

HiFi NEWS

The newsletter of
the Working Group
on Housing
Finance and
Resource
Mobilisation for the
Habitat
International
Coalition

December 1998 No.5

Editorial

This issue of HiFi News demonstrates the growing diversity and maturity of NGO activities related to the provision of housing finance to the urban poor. This issue begins with a discussion between two professionals working in NGOs, Beth Biti from Zimbabwe and Debora Cavalcanti. Their exchange demonstrates the critical importance of local context to the particular nature of any specific intervention. This interview is followed by three reports from Southern Africa. In Zimbabwe, Housing People are establishing an investment trust fund to increase access to capital for housing cooperatives. In South Africa, the *uTshani* Fund has now given more than 3,200 loans; the Fund is managed by the Federation and capitalized through contributions from the South African government and donor agencies. The third report is from a workshop, earlier this year, which brought together agencies working in Kenya, Senegal, South Africa and Zimbabwe to discuss access for the poor to housing finance.

The Asian Development Bank is now

recognising the importance of ensuring that the poor as well as the rich can have access to housing loans. A US\$ 300 million lending programme to formal sector housing finance institutions is being pushed forward with ten innovative and experimental projects to link these commercial and state banks with experienced community based financial institutions. Two of the groups involved in this lending programme are SPARC and SEWA. SPARC's work has been described in earlier issues of HiFi News and SEWA housing loan programme is introduced in the following report. Somsook Boonyabancha then draws together some key lessons emerging directly from her experience with the Urban Community Development Office in Thailand and her contacts with a range of housing programmes for the urban poor throughout Asia.

The final report is from a meeting of different grassroots organizations, NGOs, local authorities and international donor agencies in Latin America who came together to discuss how to further their growing interest in supporting the urban poor in savings and loans for housing, emergencies and income generation. Contacts are provided on the back

AFRICA/LATIN AMERICA

From Zimbabwe to Brazil

In this discussion, Beth Biti (from the Dialogue on Land and Shelter in Zimbabwe) and Debora Cavalcanti (from *Cearah Periferia*) share their thoughts and experiences on what it means to be an NGO working with savings and loans for housing and neighbourhood development for the urban poor. The Dialogue on Land and Shelter was set up just one year ago and has been working with savings groups for housing and income generation in a number of cities in Zimbabwe (see HiFi News No.4). *Cearah Periferia* has been developing a number of housing finance programmes in the city of Fortaleza in the northeast of Brazil since 1994 and has recently initiated savings groups in some of the communities in which it is working. Box 1 on page 3 highlights some of the political and economic differences between the two countries, as such factors influence the ways in which the programmes can develop.

continued page 2

Contents

National Reports

From Zimbabwe to Brazil	2
Housing People - Housing Trust Funds	4
People's Dialogue and Homeless People's Federation.	4
A Problem Solving Exchange - Barry Pinsky (Rooftops Canada)	5
India: Asian Development Bank invests in housing for the poor	6
Housing, a Key Component of SEWA's Loan Activity - Monique Cohen	6
Credit for Habitat - Somsook Boonyabancha (UCDO, ACHR - Thailand)	7
Latin American Networking - Debora Cavalcanti.	7
Contact Addresses	8

This newsletter is produced and published by IIED for the Housing Finance Working Group of the Habitat International Coalition.

IIED, 3 Endsleigh Street,
London WC1H 0DD
Tel: (44) 171 388 2117
Fax: (44) 171 388 2826

HiFi: Is it easy to set up savings groups?

Beth: In the settlement in Zimbabwe, people find it easy to save. They like the idea of saving for housing and they are desperate for housing. But this has led to another problem. Savings schemes don't always want to lend money for other things, such as emergencies and income generation. They want to see the savings growing in the bank. It makes them feel so good to see the deposit account in the building society totalling Zim\$ 70,000. They have never had this before.

Debora: In Fortaleza, we have a mixed experience. There is no practice of saving in Brazil. With hyperinflation, life is very difficult and saving makes no sense to people. So with the *Casa Melhor* programme, the savings component is more of a deposit. We call it saving but many families do not raise this deposit through saving. When the programme is ready to give them a loan, they sell something (a TV or a bicycle, for example) or ask their neighbours. In a way this is saving through material goods and social relationships. In Brazil, these things have been more reliable than money.

We wanted to start a savings fund because this strategy of asking for the deposit does not work so well for the poorer groups. So we started some savings groups a few months ago in three of the lowest-income settlements. Saving has not been difficult, as we told people they could save as much as they felt able. Once they understand that they can save as little as R2 a month, it goes well. There are already formal organizations and many active women to support this in the settlement.

HiFi: But tell me, the saving in Zimbabwe, is it enough for housing? In Fortaleza it is not possible for the poor to address their housing needs through the market.

Beth: It is not enough for housing but it is a way for people to be organized to solve their housing problems. To get housing, they need to work with city government to first find land and then look for loan capital. They could

afford to pay more for their housing than they are saving but first, the possibility needs to be there in front of them. In Zimbabwe, for years these people have had no possibility of improving their situation. These savings groups build on a hope for a better future.

Debora: In Fortaleza, the poor have another strategy. They invade land. If they are prepared to stay and really fight, they will eventually end up with the land. But they have to be determined. Take one community which has now started saving (Gorech); they have lived on the site that they occupied for three years now. It is very difficult for them but now the state has told them that they can have the land and they have a kind of security. Only, the state has not paid the private landowner for the land (because of government delays) so they continue to have problems. Now, this community will improve their housing through the *mutirão* programme. Through *mutirão*, the government in Fortaleza provides the community with building materials free of charge and provides infrastructure to the site. The community organizes the building of the houses. Both infrastructure and housing are often of poor quality but it is a start.

