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Housing Finance and Resource Mobilization: **Recent Innovations**

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HABITAT INTERNATIONAL COALITION

Workshop Report: 5-8 May 1996, South Africa

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This is the report of a workshop on housing finance and resource mobilization that took place in May 1996. It was the second HIC workshop on this subject and followed a previous meeting in 1993. The workshop drew together 20 professionals and practioners working within the field of loan finance for housing and neighbourhood developments in low-income settlements. Case studies from nine different countries were presented and the experience of those taking part enabled the discussion to draw on a much wider range of different projects and programmes.

The case studies presented at the workshop are included in this report. Hosted by the **People's Dialogue on Land and Shelter** in South Africa, the variety of experiences within one single country is represented by the four South African examples. The People's Dialogue and the South African Federation of Homeless People work together in a partnership which has developed a housing finance programme offering collective housing loans to (primarily) women living in the informal black and coloured settlements throughout the urban areas of South Africa. The **Rural Finance Facility** began to work in rural areas offering micro-enterprise credit but has since developed a housing loan programme whose clients are primarily low-income formal sector employees. The **Group Credit Company** initially worked with a Grameen Bank style methodology. More recently it abandoned group credit and established another organization, CashBank, which works with individual borrowers who are also mainly formal sector workers. The **Development Action Group** has no longstanding experience with housing loan finance but, as with NGOs in many other countries, it has an increasing interest in such strategies and is now planning a number of different projects.

From Namibia (one of two other Southern African countries represented at the workshop), **Build Together** is a government programme providing housing loans to individual families in need of housing improvements. In Zimbabwe, housing cooperatives have become an increasingly popular strategy for securing housing and **Housing People** has been involved in providing direct support to individual cooperatives and in negotiating with state agencies to increase their understanding of both the potential and the needs of cooperatives.

In addition to NGO initiatives, some governments have also been interested in reaching those in need of housing improvement with loan finance managed by community organizations. In Asia, the Philippine government introduced the **Community Mortgage Programme** in 1988 and over 55,000 households have been provided with loan finance, primarily for land purchase. In Thailand, a government initiative in 1992 resulted in the **Urban Community Development Office** which follows many NGO programmes in offering loans for both housing and income generation. A further Asian experience is represented by the partnership of **SPARC and the National Slum Dwellers Federation**. From small-scale informal savings groups organized by and for groups of low-income women, the housing needs of these families are now being met through housing cooperatives.

In Latin America, the case study from **Cordoba** (Argentina) demonstrates how small-scale housing finance initiatives can be combined with a campaign to ensure that municipal finance is more equitably allocated. In Colombia, **FedeVivienda** has many years' experience of using donor funds to leverage additional finance to extend the numbers of housing loans that can be offered. And in Brazil, despite much economic instability and a consequent uncertainty about savings and loan activity, the case study of **Cearah Periferia** demonstrates how community organizations hvae become increasingly enthusiastic about the new possibilities offered for housing improvement.

This workshop was organized by the International Institute for Environment and Development and hosted by the People's Dialogue on Land and Shelter for the Habitat International Coalition. The Habitat International Coalition is a coalition formed by over 200 non-governmental organisations from 56 countries working in housing and related subjects. Its members include many of the best-known research groups, training institutions and NGOs who work with low-income groups in implementing housing projects.

Many of those attending the workshop are members of the Habitat International Coalition and a number of follow-up activities were planned in order to provide more effective support to a wide range of housing finance initiatives. These follow-up activities are summarized in Annex 1. Annex 2 includes a list of those participating in the meeting together with contact addresses.

The uTshani Fund, People's Dialogue and the South African Homeless People's Federation

Summary: The basic premises behind the uTshani Fund differ significantly from conventional wisdom in South African development strategies. Central to these premises is the recognition that the poor are the world's most prolific producers of shelter. The strategy of the uTshani Fund, and its parent NGO, is to provide support through loan finance and technical assistance modelled on the housing construction processes actually pursued by the poor.

Background

The People's Dialogue is an NGO established some six years ago to explore ways in which support could be given to the homeless urban dwellers in South Africa so that they might address their housing needs. Working immediately with squatter settlements, initial exploration focused on financing options. Housing savings schemes were formed to provide a local focus for household (mostly womens') savings and organization. In time, the community networks which linked these savings schemes were formalized into the South African Homeless People's Federation. As the strategy achieved greater recognition, and the initial schemes were consolidated into a national movement, sufficient loan capital was secured to enable the Dialogue and Federation to offer members loans for house building. It is this loan capital that is the financial basis of the uTshani Fund. The sections below consider the operation of both the savings schemes and the Fund itself. This introductory section briefly describes the Federation and the People's Dialogue, and summarizes the national context within which this activity has developed.

The South African Homeless People's Federation is a network of autonomous community-based organisations with their own identities and their own decision-making structures. The Federation has a high national profile but does not require a formal legal standing. Most affiliated organisations in the Federation have their own constitutions, and their own systems of convocation and election.

People's Dialogue on Land and Shelter is a small (12 staff) national NGO whose sole purpose is to support the initiatives of the Homeless People's Federation. These support activities include:

- fund-raising, and administration of donor finance on behalf of the Federation.
- administrative support for the major Federation operational programmes: exchange (national and international), training, technical development and finance.
- assistance in interaction with formal institutions, including national and local government departments and agencies.
- assistance in preparation of applications for state assistance (e.g. housing subsidies).
- analysis and distribution of information gathered by the Federation on its

members and their communities.

- advocacy (national and international) for the cause of a people's housing movement, in conjunction with a Federation spokesperson.
- operation of a national low-cost housing finance programme (uTshani Fund).

There are an estimated seven million people who are without legal tenure in the towns and cities in South Africa. Although the new government has prioritised housing, little material support has so far been offered to the homeless urban poor. Without secure tenure and bridging finance, they cannot access the generous capital subsidy system which the government introduced to improve the national housing stock. In this context, the vast majority of urban dwellers continue to address their housing needs with no support from formal sector agencies. There are some local government, state and NGO initiatives, but all are small scale and are restricted to a few settlements. Moreover, these official agencies have adopted the strategies that have been shown to fail throughout the world. In South Africa at present, a significant proportion of the housing subsidy is retained for commercial profits. These conventional housing development projects weaken collective community bonds and therefore the material improvements that have been secured are not maintained and communities' dependence on external agencies increases.

It is in this context that the Federation and People's Dialogue have sought to provide an alternative option. Some of their achievements to date are:

- ongoing construction activity in 25 housing savings schemes throughout the country, with nearly 500 affordable, quality homes built in a short period, entirely without professional assistance.
- the formation and operation of six Building Information and Training (BIT) Centres, which provide a base for residents' knowledge and skills to be consolidated and passed on to new housing savings schemes.
- recognition from national and provincial governments, culminating in a grant of R10 million by the Ministry of Housing to enable uTshani Fund to develop a new option for the delivery of housing finance to the very poor. And loan repayments on this wholly Federation controlled loan scheme at over 125 per cent.

Housing Savings Schemes

Housing Savings Schemes are groups of women (men are not excluded, but few choose to participate) who save regularly. These savings are banked locally by the members and used to provide small-scale finance to members for emergencies and in support of income-generation activities. People who borrow money from the fund for emergencies are charged 1 per cent per month on the outstanding balance, and those who borrow for income generation are charged 2 per cent. (These rates are Federation policy.) All matters relating to the management of these finances are undertaken by treasurers, book-keepers, and collectors drawn from the Schemes' members. At present, all savings are held in individual local accounts. However, there are now plans that all (or part) of the savings will be banked in a central account and this will enable Schemes to access additional loan capital as required.

Although daily savings are the basic activity of the Scheme, the experience of saving, lending, and financial management provides a platform for acquisition of further development skills. The most important vehicle for this is horizontal exchange of information, experience, and skill, through Exchange and Training Programmes. These Programmes have both national and international dimensions, including a long-standing relationship with the National Slum Dwellers' Federation of India. Members of homeless communities from both countries visit each other frequently to learn and share with one another.

The training provided covers the spectrum of skills needed to consolidate community managed housing and neighbourhood development. There are four main components to the training programme. Within the financial component, members of the Housing Savings Schemes learn basic financial management, including bookkeeping and banking. Preceding the financial component and undertaken to develop an understanding of the community living in the settlement, savings schemes learn how to map existing houses and local facilities, and gather basic socio-economic data about the residents. A third component is the house-modelling process: members collectively design and model the houses of their dreams, then consider issues of affordability and amend their designs. The fourth component, once the finance has been obtained and an acceptable design identified, is training in building and construction techniques.

There are now nearly 300 'Housing Savings Schemes' belonging to the South African Homeless People's Federation which are linked through nine regional federations. Both the membership and leadership are overwhelmingly female, and are drawn from homeless communities. Total savings now exceed R0.5 million.

uTshani Fund

uTshani Fund is a revolving fund providing low-cost housing finance directly to the Housing Savings Schemes affiliated to the Federation. (uTshani means grassroots in Zulu.) It is able to provide loans of a much smaller size and at lower interest rates than formal lending institutions, primarily by relying on the organisation, capacity and relational security of homeless communities. uTshani Fund's operating principles are that finance should be made available directly to Housing Savings Schemes on a collective basis, and that the ground-work of the Fund should be undertaken at community level. Any Housing Savings Scheme is eligible to apply for an uTshani Fund loan. The final decision on whether or not a loan should be granted rests with the Governing Body.

uTshani Fund makes loan finance available to Housing Savings Schemes that have provided affordability assessments and building plans for smaller groups of their members who are ready to build and able to make regular repayments. The Scheme then distributes these funds to members. Great emphasis is placed on simplicity and transparency. The Schemes are encouraged to have weekly and bi-weekly meetings with open access to information. The Fund itself provides information to enable savings schemes to follow their loan balance and repayments.

A Housing Savings Scheme wishing to apply plans a settlement layout and designs houses which are affordable to the members. The Scheme then undertakes an affordability exercise to determine the amount each member can afford to repay every month. Members who will build houses financed by the prospective uTshani Fund loan are identified by the Savings Scheme according to their own criteria. Schemes who are new to housing loans normally receive finance for a group of 10 members. Second and subsequent groups may be larger. Once the member's monthly repayments have been worked out, uTshani Fund staff determine the amount which can be borrowed over a 15-year period at a simple interest rate of 1 per cent per month. The Housing Savings Scheme then adjusts its house designs to build within this amount.

At present uTshani Fund asks each individual Scheme member who receives funds from uTshani Fund to make a deposit equal to 5 per cent of the loan amount. In general, this is equal to about four month's repayments on that loan, so that members can test in practice whether they can really afford their target repayment. These deposits are not down-payments as such, but the funds are invested. A portion of the interest earned on these grouped deposits is then used to offset loans to members who may pass away before their loan is repaid. The remainder of the interest earnings together with the initial deposit can be used to offset a member's repayments if they go into default, but only if the Scheme decides to do so. The deposit plus interest are returned to the member when their loan has been repaid, or can be to retire the balance of the loan when this is low enough to do so.

If approved, the loan is made to the Housing Savings Scheme which disburses the loans to members in the form of building materials (not cash). Management of the construction process is undertaken by the members, supported by other Federation groups in the course of regular exchange programmes. Within each Scheme, one group is responsible for keeping the books and releasing the funds, and another group manages the stock and distribution of building materials.

One month's grace is given after the loan is granted. After receiving a loan, these members make monthly repayments to their Housing Savings Schemes, with the treasurers collecting loan repayments along with savings. Each Scheme then makes a single bulk monthly repayment to uTshani Fund. Management of the process, from initial affordability exercises to ongoing management of loan repayments, is undertaken by the Scheme and this greatly reduces the cost of loan finance. Since the primary lending relationship is between uTshani Fund and the Scheme, the Fund does not carry individual household loan accounts and this further reduces administration costs.

Security for these loans is primarily through 'peer pressure' in the social network of the Housing Savings Schemes and the broader Federation. Loans are given to groups of between 10 and 50 members, and further lending to each Scheme is dependent on the performance of existing loans. Regular exchange programmes between the Housing Savings Schemes help to ensure that members remain aware that their repayments will determine access to finance by thousands of homeless poor. Because uTshani Fund is a 'revolving' fund, loan repayments are the source of further loans.

To date the Fund has given 465 loans. The average size of loans is R9,000 per household and members can receive a maximum loan of R10,000. The Housing Savings Schemes have resisted incremental development and most of the loan finance has been invested in finished houses of between 50 and 75 square meters (typically with two bedrooms, a living area and kitchen and bathroom). Considerable efforts are made to ensure that loan finance can be obtained by all income groups within the low-income settlements including the poorest. Inevitably, there is a constant tension, with loan finance being most easily affordable by the richer households, who also want the largest loans. The Governing Body has attempted to redress this by encouraging Schemes to earmark 50 per cent of their loans for the poorest of their members.

The average monthly loan repayments are now between R90-100. Originally this figure was about R120 a month (a total loan of R10,000) but concern over the size of loan repayments and more experience with house building costs has enabled Fund staff to reduce the size of loans. Aggregate repayments are currently about 125 per cent of stipulated monthly repayments. Concealed by this figure is the fact that, on average, 10-15 per cent of individual Federation members are late with their repayments at any one time.

The uTshani Fund is controlled jointly by People's Dialogue and the Homeless People's Federation through its governing body which meets quarterly. Between these meetings, the Fund is managed on a day-to-day basis by People's Dialogue staff in Cape Town. The Governing Body is comprised of representatives from each of the nine regions in the Homeless People's Federation, as well as the three National Convenors of the Federation. Professional support staff have no vote on matters of loan policy. The main responsibilities of the Governing Body are to:

- set overall policy on fund-raising, investment, and loans.
- consider extraordinary loan applications as necessary.
- receive and consider reports from the Fund Manager summarizing on-going loan activities.
- exercise executive authority over uTshani Fund.

Certain operational costs of uTshani Fund are borne by People's Dialogue. It is envisaged that the Fund will gradually be made financially self-sufficient, as long as this is compatible with the goal of providing low-cost housing finance.

Sources of Funding

The uTshani Fund was initiated with European donor support. Obviously for any housing finance scheme to reach a large number of households, more funding had to be found.

Late in 1994, the late Housing Minister Joe Slovo offered the Federation a grant of R10 million to enable it to expand the reach of uTshani Fund. This was done in the hope of demonstrating the effectiveness of this model in order to provide a mechanism to reach very low income households. This offer was maintained by the new Minister, Sankie Mthembi-Nkondo, although there were considerable delays before the funds were secured. The uTshani Fund has historically been incorporated as a part of People's Dialogue, and has needed no separate legal standing of its own. This is an adequate and appropriate arrangement, since uTshani Fund works only with the Federation. However, as a result of concerns expressed by the National Housing Department a further organization was required.

This separate legal holding body, known as uTshani Trust, now serves as a conduit for the Department's R10 million grant. The agreement was drafted so that the uTshani Trust would be able to channel funds from government or other donors to uTshani Fund and thence to the Federation in a highly transparent and accountable way. The Trustees are drawn in equal proportion from government and the Federation. All releases of Trust funds to the Federation must be approved by a majority of the Trustees. The Trust is audited and its records are open to inspection by government at any time. Once the R10 million has been drawn down (and repaid), the Trust funds are passed over to the Federation and the only remaining obligation to the government is an annual audit and report on activities.

The Trust has been structured in such a way that any grant, subsidy, government allocation, or other sum can be channelled through it and remain subject to the same procedures governing the R10 million grant. This makes it possible for the Trust to act as a legal conduit for other forms of government assistance to the Federation, whether in the form of housing subsidies, grants to Building Centres, or further seed capital for loan finance.

Looking forward

Accessing government subsidies: Much to the impatience of the Federation, their members have struggled long to access the government's capital subsidy scheme for housing (R15,000, although a varying amount may be required for infrastructure development). This issue is critical for
Federation members who wish to use the subsidy to repay most of their loan capital.

In the course of negotiations between the People's Dialogue and the Housing Support Task Team of the National Housing Department, an approach for the release of subsidies directly to recognised and established people's organisations has been worked out. This enables the Federation to access subsidies directly from either provincial government or local authorities via the uTshani Fund. This system has been put in place on a pilot basis in two provinces, the Eastern and Western Capes.

Building materials: Some housing savings schemes have been experimenting with producing their own building materials. However, others are now recognizing that it is cheaper and easier to purchase from the commercial sector.

Housing building: The housing construction process in the Federation started in June 1995 and the number of houses built during the first year of activity was about 200. There is an evident tension between building large numbers of houses to meet the growing expectations and enthusiasm of Federation members, and doing so at a pace that enables the revision and consolidation of practice and structures to ensure that they are effective. The rate of loan distribution is likely to increase during the forthcoming months and it is anticipated that about 800 housing loans will have been allocated by the end of 1996.

Loan terms: The 15 year loan term has been the subject of much discussion. The house-modelling exercise has demonstrated (and continues to demonstrate) the ambitions of squatters to secure finished houses and their reluctance to adopt strategies of incremental development that are a more common practice elsewhere in the South. These ambitions reflect both the apartheid state, with its consequent lack of development within the black areas and the wealthy suburban life-style of the white elite, and the clear prioritization of housing delivery during the period of transition and the election of a democratic government. Given the kinds of houses that are required by Federation members, the only way in which they are affordable is by extending the loan term to 15 years although it is recognized that this is much longer than is desirable. However, this loan term is also linked to the expectation that capital subsidies will be obtained by the Federation and that therefore these households will be able to pay off a large part of their loan. Whilst the uTshani Fund staff have stressed that it cannot be assumed that subsidies will be obtained, this factor may have been influential in determining the size of loan applications.

Reaching the poorest: The average monthly income for Federation members is about R680 per household. This includes a wide variation, with perhaps the largest, and also the lowest single income group being pensioners who receive R410 a month. There are continual attempts to ensure that the housing choices being developed by the Federation are relevant to even the poorest groups. However, this requires the increased acceptability of incremental housing development enabling smaller loans that can be more quickly repaid.

Infrastructure development: To date the Federation has not become involved in infrastructure development. The subsidy finance includes a component for infrastructure improvement as many settlements have little or no provision. An increasing concern is that the rising costs of construction work mean that the capital subsidy is now too small. The Federation and People's Dialogue are therefore planning to experiment with adopting the low-cost sanitation techniques of the Orangi Pilot Project.

Administration costs and maintaining the capital value of the Fund: There is a 1 per cent per month interest rate charge on all loans from the uTshani Fund. A remaining issue is how the real value of the fund can be maintained and administration costs covered. Inflation in South Africa is between 5-8 per cent a year at present. Whilst the interest rate charge covers the cost of inflation, it is not sufficient to also cover administration costs. Considering the last two years, the annual administration cost associated with each loan is R300 (although this figure includes both the operating expenses of the Fund and the Federation).

However, one advantage of using a figure of 1 per cent a month is that it is very easy to calculate and, at present, there is no intention of changing the interest rate.

Land: The Federation encourages only those communities with a relatively good security of tenure to build. Where security is considered inadequate, loans are refused.

What are the constraints on increasing the scale of loan finance? Perhaps the most critical constraint is that of sustaining a system which is based around close personal relationships. In order to maintain this way of working and increase the number of houses being constructed, the Federation needs to move towards working more locally at a provincial and regional level. A second challenge is to integrate the uTshani Fund into formal financial systems in order to minimize administration costs and attempt to ensure that the fund is as viable as possible. A third challenge is to survive in a context in which the government is demanding increasing successes from the Federation and in which the 33,000 members currently in the Federation have rising expectations about obtaining a house through the Federation. Linked to this is a fourth challenge which is to develop a model that can meet the housing needs of tens of thousands of households in a way which is affordable and which maintains the essence of the Federation by ensuring community control over the development process.

Rural Finance Facility

Summary: The Rural Housing Facility is a non-profit organization that specializes in the provision of housing and micro-enterprise finance. In both these areas, the Facility seeks to identify a financially sustainable strategy that, at the same time, can result in substantive improvements in the quality of life for low-income households.

Background

The Rural Finance Facility was initiated to make a contribution to meeting an important need in rural areas. The organization developed from one of the projects of a South African NGO, the Rural Advice Centre, that specialized in improving water supplies in rural areas. Water proved to be a good strategy for community mobilization and inevitably the local residents involved in this project made further demands on the NGO as a result of this activity. A specialist project to provide rural credit was begun in 1989 and as the success of the project became established, it became an independent organization in 1991.

There are an estimated 3.5 million people who can afford commercial rates but who are currently excluded from financial markets. To reach this scale, and for this income group, a dependence on development assistance is not an option. The desire of the Rural Finance Facility for financial viability arises because of this objective. The need for financial viability without recourse to development assistance funds imposes strict constraints on the organization and much of the early development of the organization has focused on understanding how to work within these constraints.

The Facility is registered under section 21 of the Companies Act, as a not-for-gain enterprise. It is a charitable organization with a Board of Directors. Since its launch, five years ago, the staff have raised numerous grants to fund operating losses. This grant funding was never more than required (frequently it was a lot less) and always later than needed. The capital base is now provided through borrowing on financial markets and there is no donor capital contribution. The grant funds for micro-enterprise development have all been used up. The housing loan division has capitalized this money and it was recently valued by a merchant bank at twice the value invested in it to date (mainly on its growth prospects).

