Housing Microfinance:
Definition:

As defined by James Hokans and David Porteous: Housing microfinance (HMF) is primarily the provision of unsecured microcredit, but may include other related financial services—such as access to savings, remittances, and micro-insurance—to meet the demand of low-income households to repair or improve their existing homes or build their own homes incrementally one loan at a time.

Just as microcredit offered a viable alternative to the low income persons seeking financial services denied from the bank, housing microfinance is a viable alternative for the very category of persons inaccessible to mortgage finance from established Financial Institutions.

Whereas the focus, over years, microenterprise has been the business, limited impact has been felt out of the business growth and diversion of successive loans into other activities has often contributed to business collapse and/or default. Since more concentration is placed on the business, in some cases, profits earned by the bower is shared between servicing principle loan plus interest and paying for health services and fighting conditions associated with poor housing.

Housing Microfinance is therefore important in setting the necessary platform for development take-off and hence reason for development institutions to consider it preferably. Some of the areas addressed by decent housing amongst the low income families include:

i. A family with a decent and durable house is a confident family to participate in community development including enterprise development;

ii. Children, especially those below 5 years old, are prone to few preventable diseases hence providing their parents, particularly mothers, to participate in other income generating activities;

iii. Decent houses are well ventilated and lit hence provide opportunities for school children to study and do their homework while at home which contributes to improvement in education standards and

iv. A family that owns a house is able to provide good protection to the girl child by ensuring that safe bedrooms are availed

These highlighted issues provide the core business for many international organisations and most of their visions, missions, strategies and objectives are formulated to address these issues individually or in an integrated approach. However, careful analysis of development work reveals that facilitating decent housing provision for the low income families is never prioritised. It is in this light that Housing Microfinance and Microfinance in general should be considered as powerful tools in fighting poverty.

INCREMENTAL HOUSING APPROACH
Access to housing finance and improvement

Housing Microfinance works with community groups in uplifting their capacity to construct and own simple, decent and affordable housing. It is built on the belief that when groups are organised to pool together available resources, savings and borrow loans, they are able to provide an alternative to mortgages provided by commercial financial institutions.

To achieve its objective and mission, Housing Microfinance has to work with community groups in both rural and urban areas to build their capacity and enable them to own decent housing. This is done through the following two initiatives:

Housing Microfinance for Rural Housing

Housing Microfinance provides micro mortgages to persons earning incomes of between US Dollars 27 to 400. Persons in this income bracket typically include farmers, farm workers, teachers and junior civil servants in developing countries.

The housing microfinance loans are provided to individuals who are members of housing microfinance groups of between 15 to a maximum of 30 members.

The members are trained in group dynamics, financial and loan management and are helped to come up with a constitution that governs the running of their groups. They are also required to make regular periodic (monthly) savings of at least 2.7 dollars per month. The group members are also required to commit to paying the loan of any defaulting member.

After training, housing loans are provided to individuals within the group in three tranches. In Kenya, with the support of construction engineers, it has been determined that a loan of 467 dollars to lay the foundation of the house can be repaid in a period of between 6 months minimum and 24 months. On successful repayment of this loan, a second loan of 933 dollars is provided to enable the individual wall and roof the house and put windows and doors. On completion, the family can move into the house. This loan is repaid in 24 months or 36 months maximum. A third loan for painting, putting ceiling boards etc is purely optional and can be repaid back in 24 to 36 months.

Just as loans for enterprise development increase very fast when the clients clearly understand the lending approach, these housing loans increase geometrically. In a period of one year, more than 1,500 loans had been issued for housing in areas where people were shy of borrowing loans for housings and enterprise development. The pay as you build system (incremental) has registered 100% repayments especially for the first two loan cycles.
Affordable Urban Housing

Housing construction is a very expensive venture especially for the low income earners. One of the factors that contribute to the high cost is the high cost of materials and labour in conventional house construction. Housing Microfinance therefore carries out research and develops new affordable building technology using locally available materials and labour. This ensures that the cost of the house is kept as low as possible and therefore provides opportunities for the low income earners to own houses.

Among the techniques used by Housing Microfinance in Kenya are:

- Building in stages – in this model, beneficiaries are encouraged to build the dream house they eventually hope to earn in stages. The beneficiary access finance that enables them to put up some basic living space and once this is done; they move in and construct the extra rooms and bedrooms with income saved from paying rent. The savings from rent are also used to repay the loan to build the first phase. This model is mainly used in urban areas and is illustrated in photos 01, 02 and 03 below.

- Use of locally available materials and labour – Housing Microfinance promotes the use of locally available materials, labour and technology. This serves to ensure that no importation of materials and labour is done and therefore reduces the overall cost of a house. This provides a source of income to the community and thereby creating an enabling environment for community development.

- The participation of the beneficiary in constructing their own house by providing unskilled labour also serves to cut down on costs that would have been incurred had the unskilled labour been hired.

1. Narrative

Situation before the initiative
Before inception of this initiative, many people in the low and middle class category especially those living in the rural areas considered owning a decent house as the preserve of the high income earners.

Establishment of priorities
Institutions implementing Housing Microfinance established housing as a primary initiative as a result of assessments carried out and revealed that most of the communities in rural areas do not have access to decent, durable but affordable housing. Institutions have over time developed secondary initiatives which are closely related to housing. These include water and sanitation which is a key requirement for a habitable house.
All these initiatives are geared towards community development and national development.