These savings groups now face a big problem. They wanted to start giving small loans (informal money lenders charge a lot) but the central bank said that this was not allowed. We do not know what to do. In another community where we work, the community organizations established a small bank* (which accepted savings and provided an informal credit card system). Last week, officials from the central bank went there and told them it was not legal as the credit card system is a kind of loan. What can this community do now?

HiFi: Is it possible to work with the poorest people in savings and loans?

Beth: It is generally the slightly better off who are the most active in the savings schemes; not the poorest nor those in the settlement with most money, but the ones in the middle. So the loans are for bus fares to work and

for school fees, they are not for food.

Debora: In our experience, it is easy to work with the poorest if there is a low level of political involvement in the settlement. If there is a strong level of politicization, either from those involved in party politics in the settlement or from the municipality, then it is very difficult. When there are meetings, the political leaders dominate (these are men) and the women and others do not have a chance to take part. Then the plans that we make with the community are not realized.

HiFi: How do you decide who to work with?

Debora: Most communities in Fortaleza are organized. Sometimes there are political organizations, sometimes residents' associations of a more traditional form and sometimes church groups. Many of the groups that we work with emerged from these local church groups, the base communities. In *Cearah Periferia*, we do not directly organize the communities that work with us. Of course, in the course of new activities, new groups emerge. But we only go to a community if and when we are invited by local residents. As we have become better known, we can pick the groups that we want to work with and those who come to us are interested in developing projects in the sectors in which we have experience.

Beth: In Zimbabwe, the only organization in the low-income settlements where we are working is Zanu-PF, the political party. Zanu has dominated politics in Zimbabwe since independence; it is so well-integrated with the state that it is difficult to tell the two apart. People are scared to have alternative affiliations. Even if they belong to another party, they probably do not tell their neighbours. Maybe because of this, we have found a lot of interest and enthusiasm in setting up savings schemes. People seem to want another kind of organization that lets them come together and do things for themselves and each other. Savings schemes members often say: "If we had been organized like this, we would not have suffered so much in the past."

But we recognize that it is not the job of NGOs to establish organizations of the poor. The ideas and approach that we work with spread through community exchanges. The South African group (the South African Homeless People's Federation) first came and explained the ideas to the people, then the Zimbabweans decided that they wanted to try out savings schemes. And the ideas were first brought to South Africa from a community organization in India, the National Slum Dwellers Federation.

HiFi: How easy is it to ensure that women are centrally involved?

Beth: We generally try to have meetings when the men are at work. Of course, many do not work but generally they are out of the house during the day. If the men are there, some women will not speak. The women divide into two: those who are intimidated and those who are not.

Debora: In Fortaleza, it is common practice that the house actually belongs to the woman even if, sometimes, it formally belongs to the man. If the man and the woman split up, generally the woman stays in the house and the man moves out. In the *Casa Melhor* programme, it can be either, we do not discriminate. In our green field developments, the house is always in the woman's name and the men accept this easily.

Generally, when housing improvements are discussed, the men come to the meeting. They want to be involved in this decision although they may not have been interested before.

Beth: In Zimbabwe, traditionally the men own the house and the women own what is inside apart from the furniture, the pots and the pans. Property is meant to be divided equally if the partners who have been joined in a civil marriage separate but many people do not know of, or follow, this law. Because of this and other things, it is necessary to constantly work to ensure that women have a leadership space within the savings schemes.

Debora: In Fortaleza, this is not so necessary. Most of the community

Box 1: Brazil and Zimbabwe: Facts and Figures

	Brazil	Zimbabwe
GDP'S per capita (US \$):	4,720	750
Population:	164m	11m
Level of urbanization:	80%	33%

leaders in the residents' associations that we work with are women.

HiFi: What are the critical issues that you are now facing in your work?

Beth: The critical issues that we face at the Dialogue on Land and Shelter are related to developing the organization and particularly to developing our political interface. To organize people is easy but to do it in a way that works with a very inflexible political system is very difficult. If the politician in an area is hostile to the idea of savings and loan schemes, these are unlikely to flourish. But we have a new programme which started last year and it will take time to create the political space that we need. Meanwhile, in the savings schemes there is much enthusiasm to join in and to do other activities.

Land is another critical issue but this is really a secondary issue arising from the lack of a political space.

Debora: There are many issues for us in Fortaleza. Two of the most important are related to the poor and the state. In working with the poor, it can be very difficult to create a project because people are very despondent. Maybe 30 per cent of the people cannot eat properly. If you ask them to take part they say "Ahh... but I must deal now with this problem that I have"; this despondency sometimes spreads to others in the settlement.

The second issue is also related to politics and the political system. There are elections every four years in Brazilian cities. We and the people work with one administration but then find that the next does not take these agreements seriously. So you can make progress in one political

space, only to find that the agreements are worthless the following year. This is very difficult.

Beth: In Zimbabwe, there is much poverty but I think the problem of food is lesser. There are opportunities for people to grow their own food in the settlements and within the community there is a strong feeling that people should help one another. So people have the staple food that they need, then they just need to buy a little more.

Beth: When the politicians come into the process, then it is difficult. Either they are hostile, and then the people are reluctant to carry on saving, or they want to offer too much and take over and then it is difficult for the community leaders to speak against them.