The Board of Directors has changed gradually since the inception. Initially it was composed of professionals who had similar interests and commitment to those of the Facility. The membership was drawn primarily from the council of churches, banks and trade unions. The Board membership is now more representative of the groups that are receiving loan finance with members drawn from the trade union movement and the civic organizations.

The current objectives of the organization are to achieve large-scale outreach (30,000 clients in three years) with full financial sufficiency, better service and lower cost loan products.

Micro-enterprise loans

The two components of the Facility, housing and micro-enterprise loans, are run as distinctly separate operations with the micro-enterprise loans concentrating primarily on rural areas and the housing loans on small towns and urban areas. The micro-enterprise loans are provided mainly to women with credit guaranteed through group based collateral. Most of these women are working in the informal sector and there has been little interest in housing investment. This client base contrasts strongly with housing loan recipients who are primarily urban, male and formal sector employees. The remainder of this summary focuses on the housing loan component of the Rural Finance Facility.

Housing loans

Within the South African labour market, there are approximately 8 million formal jobs. The number falls to about 6 million if farm labourers and domestic workers are excluded. However, there are only 1.5 million mortgage bonds suggesting that there are about 3 or 4 million formal sector employees with no source of credit for housing investments. Retail outlets commonly provide credit for consumer items such as furniture and food but it has been extremely difficult to obtain a loan for building.

Ten years ago, it became possible to use provident fund contributions to guarantee housing loans to formal sector employees. (Provident funds can also lend money directly but this has not been as successful and most prefer to guarantee loan finance that is provided by another agency.) Provident funds contributions are collected by compulsory salary deductions to provide for life assurance and retirement savings. After a slow start, the use of the funds to guarantee housing loans has become more widespread. Three years ago the largest provident fund had committed less than 0.5 per cent of its capital to guarantee housing loans, now more than 6 per cent is committed. The possibilities for obtaining loan collateral through this route are now being more widely recognized by the commercial banking sector which has begun to enter this market, but their preference is to ignore those with monthly salaries below R2,000. Sixty eight per cent of the 8.2 million formal sector income earners in South Africa receive less than R1,667 per month (Source: South Africans Rich and Poor, SALDRU, 1994).

The guarantee from the provident fund is dependent on the loan being used for housing and if the finance is used for another kind of investment this may invalidate the guarantee. There is no clear requirement as to who is responsible to ensure this, although the Rural Finance Facility makes every attempt to ensure that the requirements are respected. Fifteen per cent of borrowers are visited and a close relationship with local civic organizations is maintained. Borrowers have to obtain a recommendation from the civic organization prior to receiving the loan.

Although the average monthly salary is about R1,400, some of those receiving money through the Facility receive as little as R400-500 a month. These borrowers might start with loans of R1-2,000 and then follow these with further larger loans. One person received R20,000 of loan finance over three years, (loans of R3,000, R6,000 and R11,000 respectively). The average size of a housing loan is presently R7,000 and the average repayment period is 36 months (with a maximum repayment period of up to 60 months).

People are improving their houses incrementally because this is the only finance that is available to them. The Rural Finance Facility estimate that the two million households in formal employment and earning between R800-1,500 a month can afford to borrow about R5-6,000 every three years, even when they are paying commercial market rates for loan finance.

Sources and costs of finance

The housing loan component of the Facility has now grown to a total loan fund of R25 million with some 8,000 loans. Most of the capital funds have been secured at an annual interest rate of 16 per cent from a government financing corporation. About 5 per cent of the capital funds are provided through a Dutch NGO. The next tranche of capital is likely to be secured from commercial financial institutions at a higher interest rate. The finance is on-lent at 23.5 per cent. The lending margin is very low for South Africa as many commercial banks have a lending margin as high as 10-12 per cent. Full cost recovery has now been achieved with some 14 staff members managing the loan base. There is a continual search for ways of reducing the 7.5 per cent margin to cover the cost of providing loans. Their assessment suggests that 7.5 per cent is probably as narrow as their competitors' margins. With their present size of loan portfolio, it costs R400 to disburse each loan and these costs are likely to fall as the scale of lending increases.

The major source of finance is currently provided by a government parastatal that has been funded by a capital grant from the government. They have been looking but have found no cheaper source of funds. The newly established government body, the National Housing Finance Corporation, is also likely to offer finance at a similar cost. (The government has made a commitment to provide housing subsidies to low-income households with a level of grant that is determined by income but such finance is not available to most of the Facility's borrowers because they do not have a freehold title to their plot.) In order to expand the capital base and maintain or reduce interest rates the Facility tried to obtain cheap international credit but has concluded that either the amounts available are too small or that the cost of this finance is no cheaper than local funds. Obtaining sufficient finance to maintain liquidity is a continual challenge for the staff.

Obtaining loan finance

Workers normally hear about the possibility of loan finance by word of mouth. Loan repayments are payroll-based and are automatically deducted from monthly salaries or wages. If an invitation is offered, staff address the workers and shop stewards at a public meeting. If there is sufficient interest, the borrowers negotiate with the employer to enable payroll deductions to be made for loan repayments.

New borrowers are offered one or two training sessions to explain the principles of lending and borrowing. This is followed by an individual meeting with a member of staff to go through and fill in the application form. Most of the loans are between R6-8,000 with a fixed interest rate and repayment periods of five years or less. Staff try to ensure that loan repayments do not exceed 25 per cent of net take-home pay. No savings or deposits are required prior to the loan being agreed.

The Facility has not offered savings accounts both because of a limited capacity within the organization and because, in general, low-income households wish to invest in strong, secure and well-known institutions. Savings are not required by those seeking housing loans from the Facility. (For micro-enterprise loans the Facility does encourage borrowers to save and these monies are held with a commercial bank).

Over 70 per cent of the housing loans are given to men. (This is a complete reverse of the situation in the micro-enterprise credit where 80 per cent of the borrowers are women.) Some years ago this percentage was as high as 85 per cent but, increasingly, women are applying for housing loans.

The commercial banks are recently becoming more involved in this type of lending to low-income households, although the Facility still believes that it has a comparative advantage. The National Union of Mine-workers recently selected a commercial bank to service the housing loan needs of its 300,000 members. They rejected the Rural Finance Facility on the grounds that the interest rates were unacceptably high. But recent experience suggests that the commercial bank selected has had problems in providing union members with housing finance. In the experience of the Facility, lending to this client group requires a relatively high investment in borrower education and support, especially for the first loan application. Project officers with the Rural Finance Facility spend a considerable amount of time with clients, working locally and attempting to maintain good relations with their customers.

Repayments

Few housing loans are not repaid and repayment rates exceed 99 per cent. This high level of repayment is achieved because the Facility has first claim on borrower's Provident Fund monies. If, for example, someone is made redundant and withdraws their Provident Fund, then the Facility has the option of obtaining repayment of the loan.

At the end of June 1996, the time repayment rate for housing loans was 76 per cent. Fifteen per cent of loans had overdue instalments of between 1 and 30 days. Low arrears are primarily due to the payroll deduction method of collection. Most of these arrears are not the fault of the borrower; for example, a cheque paid late by an employer.

Consumer credit is available from a number of different sources and when people apply for loan finance the staff attempt to ensure that borrowers are not over-committed on loan repayments. This is rarely a problem in practice and people generally come back for another loan immediately the first one is paid off.

If people lose their employment they are still liable to repay the loan. They are usually reemployed, then the repayments begin again with the guarantee being passed onto the Provident Fund of the new employer. If they do not find another job, they are under no pressure to repay. However, the obligation remains for ever. The Facility aims to be reasonable but serious about debt collection.

To date, housing loans have been backed by Provident Fund guarantees. However, if someone has a good record of repaying micro-enterprise finance within the other lending component of the Rural Finance Facility they would probably also be able to receive a housing loan.

Building

The borrowers buy local building materials for the housing construction and improvements and the Facility does not provide technical advice. Every community is full of builders and people generally use these local enterprises or manage on their own.

One of the current activities is a detailed client survey to find out more about the kinds of investments that are being made with this loan finance. Most of the loan finance appears to be given to incremental housing development, including extra rooms, new roofs, and upgrading of building materials (for example, from corrugated iron to bricks and mortar). Most of the financing is taking place in small towns. There is a large variety in the different types of housing style and technology. Housing improved through Facility loans includes both typical four-room township units and earth construction techniques.

Looking forward

Expansion: Considering the future expansion of the Rural Finance Facility, staff believe that they have passed one critical watershed. When the number of borrowers in the housing loans programme moved above 3,600, they found that they had reached and passed the break even point for profitability. Fixed costs are high because the administration is complex. The Facility has adopted a commercial **debtor information** system used by seven small banks in the country. Now that the system is working, the Facility believe that it can expand relatively simply.

A new constraint has now been identified; managing the loan officers so that they continue to provide a high level of service and support to borrowers.

Organizational complementarity: The micro-enterprise programme requires a high staff ratio and incurs financial losses. The mix of funds between housing and micro-enterprise finance has proved to be important in maintaining the stability and viability of the organization as a whole.

Obtaining loan capital: The market in which the Rural Finance Facility is operating is likely to be worth R2 billion or more. A continuing challenge that the organization faces is obtaining sufficient loan capital for on-lending.

The Group Credit Company

Summary: The Group Credit Company first attempted to reach the informal sector in South Africa by emulating the strategies of the Grameen Bank. Whilst these strategies were not successful, they provided the base for innovative low-income loan finance. The Group Credit Company has now established a new bank through which their lending to formal sector low-income employees is managed and they are continuing to experiment with lending to the informal sector.

Background

The Group Credit Company was established in 1989 (as a section 21 company, i.e. not for gain or profit), to provide loan finance to groups that had been traditionally excluded by the formal financial sector in South Africa. In the formative years, the Company developed two main lines of credit. The first was offered to formal sector employees with repayments being made through payroll deductions. The second line of credit was offered to those working in the informal sector with collateral being provided through group guarantees. This short report concentrates primarily on the activities related to lending to the informal sector and describes the history of group lending. Formal sector lending activities are now based within another organization, CashBank, which has been established within the formal banking sector in South Africa.

The Group Credit Company continues to concentrate on areas such as micro-lending and savings groups. CashBank was started from within the Group Credit Company in 1995 and it now operates as a separate entity. However, the two organizations share premises and the same managing director.

Group-based lending

The Company started to work in low-income finance about seven years ago. When their work began, staff adopted a model similar to that of the Grameen Bank. Loan finance was offered to low-income urban residents who were organized into small groups with collateral being provided by the other savers within the group. The group members received their loans at different times with loans for second and subsequent members being dependent on the repayments of the first members being maintained.

Within three years, 280 groups were established. Most of these groups had been brought together purely for the purposes of obtaining loans with little previous contact between groups members. The lack of cohesive links between the groups was problematic from the beginning but the Group Credit Company tried to minimize this problem by providing local groups with training and more intensive staff support.

Members had to save 25 per cent of what they wanted to receive in loans. Office bearers were responsible for deciding the "draw downs" for individual members and how such funds should be repaid. The term for the first loan was 12 months. For the second loan this term was 12 or 24 months and for the third loan it was 60 months. The average size of the first loan was R1,000 per member. People often took less on the second loan, although some took as much as possible.

When the loans were first made available, groups were expected to have monthly meetings. For the first six months, staff attended these meetings and collected the savings. After the first six months, the groups organized their own meetings and deposited their savings and loan repayments into an account in the "Perm" (the commercial bank with the largest number of branches in South Africa).

After two and half years, the savings and loan groups began to fall apart. The first loan was always repaid. However, the five-year loans were not successful and most of the groups began to disintegrate at this stage. Staff members were unable to follow up these groups effectively because there were too many group members missing and therefore it was never possible to work out exactly why the groups collapsed.

After some difficult years, changes in the terms and conditions of loans and the nature of staff support were introduced. The last 80 groups were offered three one-year loan terms in order to maintain repayments and on the understanding that it was the longer loans that had resulted in repayment problems. Staff also provided more consistent support and attended all the monthly group meetings for a period of three years. However, this change in strategy did not greatly improve repayment records and group loans continued to be problematic. A decision was then taken to individualize the groups. Staff invested considerable time in attempting to agree individual debt balances with those who remained, in order to enable them to continue with individual borrowing.

Current lending strategies

The Group Credit Company moved progressively toward undertaking more and more individual lending and during the last two years they have given no group loans. When the Company moved to individual lending, it was agreed that all those who had paid off their loans would be able to receive a subsequent loan even if it was a fourth loan. The Group Credit Company then offered to lend to these and other individuals under new terms and conditions.

Individuals are invited to start with a R500 loan, the amount being doubled if it is successfully repaid. There is a performance bonus equal to one interest-free month for all those who maintain the repayment record that they have agreed at the beginning of the loan period. The maximum loan is for R6,000. A deposit of 25 per cent of the loan value remains with the Company with 7.5 per cent interest being paid on these deposits. Loan terms for the first four loans are for 6 months, 12 months, 18 months and 24 months respectively and the value of third and fourth loans can be negotiated subject to affordability and repayment records on the earlier loans.

People are encouraged not to repay their first loan of R500 immediately although several of them can afford to do so. In order to establish the practice of loan repayment, they are encouraged to make even repayments throughout the loan period.

The loans are primarily used for education, home improvements and traditional ceremonies. The largest single category is borrowing for educational reasons, primarily to send their children to tertiary education. It is evident that clients apply for the small initial loans in order to be able to meet future commitments which may require access to larger scale loan finance. The Group Credit Company has about 4,000 clients.

CashBank

When the Group Credit Company was initially established in 1989, it mainly sought to offer loans to formal sector employees with loan repayments being organized through payroll deductions. The reserve bank of South Africa examined the company and advised the organization to register as a bank because of the scale of savings and lending activity that was planned. Registration took some time; provisional registration was given in 1995 and final registration completed in mid-1996. This new banking institution is called CashBank.

Whilst some facilities are shared between CashBank and the Group Credit Company, in many other aspects the two organizations are separate. At a time when the Group Credit Company was experiencing considerable difficulties in its group lending strategy, CashBank took over the other more successful parts of the Group Credit Company. At that time, the Group Credit Company had agreements to offer secure employer-based lending to the workforce of about 700 companies.

The market has grown rapidly and CashBank now has 30,000 clients with R150 million in loan disbursements. Monthly loan disbursements are equal to about R12 million. CashBank operates very much as any other formal sector bank with all individual clients and employers receiving statements. The organization has invested heavily in computer facilities and information technology and the instructions for payroll deductions are all computer-initiated. The computer system they use assists in debtor management through enabling staff to know the exact status of each individual borrower.

The interest rate for loan repayments is fixed to x per cent over prime (or base) rates and is fixed for three years. The value of "x" differs for each company whose workers are participating in CashBank's lending activity. It is set by considering the number of employees and making a judgement about the risks involved. Across all of CashBank's loans, "x" varies between 0 to 9 per cent with an average value of about 5 per cent. The average interest rate now being charged on the current portfolio is 24 per cent. The average cost of capital for CashBank is 16 to 18 per cent. And the margin they need to cover their own costs is about 6 to 8 per cent.

CashBank also offer savings facilities to their borrowers through fixed-term savings accounts. At the end of each term, savers can choose to withdraw their savings or to invest in a second term. The bank pays an interest rate of 8.5 per cent for savings, with an additional bonus of 5 per cent if the agreed savings record over the term is maintained. In their experience, successful borrowers and savings wish to stay with CashBank and most savings are reinvested for a second term. For some borrowers with savings accounts, the size of saving contributions often exceeds loan deductions.

There is no donor finance involved in the company with staff and associated expenditures being covered through the margin between borrowing and lending finance. The shareholders of CashBank are drawn primarily from the life insurance and banking communities and these shareholders are entitled to receive profits.

Future directions

The major challenge for CashBank is securing the capital they need to be able to offer loans to all those who require them.

The Group Credit Company continues to be the more innovative and experimental organization. The Company is now thinking once more about group lending and has been identifying new strategies for ensuring that groups work effectively. The critical characteristics that seem to have emerged from their earlier experiences are:

- groups should be small
- groups should have formed themselves
- members need a longer history of saving (and this period will be extended from the six weeks that was previously required to six months)
- the level of savings will remain at 25 per cent of loan finance. Most loan defaults occur in the last quarter so it is important that savings are available to cover bad debt.

Both companies are now beginning to extend the range of services that they offer. In September 1996, a death and disability insurance was introduced that is now compulsory on certain of CashBank's loans. The Group Credit Company is not yet offering this service. The Group Credit Company is beginning to target domestic workers on a payroll basis and, to date, this has been a successful initiative. They are also thinking about other services such as those provided by the formal sector financial institutions but still aimed at the formally employed low-income earner.

Development Action Group

The Development Action Group was established 10 years ago at a time of mass removals in Cape Town. Their objective (then as now) is to improve the living environment in low-income settlements and to offer local residents greater control of their own lives and increased access to resources. The organisation has changed its role over the 10 year period with a shift from a volunteer agency working mainly around land struggles to one now employing 22 staff and increasingly working with communities on housing delivery. Historically DAG worked with the civic organisations and other broad-based democratic movements. In recent years they have moved from just working through organisations to now working directly with beneficiaries.

The organisation has recently started to be involved in three areas of housing finance: namely:-

- assisting the communities to obtain government subsidy finance. This process is very bureaucratic and DAG have adopted a strategy whereby the staff are primarily responsible for the application process with community management of the project once funding has been secured. Two subsidy funded projects have been approved to date and several more applications are being made;
- negotiating the bridging finance required. Before subsidy funds can be drawn down, expenditure is incurred and therefore some level of bridging finance is required. DAG has recently started housing construction in two settlements with bridging finance from a formal bank. These loans have been granted based on NURCHA (an reconstruction and development programme (RDP) project) guarantee's to the bank;
- providing end user finance. About half the people living in informal settlements do not have access to formal sector employment and therefore are not eligible for either bank loans or payroll - based finance. DAG has recently engaged in two projects where communities have used innovative financing arrangements. The first in Marconi Beam, Milnerton, a community 7 kilometres outside Cape Town city centre. Residents here negotiated to acquire 20 hectares of land for housing at virtually no cost and 5 hectares of commercial at reduced rates. They are now selling the commercial land to finance end user loans to top up savings to finance housing for both home owners and tenants. In the second area, Villiersdorp residents have secured donor funds and are setting up a rotating housing fund to provide end user loans in a mutual help housing programme.

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Build Together Programme

Summary: The Building Together Programme in Namibia has drawn government resources into a housing loan programme for low-income households. Working through a settlement-based Community Housing Development Group, individual households are identified and offered loans to enable them to have the capital to both build and improve their houses.

Background

The government of Namibia has placed housing as one of its four development priorities following independence. In order to improve the quality of low-income housing, the Build Together Programme was initiated in 1992. Land is free in Namibia but people have to pay for the development costs of the land. In Windhoek (the capital city) these are very high and many low-income earners cannot afford to get serviced land.

Housing loans

Through the Programme, housing loans are available in the form of options for different housing needs. Beneficiaries should have an income of less than N$ 1,250 (US$ 400) per month and they can obtain loans ranging between US$ 300-5,000. Families, particularly those of informal workers, are encouraged to take out very small loans although, in general, people want to take out the biggest loan that is permissable for any given level of income. Loans are given for 20 years at an interest rate of 9 per cent for loans up to N$ 13,000. An additional 1 per cent is charged for every N$ 1,000 over 13,000 up to 22 per cent. (The current market rate of interest in Namibia is about 14-16 per cent and the inflation rate is 11.5 per cent.)

When a community starts a project, a workshop is held to go through the following five stages: identify problems, agree on problems, work out solutions to the problems, select practical options from the solutions and plan for implementation. A Community Housing Development Group (CHDG) is established in each community interested in participating in the programme. This group is the decision-making body for the Programme at the community level. Just over 45 per cent of the beneficiaries are headed by a single woman, many of them with jobs in the informal sector. Many of these women have built one-room houses with a toilet for N$ 5,000. If the government built such a house it would cost N$ 27,000.

The Programme started working with individual households but this proved very difficult. The problems included obtaining affordable serviced land and local authority insistence on being involved in the planning process. They then established local groups at each location with the power to screen applicants, process loans locally and draw up development projects. At this stage, the Programme was mainly targeting informal and unserviced settlements. Middle-income households were allowed to have access but were encouraged to try commercial sources of finance. In order to assist those with seasonal work, repayments could be staggered to match the flow of income throughout the year.

More recently, there has been some discussion about providing group loans (with the group then taking responsibility for disbursement and collective repayment) but the Namibian treasury resisted this development. A new act is being drafted to give more authority to the Groups and to devolve the programme to regional administration.

By the end of 1995, a total of 4,500 households had received loans and this is equivalent to about 25,000 people receiving assistance. No second loans have yet been given, in part because the repayment periods are long. A small number of households (less than ten) have already repaid their loans in full.

Whilst most of the coordination is undertaken by some 40 staff at the central ministry, technical assistance is given by both these staff and the local authorities. The full administrative and support costs of the Build Together Programme are not known.

Acquiring a loan

The process is initiated by a member of the local authority staff who announce a public meeting through local organizations such as the church. All local residents who are interested are invited to a two-day workshop. The most enthusiastic (generally about 15-20) are invited to form a Community Housing Development Group to carry forward the activities. This Group identifies those most in need of housing and the beneficiaries are encouraged to be directly involved in the Group.