**Process one Housing Institution in Kenya has taken in implementing Housing Microfinance**

Habitat for Humanity is a non-profit, non-governmental Christian housing organization dedicated to the elimination of poverty housing. Her ultimate goal is to eliminate poverty housing and homelessness from the face of the earth by building adequate and basic housing.

From 1982 to 2008, Habitat for Humanity Kenya (HFHK) was providing housing finance to communities through community groups called affiliates. Affiliates were registered community groups entrusted with the responsibility of building houses for their members and recovering the housing loan provided. A full two bed roomed house would be constructed for an individual, the final cost of the house calculated and the individual expected to pay for the loan over a 6 year period. This model failed because individuals did not have the discipline and the structure to make monthly mortgage payments and there was no peer mechanism to enforce repayment. Housing delivery using this model was therefore discontinued in the year 2008. 3,000 families had been enabled to own decent houses since inception.

From the lessons learned in the affiliate model, HFHK redesigned its housing delivery processes with the objective of providing decent, affordable housing but at pace that the borrower is comfortable with and which ensures 100% repayment of the housing loan.

HFH Kenya borrowed microfinance principles and modified them to provide housing microfinance loans. The key principles borrowed include group formation and training, savings mobilization and providing the housing loans in small, affordable, incremental amounts. Details of how this process works is described in the titled Housing Microfinance for Rural housing.

HFH Kenya officers are in charge of overseeing the implementation of the housing process. Monitoring and evaluation is carried out occasionally to assess the viability of the strategies employed and recommendations are taken into consideration for improvement of the process. In addition, HFH Kenya has established guidelines and procedure manual which guides the process of loaning and housing. This is a tool that guides both the monitoring and the evaluation process. Audits are also carried out by external auditors on an annual basis to establish how sound HFHK systems are and finances are.
**Target population**
HFHK target is to loan and subsequently house over two thousand families in a year and expand the operations to other parts of the country. Focus is put on the low income families especially in rural areas where the main economic activity is subsistence agriculture.

**Results achieved**
Through Housing Microfinance, HFHK had by December 2010 enabled over four thousand (4,000) families construct, renovate and repair their houses, thereby improving the living condition of thousands of individuals who were living in poor housing across the country. The people who benefited more were:

i. Women- through small groups, women were been able to significantly contribute to the improvement of their houses. Whereas house construction was in the past left to the man, women now take a leading role.

ii. Young persons had an opportunities to start building houses that they will eventually live in but incrementally and without taking on excessive debt

iii. People in the rural areas have realized that building a permanent house is possible with well-structured financing and over time

iv. Low income employees in urban areas residing in slums realized that with a group, they are able to move to their own houses which are decent, durable and affordable

HFHK has established partnerships with other organisations working in the country to provide this noble service to the people. Many communities have partnered with HFHK and this has led to the expansion of the initiative into seven regions country-wide.

The success of the project has seen a change in people’s attitude towards housing. They see it as an affordable venture and not a preserve of the high income earners. As a result people have been able to construct their own houses and the quality of the housing stock in areas where HFHK works has greatly improved.
Housing Microfinance and Sustainability

Financial Sustainability

This initiative is built on a revolving fund system whereby loan repayments are used to loan more people and serve more families. This in turn ensures sustainability of the process. Additional funds received are used to loan more people and grow the revolving fund.

Administrative fee charged on the loans issued is used to cater for other costs related to the loaning process which enables the initiative to be self-sustaining.

Social and economic

Housing Microfinance approach ensures community participation. Local artisans are trained on house construction technologies and material management. Skills learned remain in the communities and are used by the trained artisans to construct simple but decent and affordable houses.

The beneficiaries are also trained on financial management which provides them with skills to assess their liabilities and abilities to repay loans. They also receive basic training in construction and are able to participate in the construction and supervision of construction of their own houses.

With this knowledge and established platform, beneficiaries mobilise savings on a continuous basis from which they can borrow from within their groups to finance other income generating activities, invest and create wealth.

Environmental sustainability

Research is on-going on environmentally sustainable construction materials widely used in Housing Microfinance. These include; stabilised soil blocks, rammed earth technology, and rough stone.

Housing Microfinance ensures that for every house constructed, at least five trees are planted and thereby enabling environmental sustainability.

Cultural

Cultural beliefs related to housing are incorporated in the housing designs and house construction to ensure that the specific culture of the community is enhanced and sustained. This is very important in enhancing cohesiveness within group members.
Institutional collaboration and networking

Unlike microfinance which may operate with limited collaboration with other institutions, Housing Microfinance works closely with others. During the implementation, institutions governing land and housing development are involved in decision making and approvals and financial institutions.

Lessons learned

- That the low income earners are also able to construct and own decent housing units.
- That communities’ can mobilize savings and pay deposits towards housing construction when they come together in structured, organized and well run groups.
- That housing is not a preserve for the high income earners only. Low income earners are also able to construct their houses with the resources within their reach.
- That it is possible to build low cost houses by using locally available materials and labour.

Photos

The photographs below show what Housing Microfinance has achieved in Kenya.
From this....

Photo 01 a bedsitter house.
The beneficiary is able to build his/her own house in stages as shown above in photos 1, 2 and 3.

One of the beneficiaries on her way to her house.

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Photo 04 – Rough stone constructed through Housing Microfinance group

Photo 05 – Fired brick house

INCREMENAL HOUSING APPROACH
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