Debora: That is not really a problem in Fortaleza. One of the local politicians wanted to come to one of the areas in which we were working. He phoned us and we said that of course he could come along, only he had to speak as a resident, as an ordinary contributor, and not as a politician. But what is more of a problem in Fortaleza is that it is difficult to work with the more politicized groups. Often, it is the men who are the leaders of these groups. Generally, we find it works better if it is women who are involved.

Contact: Beth Biti and Debora Cavalcanti

**See report in HiFi News No.4*

Housing People - Housing Trust Funds

The lack of access to finance is a continual problem for many housing finance initiatives. To address this need, Housing People of Zimbabwe has been developing plans for a housing cooperative investment trust fund since late 1997, when the government approved plans for the fund, and the launch is expected later this year. The trust fund is being established for several reasons. Bank deposit rates in Zimbabwe are currently lower than inflation rates and cooperatives need a financial institution which will ensure that their savings do not lose value. The trust fund will invest in the money markets in order to obtain higher returns. The fund will provide short-term bridging finance to cooperatives that secure land and who need rapid access to deposit funds, perhaps before a building society will give them a loan. Whilst the trust fund will initially offer short-term loans, if sufficient investment funds are secured it may also offer medium-term finance.

Housing People of Zimbabwe is a not-for-profit organization which supports the development of housing cooperatives throughout the country. The organization lobbies state agencies and private enterprises (especially financial institutions) on behalf of the housing cooperative movement and assists in cooperative development. A number of other services such as building services and financial planning and management are provided to cooperatives on a fee basis. Whilst housing cooperatives can address the housing needs of a wide range of incomes, the work of Housing People is mainly targeted at families with a monthly income of between Z \$351 to \$5,000.

At last count, there were some 150 housing cooperatives in Zimbabwe, both registered and unregistered, and Housing People is at present assisting 30 of these. Most recently, Housing People has been receiving new groups through the Civic Forum in Zimbabwe. The Civic Forum was established in 1995 both to promote

greater awareness of the housing solutions that are available to people and to lobby for the required legislative changes. Much of its work has involved providing information and holding meetings for would-be residents and, consequently, there is new interest in cooperative housing in Zimbabwe.

Contact: Killian Munzwa

People's Dialogue and Homeless People's Federation

Since starting to give housing loans in 1995, the portfolios of the People's Dialogue and the South African Homeless People's Federation have grown significantly. This alliance of NGO and grassroots organization is now supporting:

- over 1,000 housing savings schemes linked through exchanges and undertaking activities related to savings, and loans for emergencies and income generation;
- a total membership of 50,000 (primarily women);
- a savings fund of R3 million;
- a housing loan fund (the *uTshani* Fund) of over R23 million;
- over 3,200 members in 134 schemes with housing loans;
- direct access to government housing subsidies with over 1,200 subsidies obtained;
- 900 members having built houses financed solely through government funded housing subsidies;
- three green field developments for over 3,500 members who were previously squatters and backyard shack tenants; and
- improvements to a further 13 settlements (7,500 members) for which land tenure has been secured.

Housing loans are offered through the *uTshani* Fund which is wholly managed by the Federation and capitalized through contributions from the South African government and donor agencies. Further finance for housing

has been secured as the Federation has negotiated with some of the provincial governments in South Africa to enable members to draw down government financed housing subsidy funds that are generally worth between R5,000 and R10,000.

Members can borrow for emergencies and enterprise activities from the savings funds of their housing savings schemes. However, a recent problem has been a lack of capital. In order to address this problem and others, the Federation has reorganized to improve direct support to housing savings schemes and their housing building and loan activities. The Federation has consolidated activities around a number of *uFunde Zufe* ("learn until you die"). Regional funds (called *Inqolobane* or the "granary") are being established at each *uFunde Zufe*. Savings schemes throughout South Africa are deciding how much of their savings they wish to deposit with their *Inqolobane*. As the capital within the *Inqolobane* grows, the savings schemes will be able to access larger loans for income generation and housing improvements. As with other funds, the *Inqolobane* are owned and managed by local members and their settlement organizations, the housing savings schemes.

The main *uFunde Zufe* are:

- Piesang River, Inanda, Kwa-Zulu Natal
- Protea South, Soweto, Gauteng
- Victoria Mxenge, Philippi, Western Cape
- Kleinskool, Port Elizabeth, Eastern Cape

Three small peri-urban centres are:

- Oukasiee, Brits, Northwest
- Kgotsong, Bothaville, Free State
- Lawaaikamp, George, Eastern Cape

Contact: Helena Hendricks

A Problem Solving Exchange Barry Pinsky (Rooftops Canada)

Poor communities in sub-Saharan Africa have very little access to housing finance. A workshop in Johannesburg in April 1998 brought together 50 participants from Kenya, Senegal, South Africa and Zimbabwe to seek solutions. They were from NGOs, community based organizations, government and parastatal agencies, private and public sector financial institutions. The workshop was co-hosted by Rooftops Canada and the University of the Witwatersrand Graduate School of Public and Development Management.

Common issues included a declining government role in housing. This was linked to the imposition of strict fiscal policies by many African governments. Another common theme was the devolution of authority from central to local government without the necessary accompanying resources. Access to land for low-income groups is a problem in all four countries. Problems in getting financial institutions involved in low-income housing were also reported. South Africa is the only country where government housing subsidies are available to the poor but financial institutions rarely participate in low-income housing. The workshop considered seven key issues:

Mobilizing wholesale housing finance for people in need: Various approaches have been taken by wholesale lenders so that housing finance can reach low-income groups. These include new loan products and risk-sharing mechanisms. Little has been developed for the lowest-income people since participation usually depends upon formal employment.