The Group decides who should receive the loan and prepares the papers relating to the loan. To receive the loan, each beneficiary has to open an individual account in any private bank. Once the loan is agreed, the work programme begins and the central government transfers the loan instalments directly to the individual's account. Some villages participating in the programme are served by a mobile bank. A range of financial institutions is used to disburse loans, including building societies, commercial banks, the first national bank and the post office savings bank. The Groups are responsible for checking on the progress of the work and for authorizing repayments. Four kinds of collateral are acceptable: personal guarantees such as livestock, community guarantee, employers guarantee, and government guarantee where the borrowers are government employees.

Once the planning process has been completed and building is ready to start, the funds are paid in four instalments. The plots are sold to the households by the local authority and technical assistance support is put in place. The first instalment is made once the foundations have been dug with the others following as various stages of the house are completed. There is a three month period of grace on repayments to allow for the completion of construction. The completion rate is between 85-90 per cent.

In addition to housing, loans can be given for any of the following options:

- leasing loan (where land cannot be bought)
- loans for buying services
- loan of about N$1000 for water connection and water storage tanks
- loans for savings groups
- loans for buying partially serviced land
- loans for improving trust land

After substantial Treasury resistance, there are now some loans for savings groups. Samstan, a Namibian NGO, has been the first group to obtain a revolving fund for on-lending to small groups of residents.

The Groups have a very important role to play within this process and monthly reports are required from each one, reporting on progress. They have become a powerful actor within the local development process in their own right and they often argue for and obtain land and community contracts to service the land. Once they have obtained the contract, they manage the local labour force.

Looking forward

Encouraging diversity: There are currently a number of innovative projects being undertake within the Build Together Programme. Two groups in particular need are people living in the former male-only hostels who are anxious to obtain the finance they need to redevelop these compounds into family units, and marginalized groups such as bushmen. In response, social projects have been developed for those on particularly low incomes. Within these special projects, additional grant finance is available from the state and the people have to contribute only free labour. A further innovative project is developing rental housing with full cost recovery. Some of the would-be residents are fully employed during the construction phase and can therefore pay market rates for the accommodation, thereby reducing the subsidy required.

Building skills: There has been an interest in developing a special component around building skills but this has been going slowly due to a lack of technical expertise and trainers.

Scaling up: The present scale of the project involves 6,000 households in total, with about 1,250 being added each year. There is a need to increase the programme so that it offers about 16,000 loans per year at an annual cost of between N$ 36-40 million per annum. At present, the financial contribution from the Treasury is being reduced with a commitment of N$ 16 million in 1994/5 and N$ 11 million for the following two years. The housing bill currently being prepared will transfer implementation to the regions and enable the creation of regional revolving funds. These funds will also have the right to lobby for funding and to look for international support.

Repayments: Many individual households are facing a problem of repayment (late repayment is defined as one month overdue) and there is a need for some kind of buffer between the formal financial system and those borrowers located primarily in the informal sector. To date about two-thirds of the loans have been made to informal sector borrowers and only formal sector borrowers are repaying properly. The current repayment rate is 66 per cent. During the first years of the Programme, it was the responsibility of the Groups to encourage members and the rate of repayment was very low. Then a change in policy resulted in those loan repayments of formal sector borrowers being repaid through direct payroll deductions by employers. If employees refuse to cooperate then loans are repaid through direct debit orders on the borrowers' bank account.

The target rate for repayment is 95 per cent and therefore the Programme has a preference for formal sector employees who make their repayments through payroll deductions. When the borrowers work in the informal sector, the Programme remains dependent on the Group to apply social pressure. New loans are refused to Groups if repayment levels are not maintained.

A further problem with repayments is that the system of reference numbers resulted in borrowers being very confused. The system is not computerized and some payments may have been made but not immediately registered.

Increasing scope of activities: There is an interest in increasing the use of group loans and extending loan finance further into new areas such as community facilities.

Housing People of Zimbabwe

Summary: There is a considerable housing deficit in Zimbabwe with many tens of thousands of urban dwellers being unable to obtain adequate housing. Housing People of Zimbabwe started work about four years ago to encourage cooperative housing development as one solution to address housing need. Their work includes direct project development support for cooperative initiatives and lobbying and advocacy to facilitate cooperative housing development within the country.

Background

Housing People of Zimbabwe was created out of an exchange between the Canadian cooperative association and a small number of existing Zimbabwean housing cooperatives in the late 1980s. At that time, four or five housing cooperatives had been formed in Zimbabwe but they were having a very difficult time. In 1991, with the broad agreement of the Zimbabwean government, Canadian development assistance was offered to explore options for strengthening the cooperative movement, and these options included the formation of an umbrella organization. In 1992, the first employee of Housing People was hired.

Their works takes place in a context in which formal housing production meets less than 15 per cent of annual housing need in urban areas. All the major urban centres have tens of thousands of households on the list of those in housing need. Although there are few squatter settlements in these towns and cities there are other visible signs of housing need including backyard shacks, low-income settlements and overcrowding. Overcrowding is perhaps the most commonly used strategy by which low-income households secure accommodation with many single family houses accommodating two to four households (without any increase in facilities). In the last two years, there has been an evident growth in both backyard shack developments and squatting.

The work of Housing People of Zimbabwe is varied. Part of the work involves support for individual housing cooperatives, with this support being primarily focused on the formation period when the emphasis is on members savings. A second area of work is lobbying the formal financial sector to ensure that they understand housing cooperatives and that they do not discriminate against them when they apply for loan finance. A third area is campaigning with government agencies to ensure that housing cooperatives can obtain access to land and services.

These tasks have changed even during the relatively short time in which Housing People has been in existence. During 1992, there was a strong lobbying process which sought to maximize the involvement of the membership to ensure that the government assisted housing cooperatives to obtain land. At that time, it was extremely difficult for a cooperative to be allocated land because the land distribution mechanism was structured around individual households. The success of this lobbying process reflects both the size of the cooperative movement (the largest housing cooperative has 2,000 members) and the urgency with which the government needed to address housing provision. For example, the waiting list in Harare is now 100,000 and latent demand may be double this; many are renting or living illegally.

In addition to providing general support for all cooperatives, Housing People works directly with a small number of housing cooperatives to provide direct project-level support for which they receive professional fees. They are now working with 18 cooperatives who are at various stages of development. The first stage is to examine questions of affordability. Most cooperative members choose to build a two-bedroom house with a plinth area of 20 square metres and an associated cost of Zim$ 35,000. All the financing institutions demand a deposit of at least 25 per cent of the capital cost and the experience of Housing People is that savings activities need to begin as soon as the cooperative is formed. The role of Housing People is to consider how the specifications for house and services can be reduced to lower the cost. They also negotiate with the building society for finance, and with the local authority to obtain land. Land purchased from the local authority is at slightly lower than market price. In a few cases, they also recommend recruiting additional members. Whilst the smaller cooperatives have as few as 16 members, cooperatives whose members are mainly drawn from the lowest-income categories cannot be so small, otherwise they are unable to obtain sufficient savings.

Housing People is now focusing its work on individual cooperatives. In the four years since they have been initiated, the number of housing cooperatives has increased from 34 in 1992 to about 120 in 1996. The average size is about 100 households. (The organization does not cover rural areas.) They are also encouraging the formation of community groups where housing is a problem by contacting people on the local authority list for housing need, and organizing a meeting. After this brief introduction, those interested in establishing a housing cooperative are given further information and training sessions to assist them to form a cooperative and directly address their housing need. This work has encouraged Housing People to work at a national level to reduce the complexity of registration processes for cooperatives.

In these activities, Housing People acts as an intermediary. It provides advocacy, training and project development support. The costs of the organization are provided mainly through donor finance. Charges for project development services have been introduced but they do not contribute significantly to current turnover. The intention is for a greater proportion of Housing People's costs to be met from this source in the future.

More recently, and in recognition that such consultancy services are not compatible with a representative function, the Board has been considering the formation of a Federation for cooperatives. The main function of this Federation would be to enable a clear differentiation between professional support services and a political movement.

Housing cooperatives; some examples

One housing cooperative included 240 members of whom most were women domestic workers. The members' savings were Zim $ 1.5 million at the start of the project. However, the nature of their work meant that it has been difficult for them to obtain loan finance. They have used the money to purchase land and are now ready to build but without loan finance they are forced to build incrementally, starting with single brick rooms.

A second cooperative, also mainly for domestic workers, approached Housing People for assistance. Their major problem too was obtaining housing finance. They had been offered a loan at 21.5 per cent but, with support, they managed to obtain a loan at a subsidized rate of 12 per cent. This subsidy is financed through a USAID Programme not widely used. However, the cooperative now faces a further problem as they cannot obtain sufficient land to build houses for all their members.

Cooperative development: terms and conditions

Tenure: Housing tenure in cooperatives in Zimbabwe is normally individualized with households holding the freehold of both land and property. Individualization does not normally take place at the beginning of the construction process but when the houses are built and the land development completed.

Loan finance: In most cases, housing cooperatives are required to follow conventional building society standards and requirements. A deposit equivalent to 25 per cent of the value of the loan is required and future guarantees may be demanded. The loan is dependent on an examination of each individual member's income to assess their ability to meet the average level of repayment required. A savings record of at least six months is also required. In many cases, the formal sector financial institutions only wish to lend to formal sector employees.

Societies are very reluctant to accept the risk of repossession as politically it would be very difficult to repossess a whole project. Loans are given for 20 or 30 years. In addition to the problem of discrimination against those with low-incomes and those working in the informal sector, the length of the loan is a further problem because the poor do not want to be indebted for so long. Housing People has been trying to increase the understanding of these financial institutions so that they will permit group financing and offer shorter term loans. Group financing can reduce administrative costs and offer individual households an additional flexibility which has proven beneficial to the effective involvement of the poor in other countries.

Housing loans are typically offered at interest rates of about 14.5 per cent, rising to 18 to 22.5 per cent for the more risky loans. (Inflation is currently 23 per cent). USAID finance permits the use of subsidized interest rates for low-income households seeking mortgage finance.

Infrastructure and services: Some cooperatives have long wished to build on green-field sites without serviced plots because of significant cost advantages. Prior to 1995, the cooperatives were not allowed to build until the services had been installed but now local authorities are prepared to be more flexible. A second issue has been the quality of services and infrastructure provided. Whilst local authorities have insisted on tarmacked roads, many of the cooperative members (and other low-income residents) thought that this level of service was unnecessary. In some areas, Housing People has assisted cooperatives to negotiate for lower service requirements. During the last few years, several communities have purchased green-field sites at a cost of about Zim $ 15,000 for 300 square metres. However, even this is not affordable for those on low incomes; this group is defined as those with monthly incomes below Zim$ 1,200. (The lowest monthly wage is Zim $ 200 for domestic workers.) Now some cooperatives are persuading the local authority to accept both smaller plot sizes and lower standards in order to increase affordability.

Women's participation: The involvement of women varies considerably between cooperatives although in general participation levels are high. Housing People has been organizing seminars to encourage women to become more involved. They organize two national seminars each year with representatives from all cooperatives and each delegation must include a women's representative. In the past, Zimbabwean women had no inheritance rights. There is now a law to protect women's access to resources and rights.

Remaining issues

A number of issues are likely to be pressing for the housing cooperative movement in Zimbabwe in forthcoming years:

- availability of land is likely to continue to be a problem. This is particularly difficult for larger cooperatives who often cannot find sufficient land in one location and are therefore forced to make piecemeal developments
- affordability will remain a difficult issue preventing many low-income groups from gaining access to land
- few cooperatives have developed an effective system for setting rents and in many cases these are below the costs involved in housing development.
- securing cooperation from local councils who have failed to reform the land allocation process thereby compounding the problems of poor households and cooperative members alike.

Community Mortgage Programme

Summary: The Community Mortgage Programme has gained a global reputation for being an innovative government strategy for providing low-income households with housing finance. In the eight years of the Programme, considerable experience has been gained in the strategies and mechanisms needed to reach low-income settlements through government programmes and over 55,000 households have been assisted.

Background

In 1988, the Philippine government already had an existing programme that had been established to increase provision for loans to home buyers, the Unified Home Lending

Box 1: The Housing Situation in the Philippines

The current housing deficit (ie. the number of houses required) in the Philippines is 1.2 million. Within this context, the informal sector has played an important role and an estimated 20-30 per cent of the population find accommodation within this sector. Land ownership is highly concentrated,(primarily a legacy of Spanish colonization) and much land is idle. Landowners do not want to sell land for sentimental reasons, land is a favourite collateral of banks and real estate taxes are very low. The Aquino government failed to address issues related to the concentration of land and, under legislation passed in 1986, the government must pay the full market value if it wishes to expropriate land.

Commercial banks service only the upper 10 per cent of the population. Housing finance is provided by the government at subsidized rates and, because of this, the private financial sector does not compete with government institutions. Interest rates offered by the government are fixed and the term of repayment is up to 25 years. The commercial sector favours a variable interest rate and loans must usually be repaid in five years.

The National Home Mortgage Finance Corporation (wholly owned by the government) is the main housing finance institution for all but the very rich. Most of its funding is drawn from provident and pension funds run by government, particularly the Social Security System, Government Service Insurance System and the Home Development Mutual Fund. The Corporation has two major programmes for lower-income households: the Unified Home Lending Programme (UHLP) and the Community Mortgage Programme (CMP).

Source: ACHR/HIC, Report of the First Housing Finance and Resource Mobilization Workshop, 1993.

Programme. This Programme had been set-up to ensure that loans would be affordable for those in the low-income groups. Box 1 describes the general situation for low-income households within the Philippines. There was a recognized problem in that there was limited availability of low-income housing for purchase but it was hoped that, if finance was available, the supply of houses would increase. However, for reasons due to macro-economic conditions and financial sector responses, there was little low-income housing being produced. Whilst the poor were now able to borrow there were no houses being produced for them to buy. Whilst the Unified Home Lending Programme continued to grow and some housing cooperatives were established, in general, low-income households were not gaining access to housing finance.

The Unified Home Lending Programme provides individual loans to any homebuyer who is a member of a pension fund. (Therefore those working in the informal sector are unable to obtain housing finance through this Programme.) In 1992, it provided 24,000 loans worth around Peso 4.8 billion (US$190 million). In order to offer preferential support to low-income households, differential interest rates are offered:

Loan Packages:	Interest Rate
Below P150,000	9%
P150,001 - P225,000	12%
P225,001 - P350,000	16%

The maximum size of the loan cannot be more than 30 times the monthly income of the household and the monthly repayment should not exceed 33 per cent of total monthly income. The loans are for 25 years. The scale of the interest rate subsidy can be judged by the current commercial interest rate which is about 17-18 per cent (although previously commercial rates were as high as 24 per cent).

The median household income in the Philippines is P150,000 and this level of income is also coincidentally taken to be the poverty line. At present, only about 5,000 units are being supplied annually to those with incomes equal to or below this median. Private developers are using the Unified Home Lending Programme to obtain favourable financing terms for middle- and high-class housing through selling more expensive properties with a second mortgage to cover the additional costs.

Private developers are responsible for providing 75 per cent of all housing, even in the lowest price category. Many add significantly to the costs of the house, taking advantage of the shortage of housing in the Philippines. Under the Programme they are allowed to charge an additional 60 per cent above costs in order to recover their profits. In some cases, using this mark-up as a control on profits has been abandoned and developers are allowed to price the house according to market demand.

In 1993, Ramos took over the presidency of the Philippines from Aquino. There was a change in land and housing policy with the developers once more finding it relatively easy to obtain support from government. One immediate impact was a rapid increase in the amount of UHLP funding that was allocated to low-income housing

1991	-	30%
1992	-	20%

1993 -	10 - 15%
1994	20 per cent
1995	30 per cent
1996 (target)	50 per cent.

However, during the 1980s, it had been increasingly evident that there was also a need to address the housing needs of those living in the informal sector.

A Description of the Programme

The Community Mortgage Programme was launched by the National Home Mortgage Finance Corporation in August 1988 to address the home financing requirement of the informal sector, particularly the residents of depressed areas in and around the urban centres. The Programme offers loans of up to 30,000 Pesos for 25 years at 6 per cent interest. Applicants are required to organize themselves into an association able to legally transact the loan to purchase land under the common ownership of its members. Households obtain individual use over the property through a lease-purchase agreement between the community association and its individual members. The community association is responsible for collecting the monthly repayments from its members, and for dealing with those who do not repay. One recent change in the rules now permits community organizations to collect a small charge in addition to the loan repayments which can be held as a community fund. The Programme uses "originators" which may either be non-government organizations, local government units or national government agencies to provide professional support to the communities. Originators receive P500 per member of the beneficiary community association in order to contribute to their costs and 27 organizations have participated in the Programme in this role.

The first stage for any community is to secure a letter of intent-to-sell from the landowner. At this point, staff of the Programme check the security of the land title very carefully. The title deeds for the three previous sales are examined and, if there is any question of a disputed land title, the project is abandoned. If the title of the land is in dispute, it is unlikely that the present occupants of the site will be removed until the ownership is resolved. Staff also check the accuracy of the valuation and negotiate with the owner if they are concerned. If the beneficiaries occupy more than 80 per cent of the site, self- valuation by the community is accepted as an adequate valuation. The Programme, upon fulfilment of certain conditions by the originator and the beneficiaries, issues a letter of guarantee to the landowner outlining the terms of compensation. Equipped with this guarantee, the landowner can then proceed to transfer the title to the community association with a mortgage annotation in favour of the corporation. The corporation will then release the loan proceeds to the landowner in compliance with the letter of guarantee.

The loan finance can be used for the purchase of land, site development or housing. Communities can take more than one loan but in general they do not because they are concerned to minimize their debt. Land is the most critical area in which Programme finance is required. Most communities prefer to organize their own site development and individual households are accustomed to raising the money they need for house improvements.

The programme was developed with a strong concept of equity. In order to minimize the extent to which richer households were able to benefit from the subsidized finance, loans were limited to P30,000 per household (maybe US$ 1100). However, it was also agreed that the responsibility for deciding who should benefit should be up to the community. In each settlement, community leaders have to organize local residents and recruit members. To enable residents to stay on the land they presently occupy, generally 80 per cent must agree to be members.

However, many of the poorest groups are not squatters but are renting accommodation in formal and informal settlements. In general, renters are excluded from the Community Mortgage Programme. Even if they wish to gain permanent residency in an existing informal settlement and can afford the repayments, there is rarely sufficient land for them to obtain plots when the settlement is regularized and purchased from the land owner.

Recent Trends

As of September 1995, the Community Mortgage Programme had assisted 456 communities (55,218 households) with a mortgage value of P1,289 billion (US$? million). Another 152 projects benefitting 18,768 households with a mortgage value of P404 million (US$? million) are in the process of being considered. 97 per cent of the total loan value has been for land acquisition and there has been little interest in borrowing for site development. Projects can be both off-site (relocation on a new site) and on-site (purchase of the land on which the household was previously living illegally).

The limit on the size of the loan for undeveloped land is P30,000 (US$ 1,180) per household outside Metro Manila and P37,500 (US$ 1,480) in the city. The maximum size for any loan is P60,000 (US$ 2,360) for the purchase of developed land in Metro Manila. Such loans result in a repayment of P200-400 a month which is affordable to most of the poor. The current minimum wage is P2,400 (US$ 100) a month. In a survey of 10 sample sites, average monthly household income was below P2,000 (US$ 80) in one site, between P2,000-3,000 in seven sites and over P3,000 (US$ 120) in 2 sites. Beneficiaries pay an interest rate of 6 per cent and the current market rate is 18 per cent. Affordability does not appear to be a problem. The cost of renting a room in an illegal settlement, a standard cost for the poor, is between P300-900. A suggestion was made that the interest rate subsidy might be reduced or partly transferred to a capital subsidy. The loans are given for 15 years. Those with informal jobs can easily secure a loan if they have an affidavit to declare that they receive P2,000 or more.

The scale of the current Programme is about 10,000 households a year. However, this has to be seen in the context of a growth rate of about 300,000 households a year. The support for housing may increase as in 1998, there will be a presidential programme to improve low-income housing.

Over P12 billion has been allocated to the Community Mortgage Programme over the next five years. However, following this statement, implementing guidelines were produced which gave an uneven allocation over this period. The originators sought a uniform allocation of P3 billion a year for 5 years but the financial allocation for 1996 is only P700-800,000 million. Whilst this is an increase over the previous year, there are continuing doubts as to whether the full P12 million will be forthcoming.

As noted above, few community associations take loans for site development. In general, communities continue to think that infrastructure and basic services are the responsibility of local government. This belief is consistently reinforced by the attitude of local government officials and politicians. For example, one community needed water pipes. An NGO offered a loan and demonstrated how the loan might be repaid within six months at a result of the cost savings that could be achieved. But the mayor offered a grant and therefore the belief in the capacity of local government was reinforced, despite a lack of comprehensive and adequate provision.

