their community in stages as their resources permit, accounts for 50 to 90 percent of residential development in the global south. This process allows individuals to adapt and build as their needs change. Incremental building means adding a concrete or tile floor, shoring up the roof, improving the kitchen, or supplementing living space when welcoming a new child to the family.

Incremental housing represents what UN-HABITAT calls a "delicate expression of poor people's gradual capacity to climb

out of poverty. Like the houses they build, it's not something that happens all at once. But in cases where housing finance and secure tenure are made available to people, the quality of owner-built housing – even at the bottom-end of the economic ladder – can improve dramatically.”<sup>1</sup>

By helping to facilitate what is already being done, incremental housing has the ability to create greater numbers of safe and secure dwellings than conventional approaches. This, in turn, reduces the financial burden on governments to subsidize housing. Improving the incremental process leads to better planned communities, rather than ad hoc solutions.

Incremental housing can be supported by increasing access to housing microfinance. Like traditional microfinance, which led to millions gaining access to previously

unavailable financial services, housing microfinance has the ability to drastically improve living conditions of the world's poor. Housing microfinance consists of small, nonmortgage-backed microfinance loans offered in succession to support the existing incremental building practices of low-income populations. Research indicates that up to 20 percent of microenterprise loan funds (i.e., those intended for business purposes) are diverted for housing needs worldwide, yet only 2 percent of these loans are specifically designed to improve shelter. On average, only 3 percent of the population in developing economies has a loan for a mortgage.<sup>2</sup>

While mortgage markets languish, an opportunity exists to link a supportive, progressive shelter process to microfinance services. Market research indicates that the demand for shelter finance is very high

among low-income populations, dwarfing even that of the market for microenterprise financial services.

This Shelter Report makes the case for applying the principles that made enterprise microfinance successful to housing. Given that efforts to provide new housing in the developing world are limited, and that existing bankers and lenders rarely serve lower-income people, we need to encourage market solutions, such as housing microfinance, to support high-quality incremental building. Housing microfinance (including savings, credit, remittances and insurance services), bundled with basic housing support services, can lead to scalable, replicable and sustainable solutions.

<sup>1</sup> UN-Habitat and ACHR, “Quick Guides for Policy Makers 5, Housing Finance”, 2008, p.3.

<sup>2</sup> Ibid

## Policy recommendations

- **Housing microfinance should be recognized as an effective way to finance housing for low-income populations in the developing world.** Government efforts to develop housing solutions in the formal sector have fallen short. Habitat encourages policies that strengthen what low-income people are already doing in the informal sector as a way to serve greater numbers of people more equitably.
- **Secure land tenure is essential for successful housing microfinance.** Though full titles are not necessary in every context, national and local laws must create a framework for granting sufficient tenure security, including an accessible, transparent and accountable land administration system.
- **Incremental housing and housing microfinance should be approached as sources of developmental and financial returns.** Government aid accounts for less than 20 percent of the developed world's economic dealings with developing countries. Habitat therefore encourages private-sector and social entrepreneurship opportunities that advance access to better housing in sustainable and even profitable ways. Housing

microfinance shows promise as a product that offers financial service providers both social impact and financial returns.

- **To function best, housing microfinance needs to be coupled with financial education and construction technical assistance.** Purchasing or improving a home is often the largest investment a family will make. Appropriate financial education and housing support services can improve the likelihood of a successful outcome.
- **Market actors must prioritize the consumer.** Market actors serving low-income segments of the population must design appropriate products and services, prevent overindebtedness, provide transparent information, use responsible pricing, and protect clients' privacy.
- **Governments should catalyze, facilitate and regulate housing microfinance.** Governments can nurture the growth of the housing microfinance sector by ensuring that housing is not restricted or restrained by being classified as a consumer loan. Housing plays a nuanced and often economically productive role in the lives of people working in the informal

sector. Likewise, local building codes should not prohibit methodologies that allow households to safely build their homes incrementally.

- **Multilateral development institutions should provide capital and capacity building to spur innovation and expansion of housing finance products.** In addition to funding, multilateral institutions are well-positioned to provide capacity building and technical assistance — critical resources that are often overlooked.

**“By leveraging the incremental building practices of the developing world, housing microfinance is an economical and efficient tool to address substandard housing as well as a viable opportunity for financial institutions serving low-income populations.”**

Elizabeth Littlefield,  
president and CEO,  
Overseas Private Investment Corporation