Retailing housing finance: Building societies in Zimbabwe are successfully lending to low-income households through housing co-ops. A local NGO, Housing People of Zimbabwe, plays a key role linking the co-ops

and building societies. Savings from many housing co-ops are being combined to increase interest returns and provide working capital. South Africa's Urban Sector Network uses donor funds to provide bridging and end-user finance. Donors are needed because the banks are not serving low-income groups.

Community based finance: The experiences of the South African Homeless People's Federation and ENDA-RUP from Senegal show that mobilizing community savings for housing is a powerful tool. Women are central to the management of these two initiatives. However, it is difficult to raise sufficient savings solely among low-income savers. Savings can lever additional funds from donors or formal lenders.

Pension, provident and social security funds: While the use of pension funds can be important both to directly provide loan funds and to guarantee loans for low-income formal sector workers, not much has been made of such opportunities. In South Africa, examples from the National Union of Mineworkers and Badiri Housing Association demonstrate the potential of such finance. In Zimbabwe, up to 5 per cent of National Social Security Authority funds can now be invested in low-income housing through building societies.

Incremental and complementary housing finance: Examples from the Rural Finance Facility, NURCHA and Development Action Group (all in South Africa) and the National Cooperative Housing Union in Kenya demonstrate how additional finance may provide the capital required to enable communities to address their multiplicity of development needs.

Building lender confidence and partnerships: The experiences of the Home Loan Guarantee Company, COPE Housing Association and the

Social Housing Foundation in South Africa suggest several prerequisites to working with private sector lenders: solid business plans, borrower savings, education, participation, commitment and capacity-building for long-term management. Regardless, lenders may still shrink from lending for low income housing and housing associations, because of their unfamiliarity with the concept or the market.

Appropriate roles for national and local government: Limited state support and small-scale initiatives are typical. Some local governments are trying to facilitate delivery. The city of Cape Town provides small loans to upgrade housing in hostel areas but it is not fully committed to this role. With virtually no resources, the Mavoko municipality near Nairobi has granted secure tenure to residents in three informal settlements and assisted with infrastructure, working with local industries.

The workshop also noted the need to accumulate and share more experiences on gender and finance issues. More advocacy for low-income housing is also needed. There are an increasing number of housing finance innovations, many led by communities and NGOs. But much remains to be done. The workshop participants intend to meet again in two years to evaluate progress.

This is a summary of a longer report available from Rooftops Canada.

India: Asian Development Bank invests in housing for the poor

Donor agencies have long realized that it is easy to provide capital to formal sector financial institutions but much harder to ensure that these funds reach the poor. The Asian Development Bank recently signed an agreement to provide loan capital for on-lending to low-income households whereby the National Housing Bank would set up a mechanism to have housing finance institutions on-lend to either NGOs or community groups. The value of ADB support is US\$ 300 million, estimated to be enough, together with local resources from Indian banks and repayments from the people themselves, to reach an estimated 360,000 households. Small enough to address Indian needs but a major step forward in terms of present provision for the poor.

For this programme to be successful, four issues urgently need to be tackled:

- new policies and practices within the formal financial sector;
- experience in working with the poor within the formal financial sector;
- interest from community based finance institutions; and
- commitment to go to scale in lending to the poor for housing.

To address these and similar issues, ten community based financial institutions (including both SPARC and SEWA) will be linked by the ADB to ten formal financial institutions in an innovative action research programme. Pilot projects will enable learning by all the groups involved and, through these experiences, new policies and practices can be derived by all groups. These pilot projects will each include an Indian NGO and a financial institution (public or private). Both the financial institution and the NGO must have experience in managing housing finance. For the NGO, experience with savings and credit is also essential.

Housing, a Key Component of SEWA's Loan Activity Monique Cohen*

SEWA, the Self-Employed Women's Association, established in Ahmedabad, India in 1972, is a trade union devoted to advancing the interests of women who work in either self-employment, sub-contracting or casual labour. For most of SEWA's members, earnings are low and thus vulnerability to crisis is high. Therefore, SEWA aims to increase the self-reliance as well as the income, food and social security of its members. In doing so, SEWA organizes its membership into both trade organizations and cooperatives as well as pursuing activities which expand the opportunities for women.

The SEWA Bank is a cooperative bank established in 1974 to provide savings and loan services to SEWA members. The SEWA Bank has only one loan product regardless of its stated purpose or whether it is secured or unsecured. The loan is for three years, may be up to Rs 25,000 and is repaid monthly at an annual interest rate of 17 per cent. One guarantor is required if the loan is under Rs 2,000; otherwise two guarantors are needed. The Bank offers savings services, and insurance, introduced in 1992, was made compulsory for all borrowers in 1996.

SEWA Bank estimates that nearly half of its loan portfolio is invested in housing. (The value of loans outstanding at the end of the 1996 financial year was Rs. 47.3 million.) These funds are used for incremental improvements in housing, new construction and home repairs. It is clear that this kind of investment can dramatically improve the quality of people's lives. The impact is visible not only in the increased asset value of the house but also in increased labour productivity, improvements in the quality of the environment in which the poor live, and the safety of the women and their families.

The women see home improvements as productive investments which will generate both short and long-term

returns in the form of higher earnings and greater household assets. Many SEWA members live and work in illegal sub-standard urban neighborhoods. For vegetable sellers, their home may be their market stall; for others who carry inventory it is a storage place; for piece rate workers, including those involved in textiles, *bidi* rolling, and incense-making, it is their place of business. A home improvement may mean the installation of a new roof, a level floor or a window which improves the work environment by increasing light and ventilation, or it may mean expanded space where two weeks rather than a days' worth of recyclables may be stored. Borrowing for an electricity connection allows a microenterprise to shift technologies—from a manual to an electric sewing machine—further increasing labour productivity.