Government-supported housing loan programmes in the Philippines have a consistent problem with repayments. Collection rates are low and the parent institution of both the Unified Home Lending Programme and the Community Mortgage Programme, the National Home Mortgage Finance Corporation, would have been declared bankrupt if it had not received extra funds. As a consequence of this, the World Bank has withdrawn its support for the Corporation. And there are continuing fears that the Corporation will go bankrupt (as previously happened) with a subsequent crisis in housing finance. The larger loans are associated with the worst repayment record. The Community Mortgage Programme has the best programme repayment rate of 82 per cent repayment excluding projects under litigation. (If these projects are included the repayment rate falls to 78 per cent.) The better NGOs manage to achieve repayment rates of around 97-98 per cent in particular settlements.

Looking Forward

A number of evident themes emerge from a consideration about where the Programme and those working within it are heading. In part these reflect problems of realizing innovative programmes to support community development within government structures and institutions. In other respects, they reflect a growing understanding as to what is needed to secure a more effective relationship between grassroots communities and government, and what might be the role of professionals within this relationship.

Collective and individual loans: One of the controversial discussions has been over the individualization of housing loans. The Community Mortgage Programme loans are collectively given and managed. When the Programme started, individualization or the dividing of the land and loans was optional on the part of the communities. Many communities said that they wanted it but in practice the process was very complicated and few managed to achieve it. However, the administration that took over in 1993 wanted individualization to be compulsory and for some years they encouraged and promoted this idea, imposing the requirement that the plots should be individualized within two years. Recently they have agreed that this is not necessary.

Originators: As already noted, the originators receive P500 (US$ 20) for each household that is participating in projects that they support. The idea that NGOs should be paid by government for their services is very new in the Philippines. However, this amount is insufficient for the costs involved and a subsidy needs to be raised by the NGOs.

Local authorities also act as originators and receive the orientation fee. Some local authorities will also advance loan finance if it takes a long time before loans under the Community Mortgage Programme are approved. They may charge 6 per cent or they may not charge interest at all. Such loan finance is organized identically to the Community Mortgage Programme itself. Some local government agencies are now interested in developing a more comprehensive capacity to offer loan finance directly (rather than as an originator to the Community Mortgage Programme). However, it is not yet evident how serious these initiatives are. The league of cities has argued in favour of this idea but it needs to be followed up with the creation of local funds. Many NGOs are not happy with this proposal because some mayors consider NGOs to be their competitors, and hence relationships are not always constructive. A further problem is that the funds need to be structured in such a way that local politicians are not able to write-off debts at election time. However, some mayors are increasingly recognizing that multi-sectoral commissions are needed both to manage the funds and to blend private money with public resources in order to offer finance at between 9 to 12 per cent.

Bureaucracy: An ongoing difficulty in the effectiveness of the Community Mortgage Programme is the scale of bureaucracy. It is still often the case that government officials take one to two years to complete a step that was first estimated to take just 17 days. In part these problems have arisen because the Programme is within the Home Mortgage Finance Corporation. Some of the originators proposed that the Programme should be established as an independent organization and the Housing Committee of Congress agreed, but there is an understanding that this is unlikely to be acceptable to the President and Congress. A possible compromise may be that CMP remains where it is but it is given a new governing body with multi-sectoral representation from a range of groups including NGOs, the urban poor, local government and one from relevant state housing agencies.

Obtaining finance: Some 489 communities have already obtained loan finance and a further 300 are presently in the process of applying. Forty one more are ready but have delayed their applications. Obtaining Community Mortgage Programme finance takes at least a year, and may be longer if land is difficult to obtain. There are invariably problems in securing a land title if the land is presently being squatted. The National Home Mortgage Corporation can also delay the process by adding additional restrictions. For example, it will not mortgage the land if government wants to build on it even if no detailed plans exist at present.

New communities still wish to join the Programme and it is not difficult to find originators. However, originators now have to significantly subsidize the origination fee using international development assistance. Finance is provided both through community training projects and loan funds. If not were not for Misereor, it was suggested, the financial position of many of those NGOs involved in the Programme would be impossible. The government wished to reduce the origination fee, and requested the community organizations to cover these costs by paying an additional fee of 5 per cent of the value of the loan prior to the project being undertaken. This idea has now been dropped but NGOs do not dare to ask for additional resources.

Alternative sources of finance: There are now some indications that commercial banks might be interested in participating in a similar arrangement to the Community Mortgage Programme. An exploratory arrangement is that 10 per cent of the capital will be provided by the community, 30 per cent from other sources such as an NGO or local authority and the remainder as a loan from the bank. The bank would charge 18 per cent interest and set a repayment period of five years.

Such financing arrangements are feasible outside Manila where land prices are lower. In the capital city, the price of land means that it is difficult for communities to do other than use heavily subsidized finance over a long-term period. However, even outside Manila, there is general reluctance to look at alternatives to the Community Mortgage Programme because of the scale of the subsidy.

Four revolving funds have been established within the NGO sector. It is the intention that such funds shall be used by originators to leverage or prefinance government finance. One option currently being explored is for CMP originators to go into the production of social housing. The purpose of the revolving funds is to strengthen the advocacy position of the NGOs, not to replace the Programme. In practice, little is used for interim financing because the scale of the problem is such that this cannot be a solution. At present, the total aggregate loan finance required by projects in the queue for Programme funding is P887 million.

Interest rates: Among some of the originators, there is now an understanding that an interest rate of 6 per cent is too low. An improved model would be one where the community organization added an additional 2-3 per cent and used this finance to assist individuals who are in default on their loan repayments. Through this strategy, higher repayment rates could be achieved. A further strategy for improving repayments would be for the community leaders to be guarantors.

Networks: Originators have a strong network to represent their interests, the National Congress of CMP Originators. There is a need for the originators to be increasingly sophisticated in their strategies. Influencing congress members has to be a key target because the justification for expenditure on social housing is not economic but political.

In this context, city mayors are also a major allay.

Whilst the urban poor communities do have a federation, other urban poor groups who are not involved in the Programme also participate and dilute the focus of the discussions. Communities have been encouraged to be involved in the lobbying processes around the Programme (so as to add to the numbers), but they have not been involved in strategic discussions to identify the improvements and amendments that need to be made from their perspective.

Further residential development: The visual impression is that once Community Mortgage Programme finance is secure, the housing immediately improves. This is not just individually-financed housing investments that occur because land tenure is secure. Neighbourhood development activities also appear to be taking place at a significant level. In general, the residents of low-income settlements in the Philippines wait a long time for government assistance. Communities with Programme funding are more motivated and able to negotiate with the local authority to obtain what government resources are available (such as the free use of trucks) and also to collect from residents to provide additional finance as required.

Urban Community Development Office

Summary: The Urban Community Development Office (UCDO) was established in 1992 by the Thai Government in response to growing inequality within Thailand. The UCDO offers loans to community organizations in low-income urban settlements for income generation and housing development. By 1995, it had reached over 4,000 households with loan support.

Introduction

In Thailand, commercial banks provide housing finance for private sector developers and the middle class. While the poor can also borrow from the commercial sector if they save enough, in general, their incomes are too low and an estimated 30 per cent of the population are too poor to be able to enter the formal commercial financial sector. The National Housing Development Authority was established to assist low-income households to obtain housing by providing land for the poor and slum upgrading programmes. But the Authority has failed to do this on a sufficient scale for the groups most in need. More recently the major problem faced by the poor in Bangkok is eviction. Rising land prices and a growing disparity in incomes mean that land owners have been redeveloping land and the squatters are unable to find inner city sites.

During the last ten years there has been a considerable investment in slum upgrading projects and programmes. Both government and NGOs have gained an experience of what is possible and understood more about the needs of squatter communities. As it became evident that there were very few opportunities open to squatters and that there was a need to expand options, NGOs have become involved in housing finance initiatives including:

- savings
- building material loans
- NGO revolving funds direct to the community
- NGO guarantees offered for conventional loans
- NGO acting as guarantor with land title
- housing loans through a credit union
- NGO support for federations of housing savings schemes with the federation obtaining finance directly

In March 1992, the Thai government approved a budget of US$ 50 million to initiate an Urban Poor Development Programme within the Seventh National Economic and Social Development Plan. The approval of this budget resulted in the establishment of a new organization, the 'Urban Community Development Office' (UCDO), with responsibility for implementing the Programme nation-wide. Drawing on past experiences, the UCDO was established to provide flexible strategies to enable the community to obtain the assistance they need.

Background

In 1990, before the approval of this Urban Poor Development Programme, a special research project was set up under the National Housing Authority. This research was organized by an independent team of NGOs with the full participation of government officials, staff from other NGOs, professionals and community leaders. The study identified several innovative ideas and possibilities for setting up and implementing an Urban Poor Development Programme. However, it was actually a qualitative change in the knowledge and experience of community organizations, and a qualitative increase in their capacity over the last 10 years, that has brought new possibilities and the real prospect of large-scale impact to this Programme and to the Development Office itself.

There are a number of important and innovative qualities to the Programme as operated by the Development Office:

- ► It involves a partnership between government, community organizations and the private sector.
- ► It has, as a primary objective, the strengthening of community organization and it uses credit as a mechanism to achieve this.
- ► It offers an integrated credit system with loans available for several different activities.
- ► It works closely with a range of related groups in order to be as effective as possible.

Objectives

The overall objective of the Urban Poor Development Programme is to strengthen the capacity of the urban poor and those living in illegal settlements to obtain increased and more secure incomes, appropriate housing with secure rights, an improved environment and better living conditions. The people themselves are considered to be the main actors in the community development process. The UCDO considers that agencies external to the community, both governmental and non-governmental, should only act as supporters of the peoples' development process. Based on this understanding, there are five main working objectives for the Office:

- ► To assist in the establishment of savings group cooperatives.
- ► To support the development of community organization and the general and financial administration of the savings groups.
- ► To support the savings groups network activities.
- ► To assist in the improvement of people's careers and incomes in order that they can have secure employment, improved job opportunities and improved living conditions at low or reduced cost.
- ► To provide credit for development as requested by savings groups able to manage these funds.

The Institutionalization of 'Partnership'

The UCDO is governed by a Board which has authority over all of its policies. Although the Office is a special organization within the National Housing Authority, its Board has the power to make decisions independently. The concept of partnership is fundamental to the composition of the Board, which has nine members. Three are drawn from government organizations (the Bank of Thailand, the Finance Ministry and the National Economic and Social Development Board), three are community leaders, two come from NGOs, and the final member is from the private sector. The Governor of the National Housing Authority is the Chair of the Board and the Managing Director of the Office acts as Secretary to the Board.

The three community representatives are elected. Each is drawn from different kinds of settlements: upgraded and no evictions, resettlement, and evicted. Lists of candidates are published throughout the country and regions have a ballot. The NGO representatives are nominated by the board. One is drawn from a co-ordinating group for those NGOs working with the Office and another from the co-operative league.

The multi-sectoral nature of the Board has brought about a process of cooperative collaboration in the implementation of the Programme. The Board seeks to bring in all relevant and concerned groups in a spirit of partnership, and this affects the implementation of every aspect of the Programme.

Integrated Credit System

The Programme provides an 'integrated credit system' for community development with access to a range of different loans including those for income generation, small revolving funds and housing. This approach responds to the needs of the communities. Communities can organize and plan an integrated community development plan with the UCDO providing them with credit. Table 1 summarizes the terms and conditions for each kind of loan.

Table 1: Terms and Conditions for Different Kinds of Loans

	Interest rate (% per year)	**Terms of payment (years, maximum)**
Income generation	8	5
Revolving fund	10	1
Housing Project	3	15
Housing Improvement	10	5
Average	7	-

There are no restrictions on what the income-generation loans can support. Believing that one shortcoming of most credit programmes is that they are far too prescriptive, the Office does not try to over-ride the communities' own analysis of market opportunities. Loans for housing fall in general into two categories. If a group of individuals wishes to undertake individual housing repairs and improvements, then this is called a 'housing non-project'. If it is a group development for new housing or purchasing existing slum land housing, then it is called a 'housing project'. Revolving funds are small capital resources held at the level of the community organization for individual emergency loans or other community projects.

Originally, the intention was to allocate half the loan finance to income-generation with the remaining 50 per cent being divided between housing (30 per cent) and revolving loan funds (20 per cent). However, by 1995, up to US $ 15 million of housing loans had been granted to 30 organizations and 4,000 households. Housing loans are significantly larger than other kinds of loans. Two-thirds of the total finance has been allocated to housing projects although this accounts for only one-quarter of the organizations supported and of the total number of loans given. The number of income generation loans is now growing.

The loan period for housing projects is fifteen years. Having such a long loan repayment period does not present a problem since the land-site is used as collateral; as well as the community committee being guarantors.

Repayment

The repayment rate for communities with loan finance is currently 98.8 per cent. The contract between the community and the UCDO specifies that the community organisation is responsible for collective loan repayments, and the local community organization is responsible for ensuring that individual households repay into a local fund. Some communities insist on two guarantors for each individual household loan. Some communities let guarantors also borrow credit and some do not. In the contract between the UCDO and the community, it is also necessary to have a guarantor. If the community default on the loan, in the worst case scenario, the Office can sue the guarantor. However, problems with repayments may arise usually because the community organization is too weak (or having problems) and therefore the need is for staff support to help find a way, together with the community, to solve the problem or to adjust the repayment system to suit the reality of the community.

The target was that administrative costs should be less than 4 per cent and to date they have averaged 3.5 per cent. The initial plan was that the composite interest rate between the three types of loans should be 7 per cent. Administrative costs of 4 per cent would allow the fund to increase by 3 per cent in nominal terms offering some compensation against inflation. However, inflation in Thailand is currently running at about 4 per cent. This problem is further increased because the original composite interest rate has not been maintained. This is due to the fact that housing loans are taking up a higher proportion of the total loans than was originally intended. The composite interest has fallen because housing loans have the lowest interest rate of the three types of loans. The present composite interest rate earned on loans is 4.5 per cent, which is almost fully taken up in covering the costs of administration. However, the sustainability of the capital is not simply a financial question. Staff consider that sustainability is determined within a political context in which a successful programme can give a better learning and understanding about the process to all of the actors concerned, thereby securing future support.

Community Development

A major strategy of the Development Office is to strengthen communities' managerial capacity. The Office aims to support a process whereby the activities can be multiplied by the community organizations themselves. In this way, the Office aims to encourage and enable, in all possible ways, different forms of community organizations and federations to be set up and to become involved in the Programme. 'Credit' is used as a mechanism to strengthen the capability of communities to deal collectively with their own development issues. Through the careful use of credit, the role of the community as initiator, organizer, planner and manager is enhanced.

To be eligible for a loan, each community must show that it can operate savings and credit activities. All loans are conditional on there being a sound and responsible community management structure and operating mechanism, as well as clearly defined beneficiaries and a project development management process. The UCDO considers that the resources it provides should be supplementary to the financial resources of the communities themselves.

At every stage, the role of the community as the main actor in the implementation process, as well as the main actor in development is reinforced. It is hoped that the credit system and associated management activities will gradually change the quality of the community organization to enable it not only to become the nucleus for an internal integrated development process but also to become a strong development unit able to more effectively deal with forces external to the community.

Community loan programmes generally start with a savings group. UCDO staff provide training in technical and organizational steps. In some cases, the community members are already involved in a housing cooperative, credit union or occupational group. In such cases, UCDO staff simply check that the financial systems and decision-making processes are working effectively.

Once the loan has been agreed, the community organization is permitted to add a further 2-10 per cent onto the interest rate, to allow them to cover their costs, provided that this decision is transparent and agreed to by its members. This enables the savings and credit organization to increase and strengthen its capacity by allowing it a new source of finance for management, development projects or other activities decided upon by the members. Most organizations have taken advantage of this opportunity to increase the interest rate charges above those charged by the UCDO. With financial institutions carefully watching the progress of the fund, this measure has been important in demonstrating that the Office is not unfairly competing with formal sector financial institutions and distorting financial markets.

Obtaining and Managing a Loan

Community groups wanting to obtain loan finance from the UCDO follow these steps:

- savings groups have to be operational for at least six months prior to receiving a loan. After the first three months of saving, they are encouraged to give loans from their own savings. This is very important in establishing group solidarity and in giving them the necessary confidence for the management of larger loans. After three months of loan management, they are ready to receive and manage external capital.

- If the group is not under an eviction threat, they will usually start with a small revolving fund loan (to add to the capital from their own savings) and then a larger loan for income generation activities. This loan can be up to ten times the value of their own savings, however it is preferred that there be a gradual increase rather than a sudden leap to ten times the first application. One study has suggested that incomes could increase by 40 per cent in one year, as a result of this support.

- if the community is threatened with eviction, then the need for resettlement is immediate and the UCDO offers a housing loan. In general, it then takes a further year before they are ready for an income-generation loan. If the community can only obtain a new site some distance from their old site, then the period of readjustment may be longer and the income-generation loan will take a while before the community applies.

A clear process of internal decision-making is required for the successful management of loan finance. Communities always require some kind of internal guarantee.

Eighty per cent of the process is about identifying effective mechanisms for the allocation and management of loan finance. A UCDO worker supports this process through assisting the people, and finding opportunities to bring together groups with a variety of experience to learn from each other.

All community organizations have to send a monthly financial report which gives a very clear indication of their current financial situation. At present, 30-40 per cent of organizations send this monthly report.

When communities start saving, it is suggested that this should be a regular activity but this is not always accepted. Making daily savings is desirable but it is often very difficult to achieve. Decisions such as how much each household should save and where the savings should be kept are left up to individual groups. In general, the money is kept in a nearby bank. There is an account for the UCDO in a Thai bank, and communities can repay loans from savings held in their bank account.

Unlike some other countries, Thai communities appear to be very happy to take on loan management. This has always been taken for granted because they have never refused and because they are very good at doing it. One reason which may explain their willingness to have these responsibilities is a cautious attitude among Thai communities to being closely associated with government.

Communities are encouraged to use their own resources to prepare themselves with the skills needed to successfully manage loan finance. The UCDO believes that communities should make a contribution to their own development and it is reluctant to provide support for this. However, when individual settlements come together and form a coalition or federation, then they can ask UCDO for support in areas such as training in essential skills like accountancy. The UCDO also gives funds to NGOs to cover the costs associated with organizing savings groups and providing training courses.

Administration

In order to strengthen the involvement of communities in Development Office management and decision making, a number of strategies have been identified in addition to having community representatives on the Board itself. Performance indicators for the Office have been developed and these are distributed to borrowers every month. In general, community organizations contact the UCDO independently. Office staff are beginning to link local communities to help them develop their own local agendas. It is hoped that this might help to ensure that the people control the process and that ultimately UCDO development workers serve this process.

If the loan is for less than 1 million Baht (around $40,000), it can be approved by an internal committee within the Office and this may take up to two weeks. If the value of the loan is between 1-20 million Baht, then the loans have to be passed through another committee with two UCDO staff, two banking representatives, two from the National Housing Authority and a representative from the co-operatives. This is done to demonstrate to the private sector that the loan appraisal process is rigorous. If there is a problem with the loan application, it is returned to the UCDO for amendment. The whole approval process generally takes about a month to reach a decision. If the application is for more than 20 million Baht, mostly in the case of housing projects, then it must go before the Board.

In every case the loan goes directly to the community organization, although other groups such as NGOs may also receive financial assistance. The UCDO has supported NGOs to work in new areas but with the proviso that they establish local multi-sectoral committees with similar representation to the UCDO's Board. Activities in a new area begin with a community survey at the provincial level. This provides a first opportunity to bring interested groups together. Community groups are encouraged to participate as a coalition. At present, the Office is supporting about nine projects involving NGOs in different provinces. Such support is worth about US$ 10-20,000 per project per year and is intended to initiate activities in new areas.

Loan-financed Housing

In the simplest form of housing loans, the UCDO gives money for a community housing project. A more interesting development is when a federation applies for funds and the UCDO is able to pass finance directly to the federation to then be passed on to individual community organizations. In one such case, two communities faced eviction and a federation organized two housing projects. In another case, the federation acted as a developer for its members. Residents in any of the settlements that are members of the federation are allowed to move to the newly developed sites.

There is a great diversity of housing solutions financed through the loans. These include: purchasing land from a 'slum landlord' (although redivision of the plots is often difficult); land-sharing of the site between the owner and the occupiers with reconstruction (although this is not a common option); the purchase of land adjacent to the old area; relocation and resettlement to another site. However, the largest single category of loans for housing development is for resettlement projects; purchasing new land, developing infrastructure and housing construction.

The situation with loan finance for infrastructure is complex. In theory, the subsidy obtained by those settlements receiving loan finance up to a loan ceiling of 300,000 Baht (c. US$ 13,000) is equivalent to the subsidy of US$ 2,000 that they would otherwise be entitled to receive from the government for infrastructure development by the National Housing Authority. In practice, people who occupy a new site only complete a minimal level of infrastructure development. For example, if the land is two metres below street level, then it may be raised by one metre, roads may be added and minimal provision made for water and electricity. Once the housing has been constructed, the community organization looks for other finance, maybe from local authorities or politicians' funds. In UCDO projects which have received housing loans with a 3 per cent interest rate where the organization usually adds 5 per cent, which makes a total of 8 per cent paid by each member. In principle, people cannot receive a further subsidy for infrastructure. However, after receiving the loan with the 3 per cent interest rate, many communities try to obtain an upgrading subsidy which is worth the equivalent of US$ 700 per household. If no external support is forthcoming, then residents start to invest their own resources.