Upgrading or home repairs are important uses of a SEWA housing loan. Prior to taking a housing loan, many SEWA members are formal or informal home-owners or long-term renters with secure occupancy. These dwellings are shacks made with walls of unnailed planks, cardboard or tree leaves and branches. Roofs are made from a variety of scrap materials and dirt floors are common. Dampness during the rainy season and a lack of ventilation year round have negative health implications for residents, and dark and dank houses make for low productivity and insecure work environments.

SEWA Bank housing loans have enabled members to replace their temporary shacks with three-roomed permanent houses. A Rs 10,000-25,000 loan can transform the home into a brick structure with plaster covered walls, tiled floors which are easier to maintain (and decrease demands on women's time), and windows which provide light and ventilation. Scrap roofs are replaced with corrugated sheeting. The transformation begins by reconstructing one room, rebuilding the walls and leveling the

floor. One client, a paper picker, now into her second Rs 10,000 loan, completed the walls (brick construction followed by plastering) and tiled the floors of two rooms. Upon repayment of this second loan, she intends to borrow again, for housing, to complete the outer wall of the third room and the roof. In densely settled slum neighborhoods, circulation of air is important and often worthy of a loan for homeowners. A cloth dyer used two loans, totalling Rs 20,000 to upgrade her house. She also installed a fan in the room where she sleeps and cooks.

Protection against risk is also a high priority for homeowners. Borrowing to install a lock on a door is not only a safeguard against theft but also means that one can safely leave an adolescent daughter at home while the SEWA member goes to market, attends a meeting or purchases

inputs. In an uncertain environment, such small investments enable a woman to minimize losses by increasing her control over her production or household resources.

Many housing loans are in excess of Rs 10,000, which mean monthly repayments of between Rs 500 and 1,000. These loans represent significant payments for women, whose daily incomes range from between Rs 60-100 per day. Yet many pay off their first loans in under the three years, sometimes in significantly less time. How are such loans affordable? First, part of the answer lies in the savings criteria used by SEWA in assessing loan eligibility of the client. A regular pattern of savings must first be demonstrated. The passbook of one borrower with a Rs 25,000 housing loan in 1996 indicated that she had opened a recurrent savings account in September 1993 and deposited Rs 50

monthly. Just two years later, her savings balance totalled Rs 39,393. Second, in countries where housing accounts for 60 per cent of total assets, low-income households have demonstrated a willingness to spend up to 30 per cent of their income on housing when they have title or secure occupancy of this asset. SEWA members appear to do the same. Thirdly, households generally see housing loans as the responsibility of all family members. A paper picker, with a husband who is a former mill worker and two sons who are garment workers, indicated that it is the family together which pays the installments - everyone contributes to the cost of the house.

Contact: Monique Cohen

**The views expressed in this paper are the author's and do not reflect the views of USAID.*

Credit for Habitat Somsook Boonyabanha

Why savings and credit?

Community managed savings and credit programmes have emerged as one of the most powerful tools to draw together the individuals and disparate groups that exist within poor communities. Because they are controlled and operated by the community itself, savings and credit programmes build a community's own resource base. People can develop themselves and provide for their own needs, both individually and collectively, through the ongoing process of regular, concrete decisions that are inherent to the collective management of a savings and credit programme.

Community savings and credit activities bring people together on a regular basis. They make room for poor community members to develop their strengths gradually and to make decisions together about concrete activities which affect the community. Savings and credit are grounded in daily activities; they are quick, sim-

ple, concrete and relate to the real daily needs of the urban poor, as defined by the poor themselves. Savings and credit not only provide the urban poor with their own resource base but also create an ongoing process of learning about each other's lives, about how to manage together and how to relate to outside systems with better financial strength, to achieve more than day to day needs. It is a gradual process which provides the community with the capacity and confidence for a true and comprehensive self-development process. This means that the poor can enjoy the pride which comes of being the owners of a process, not merely recipients waiting for mercy from outside.

Experiences in several Asian countries show that scattered and small-scale savings and credit groups are likely to link to other groups and form networks with some kind of pooled finance. These larger networks provide groups with access to greater financial resources and enhanced

clout when negotiating for basic needs. This process has political implications, since the stronger status of large networks makes it possible for the poor to deal with larger, structural issues related to their problems - issues that, before, were beyond their capacity. In the past two years, over 40 such networks organized in Thailand have led to expanded roles and broader acceptance of urban poor communities in their own constituencies; networks have begun working with municipalities and other local organizations on vital issues such as rights, housing, welfare, community enterprises, community environment and health.

Credit for habitat

Urban poor groups invest continually in housing, whether legally or illegally, whether temporary or permanent, whether in cash or with informal credit. The urban poor and the informal sector have achieved the largest housing production in the region through sheer creativity, efficiency and a close fit between houses, affordability, employment and the complex needs of the poor who produced them. But because most of these houses are illegal, their occupants are

uncertain, threatened, victimized by the corrupt underside of the formal system. This is the poor's two-sided habitat reality, with immense problems and immense potential existing side by side. Most conventional, centralized housing or welfare organizations tend to disregard this potential in poor communities, and make the people become dependent and isolated.

The major role of credit for habitat is to support the people's own housing process, to further strengthen that already existing potential in an organized way. Savings and credit activities can become an integral community process for obtaining decent housing and for meeting other related needs such as income generation, welfare, emergency crisis credit and environmental improvements. If supported properly, savings and credit can grow in scale, since the process can be initiated and implemented by many communities at the same time.

What does the experience in Asia show us?

It is necessary that it be a group process: The *group* acts as a communal vehicle helping members gain access to financial resources and helping absorb or adjust the formal financial system with informal arrangements among community members. Groups work together to resolve the very difficult and different issues involved in housing development for the urban poor: coordination with outside agencies, land sub-division, land development, infrastructure development, housing construction and house registration. The group process helps reduce costs, make the informal and sub-standard systems more acceptable, and obtain coordination assistance and acceptance by political means.

There is a need for subsidy in credit for housing the poor: Housing for the poor needs some kind of subsidy in order to make it affordable. In the case of housing loans, the general practice in Asia is to subsidize interest rates. Some government programmes may not lower the interest rates but may subsidize housing in

other ways - by providing land or infrastructure, or by cross-subsidizing investment or administrative costs.

It is difficult and unaffordable for the poor to pay for both land and housing credit: In the experience of Thailand's UCDO, a number of evicted communities have applied for loans to both buy new land and build new houses (at an interest rate for housing project loans of 3 per cent per annum to the group). But it was found that if the poor have to pay for *both land and housing*, even with highly subsidized credit, many urban poor families are unable to afford both land and house construction. To be affordable, land has to be far away from the city and employment becomes a very serious problem. Therefore, a crucial point in credit for habitat is that it must be related to affordability by the urban poor people. *Perhaps it could be the regional direction in general that land should be provided by the government to the community group and that the community develop housing construction through collective loans.*

Simple, small housing credit for basic construction: The women in *Mahila Milan* in India went through a long process to develop a very simple and inexpensive house model to be the core house for all members in the organization. During the community planning process which led to the development of these house types, costing, calculations for all housing construction and discussions on the functions of the housing plans were undertaken thoroughly. This is how a community housing process can yield housing designs which come closest to being affordable by the poor.

Integrating with other necessary development: It is very important that land and house construction do not remain in isolation, as in most government projects, but that ways be found to integrate these vital elements with several other social and economic factors for a self-managed and sustainable community process. This is the role that community savings and credit activities can play as an integrated community resource

base in conjunction with outside resources.

Some margins for group expenses: It is necessary to enable community groups to have some margin to cover group expenses. Housing development requires so many difficult steps and so much coordination. At the same time, some urban poor people may face family or employment problems if their earnings are interrupted. Therefore, a margin to cover such managerial needs and expenses is very necessary for the group. In the case of UCDO, loans are made to groups at 3 per cent interest rate; the groups can then tack on an extra 3-5 per cent for these kinds of expenses and then charge about 6-8 per cent to its members. The margin charged by the group is very useful in dealing with small delays in payments, group management expenses and other small community development expenses.

Process relates to structural change

After the first three to four years of giving loans for housing to urban poor groups, the UCDO found that cheap interest rate loans alone are not sufficient since the incomes of the poor are so low. Reflections from groups who experienced the process in 1997 provide some interesting conclusions on how housing for the urban poor by community groups should be reconsidered:

- Community groups who face eviction problems should not just accept eviction and take a loan for relocation. They need time to better prepare their group and their incremental housing process. At the same time, they should try to negotiate with landlords to delay the eviction and get some compensation to pay fully or partially for the new land. They should also get concerned public agencies to help find alternatives. If households work together on this, then the group will be stronger. Hence, there will be a better spirit created in the group and it will be easier to develop housing later on.
- In the new housing process, com-

ASIA

munity members should be able to participate in all housing development steps such as the search for land, community planning, infrastructure development, housing construction and coordination with organizations concerned. Housing projects should be affordable so that *all* members, even the poorest, can be accommodated as much as possible.

- The housing project by people should be small and simple, of a size manageable by urban poor organizations and not more than ten *rai* (four acres).

These experiences have changed the UCDO process. In the new process, community networks organize com-

munity surveys and collaboration between groups in the same district, finding ways to plan for housing improvements for all communities with the district authorities and other concerned organizations. In this way, communities have a stronger bargaining power to negotiate with the relevant agencies in order to meet the different needs of individual communities. Available government land in the district can also be identified in order to negotiate for public land to be allocated to the urban poor. The network can negotiate housing loans for all the housing development projects in the same district, with these loans being managed by the network and other local organizations.

Creation of Urban Poor Fund to

directly support the process

It is important to set up some kind of Urban Poor Fund to directly support urban poor housing and related development processes by people, on a large scale. The experiences with UCDO in Thailand in organizing the Urban Poor Fund show that the existence of such a revolving fund is very significant and beneficial to the urban poor development process, through enabling community savings and credit on a national scale.

Contact: Somsook Boonyabanha

This is an extract from a longer paper available directly from ACHR.

LATIN AMERICA

Latin American Networking Debora Cavalcanti

A sharing and exchange of experiences in Latin America took place last August in Fortaleza, Brazil. A wide range of different grassroots organizations, NGOs, local authorities and international donor agencies came together to discuss alternative loan programmes providing financial services for housing, emergency loans and income generation to the urban poor. (Groups present at the meeting are listed in Box 2.) The meeting provided an opportunity to discuss how to transfer concepts, methods and processes from one city to another; how to improve the *Casa Melhor* and PAAC programme in Fortaleza and other cities; and to explore a Latin American network to share, exchange and transfer to the other cities and countries the approach of savings and loans for the poorest.