The Office and the Impact of its Lending

About 90 staff work in the UCDO at present. To date they have not had a target for staff numbers and loan disbursement although this is to be introduced shortly. The UCDO is divided into regions with some specialist sectoral departments. In general, it is very difficult to find the right kind of people to staff it. There are some good people that have been recruited both from government and other sectors.

A recent evaluation of the UCDO looked in more detail at the impacts of their activities on income-generation loans. Between the beginning of 1993 and June 1995, 62.44 million Baht has been given to 48 organizations for 59 projects. Most of the borrowers were women and just over 60 per cent were living on squatted land. As a result of receiving loans, 74 per cent were able to increase their income, either through purchasing equipment they previously hired, or by increasing the scale of operations, expanding activities and repaying debts from informal sources. The average increase in annual income was 42 per cent. Seventy five per cent of borrowers had repaid without default. The main causes of default were shortage of income, sickness or the need to repay other informal debts.

Membership in the savings groups studied had doubled during this period and the amount of savings had increased by 140 per cent. Savings groups added 2-10 per cent onto the interest rate they charged members and these funds were used for a number of activities including: preparing for registration, funeral funds and other welfare activities, preparing housing projects, increasing credit for income-generation, developing managerial systems, organizing small groups to share responsibilities, training young people in the accounting work and assisting members in their daily finance.

Looking Ahead

By mid-1995, there were savings schemes in 268 communities, with some 35,000 members involved in the savings and loan operations of the Urban Community Development Office. In total, some 450 organized communities had joined the UCDO with about 80 per cent of these being in Bangkok.

The UCDO is about to use up the proportion of the original capital grant that was allocated to housing. The Board will soon have to consider whether it will allow changes to these proportions in order to allow more loan capital to be allocated to housing loans. In the longer term, the UCDO can take one of two directions to increase resources for housing loans:

- They can accept more money from a commercial bank. The Government Housing Bank, for example, has offered 200 million Baht at 9 per cent. Low-income groups can then receive the infrastructure subsidy from the National Housing Authority which would then replace the interest rate subsidy.
- Alternatively, the UCDO can negotiate more subsidized housing loan finance at an interest rate of 3 per cent. This is difficult as such monies cannot be obtained from the market. But the communities can afford to repay these loans and therefore development could begin very quickly.

The UCDO has to decide which is the best strategy for increasing housing loans. More generally, the UCDO is now arguing for the US$ 2,000 infrastructure subsidy to be established as a fund and not given to the contractors. If the UCDO could access the subsidy on behalf of their client communities, they would not require further government support.

The UCDO has to struggle to achieve what it is trying to do. Most organizations are still working in the conventional top-down management style. A new paradigm and appropriate new skills need to be developed to support this. One of the problems is that the process has grown rapidly as money has become available but neither the UCDO workers nor the people are ready. Some of the groups are only organizing for money and some NGOs are concerned that there is too much money around.

The new institutional culture of working with people in a flexible way and creating together a broad people's process is apparently a new experience for all actors involved. A lot more learning and adjustment is needed to make it a more dynamic, participatory institution, working to establish a people's development process on a national scale.

SPARC, National Slum Dwellers Federation and Mahila Milan

Summary: SPARC, *Mahila Milan* and National Slum Dwellers Federation (NSDF) began working on savings and credit to assist low-income communities and to improve their options for shelter. The major thrust of this process is to explore ways to develop extensive and decentralized methods of loan delivery, and to use this process of community collectives undertaking savings and credit to mobilize more communities to participate in the ongoing struggle of the urban poor to obtain access to more resources.

Introduction

SPARC (the Society for the Promotion of Area Resource Centres) is a registered non-profit society which began work in 1984. It is an Indian NGO based in Bombay, working with communities to improve their homes, take control of what happens in their neighbourhoods and improve the employment opportunities available to poor people. Its name, the Society for the Protection of Area Resource Centres, derives from one of its founding objectives, "to establish area resource centres that serve the needs and priorities of local inhabitants (especially the poorest)." The main objective of the organization has been to strengthen organizations of the poor, to create an information base which helps them articulate their problems in order to create a basis for dialogue, planning and action with resource-rich institutions such as local authorities. Within this process, SPARC ensures that the strategies provide a clear space for women.

SPARC works closely with two other organizations, *Mahila Milan*, and the National Slum Dwellers Federation. The Federation predates SPARC by some ten years. It has members throughout cities in India and undertakes basic community organization and mobilization work with a focus on shelter and basic services. In 1985, the women pavement dwellers of central Bombay, through a process of discussion and dialogue, formed themselves into *Mahila Milan* (now a federation of women's collectives), and closely aligned with the National Slum Dwellers Federation.

India has a low level of urbanization but a large number of urban dwellers due to the size of the population. Whilst rural NGOs have been working on innovative models and programmes to address large scale poverty for many years, there has been relatively little similar work in urban areas. When SPARC started working with pavement dwellers in Bombay in 1984, there were few other organizations addressing issues of urban poverty, despite the 1.5 million people living in this situation. SPARC always considers its strategies from the perspective of their value to low-income communities all over the country.

In seeking to develop solutions appropriate to the scale of need, SPARC invested increasingly in its alliance with the Federation and *Mahila Milan*. Over the years, they have developed a particular style of working. Within NSDF and *Mahila Milan*, micro-communities with similar problems are encouraged to articulate their problems and work towards a viable solution. The alliance then identifies one community able to initiate a first actual pilot project that will explore possible solutions. This process includes all others and is evaluated and refined and shared while it is being undertaken. Those who participated in the first exploration have begun to help others facing similar problems. These first communities are the trainers, and through community exchanges and training sessions, the solution is spread to other communities within the Federation.

For example, one early problem identified through first contacts with the pavement dwellers was the lack of ration cards. Over time the women of one pavement community learnt how to obtain these cards and then demonstrated to other women what they had to do. SPARC's involvement was limited to the initial stages and included clarifying government regulations, supporting women to identify a successful strategy and giving them the confidence to carry it through.

The Federation has always placed a high priority on training. This strategy has helped to prevent the consolidation of power within a small number of dominant leaders. It has also ensured that there is a reproduction of leadership ready to undertake the increasing challenge of the educational process If the leaders feel under constant pressure to do too many things, then they are more likely to train others. This, more than anything else, is the reason why there are few core staff in the alliance. Everyone is forced to give up part of their work that is routine and "sharable" to someone else. The training operates through horizontal exchanges between communities at similar levels, with the learning being undertaken by one group observing how another group approaches the problem. Communities see other people tackling their own problems, and then have the chance to undertake the work alongside them. This exchange process now takes place at three levels: between settlements in the same city, between cities in India and internationally. Over the last ten years SPARC and the Federation have developed a very symbiotic relationship although the Federation is independent from SPARC and the organization is clearly "owned" by those living in the low-income settlements and not the middle-class professionals employed by the NGO. The Federation is 10 years older than SPARC. SPARC staff only attend Federation meetings by invitation. Both now recognize that they bring their own different ideas and issues to the process, although some things are difficult to resolve, for example, the interest rates charged to members taking loans from the collectives. For three and a half years, there was a disagreement about this issue. At the beginning, *Mahila Milan* collectives wanted loans to be given without interest because they saw the financial transaction as being "within the family". SPARC argued that interest was necessary and this position was eventually agreed by the Federation. Sometimes both sides agree to compromise. The Federation has the right to take its time to make informed choices, to develop consensus among its membership, to be comfortable with failure, to change its mind, or to abandon something it once passionately believed in.

The alliance started work in Bombay and is now operating in 21 cities throughout India. In each city, several local federations have been formed with groups being divided according to the ownership of the land on which they are squatting. (Therefore, for example, there will be one local federation for pavement dwellers, another for those living on land owned by the railway, another for those living on airport land.) Each local federation is divided into smaller groups based on the settlement in which its members are living. These groups are the ones that will, in time, become housing cooperatives in order to find an institutional form through which they can address their housing needs. In some settlements this process is already strong, in others it is much weaker.

A critical component of this process is that it engages city authorities and state government. It is a shared view of the alliance that the several levels of the State: local authorities, provincial and state governments and the national government, have to strengthen their roles as arbitrators of equity. Strategies for increasing access to communities in cities must have the full support of the state. This is especially crucial now when, under structural adjustment, government is shedding its many functions.

The alliance attempts to interact with government institutions with several aims in mind. First, to inform the state of the situation of the poor. This is often essential as statistics on the poor, the attitude of elite about the poor and knowledge of what the poor want is inaccurate. Secondly, the alliance recognizes that what communities articulate as their most essential requirements (i.e. water sanitation, secure shelter and other basic amenities) can all be resolved by the state. Therefore creating a legitimacy for organizations of the poor to negotiate for workable solutions is a challenge that has to be addressed all the time. Thirdly, the alliance believes that solutions which are sustainable must have the central participation of the poor (especially women) and therefore their strategies start with the identification of problems, developing solutions and negotiating for them, and include operational strategies to execute these solutions which involve communities of the poor.

Since such arrangements do not exist presently, many such initiatives are in place to create space for communities to develop a process, and they require engaging the various governmental institutions in an ongoing dialogue. One example of this approach is sanitation[1] where the women have actually designed and constructed toilet blocks and demonstrated to the municipalities the solutions that work for them, and now gradually cities are changing their procedures in order to award construction contracts to residents.

It is the development of such contacts, approaches and strategies that enables people to participate in every discussion that affects their lives. As the number of activities undertaken by the Federation and *Mahila Milan* has grown, so has the strength of the leadership. In the first few years, the organizations were very dependent on key individuals. Although this is not now the case and many activities are successfully supported by the local leadership, those key leaders continue to work within the alliance and use their skills and insights to develop new possible options for federations to explore.

1. See "Talking Toilets " SPARC internal document, 1996.

Unlike many other organizations in development, the alliance never talks about "moving out" of communities. Instead what it does is recede into the background as communities take charge and it gathers their experiences together to make them available to others. It is always available to any group which needs support for further negotiations in order to obtain additional resources. Such a structure is based on the assumption that problems are not static and all problems do not get 'solved', but rather that the process moves onto deeper and broader levels. Finally, the problems that communities face reflect larger societal norms and values about what mainstream social, economic and political environments find acceptable. These processes often affect poor groups adversely, and large federations and networks of the poor also need to address these issues. It should be recognized therefore that such interventions are not just for solving immediate problems of deprivation, but are also designed to intervene in crisis situations and then expand to include the larger issues.

The next few sections illustrate some of the processes and activities which form the "things" that the alliance does. These represent both means and ends within the alliance. They are ends in themselves because they provide important and immediate services to communities and, when institutionalized so that women's collective participation is central, they indicate to the members of the alliance, those seeking to join them, and external agencies seeking to interact with them, some immediate possible resources that federations can deliver. Such processes and activities are crucial means to empower communities to believe that they have choices, resources and the capacity to negotiate. They are also the means to expand the outreach of the federating process. Finally, they are the means to engage powerful mainstream institutions of the State and civil society and, gradually, the market in finding solutions which work for the poor and for the city.

The *Mahila Milan* Crisis Credit Scheme

Mahila Milan's primary concern is to obtain recognition for the role women play in creating survival strategies for families and communities in hostile environments and in building the credibility of their collectives within the community. Through training and support, *Mahila Milan* seeks to establish and strengthen a process that helps women to participate in both local and city issues, and to become involved in discussions about their own livelihoods and needs.

Savings and credit is the most effective and basic tool in the development strategy. The crisis credit scheme grew out of a collective exploration of the needs of women in the oldest collective in the Byculla area of Bombay. The process started with a crisis credit fund established from the small change that was available to most households. This process was initiated by *Mahila Milan* in Byculla[2] and is now a process that is available to all women's collectives linked with *Mahila Milan*. Women who are interested in taking

2. See "From a seed to a tree" by Sheela Patel and Celine D'Cruz in *Environment and Urbanization*, Vol.5, No.1, April, 1993.

part are drawn into the training process and shown how such crisis credit funds work in other communities. Within three months, most settlements are able to understand, agree and manage the rules and regulations to make the crisis credit fund operational.

There is a wide range of crises in low-income communities in which rapid access to emergency funds are needed. Some are medical or health-related, where a family needs to purchase medicine. If an income earner in the household is ill, the family may also need a loan to feed themselves. Other crises include loss of employment, money needed to travel to look for a job, money to start selling small quantities of foodstuffs in slums, or money to free goods seized by the local authorities because the person concerned was hawking in a "no hawking" zone. Once women begin to meet regularly to manage this money many ideas emerge, including the need to deal better with crises, for example, by providing emergency loans or helping with problems from the police, city administration and so on.

When *Mahila Milan* in Byculla began to explore shelter options, they worked out a number of things, including how much money they would need to put aside for a down payment for a loan towards their house. Since ongoing crises always ate into their attempts to save, the crisis savings scheme was seen as a mechanism to protect the housing savings.

The crisis loans and savings scheme began when everyone felt that they would be better off if they saved a little together - by saving small amounts such as 1-2 Rupees (equivalent to 3-6 US cents) on a regular basis, a fund would develop and, when anyone had a problem, they could have access to the money needed, repaying the fund at a later date. In the first scheme in Byculla, most members were illiterate, therefore oral and memory processes and symbols were used. *Mahila Milan* provides each woman with a plastic bag. This bag contains coloured squares of paper, for instance pink represents Rs.1, yellow Rs.2, green Rs.5. So when she saves Rs.10, her bag will have two green bits of paper. All the bags from each cluster are stored in a larger black bag. Representatives from each area collect money every day from various people and bring it to the Byculla office where others, also nominated by the group, keep the money and put the paper bits in the bags. With the SPARC representatives' help, a register is maintained. Gradually, a literate person from *Mahila Milan* has begun to maintain this system.

Each member of the savings scheme joins a small group of about 15 households. These households nominate one woman from their number to become a member of the "loan committee" for that settlement. Her task is to collect the money and the repayments from the 15 households and to vouch for any loan requests. The committee appoints three people who are in charge of the cash and who maintain records, conduct meetings and undertake other specific responsibilities. The committee also decides on the rules and regulations for the fund.

Such a scheme cannot meet the need for larger amounts of capital and for credit (for instance, for purchasing land or building or upgrading a shelter). However, the capital raised by the crisis credit scheme meets immediate needs for cash. More importantly, the women gain skills and confidence from handling cash transactions and interaction between community members increases. Using the experience and structures developed by this process, external credit can be managed more knowledgeably and more efficiently. The women have simultaneously been encouraged to have bank savings accounts for their housing. By creating this crisis credit scheme, the group has also developed an indirect mechanism which ensures that women don't deplete their housing savings.

Although groups have been given freedom to modify the model, nine out of ten groups end up with similar rules within six months of beginning the fund. In a number of federations, both in Bombay and in other cities, there are many variations within this same process. But many aspects of the savings schemes are now standard practice. *Mahila Milan* trains women to set up crisis credit schemes which run on their own resources. They also help women by ensuring that all those who wish to participate in any form of shelter upgrading demonstrate this by opening an account in a bank and putting money aside. *Mahila Milan* introduces the account holder, assists in filling in payment slips and keeps account of how much money has been saved.

The groups of women who initiated this process have, since 1987, assisted many other groups of women like themselves in Bombay and other Indian cities to initiate such savings programmes. This has created not only money managers but also trainers who come from poor communities. As the habit of saving developed and as the amount of savings grew, money was available for productive purposes and could be lent out for many informal sector activities. Vegetable and fruit-vending, rag-picking, carpet repair, garbage recycling and small provisions stores are some of the common occupations of the urban poor. Once again, rates of interest, terms and conditions of repayment and evaluation of the viability of the proposed micro-enterprise as well as the creditworthiness of the borrower were all issues to be decided on by the women themselves. Here also, experience showed an almost 100 per cent rate of repayment and this practice spread over time to different areas of Bombay as well as to other cities.

Although most of the women are illiterate, they have very good oral memories. Through working with school children, the treasurers learn enough to be able to keep written records of savings and loans. The savings groups and their treasurers are all members of *Mahila Milan*. Most Federations have a central meeting place which is called the community resource centre and here most financial transactions take place with savings being deposited and loans collected. Audits are now being completed on some of the small savings groups. The savings information has been computerized so this analysis is relatively quick and easy. The record-keeping took some time to perfect. At the beginning, the software that was used was not very helpful. The process only really became established when special software was developed. Only aggregate figures for the community are recorded, not information about the many informal processes and transactions that also take place.

As the demand for loans for income-generation activities expanded, the alliance sought to obtain loan funds that were available to NGOs. One such credit line (the first one that was explored) was *Rashtriya Mahila Kosh*. This is a fund of Rs. 350 million created by the Government of India and managed by an independent staff within the Ministry of Women and Children. The Fund provides loan capital to NGOs and people's federations after scrutiny of past savings and credit management within the communities. It now lends money, via SPARC's bank account, to *Mahila Milan* members. The alliance is charged an annual interest rate of 8 per cent while the members taking loans pay 24 per cent; half of which is interest charged and half of which is compulsory savings. These savings are pooled locally and are used by groups to finance larger consumption loans which *Rashtriya Mahila Kosh* funds cannot be used for. Some groups also use these monies as a collective insurance against individual non-repayment due to death or another sudden crisis. From one small initiative in a single community in Byculla, a strategy to assist low-income women has now grown into something that operates throughout the country.

All groups manage all their own crisis credit funds. Only the accounts and records of these activities are consolidated. Loans which are given from external sources are processed by each local group who are also responsible for the repayments. The repayment amount is put into a designated bank account and details of repayments are also consolidated. These are computerized and now data is available at a number of different levels: for the individual borrower, the community, and the federation. The repayments due to external credit sources are transferred into the bank account in Bombay. What this system allows the alliance to do is to ensure that community collectives retain control over their own processes, (for example, processing loan applications and ensuring repayments). At the same time, the computerization provides the consolidation of information essential for getting credit lines, negotiating for interest rates, and undertaking audits. It also provides a range of early warning systems for problems such as defaults, and allows a new understanding of how loans are taken and repaid; and a new series of insights about loans and credit is now available to local groups and the alliance. Audits are now being completed on some of the small savings groups.

The process is now working in many cities outside Bombay and operates on the same principles. Older and more experienced groups are often called upon to solve problems, or arbitrate difference of opinions for less experienced savings groups.

Housing, Savings and Housing Finance

Housing is critical for the urban poor; an urban address is the basis of asset accumulation for those living in the city. Over a period of 20 years, the pavement dwellers invest the equivalent of a mortgage on a small apartment in repairing their pavement dwellings. Unable to obtain credit, their expenditure is wasted and, at the end of the 20 years, they are left with nothing more than when they started.

Housing and the need to raise money for housing investment, were the original motivations for establishing savings. The housing savings strategy works on the principal that all communities need to create sufficient flexibility in their monthly expenditure to put aside a regular sum of money. This sum initially helps to accumulate the deposit needed for the house. Later the sum contributes to the repayments of the loans that have been taken. These housing savings are placed in the bank at an early stage, and this has helped develop linkages with a large number of banks who now treat the alliance as important clients to whom they may consider lending money for house construction.[3] However it is a tragedy of the present housing delivery in India that access to land is unrelated to community preparedness to seek shelter. Instead, groups that are not ready may get land tenure, and their inability to successfully manage this process is then used by government agencies as evidence of the ineffectiveness of this strategy.

The alliance has now identified the minimum requirements essential for a solution to the shelter needs of the poorest groups in the city. The state has to provide land, the municipal government has to provide infrastructure and the people will build houses financed by savings and loan capital. It has been demonstrated that this solution can work for the poorest one third of the population in any given settlement that is in need of housing. SPARC's earliest work was with pavement dwellers, and this starting point has had a critical influence on the developments that have followed. In particular, it has been important in ensuring that the solutions that are developed are relevant to some of the poorest groups. The loan capital is used to pay for building materials and skilled workers. Anyone earning less than the minimum wage has an option to work on the site, thereby receiving an income and improving their skills through construction training. Through this strategy, the poorer members of the settlements can also afford to participate.

At the same time as the savings and credit groups flourished, the problem of secure shelter continued to be addressed by both *Mahila Milan* and the Federation. In 1987, the pavement dwellers of Byculla put on a house model exhibition which attracted the attention of government officials, the media and the residents from low-income settlements all over Bombay. The exhibition was comprised of four life-size models of houses, each costing a different amount. Each model had emerged from discussions among women to reconcile their paying capacity, their access to building materials, technology and possible state support. For the first time, communities were able to tangibly link realistic options to actual cost and lifestyles; and they had a process which began with an aspiration or a dream and then moved into the practical steps which led to that house. All knew well that understanding was the easiest part and the getting of land tenure from the state the hardest part. A housing savings movement was launched as people began to realise that if they secured land, then finance and other resources would

3. In 1986, a national housing bank was established, and the reserve bank of India allowed financial institutions and Banks to set up special Housing Finance Institutions to do retail lending. This process has many problems, but provision now exists at least on paper.

be needed. This movement achieved several objectives: it brought more federations together to demand land tenure and it articulated a vigorous belief that people could manage and execute their own development; and the delay, instead of killing the mobilization, just added more and more communities to this process.