Financing schemes

It is impossible to provide loans to the poor, especially for housing, without a government subsidy. For these peo-

ple, obtaining a house is a really large investment. They need a subsidy and, at the same time, government has an obligation to redistribute the wealth produced within the country. The majority of participants thought that subsidized interest rates for the poor offered the best mechanism for the delivery of the subsidy. There was no support for a blanket subsidy but, rather, an agreement that subsidies should be targeted and proportional to the needs and capacities of each family. For the poor, the best financing scheme is a combination of savings, loans and subsidies. In such programmes, grassroots organizations, NGOs and municipalities all have an important role. In the long term, it is possible to think of a self-managed and self-sufficient loan fund for the community: the progressive creation of a social fund without the external provision of subsidies and loans. After the first investment has been made for such a local fund, the people should be responsible for maintaining the capital and using the fund efficiently and effectively to the benefit of those in need.

The intention of these innovative financing programmes is to provide support for the development of the people. This is a political decision

based on the need for solidarity with the poor and their struggle for social justice.

Strengthening social organizations

The process of loan management plays a very useful role within the community. It helps to develop economic activities in the neighbourhood, improve social organization, raise living conditions for each family, and bring together the people and the government. Community organizations are improved through their involvement in loan management. They have something to offer their members and the people learn that their lives can be improved through collective activities. This collective experience can change the traditional relations between politicians and people. The most common relationship in Latin America is one of paternalism with different kinds of corruption at election time.

Independently of governments or NGOs, the associations are looking for alternatives to their situation. Different innovations have taken place in the peripheral neighbourhoods, as people seek improvements by themselves. However, there are many difficulties in organizing self-

help savings and loans. There are many rules that make it difficult for the poor to access credit, and savings and lending may be considered illegal activities.

Working with integrated loans

Poverty is linked with employment, housing and daily activities such as transport, education and health. If people resolve their housing problems, they take a step forward but this is not enough. If they don't have a job, there is a strong possibility that they will sell their house to buy food and

other essentials. The most critical aspect of lending to the poor is therefore to establish a financing system which offers multiple opportunities for borrowing, enabling the poor to address different needs. A first step is often to find employment, and then opportunities for training and skill development. A third component is the provision of loans for micro-enterprises, machines and tools, together with technical assistance to support different production and trading activities. When the poor address their housing needs, loans for home improvements and land purchase

may be as important as loans for a finished house. The financing system should also recognize that the poor face many crises and that there is a need to minimize the impact of such emergencies. Without crises loans, people may be forced to sell their houses.

In addition, participants spoke of the need to strengthen local economies through creating strong trading networks (and markets) in and between the different neighbourhoods: a network for production, commerce and consumption. This network should

Box 2: Participants Present at the Fortaleza Meeting

CESAP work throughout Venezuela with a loan programme for income generation and they have recently extended their work to housing finance.

Fundación Mariana de Jesus construct low-cost houses for the poor in Ecuador (using a similar methodology to *Servivienda* (Colombia) and *Hogar de Cristo* (Chile) and they have recently started to work with housing loans.

CEPESIU focus on capacity-building, loans and technical assistance to small enterprises in Ecuador. They host the secretariat of the Andes Network (which works with groups of micro-entrepreneurs).

IPES are consultants to national and international agencies primarily in the field of environment, working on issues relating to finance and improving low-income settlements.

CENCA have been working for over 20 years in the east of Lima and in other Peruvian cities on projects of economic development, capacity-building and loans.

APACC is a newly founded NGO supporting communities located on the edge of the Tucunduba river in Belem, Brazil. Its purpose is to strengthen community organizations through capacity-building and the promotion of economic activities (loans and enterprise-training).

CDC is a large French government bank with a small programme of development assistance (Mecenat) which works primarily in Africa.

BNB is the government development bank in the northeast of Brazil.

Secours catholique is a Catholic group working in different countries to provide emergency relief and development funds.

SELAVIP is a group of Jesuits who work in Latin America and Asia to support housing for the poor.

Misereor is the Catholic NGO in Germany supporting development programmes throughout the South.

Local governments (all working with subsidized loan programmes for the poor):

Maracaibo and Ciudad Guayana (Venezuela); Belem, Maranguape, Maracanau, Fortaleza, Icapui, Independencia, Brasilia, Nova Iguacu, Sobral and Eusebio (Brazil).

Community based organizations, all with NGO supported programmes of economic development in their neighbourhoods including loans, neighbourhood centres and community development: FBFF (*Federação de Bairros e Favelas de Fortaleza*) and the MNLN (Brazilian Movement for the Struggle for Housing); neighbourhood organizations from Fortaleza, Icapui, Sobral, Independencia and Maracanau.

seek to be closed for the principal products in order to accelerate the potential gains from the additional circulation of goods and services. It is possible for the different members of this network to specialize in one type of product and to sell to the others. This can improve the local economy and strengthen the social organization, giving it an economic dimension.

Working with municipalities

It is impossible to develop innovative financing as a new approach to social policy without a political purpose, and engagement between the government and strong people's organizations. It is important to create within municipalities a municipal fund for social and economical development which can finance the loans and be controlled by society and not just by the politicians. The fund should be supported through taxes as all of the population should contribute to the development of the poorest sectors.

One difficulty faced by people's organizations when they engage with the state is the lack of continuity. Elections take place every few years and each new group of staff and elected officials has a different perspective and, normally, little respect for the previous policies and approaches. Hence, social policies change rapidly. One way to secure continuity is to create an administrative council for the loan programme with the participation of municipal staff, elected officials, the people's organizations and NGOs. With this kind of body, there is a different forum for discussion and, hence, a change in the way in which participants work together.