Two kinds of shelter-related financial assistance emerged from these explorations. One was to finance incremental housing for houses that were already well consolidated and secure. Such loans would be given to individual members by the collective along the same lines as income-generation loans. Amounts of up to Rs. 7,000 would come from credit lines especially developed for these purposes. The second type of financial assistance would be loans made to proposed cooperatives who would reconstruct or build new housing. In such cases, between 50 to 150 households would seek collective funds as a cooperative, using (formally or informally) the credibility of the alliance to obtain the housing loans.

To date, very few communities have obtained secure land tenure and the experience of the alliance is presently based on finance for 700 households. As an initial step, three different housing cooperatives were able to obtain allotted land at Dharavi, Mankhurd and Dindoshi in Bombay. In all these cases, loans were arranged from the Housing and Urban Development Corporation (HUDCO), a public sector undertaking, or Housing Development Finance Corporation (HDFC), a private housing finance company. The three cooperatives, Markhandeya Cooperative Housing Society, Adarsh Nagar Cooperative Housing Society and Jan Kalyan Cooperative Housing Society, are all members of the Bombay Slum Dwellers Federation. Box 2 describes the initiative of Markhandeya.

The main sources of formal sector housing finance in India are HDFC and HUDCO. Although these companies receive subsidies and credit on soft terms through bilateral development assistance, they have not been successful in addressing the needs of low-income communities to obtain housing finance. When SPARC first started working with HUDCO they realized that every rule and regulation needed to be changed for them to be able to deliver housing finance to low-income people.

However, this experience has been valuable is demonstrating to SPARC how impossible this situation is and how it cannot be a basis for significantly increasing the scale of housing finance for low-income communities. SPARC are now in further discussions to obtain a credit line for housing. In these negotiations they are insisting that finance is lent directly to the communities. SPARC are also investigating other sources of housing finance including state and municipal funds. State housing boards are generously financed but they have not proved to be effective in generating housing stock from this funding. In fact the irony is that within the stipulated amounts identified as Housing for EWS (economically weaker sections) state agencies cannot deliver housing; not even if they spend double these amounts. Whilst the federation can deliver housing within these cost constraints, its membership has no land on which to construct the houses.

Box 2: Markhandeya Housing Cooperative

The Markhandeya Housing Cooperative is located in Dharavi, a major low-income settlement in Bombay. The cooperative planned to build 94 dwellings. The federal government's Housing and Urban Development Corporation (HUDCO) agreed to provide about 65 per cent of the total finance required (Rs. 5-7 million or £100,000-140,000). About 20 per cent is being paid directly by residents and the rest by a government grant. This loan was unusual in 1988 since HUDCO did not normally provide direct finance to cooperatives of slum dwellers. The Bombay Municipal Corporation owns the land. Delays in approving the lease resulted in SPARC having to raise guarantee finance from a Northern NGO for HUDCO to sanction the loan. The loan has an annual interest rate of 11.5 per cent and is repayable over 20 years.

The land was only made available after the Federation agreed to develop a four storey apartment block. The house design has been developed by residents to reduce the risk of gentrification (i.e. of house prices being pushed up by the entry of middle- and upper-income households in the area's housing market). The ceiling height is 14 feet which allows for a mezzanine level to be constructed over a portion of the area. The plan involves a ground floor area of 180 square feet, a mezzanine of 120 square feet and a balcony or porch of about 20 square feet. A small washing area is included. Neither running water nor toilets are provided within the apartment. There is one toilet provided for every four households, with communal water supplies. A community hall has been constructed on the top floor of the block to provide some common facilities.

The cooperative was formed in 1989 and the loan was agreed in 1990. Dealing with government agencies such as the Bombay Municipal Corporation and HUDCO has proved slow and difficult. There have been significant delays and a building project that should have taken two to three years is still not finished. By 1995, only the ground and first two storeys of the basic structure were complete. The most serious result of this delay has been a significant increase in costs. From an original estimate of Rs. 35,000 (£693) per household, the current cost is now estimated between Rs. 65-80,000 (£1,287-1,584). There are several reasons for the rise in costs. First, building processes have been designed for government agencies. The communities and the agencies working with them were not fully aware of the length of time and the cost of securing all the building consents that are required (75 in total!). Secondly, the high-rise block has offered very few opportunities for the community itself to become involved in any part of the construction work. The cooperative has therefore been dependent on construction companies and skilled workers. The remaining costs are accounted for by the rapid inflation in building materials and construction costs in Bombay during recent years.

The full implications of the price increase for members of the Housing Cooperative are not yet evident. It is likely that some members, maybe as many as 20 per cent, will no longer be able to afford the cost. They will sell their units back to the cooperative for their market value and the cooperative will sell them to others (mainly the extended families of existing members). While the ex-members will benefit from the capital they receive, the lack of affordability of the housing units is regarded by SPARC and the Federation as a failure. Their experience suggests that the households who leave the cooperative will find it difficult to maintain the value of the capital they receive and they will not be able to use it to provide what they need, namely secure housing. Instead, they must start again to form a cooperative and look for an alternative site, further from the city where it is possible to build using low-cost designs and technology.

The formal financial institutions want the poor to adopt formal financial systems with loan structures similar to those used by higher-income groups, e.g. repayment schedules. SPARC's present experience is somewhat limited and they are still seeking a better understanding of what can be done. A number of things have already emerged from initial experiences with housing finance. In any one given month, 20-30 per cent of people cannot make their repayments. If allowed the space to be flexible, communities find a way to work with most regulations. When SPARC first insisted on regular repayments these were managed by the communities through households swapping repayments. SPARC have now understood more about these processes and have started to encourage such strategies. Financial management within the Federation allows communities that are saving for housing to swap finance between branches of the Federation if the trust between the two parties is sufficient and the will is there. Risk management, coping with delays, paying the price of precedent setting and managing options other than the one presently found acceptable by upper income groups are essential in developing standard practices which work for the poor. Presently these risks have come up unplanned and the alliance pays a very high price financially and organizationally to absorb these. However they seem to be a necessary and critical part in institutionalization of housing options which work for the poor.

The Role of Housing Finance within a Comprehensive Development Strategy

Local residents see the acquisition of these financial management skills as essential to the process of housing development. There is little point in negotiating for land if the communities do not have the resources necessary to develop the land. The issue of land tenure is critical but there is also a need for communities to be ready to respond with strategies for residential development as soon as tenure is obtained.

Public agencies are increasingly willing to negotiate around land issues. (It is essential to state here that while there has been readiness to engage in dialogue few cooperatives have received land so far, and many groups all over the country are still developing a process.) The Federation's demand is for tenure to be offered with a minimum lease of 35 years. The households are all members of the cooperative and they are only given property rights over the physical structure. Ownership of the land remains with the cooperative.

Negotiations around land issues operate at different levels and while some are formal others are experimentally informal. This can be illustrated by a recent agreement between the Federation of Slum Dwellers living on railway land and the railway administration. Land has been allocated to those squatting on it in return for their moving back from the railway lines. If a bigger margin of land is left vacant on either side of the tracks, the railway administration saves money because the trains can go faster and therefore the administration does not have to purchase additional rolling stock, nor does it have to rebuild stations that are burnt down by frustrated commuters. Those communities residing between 5 feet to 30 feet from the railway track have agreed to move back beyond thirty feet, and to contribute the human resources to construct a wall in return for voluntary resettlement. This way communities have issues of safety and security assured and the railways can speed up their trains and thus have a train every three minutes instead of every four minutes.[4]

Through the process of savings and credit, the women's role has increasingly become recognised by the men. The financial management skills they have acquired and the increased access to financial resources have changed the role of women within the community and increased their status.

Savings originally kept aside in Banks and surpluses generated from group savings have begun to develop. Communities and federations now knowledgeable about interest rates, have become aware that interest rates provided by the banks to individual savings don't keep their money at inflation levels, and they want SPARC to invest their money to get better returns. This, coupled with the responsibility for channelling credit lines, troubles SPARC as its organizational structure is not designed to deliver services. However it has always agreed to accommodate the initial arrangements of new strategies within its legal structure because of its basic commitment to develop institutional arrangements which work for the poor. The alliance is now exploring the setting up of non-profit companies to manage savings, construction and the delivery of credit.

These and other such developments make the alliance an important player in the government's attempt to develop a policy for sheltering the poor. While the solutions look good in theory, the process is alien and uncomfortable and breaks all conventional wisdom and rules and regulations, so the role of the alliance is crucial for communities, and the process of education within the alliance and with others with whom they negotiate continues. In fact SPARC now spends more time in developing strategies to manage this process, leaving internal community mobilization and education more and more to *Mahila Milan* and NSDF.

Relations with Politicians and Other NGOs

The alliance sees its internal relationship-management as the most vital. For this it pays a very heavy price, but gains tremendous strength. Having created a genuine educational process within the alliance, discussions choosing options and planning strategy continue to engage everyone and while this happens communities and alliance leadership learn about negotiation, arbitration, managing stress and tension and dealing with a divergence of opinion. SPARC representatives, while being partners, fully voice their concerns and reservations when an activity emerges from the community, and so do community leaders when a suggestion is made by SPARC. There may be debate between cities or intra-city federations. In a sense all this process contributes substantially to dialogue with actors from outside the alliance.

Politicians and political parties, whichever side of the divide they are on, have, in the

4. See "Beyond the beaten track....", a video made by SPARC, 1995.

minds of the poor, always "used" the poor and delivered them every little. Relationships with local politicians can be difficult and because of past performance, there is little faith in what politicians can be expected to deliver. Federation members can join whatever party they prefer but the experience of the Federation leadership is that party politics has not helped the poor. As a result the Federation and the alliance do not align themselves with any parties. Federation members can stand for election but cannot also hold positions within the Federation. Federation leaders are encouraged to explore membership in any party of their choice and are assisted to develop an agenda for action for the poor within their party.

Similarly, relations with other NGOs are also difficult because there is a tradition in India of only one urban NGO "adopting" or working in each specific community. The Federation believes that, at such a level, the poor can only get some of the required services but can not take on issues of land and basic amenities. The Federation is now very strong and some NGOs feel threatened if some members of the settlements in which they are working also wish to belong to the Federation. With SPARC as a part of the alliance it is often construed by an NGO that SPARC have "stolen" the community from them! SPARC have tried to persuade NGOs to see this as an opportunity for collaboration with the Federation but this strategy has not been successful with the older generation of NGOs, although some of the younger NGOs are more responsive. In previous years the Federation did have had some links with other NGOs but the NGO often wished to dominate the process. When the Federation starts work in a new city, SPARC contacts the local NGOs and encourages them to become involved. This strategy has so far not been successful. SPARC have maintained an office in Bombay and there are many opportunities for other NGOs to become involved but in general experience of this has been problematic.

Looking Forward

In India, cities are in intense competition with each other and also with cities in the Asian region to obtain international investment capital and they have realized that good infrastructure and other aspects of the management of a good quality of life in the city are important to obtaining such investment. Such a situation creates space for cities to have dialogue with poor to find a mutually beneficial solution. Federations are increasingly facing the challenge of adapting their successful micro-level skills and capacity to an urban and regional level and, more importantly, to do it in a way that allows the local communities to maintain control over the process.

SPARC have never attempted to build a development model that is financially sustainable in only the narrowest sense, requiring no external resources. A more important question for them is whether or not the process is developing and can therefore attract resources. However, costs are kept to a minimum and there has always been a strong emphasis on voluntary contribution. There is a small core of 35 to 40 people who work full-time for the Federation and who are compensated for the time they are absent from work. All other leadership positions are filled on a voluntary basis.

The development model that the alliance have evolved is vulnerable for three reasons. First, the entire process depends on trust. It works because Federation members trust each other to behave in the interests of the collective good. Secondly, to date the process has been very decentralized and this has been critical to innovation and adaptation. An important question is whether or not the decentralized activities can be maintained as the process grows? Thirdly, there is a delicate balance to be maintained in the relationship with the state. The state would like to absorb SPARC through having all its activities focused on state initiatives. Few institutions have a cooperative relationship with the state, most either becoming sub-contractors for the state or entering into conflict with them. SPARC and the Federation are now providing new and interesting alternatives for the state. However, they also need to maintain their distance.

A common question asked to the alliance is "how sustainable is this Federation model?" The answer is tentative and partial. First, SPARC and the alliance have developed institutional arrangements to support whatever they believe to be a working strategy for the poor. These strategies are not based on self-help alone but on their collective ability to renegotiate with society at large and with governments about what resources poor communities must have access to in order to maintain basic equity in the city. Rather than debate on how strong or how fragile each strategy is, the alliance tends to view this process as one which will have to stand the test of durability within the larger social, political and economic transformation that is occurring both globally and locally. What it represents is an efficient, fairly self-sustained system of strategies and capacities for organizing disenfranchised and isolated groups of the poor and creating from among them groups within civil society which can articulate demands, suggest solutions, and participate in and manage the long-term execution of these solutions. Ultimately, these processes have to be accepted within mainstream structures. How or when that will occur depends on how others view the alliance and its achievements, and whether it is seen as a threat or a potential allay.

Coordination Committee for Social Policies

Summary: A number of different activities have ensured that local community organizations have been able to obtain and use municipal funds in the city of Cordoba, Argentina. This report describes both a city coordination committee and a local loan management programme.

Background

The city of Cordoba has an evident and growing problem with inadequate living conditions. The city presently identifies 107 'slum' settlements within its boundaries. In 1992, 55,000 people (or 5 per cent of the total city population) were living in these areas. By 1994, this figure had increased to 72,000 or 7 per cent of the city population. In the last 12 years, three times more such settlements have been established than have been improved by the city authorities.

The multi-sector Coordination Committee for Social Policies was initiated in 1992 to address these problems. It was established to ensure that the municipal authority supported a process of providing resources to grassroots communities and organizations, and provided these resources in such a way as to enable them to be useful. Central to this process is the acknowledgement that the direct involvement of the local people's organizations is critical to effective policies.

The establishment of the Committee for Social Policies was the result of over a decade of NGO activity in Cordoba. Much of this activity has been related to the greater recognition of citizen rights for those living in the low-income settlements. Through an active involvement with many of the popular urban social movements, the emphasis of these NGOs has moved from social problems to social rights and then to social conflict. Their contacts with the community organizations have increased. In their interaction with government, greater stress was placed on the main responsibility of the state being to guarantee access to citizenship rights for all those living in the city, including the urban poor. With respect to state participation in the Committee, one important factor was their experience of working with the NGOs. A second important factor was the new provincial state reform programme which supported a process of decentralization.

Four groups participate in the Committee: the provincial government, the municipal government, the federation of community organizations for social rights, and NGOs. The provincial government is represented by a minister (chair of the Committee), a secretary and a deputy secretary. The municipality has two members, the NGOs four members and the network of community organizations (with a membership of 103 organizations) has six members. The decree under which the committee is operational says that there are four votes, one for each of the participating sectors. But when the grassroots organizations (and NGOs) do not agree with the decision they take their protest to the streets.

Committee Activities

The function of the Committee is to agree a budget for social expenditure which is allocated according to the priorities established by the Committee.

This experience with innovative programming of the municipal budget began in 1992 and in that year the amount allocated by the Committee was just US$ 0.5 million. By 1994 this had grown to US$ 6.0 million. Four per cent of the total municipal social budget is now allocated by the Coordination Committee for Social Policies. These funds are provided initially by the state government. Despite these funds, it was not until 1994 that the institutional decree under which the Committee operates was signed by the provincial government.

Within the committee, there is a multi-sectoral sub-committee to negotiate the terms and conditions of the expenditure. The first stage is a broad discussion about the principles behind effective urban policies, and this is followed by an agreement on what annual budget can be allocated for the forthcoming financial year. The third step is consideration of new issues and programmes to tackle in the forthcoming year. Community organizations are encouraged to participate in these debates as a part of the negotiation and to draw them into decision making on the allocation of public funds.

Once the broad principles have been revisited and the new issues and ideas discussed, the annual budget is reviewed and the allocation finalized according to the projects and programmes that have been prioritized. This funding is provided by the provincial and municipal government.

Once the Committee's proposals have been agreed, the grassroots organizations implement the projects. For those parts of the programme that are to be implemented by state agencies, there are discussions about the participation and consultation process for local residents. Much of the finance is allocated directly to the community organizations which are then responsible for implementing the activities agreed in the budget allocation. A training process for community leaders enables the members of these organizations to gain the skills they need to manage these resources.

Within this annual process, there is an opportunity to present and discuss programmes and projects to those responsible for evaluating new ideas and allocating the finances. The evaluation committee includes community leaders with technical support being provided by both an NGO and the local authority. A second set of considerations are those specifically related to the operation of the projects. At every level there is an attempt to have a decentralized implementation with joint control over the financial resources. One important aspect of the programme is the possibility that the Committee could offer project funds directly to local community organizations. These groups then manage and supervise state expenditure within some of the neighbourhoods.

Once the programme has been discussed and reviewed within the Commission, the NGOs and community organizations represented on the Committee, there is a chance to present it to the municipal authority and negotiate this budget with the city's elected officials.

Impacts

The impacts of this activity can be seen in a number of different areas. Just under 2,000 households in 28 community organizations have been given access to land under a collective land title. Legal land tenure has also been granted to a further 13 community-based organizations (involving 1,250 households). Twenty nine community organizations have been involved in improving road layouts and 20 community halls have been constructed in different parts of the city. Just over 1,000 households have benefited from new housing and a similar number have received funds for housing improvements. In total, there have been 213 projects concerned with the improvement of local residential areas involving 16,500 households and costing about US$ 10.5 million.

Further investments have been made in health and education with a range of additional services including nutritional supplements and training for primary health-care providers. State support has also been extended to residents' associations with training in aspects of organizational development including a special programme for the leadership in newly-formed community organizations.

Twenty per cent of the funds available for housing projects with the municipality have now been allocated to low-income neighbourhoods, and the commission recently obtained *an extension of Law number 8121*, permitting a free title deed for plots of land that are used in social projects.

During the four years in which this programme has been operational, there have been some evident benefits. As described above, living conditions for thousands of those living in the poorest settlements have improved. The urban social movement in Cordoba has been strengthened. One evident aspect is that the different local organizations work more effectively together despite considerable heterogeneity. For those organizations and NGOs that participate in the Commission, there has been a considerable process of learning how to effectively engage with state institutions.

Involvement in the Commission and the work that it has supported has resulted in the strengthening of both the collective movement and its own internal democracy. Each week there is a meeting with delegates from the 103 community organizations who are members of the network from neighbourhoods around the city. To facilitate the operation of this network, the city has divided into nine regions, and an executive board of six members represents the movement. Training in organizational development and local management has been provided to 64 community organizations.

Within the network, working commissions have been established to deal with specialist areas such as health, housing, child centres and internal issues such as representation.

The NGOs involved in the Committee provide technical and social assistance to the network and its members both in the implementation of specific projects and in the development of policies and strategies that favour the community organizations.

The Use of Loan Finance

Some of the funds given for housing projects by the Committee were offered to the community organizations as grants but the urban social movement in Cordoba decided to turn them into credits. For example, one community cooperative with 485 members, called 12 January, received finance totalling US$ 100,000 for two projects to improve housing. They offered their members access to loans of either US$ 1,500 or US$ 2,000 depending on the level of need. The loans were for nine months (with monthly repayment) and the repayments included an interest rate charge of equivalent to about 6 per cent a year. This cooperative includes households with a higher income than that of the typical squatter. The average monthly income is US$400, compared to an average in that area of about US$ 220. (The minimum monthly expenditure budget has been estimated to be US$ 900.)

This use of loan finance had been strengthened by some local experiences with a loan fund between 1991-5. This programme 'Promoting Fund Management' enabled 12 community organizations to access loan finance for the 1,700 households who were their members. Each household was able apply to a committee for a loan of up to US$ 2,500. Applications were made by the community organizations to the loan committee for land purchase, infrastructure or service improvements and housing. Once granted, the loan had to be repaid within eight months at a 12 per cent annual interest rate (on the balance) and 60 day's grace prior to the first instalment. Training workshops in accountancy assisted in the local management of the loan funds and repayments. Each group decided on their own rules. Initial amounts, interest rates, loan periods and penalties all differ from each other.

During this period, the total amount of loan capital rose to US$ 50,000 and it was repaid more than once. Although the community organizations were closely involved in this project, there was a continuing reluctance to borrow money from the fund. Perhaps due both to the recent economic experience of hyper-inflation and a continuing belief that the state should provide subsidies for the development of low-income residential areas. However, by the end of this period, 1,521 households had received loan finance, about 90 per cent of those eligible. The bureaucracy was as limited as possible and, if the application was approved, loans could be issued ten days after the application had first been made. Seventy two per cent of the loans were used for the construction of housing and 28 per cent for community facilities and the legal costs related to securing a title to the land.

Only a very few subsidies have been transferred from grants to credits although there is now a growing interest in such strategies and programmes. In many of the experiences to date, it has been the better-off households within the low-income communities that have benefited. So far, the private sector has not been directly involved in local community initiatives.

FedeVivienda and Housing Programmes

Summary: FedeVivienda has sought to change housing policies in Colombia for the benefit of the homeless or those inadequately housed. In addition to campaigning and advocating change, it has also become involved in housing loan programmes in order to demonstrate an alternative strategy for delivering effective housing support to the poor.

Background

Colombia is a country with evident housing need. Institutionally, there are 11 corporations dealing with housing loans and 110 financial credit unions. Expenditure on housing subsidies (mainly targeted at the formal sector) equals US$ 100 million annually. Over half the labour force (55 per cent) works in the informal sector. The minimum formal sector salary is US$ 147 per month.

FedeVivienda is a federation of civil society organizations working on housing issues. The organization was initiated in the mid-1980s, when its founding members were three housing cooperatives (two of which worked specifically with teachers), six NGOs and 11 community-based organizations. The members formed a general assembly which elects the board. The board is then responsible for appointing a professional team to undertake the work that is required.

At present, there are 22 staff members to coordinate and promote the work of the Federation. The major reason for its formation was to support and extend a political space for the promotion of housing activity. The Federation participates in a number of other fora including the Urban and Housing Council and the Institute of Housing, it is also a member of the Strategic Planning Council for the city of Bogota. Some years ago, it was agreed to establish separate activities in three regions and at least two other cities. Annual costs for FedeVivienda during the last year were about US$ 500,000. About 60 per cent of this is provided through the membership and the rest is raised from international development assistance agencies.

The political relationships of the Federation are very complex. It has alliances with three other NGOs (one Jesuit organization focusing primarily on research, another that works mainly with micro-enterprises, and a third in the field of income generation). FedeVivienda has also developed several associate organizations to undertake specific activities in a number of different fields. One such organization will facilitate negotiations with government, a second will leverage finance, a third will offer specific support to housing cooperatives, a fourth is a building materials wholesaler, a fifth undertakes activities related to the planning of meetings and conferences, and the sixth is an organization providing a local e-mail connection for the NGO sector. The Federation has also formed alliances with many of the major regional cooperatives.

Housing and Housing Finance

A very brief summary of the condition of the housing stock in Colombia is that there are about 3 million houses in adequate condition and a further 3-4 million with conditions that are inadequate. The present housing deficit is estimated to be between 0.7 to 1.4 million dwellings. It is very hard to obtain clear information about the housing situation. Since 1850, the government has built about 8,000 houses each year. In general, people build incrementally, developing and improving their homes in response to their needs and available resources. In a relatively stable economic situation, most people can acquire the resources they need. In a more difficult economic climate, there are considerable numbers living in sub-standard accommodation and able to do little to improve this situation.

When FedeVivienda was established, the organization decided to focus on housing and resources. They tried to identify the most effective tools and strategies to improve access to land and planning procedures. They became involved in influencing the content of a new law for housing. At the same time, the government decided to end its programme of direct housing construction and start a new programme which provided direct subsidies for those in need of housing support. Whatever reservations it might have had, FedeVivienda could only respond to the wishes of its membership and it was evident that the people wanted subsidies. At the beginning of this programme, large numbers of subsidies were provided for housing associations. The design of the subsidy programme was very strongly rooted in the NGO approach and the programme was partially designed to provide finance for the housing construction projects that NGOs were undertaking. This focus for the programme did not fit in well with the emphasis of much grassroots activity. In general, most housing investment undertaken by the lowest income groups is improvement, not new-build, and it was in this area that additional financial support was required.

In response to rising levels of frustration with the inadequacy of government programmes, FedeVivienda decided that their role would be most effective if they illustrated an alternative strategy. Their links with the credit unions meant that they did not have to be directly involved in managing loan finance. Having raised a capital sum from a northern NGO, they deposited it with the credit union, thereby leveraging additional finance equal to five times the original amount of money. Under the rules of the credit union, in order to obtain a loan, households have to contribute some of their own savings, thereby further adding to the total amount of investment finance. It was hoped that not only would this strategy demonstrate to the government an alternative and more effective mechanism of support for low-income households, but also that the loan fund would be entitled to receive subsidy finance for those households that were participating in the programme. Box 3 describes the programme in more detail.

FedeVivienda raised US$ 100,000 from a northern donor and deposited this money in an account with Cupocrédito, a savings and loan cooperative. In 1990, when the fund was first established there were 30 loans. This rose to about 400 loans in 1992. As the subsidy programme grew in scale, many households opted for a direct subsidy and the demand for loan finance fell. Only about 200 housing loans were granted for each of the next two years. However, in 1995 the number of loans grew once more to 350. This increase reflects the scale of demand for subsidy finance and the consequent large delays that are emerging in the release of these funds. Since the fund has been established, loan finance of over US $ 2 million has been authorized.

Box 3: Terms and conditions of loan finance

Individuals participating in FedeVivienda's housing loan programme can receive up to eight times the amount they have saved with the credit union. These loans have to be repaid over four years. The loan finance is guaranteed through small group guarantees of three or four families. Another form of security is the technical support staff who are responsible for checking the income estimates given on the application form.

To be eligible for a loan, households have to meet the normal savings requirement for the credit union of at least US$ 5 each month. The savings period prior to a loan application being made is only one month. Households which earn less than four times the monthly minimum wage can apply for loan finance and the maximum amount that can be borrowed is determined by their income. Their monthly repayments should not exceed 30 per cent of their monthly income. In practice, most households participating in the programme receive a loan of about US $ 2,000.

The current rate of interest is 33 per cent (this is the same for all loans from the credit union). Inflation in Colombia is about 20 per cent at present. Interest is also paid on savings in the credit union but generally this is only equivalent to the inflation rate.

Savings and repayments by communities participating in the programme are also credited to this account. Using this money as a guarantee, the credit union is prepared to advance up to four times the total amount deposited to communities participating in the programme. The credit union also pays FedeVivienda interest on the amount deposited. Twenty-five per cent of the interest is used by FedeVivienda to contribute to its own associated costs. The remaining 75 per cent is returned to the account and has added to the capital.

Technical assistance for housing construction is provided by a number of NGOs including FedeVivienda.

Looking Forward

The government and the NGOs are presently in discussion about what to do next. In theory, the subsidy programme is a success and many households are satisfied with this kind of government support. In practice, the total amount of money going to subsidies is very small when compared to the scale of need. FedeVivienda has estimated that the total investment in housing activities undertaken by its members is probably equal to about one quarter of the finance provided by the government for the subsidy programme (US$ 100 million). A further problem is that much of the finance is allocated in return for political favours, thereby strengthening traditional clientalist relations and doing little to strengthen local institutions and community organizations.

About 50,000 households can be supported each year through the housing subsidy programme. To be entitled to apply for subsidy finance, the household must have an income of less than four minimum salaries and not have a house. The private sector was very involved at the start of the programme but now the government is redirecting the programme towards those with two minimum salaries or less and private sector housing developments are not affordable for this group. There are now some 160,000 people who are waiting for subsidy finance.

In order to improve the allocation of these funds, municipalities have been requested to support the programme implementation and particularly identify priority areas for subsidy support. Municipalities now have to allocate part of their budget to the housing subsidy programme. FedeVivienda has also suggested that the national budget for infrastructure and service improvement also be devolved to the municipalities. NGOs (in general) wish to continue with housing improvement programmes and many have strengthened their local contacts and networks.. In order for the NGO experience and skills to be used most effectively, there is a need to strengthen the capacity of the municipalities. Whilst a significant process of decentralization is ongoing, there is still much work remaining. For many years, politicians simply used housing to buy votes. Now, however, increasing national resources are being allocated to local expenditure budgets; 55 per cent of national government funds are currently being spent by municipal authorities. Members of community-based organizations are now standing for municipal elections. In several towns, the municipality has been willing to provide land and services, and local people have provided the rest of the finance.

FedeVivienda are increasingly involved with the planning and budgetary processes of central government in order to obtain more effective policies and strategies. In their direct support to their members, they have continued with strategies to leverage additional finance. No longer do they provide finance directly to individual cooperatives but deposit it with the cooperative bank to enable it to leverage additional funds. The leverage and loan finance strategies of FedeVivienda are not accepted throughout the NGO sector in Colombia. One problem with the subsidy system is that it enables some NGOs to obtain additional resources and 'make too much money'. There remains an important NGO lobby arguing for the continuation of the existing programme in its present form.

Their direct experience with loan finance has enabled FedeVivienda to understand that it is possible for considerable improvements to be undertaken based both on self-management and self-help. However, the scaling-up of such initiatives cannot take place without the development of appropriate systems, and a much greater recognition on the part of those providing housing subsidies that this alternative strategy offers far greater benefits than the provision of direct capital grants.

Alternative Municipal Finance for Home Improvements

Summary: In Fortaleza, capital of one of the poorest Brazilian states, new approaches to housing and income-generating financial systems have been experimented with since 1988. These new approaches have now resulted in the introduction of a savings, grant and loan financing strategy for housing improvements.

Background

In 1987, after the fall of the dictatorship (which lasted from 1964 to 1984), and under the pressure from urban social movements which had played a major role in democratization, a national government programme of mutual-aid housing - locally called Mutirão - was launched. The programme offered community organizations grants enabling them to buy materials to build their houses through self-help. The original target of 400,000 units was never achieved and the programme was stopped abruptly in 1990 by the newly elected President Collor. However, in a few large cities the programme continued. Fortaleza, situated in the north east of Brazil and one of the poorest cities in the country, was one of these.

In Fortaleza Metropolitan Region, more than one third of the 2.5 million inhabitants live in *favelas*, illegally squatting on land with few services and inadequate living conditions. The Mutirão programme received support from the state and municipal governments which resulted in more than 10,000 houses being built. Although the results were encouraging at local level, some problems were evident. First, the scale was insufficient given the 150,000 houses that were required. Secondly, special organizations, 'Popular Societies', had to be formed within an already determined set of rules despite many strong local residents associations. Thirdly, those living in the new houses were not given land tenure and neither the local authority nor the state government were willing to address these problems. On the positive side, the programme encouraged the creation of community funds which were managed by the Popular Societies and these resources were created by repayments from those households who had benefited from the programme.

At the beginning of the 1990's, with the end of the *mutirões* programme, increasing corruption and the failure of one of the major Brazilian finance housing institutions, the National Housing Bank, some of the hundreds of local grassroots organizations in Fortaleza began a reflection process. At the time these movements had a very clear demand of the government. For those with wages below four times the minimum wage; land, infrastructure and building material should all be provided by the state free of charge. This had resulted in a stalemate because the government refused to provide this finance. The strength of these people's movements was such that any change in policy had to emerge from an internal process of reflection. At the end of 1992, more than 100 leaders from about 30 local community organizations participated in a meeting which agreed to the creation of a 'Community Fund for People's Housing'. A commission of 21 representatives met regularly over six months to elaborate proposals and define lines of action.

The experiences with the Mutirão programme had been essential in offering the community organizations some experience with repayments. Within Mutirão, those households receiving the subsidy had to repay part of the funds to a revolving loan fund held by the community organization. These funds were used for different activities, for example, paying the electricity bill for the community hall, organizing a special event, and paying transport costs for the visit of community leaders to the municipality or other authority.

A Community Fund for People's Housing

In March 1993, a special issue of the open university supplement in the main local newspaper, with a circulation of 40,000 copies, was devoted to the Housing Question and edited by two professionals working for NGOs. Cearah Periferia had recently been formed by four social workers, all women, and had been involved in supporting the reflection process of the grassroots leaders. This publication included a presentation of the fund which ensured that it became an issue with many local community organizations, some of whose leaders saw the political benefit of a high profile and the opportunity of gaining new members.

The communities quickly got organized and, among other activities, travelled together by bus to Brasilia, the Brazilian federal capital 2,000 kms away. Their intention was to present the project of the Fund to the recently appointed Federal Housing Minister who also came from Fortaleza. The 42 delegates insisted that Cearah be present. A couple of meeting and working sessions resulted in one of the Federal Programmes being amended, but, at the end of 1993, the housing conditions of those who were fighting for change were as bad as ever. However, the communities gained enormous experience and their relationships with the NGO strengthened.

During 1993, a workshop on alternative finance, sponsored by HIC (Habitat International Coalition) and Misereor created the opportunity to share experience and ideas among representatives from South Africa, Namibia, Mexico, Colombia, Thailand, the Philippines, England and Fortaleza. This resulted in the idea of creating an alternative housing finance strategy in Fortaleza based partially around credit. Shortly after this, someone working closely with a northern NGO called Selavip (Latin American and Asian Service for Popular Housing) visited Fortaleza and, in cooperation with the CBOs and Cearah, explored financial systems using new partnerships and working with three basic elements which were then available to the poor in Brazil: savings, subsidy and credit. At that time, there was no tradition of saving within the low-income settlements in Fortaleza (or elsewhere in Brazil). For 15 years, hyper-inflation rates of up to 4,000 per cent a year had made nonsense of any savings strategy.

Since 1988, the local authority had been working with Gret, (a French NGO with a locally-based professional staff) to support innovative strategies for urban development working closely with local organizations. In 1991, Cearah had also joined this partnership.

These conditions and activities combined to encourage municipal support for a fund to offer low-income households subsidized loans to improve their housing conditions. A further impetus to this support was given when, in the first three months of 1994, a cholera epidemic in the city affected more than 24,000 people, and 600,000 people suffered from dengue fever.

Negotiations to establish the Fund took time because of innovative aspects and the central principle, which was that the Fund should support a process of people-managed development. The important points of the final agreement were that:

- Credits could be directed not only to formal sector employees but also to those working in the informal sector.
- A land property title was not necessary. An 'right of use' (or squatters' right) was sufficient.
- The residents' associations would play an active role throughout. Due mainly to land occupation, difficult relationships existed between most community organizations and government, and therefore this element was difficult to finalize.
- Even if the repayments were to be made by individuals to the bank, the whole process was collective and the constitution of Housing Saving Groups was a precondition. Savings practices among low-income families were extremely rare.

Technically, the link between the small savings groups, the Municipal Institute of Planning (IPLAM) and the state bank, where the Fund had its account, was difficult; numerous administrative and bureaucratic problems had to be solved. From the beginning, there was the clear intention to develop a link between the informal settlements and the formal financial sector. After the fourth loan (see Table 1), the lack of a subsidy and the confidence of the bank in the people's ability and willingness to repay should enable these households to access bank loan finance without the use of this Programme as an intermediary. Whilst these are presented in the table below in order, in practice the situation is more flexible.

Since first discussions, these conditions have been renegotiated and may be further amended (see Table 2). Values are indexed to the minimum monthly wage (currently US $ 100).

Eventually, in May 1994, an agreement was signed to set up the "Casa Melhor" financial system. The situation among the community organizations was already difficult because the residents' associations and the federations they belong to are very political and often linked to political parties. There was some unhappiness about this agreement with the local authority and the joint responsibility for the Fund. A further problem was the introduction of the credit component into the system. However, finance was provided by the Housing Solidarity Programme, an NGO department of French aid which links donors and applicants, and this enabled the programme to start with some small revolving loans.

Table 1: Casa Melhor: Summary of different financing conditions (Sept. 1995)

	Saving	Subsidy	Credit	Total
1st loan	150	150	150	450
2nd loan	150	75	225	450
3rd loan	150	0	300	450
4th loan	150	0	300 + i	450

Table 2 Casa Melhor: Summary of different financing conditions (early 1996)

	Saving	Subsidy	Credit	Total
1st loan	100	200	300	600
2nd loan	200	100	300	600
3rd loan	300	0	300	600

During 1994 and the first six months of 1995, there was an intensive information and motivation campaign with the communities and the people. The main problem was a strong resistance to participating in a public programme and depositing savings into a state account. (In fact the account was partly under the jurisdiction of the NGO but for the people the difference was almost insignificant.) The lack of confidence was widespread, but was compensated for by a good relationship with the two NGOs.

Local community leaders, a few municipal civil servants and the Cearah professional team (some of whom are community leaders without a formal degree) organized meetings in the "favelas" and barrios almost every evening and at weekends, to explain the programme and answer questions. The principle of saving was so new to the families surviving from day to day, that long sessions were needed to explain the concept. As a result, the approach was firmly rooted in people's will and not only in community leaders or progressive technocrats. The simplicity of the first loan offered by the programme was important. People understood and accepted the basic principle of equal amounts of savings, credit and subsidy. Whatever they managed to save would be tripled by equivalent amounts of subsidy and loan finance.

By September 1995, 1,000 of the 1,800 families who participated at meetings wanted to take part. They belonged to about 50 of the most diverse CBOs (Housing Communal Societies, Dwellers' Unions, Popular Councils, People's Associations, Philanthropic Social Unions, Community Kindergarten groups, etc.) living in the settlements throughout the south of the city (mutual settlements, consolidated neighbourhoods, low density public poor settlements, favelas, invaded lands, etc.).

In January 1995, the first group took out their loan. Confidence began to grow on stone and bricks and no longer on speeches and promises about better living conditions. In June 1995, PAAC (Support Programme to Self Help - Programa de Apoio à Autoconstrução) was launched. This programme operates directly between Cearah Periferia and a few selected and well-organized communities with whom a long-lasting relationship of confidence had been established. It was created in order to extend the reach of the *Casa Melhor* which was only serving, at the time, six barrios within the pilot phase area.

Through negotiations with the community organizations, it was agreed that the money would be placed in a separate account but that the people would pay back individually either through the bank or other available means. The leadership was very concerned not to have to handle the finance directly because levels of corruption had existed at every level of Brazilian society including residents' associations. In order to assure their members that this process would not be corrupt and to reduce inevitable tensions that can arise around financial transactions, the leadership preferred not to be directly involved in loan repayments. The bank agreed not to charge administration costs on these funds.

Loan Conditions

As indicated in Table 3, which summarizes credit conditions, the main financial differences between the two programmes are the level of savings required and the type of guarantee. PAAC offered support to those communities which were living in parts of the city where there was little alternative support. It obtained funds from Selavip, a Northern NGO.

How *Casa Melhor* operates: The programme is directed by a Board with three members. One is put forward by the municipal Institute of Planning and the Gret local team and the third is a community leader elected by the associations involved in the Fund. The Board's role is to define the objectives and strategies, approve the financial accounts and appoint the directors of the management team. The management team is made up of one professional from the municipality and another from the NGO Cearah Periferia and is responsible for the bank accounts, repayments and the training of the support teams and community agents. The support (or technical) team is composed of social activists and social workers, managers, construction technicians, young professionals from the Federal Technical School and community professionals. They provide information about the programme, visit applicants to learn about their socio-economic conditions and support the families to finalize their project. The programme received additional support from the

Table 3: Comparison of Basic Financial Conditions of Casa Melhor and PAAC

	Casa Melhor	PAAC
Origins of Resources Savings Subsidy Loan	 People Local authority External	 People External External
Value Max. Saving Max. Subsidy Max. Loan	 US$ 150 US$ 150* US$ 150 US$ 450	 US$ 75 US$ 150 US$ 225 US$ 450
Duration	Max. 12 months	Max. 10 months
Type of guarantee	Personal collateral	Solidarity & Mutual
Loan Use	Building materials	Building Materials
Type of works	Kitchen, bathrooms, shops, enclosure wall, additional room	Kitchen, bathrooms, shops, enclosure wall, additional room

* up to 70% can be in the form of building materials that the family has produced or obtained through its own means

Caisse des Dépots et Consignations, the major French financial institution responsible for housing loans.

Financial process: In general, the initiative comes from one or two people in a neighbourhood who approach their local association. Together with about 15 to 30 families who are also interested, they form a savings and loan group. Each of these families receives basic information about the Programme, fills in the socio-economic form, usually with some assistance from the community or the support team, and hands it back to the support team. The forms are analyzed, each family is visited and their individual project is finalized. The costs of the improvements are calculated and compared to the maximum amount offered through the fund, and to the savings that they wish to mobilize. At that stage, families who have no formal papers such as an identity card or other administrative documents are helped by the other members of the group to get them. This can take time but is important for the people to have formal citizenship and thereby gain confidence in themselves. Once the personal papers are obtained and the socio-economic and technical forms prepared and gathered by the association, the management team prepares the lending contracts and the families continue to save. The savings are not generally accumulated through small or regular contributions. More often, households mobilize resources on the day that the finance is required through selling another possession, borrowing from their employer, or taking on additional work.

The next stage is that the contracts are signed and the cheques given to the families during some public event in the neighbourhood. This is a crucial way of strengthening the savings group in the eyes of the rest of the community, the association and the neighbours. They 'compromise themselves' to pay back the loan. Generally this meeting ends up in a party with singing and dancing. With the loan finance, the families sometimes buy building materials collectively after an accurate, though informal, local price survey. Building activities are carried out by each household with the occasional help of neighbours and friends. Sometimes skilled labour is used, especially for plumbing and electrical fittings. One month after receiving the money, the family starts to pay back over a period of 12 months or less. The payments are generally monthly although they can be weekly or fortnightly. Repayments are made through the association or directly to the bank.

The value of the loan is limited (US$ 150, ie: 1.5 minimum monthly wage) and as the total amount of the cheque cannot be more than US$ 450 (being made up of three equal parts: savings, credit and subsidy), most people join another savings group. To be eligible for a new loan they must have paid back their past credit without any default. This may be one reason for the high level of repayment, nearly 100 per cent, an exceptionally high figure for Brazilian records. For the second loan, the value of the subsidy is halved, and for subsequent loans it is not available (table 2). If a second group of 15 to 30 persons is formed within the same association, it will be eligible for credit only if there are no arrears from participants of the first group. This has worked as an additional incentive to speed up the repayment process.