A further problem is the financing of loan programmes as, usually, the municipalities do not have funds for this kind of investment. In national and international banks, there are few credit lines for such funds, hence there is a need to lobby them for a change in policy.

The tools: social, technical and financial work

Saving is very important but it is not

easy to encourage people to save if they have lived through high inflation and seen the value of money fall daily. We must develop strategies and approaches to facilitate community saving in these circumstances.

It is not enough simply to find ways of improving housing but it is necessary to find the best ways for the poor. Aspects such as saving, self-building, saving by buying materials, paying by materials, producing the materials themselves, can all be important. Another important aspect is the collective nature of such work because this is the core to long-term solutions. There are different levels of engagement: the whole community, informal groups, residents' associations, family and individual and it is necessary to work with these different levels to generate a stronger sense of social responsibility.

It is also important to give people what they need to develop their own capacities: loans, capacity-building, technical assistance to improve the production and management of the small enterprises, and housing improvements. Another aspect is the participation of the people in the design, planning and management of the social policies and programmes.

One of the keys to the success of the different programmes in Fortaleza has been the role of the NGO in supporting learning, innovation and experimentation. This has provided a critical space for the improvement of the programmes. In the transfer of the approach, one of the first steps needs to be the space for experimentation.

What were the surprise achievements of the meeting?

The main emphasis was on discussing current programmes and how they might be improved. In this context, there was relatively little discussion about how to reach the poorest but, rather, the focus was on the financial viability of these funds. In our experience, the poor cannot repay loans under the same conditions that can be used for those who are better-off. There needs to be a different

interest rate with a subsidy, special repayment periods and opportunities to contribute to the costs through contributions of materials, goods and labour.

For the poorest, the state needs to provide the tools to help the people get out of absolute poverty, step by step. There is a need to address psychological and economic problems, a need for skill development and for support in improving social relationships. As Joaquim (a community leader) said: "The state has an obligation to ensure that the poor can survive their hunger so that, in the future, they can develop themselves."

Another surprise was the scale of participation. We had almost 100 people from different countries and cities, from different institutions such as NGOs, grassroots associations, financial institutions and municipalities. The issue of savings and loans has many aspects that are not easy to understand and discuss but all the people participated until the end. We had a beautiful and rich integration between the municipalities, NGOs and people.

What will happen now to the different groups that came?

In the next month, the *Cearah Periferia* is going to present a proposal for a Latin American Network to both workshop participants and other interested institutions in Latin America and other continents. I think it is very important to develop global links for monitoring and understanding the evolution of these programmes and that it is the best possible way forward.

Every institution that came to the meeting wishes to carry on with the exchange, developing their programmes and contributing to mutual learning. The different municipalities are now thinking of creating a municipal development fund for lending to the poor and they want to start lobbying the financial institutions.

Contact addresses for further information

Helena Hendricks, uTshani Fund, People's Dialogue
F:+27 21 47 4741; T:+27 21 47 5116
ADDRESS: PO Box 34639, Groote Schuur, Cape Town 7937,
South Africa
EMAIL: dialogue@wn.apc.org

Bethsheba Biti, Dialogue for Shelter for the Homeless in Zimbabwe
F: +263 4 494570
ADDRESS: PO Box CH 934, Chisipite, Harare, Zimbabwe
EMAIL: tendai@primenet.co.zw

Debora Cavalcanti, Cearah Periferia
F:+55 85 261 2607; T:+55 85 261 8754
ADDRESS: Rua Carlos Vasconcelos 1339, Aldeota, 60.115-170,
Fortaleza, Brazil
EMAIL:cearah@roadnet.com.br

Killian Munzwa, Housing People of Zimbabwe
F:+263 4 73 9610; T:+263 4 79 73 9610
ADDRESS: PO Box CY2686 Causeway, Harare, Zimbabwe
EMAIL: hpz@samara.co.zw

Barry Pinsky, Rooftops Canada
F: +416 366 3876; T: +416 366 1445
ADDRESS: 2 Berkeley Street, Suite 207, Toronto, Ontario,
Canada M5A 2W3
EMAIL: barry@rooftops.ca

Monique Cohen, USAID
F: +1 202 712 3593; T: + 1 202 712 1882
EMAIL: mcohen@usaid.gov

Somsook Boonyabancha, Urban Community Development Office
F:+66 2 539 9950; T:+66 2 538 0919
ADDRESS: PO Box 24-74, Bangkok 10240, Thailand (ACHR office)
EMAIL: maurice@ksc9.th.com

What next to do?

Do you want to participate? Here is some information:

- Contact one of the three groups supporting the regional network (see centre pages).
- Add your name to the mailing list for more information.
- Send us information about your activities: short articles, letters, details of forthcoming events and publications. We are happy to receive items in French, Portuguese and Spanish for translation.

How can the work of this group be most useful to you?

Please send your requests. For example do you want contacts? We can distribute the mailing list to all those on it at regular intervals. Do you need training? We can identify national, regional and international sources of training. Do you want exchanges with other groups doing similar work? We can help identify appropriate groups in your area of interest and expertise. Please mail, fax or e-mail your suggestions to us.

Web page

Our web page now has copies of all back issues of the newsletter. Contact the page on <http://www.gn.apc.org/hichfin>

Spanish

This issue of the newsletter will shortly be available in Spanish.

Name: _____

Address

Email

Return to:

International Institute for
Environment and Development
3 Endsleigh Street,
London WC1H 0DD, UK

Fax: (+44 171) 388 2826
Email: diana.mitlin@iied.org