90 percent of those participating in the project save sufficient to obtain the maximum value of the subsidy and loan. For groups that have campaigned for state support, this small amount of finance is already a considerable readjustment to their dreams and aspirations. To date, the repayment rate has been 98 per cent. Why do the people repay? First, they are confident that their repayments will not be stolen but that the finance will continue to be available for further loans. Secondly, they wish for further loans to improve their housing. Thirdly, for any new group in the settlement to receive a loan, the groups that have previously received finance have to have a good repayment record. Later groups pressurize the early ones to repay.

Many of those taking loans are women. Several factors within the programme design have strengthened the social networks that already exist between women in the settlements and the links between them are very strong. In one case, the husband of one member of the savings and loan group was killed. The other members of the group repaid the debt, together with other members of the association.

The savings and loan groups have become an informal network. All members have to find a guarantor who cannot also be a member of the same group (or a borrower in another group). The groups within a settlement are linked because the first (or all previous) group need to be without any defaulters if the second and subsequent groups are to receive loans.

Land and infrastructure remain unresolved issues. The finance is sufficient for building improvements but there is a remaining need to secure land titles and the required infrastructure and services.

Financial and Operational Issues

The project is supported through a number of different agencies. The staff of Cearah Periferia numbers eight, although six of these work part-time. They have a variety of professional skills, including banking and economics, social and community work, and building and quantity surveying. Municipal staff (with a similar range of skills) also support this programme. The communities involved in the programme also participate in the local management and board members also undertake some tasks. A foreign specialist visits every six months for about ten days to review the programme and support further development.

The source of funds is complex because of the different components of the programme. The subsidy is provided by the local authority and the loan finance is channelled through Cearah Periferia. By July 1996, 664 loans had been granted and the total investment in the realized works was an estimated US $ 650,000 or US $ 980 per household (this includes loans, savings, subsidy, human resources, and additional resources mobilized by the people). The loan component equals US$ 153,000 and about US$ 50,000 has been repaid since the start of the programme. The role of the bank is simply to manage this finance for the NGO. They have agreed to cover the administration costs associated with repayments for no additional charge and to pursue defaulters.

At present, the administration costs are between US$ 60-80 per loan, or about 8 per cent of the average household investment, or 35 per cent of the loan finance. The staff estimate that the administration required is probably between 10-15 per cent of the average aggregate investment if adequate support is to be provided. Programme administration presently involves community development (local dissemination of the programme through meetings and discussions, training and individual meetings), financial support (accounts, meetings with the bank, analysis of financial rules and controls, accountancy training, managing defaulters, financial reporting to donors and the banks), technical advice (house measurement, project design, quantity surveying, monitoring building material prices), transport and overheads.

Lessons and Perspectives

At the 1st September 1996, 4,000 households had attended meetings about the project and

3,500 had expressed an interest in participating in the programme. 1,700 households had completed the socio-economic form and about 1,000 had completed an individual project. 800 loans had been granted. 57 community-based organizations had already formed savings groups and a further 100 had expressed an interest in participating.

With this finance, people mostly add a second room, extend their house to build a shop or a workshop, set up a water tank, or construct a kitchen or toilets. In some cases they build a fence or improve living conditions with, for example, a cement floor or improved ventilation.

An in-depth evaluation process with local communities in August 1995 showed an overall satisfaction with the Fund. The role of the professional support team and the size of the savings groups were considered adequate. Among the difficulties expressed, the savings issue appears first. The level of savings is considered to be too high, and sometimes the principle is not accepted. The maximum value of the credit is considered too low. This reflects the widening gap between actual inflation and the indexation of the *Casa Melhor* on the minimum salary, which has been frozen.

Technical assistance for building is very limited due to a lack of financial resources and this is an acknowledged weakness of the programme. The NGO has just completed a study of four savings groups (45 households) in a range of different settlements (squatted land, mutirão, barrio and planned low-income settlement) to better understand the process through which the funds (savings, credit and subsidy) are transformed into a building. The lack of technical support (to ensure the quality of materials purchased, contract a bricklayer or support self-build initiatives) emerged as a priority area from this study.

This is the first time in Brazil that a municipality has been willing to offer credit to those living in informal squatter areas who are without land titles. People are now encouraged to save in order to obtain public finance.

By May 1996, the programme was operating in 41 barrios with 90 community organizations.

Participation: Through the election process for the Board of Directors, the savings groups and the associations began to meet on their own and become aware of their common interests, in addition to their political differences. The *Casa Melhor* has made possible an exchange of experiences between the various neighbourhoods which are generally segregated. It is still too soon to know which direction the savings groups will take. Another positive result has been the progressive involvement and support of the local authority which finances the subsidy component, and contributes to the costs of the professional support staff, transportation and running costs. The *Casa Melhor* has gained political and institutional support and visibility, as the municipal counterpart is now earmarked in the normal annual budget and hence voted on at municipal council, instead of simply being another government programme.

How to face the growing demand? Casa Melhor has been gaining popularity and is emerging as an alternative within social, community and powerful church movements, and in the 185 associated local authorities from the Ceará State. However, the pressure to expand is beyond the existing technical, social and financial capacities of those now involved in the Programme. Four possibilities, or some combination of them, may be needed to scale up this activity:

- ► Setting up of a **Municipal Foundation** at city level which could serve as a reference for interested local authorities.
- ► Setting up of an independent **Peoples Housing Fund**, managed by the associations and organizations involved.
- ► Creation of a **Community and Municipality Bank** for popular housing which meet the expectations of civil society and local authorities at the same time.
- ► Creation of a Community Integrated Fund (or any adequate financial institution) which would not only extend housing loans, but would deal with other needs from the communities such as income-generating loans or short term/occasional/emergency loans.

Cearah Periferia has recently signed an agreement with the Association of Mayors from Ceara State (AMECE) along with 185 municipalities. This agreement involves a pilot stage with 6 municipalities for expanding the programme. Cearah's role is to act as trainer and board member for the new fund and associated activities.

The PAAC system has developed a different distribution of savings, subsidy and loan finance. For the first loan, it has agreed with the Board that distribution of funds will be such that each unit of savings attracts a subsidy equal to twice that unit of savings, and a loan equal to three times the unit of saving (see Table 1). It is proposed that for second and subsequent loans the value of the subsidy will fall and that of the savings increase so that by the fourth loan there will be no subsidy and the value of the loan will equal the savings that are available.

The value of the fund is now falling both because of inflation and because no interest is charged on the loans. The decision not to charge interest was difficult. The history of inflation means that the residents of the low-income settlements are extremely nervous about committing themselves to interest repayments and therefore it was agreed that interest would not be charged. At present, loans are repaid in eight months with almost 100 per cent repayment. Other state housing loans may include an interest charge but repayment levels are generally below 60 per cent. However, the official inflation figure in Brazil is currently 18-20 per cent and inflation in the price of building materials is estimated to be about 50 per cent. The solution that the people's movements are proposing is a political one. They wish to use their political contacts and the election of the mayor later this year as an opportunity to secure additional funds. The government in Fortaleza appears to be willing to put in additional subsidy finance if the NGO and people can find sources of loan finance.

Inevitably, working closely with political groups results in attempts to trade programmes for votes. To date, the NGOs and people's movements have been united in stating that if the government attempts to put pressure on any particular group related to its involvement in the programme, then the entire programme will stop. Perhaps not surprisingly, there are still some organizations within the people's movements that oppose this programme arguing that the community organizations will be coopted and undermined.

What Next? - the Follow Up

I. Introduction

In the discussions about regional and international follow-up, there was a clear understanding and agreement about the importance of local action. If the central focus for local NGO activity is the strengthening of the people's own process, then national level activity should be supported, and not replaced, by regional level activity and international activity should be directed at supporting regional efforts. All international (and regional) follow-up should repeatedly address the question "What will be most useful for local groups and people's own processes?"

In this context (and as summarized here), the follow-up discussions first addressed regional plans before going on to consider the international dimension. A general introductory discussion identified a number of general themes, issues and questions that are important for all regional and international follow-up:

- **moving on:** many small (and large-scale) projects and programmes are repeating mistakes made elsewhere and/or have become "stuck". Such projects need access to appropriate support, including the stimulus of new ideas and practical suggestions.
- **scaling up:** the scale of experiences to date is inappropriate to the scale of need. For example, the 55,000 households reached by the Community Mortgage Programme is small in relation to the estimated 2.5 million households living in sub-standard accommodation in urban areas. An important and persistent question is therefore how such experiences can be scaled up.
- **understanding achievements:** what has been achieved by individual projects and programmes and what have been the main reasons for this success? In this context, there is a need to understand the political context within which such initiatives are being realized and whether they can be maintained in the medium to long-term, and replicated.
- **understanding adaptation:** how projects and programmes have managed to adapt to the changing opportunities and constraints that they face, and how they have done this successfully. In particular, what have been the consequences of the ideological economic models and structures imposed on the poor during the 1990s and how can programmes challenge such a situation?
- **institutional options:** what have been the different institutional arrangements that have been used for housing finance programmes and, within this, what have been the roles taken by the different groups and actors involved in the process? Many states have introduced decentralization programmes; what are the implications for the roles that different groups can play and for innovative programmes? Of particular importance in this context is the involvement of grassroots organizations.
- **financial contexts:** what are the different financial contexts (national financial institutions and financial markets) within which projects and programmes are being implemented and what are the implications for their development?

II. Regional Plans:

Africa

A clear decision was taken that the initial focus should be on Southern Africa and there was an agreement to start networking around housing finance issues within that area. In the first stage, networking should be based around the sharing of experience and the identification of some of the critical issues. It was also agreed that this should be primarily an informal dialogue for practioners (ie. those managing housing funds for low-income groups) rather than other groups. Some specific points were agreed:

1. The People's Dialogue will act as a regional coordinator.
2. All the Southern African participants will send lists of others involved with low-income housing finance to the People's Dialogue.
3. The group will draft a proposal on next step forward and who should be involved. It was agreed that there was a need to focus first on in-country networking.
4. Documentation on financial procedures will be made available to different organizations within the network.

Asia

The Asian participants agreed that there should be a regional follow-up at three different levels of activity:

- local community
- national
- regional

Key ideas and concrete actions were summarized at in the table below.

At the community level, the main strategy is to support the extension of community savings and credit activities, in order to reinforce the central position of activities that take place within local settlements and that are managed by community organizations. Three areas are identified as important to supporting local activity: documentation, information and training. A meeting in the Asian region is already planned for September 1996 and this will bring together many of the different savings and credit groups to share the process that they are involved with. The meeting will also help to define a strategy to promote these community-based savings and credit programmes.

Another idea is for a regional fund to support community level activities around savings and credit. Such finance may be important in assisting small groups to grow and expand their capacity and scale. Some preliminary work has already been started and further exploration of this idea will continue after the meeting in September. Continued general support for community-based savings and credit groups within Asia will be provided through the Training and Advisory Programme (TAP) of the Asian Coalition for Housing

Rights for the next two years. This support includes exchange programmes, regional meetings and documentation.

KEY IDEAS	CONCRETE ACTIONS
COMMUNITY	
▸ Focus on local savings and credit ▸ Expand and document ▸ Learn to manage money through experimental process	▸ September meeting of community savings and credit organizations ▸ Regional revolving fund (US$ 100,000 to 200,000) and national intermediary funds ▸ Use TAP programme as a vehicle for follow-up
NATIONAL	
▸ Explore existing situation and initiatives ▸ Find a way to support regionally	▸ Exchanges of information (documented cases and impact studies and people (CBOs, NGOs and state)) ▸ Consolidated groups working at a national level
REGIONAL	
▸ Change upper level orientation, policy and consciousness ▸ Promote this policy with agencies such as the World Bank, national governments and bilateral assistance agencies	▸ Don't undermine the process ▸ Allocate $ and reorient policy ▸ Make this process a condition of aid ▸ Regional level workshop on specific issues (October 1996)

At a regional level, and no longer focusing on direct support for grassroots organizations working on savings and credit and housing finance, it was agreed that there is a need to explore the different situations in countries throughout Asia. This will enable a better understanding among professionals and national and international development agencies. It is this understanding which is a critical initial activity to ensuring better long-term support for these processes and activities. Many reports and documents have already been written but there is a need to improve the distribution and exchange of this information. Regional activity needs to:

- strengthen national processes
- improve government policies, plans and programmes, and
- promote change within international development assistance agencies.

Regional level workshops may usefully take place on a number of specific issues. In addition to providing an impetus for documentation and the exchange of ideas, such workshops may also help to identify and draw together professionals interested in working with housing finance issues at a regional level.

More specific information about timetables and organizational responsibilities in Asia is outlined below:

ACTIVITIES	TIME	RESPONSIBLE GROUPS	NOTES
COMMUNITY			
1. Community savings and credit workshop, India	Sept. 1996	SPARC/MM, UCDO, Women's Bank (Sri Lanka)	Meeting of grassroots groups at a regional level
2. Preparation of communities for 1.	July-Sept. 1996	India/Thailand/Sri Lanka/Cambodia/ Vietnam/Laos/ Nepal and Philippines	Local activities
3. Strengthening process, training, exchange visits, support for local organizations	April 1996-March 1999	Same as 1.	
4. Setting up "regional urban poor fund"	Sept. 1996-Aug. 1997	ACHR	► writing proposal ► lobbying ► meeting with concerned groups
5. ► identification of needs to be supported ► documentation of cases	April 1996-March 1999	?	
REGIONAL			
1. Regional level workshop with other policy and funding institutions	October 1996	UCDO/IIED	► participants: funding agencies/govt./ professionals etc. ► promote, campaign, see ways to implement the proposal
2. Preparation process for 1.	June-Oct. 1996		► get prepared and provide good information ► local processes to bring groups together
3. Regional processes to survey, understand and document existing situations, initiatives and needs for support	June 1996-May 1998	Pagtambayayong Foundation	
4. Support for national processes	June 1996-May 1998	?	► Consolidation of local groups, national processes with regional and international inputs and support

Latin America

Latin American NGOs and community organizations recently met together within the Habitat II preparatory process. The discussions touched on some financial issues and provide a background for the regional discussions at this workshop.

Within housing finance and resource mobilization issues in Latin America, and related to Habitat II, there is recognition of the need to defend issues of rights and obligations.

A number of activities are being planned specifically in relation to housing finance:

- regional "state of the art" including methods and instruments, comparative analysis, and annexes on alternative financial management strategies in the region. Participants (Yves, Alejandro and Marcela) at this meeting agreed to develop a draft format and analyze existing information. The experiences of some 50 case studies of housing finance initiatives would be reviewed and, if necessary, further information collected.
- documentation of selected cities in the region. These would be cities in which a number of important preconditions are in place including strong people's movements, innovative financial programmes and a firm commitment to democratic urban management. The documentation would include information on social processes, local financial instruments including those in local government, social policies and democratic management of funds. A draft format would be prepared (Alejandro) suitable for case studies of city processes, and local financial institutions and instruments. This draft would be available for discussion at Habitat II.

Finally, and in relation to broader issues, the regional group believes that there is a continuing need to understand social production of habitat. Such an understanding requires linking the production of habitat and housing to both the international economy and national governments macro-economic policies and plans. It also requires a greater understanding of the links between macro-economic variables and habitat production, and the impacts of such forces of local housing initiatives. There is a need to develop a conceptual framework for the issue of housing production and its potential role in strengthening the people's economy.

III. International activities

Following consideration of the regional plans, a number of specific ideas and activities for international follow-up were identified and explored. As with the earlier discussions, there was a general acceptance that support for community-based savings and credit and housing finance activity should remain a central principle or "core" within which national, regional and supra-regional activity should be based and continually refocused.

The proposals for international follow-up are presented below with a summary of what was agreed at the end of each sub-section.

Information

As already identified within the regional discussions, it was agreed that there is a need to improve information about housing finance projects and programmes. Whilst some documentation already exists and only needs to be more widely circulated, it was also recognized that there may be a need for further information about programmes whose experiences are of particular interest. For example, one such programme is the Community Mortgage Programme in the Philippines because of the innovative nature of links with government, the length of time the project has been operational (eight years) and the subsequent experiences of NGOs and communities that have been involved in implementation.

HIC already has a database with project information and this is one useful collection point for information. The proposal of the Latin American working group includes a review and amendment of the format for database entries to ensure that financial details are adequately recorded. Much more information is required than just descriptions of specific programmes. Also useful, as highlighted in the report of the working group on Africa, are copies of legal and operational documents developed and used by the funds. There may also be a need for some specific training material to be made available such as, for example, appropriate information on community book-keeping, and strategies for addressing default.

Information clearly needs to be appropriate to the audience and this has implications both for language and style. There is likely to be a need for translation, both into major global and local languages. The use of electronic mail is becoming increasingly widespread and it may be possible to share some information through electronic mail.

The issue of information coordination was also discussed. It was agreed that an understanding about what was available, and from where it was available, was of critical importance. The centralization of this information into a single place was probably not practical, and may not be desirable. Developing a mailing list of contacts for different groups and individuals working on housing finance issues was another important objective. It was proposed that a four page newsletter would be produced every six months to ensure that groups attending this meeting, and others who are interested have information about significant developments in different housing finance projects and programmes.

► **Report of the workshop.** A draft report will be available for revision at the end of July. The final report will be prepared in September with publication in October. Funds are available for translation into Spanish and Portuguese. Translation will be organized in-country.

► **Newsletter.** IIED will produce a six-monthly newsletter on innovative housing finance for low-income households, the first edition to appear in July, with information about those programmes represented at this meeting and a contact list.

Meetings and Exchanges

Community-to-community exchanges, at the regional and international level, are a innovative and successful method for supporting local development and strengthening community processes. Whilst exchanges within a country are useful, some of the experiences from Thailand demonstrate the additional benefits of international exchanges. In Thailand, there is an assumption among low-income citizens that land is only owned by those who have money. By showing them what is happening in another country such assumptions can be dramatically and immediately overturned. International exchanges increase the space, and therefore the opportunities, for learning. In another Thai example, one community started a savings group after a visit to India. Local NGO staff resisted this change of direction but, convinced by what they had seen, the local residents continued with the savings group and persuaded the NGO to accept this innovation.

In addition to community-to-community exchange there is much value in joint city (or national) teams of CBOs, NGOs and state agencies collectively undertaking an exchange programme. The experience is that such groups are drawn together by sharing these experiences and that new local possibilities are realized though the contacts that are made and strengthened.

To complement local exchanges, there is also a need for meetings and workshops based around professionals, academics, national and international agency staff. Two separate objectives for such activities were identified: to inform and extend the network of those interested in these issues, and to deepen the understanding of issues among groups already members of the network. With respect to the latter a number of specific areas of interest were identified. Those which emerged as of prime importance are:

- how to scale up NGO initiatives and what institutional form scaling up should take.
- what are the relative implications of government support being provided to housing finance programmes through interest rate or capital subsidies, and what are the arguments that can be used to persuade government to follow one strategy rather than the other?
- how to integrate income-generation and housing finance.

▸ **Community-to-community Exchanges** will be coordinated through the newly-formed Network of Homeless People's Federations.
▸ **Other exchange programmes** will be coordinated through the regional contact points.
▸ **Workshops:** opportunities for local, national and international workshops will be sought wherever possible.

Strategic Interventions

Two other interventions emerged from the discussion.

It was agreed that the working group would require some form of strategic paper considering the needs, strategies, opportunities, constraints and issues around innovative housing finance. Such a paper will be useful in summarizing the arguments and assist in identifying necessary directions for the working group's activities. It will also be useful in the lobbying of national and inter-governmental financial bodies.

A persistent problem is raising capital for the expansion of housing finance programmes, especially those within the non-governmental sector. An international guarantee fund may provide an effective means for increasing the ability of local groups to obtain more local finance. Such a guarantee fund would be held in hard currency and would be used to secure advances from the local commercial banks. It was noted that there has been some experience with international guarantee funds but not on a significant scale with respect to housing.

► **Guarantee fund**: the meeting shortly to be held at the European Parliament is one opportunity to explore such a proposal with donors. The Guarantee Fund would be used to strengthen local initiatives and increase the availability of finance. Guarantee Fund strategies permit the immediate and several-fold scaling up of development assistance and offer one possibility for increasing the impact and scope of housing finance programmes. Yves agreed to follow-up this idea at this meeting and any other opportunities.

► **Strategic paper**: the meeting in Asia organized by UCDO and IIED in October will require such a paper to be drafted for the Asian context. It was agreed that this draft would provide a basis for a strategic paper.

Organizational Arrangements

► It was agreed that, as before, this group should remain the **Housing Finance and Resource Mobilization Working Group** of the Habitat International Coalition. It was felt that the informality associated with a working group would be beneficial to the effectiveness of the work. IIED will coordinate the group.

► **Networking among grassroots organizations** involved in savings and credit and housing finance will be undertaken partly by the regional groups and partly by the newly-formed international network of homeless people's federations.

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Exchange Rates

US$ 1 (20 September 1996)

AFRICA	
Namibia	SA Rand: 4.5
South Africa	Rand: 4.5
Zimbabwe	Zim $:10.3
ASIA	
India	Indian Rs.: 35.7
Philippines	Peso: 26.2
Thailand	Baht: 25.4
LATIN AMERICA	
Argentina	Peso: 1.0
Brazil	Real: 1.0
Colombia	Col Peso: 1035.7

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