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International Institute for Environment and Development

Human Settlements Programme

Reaching low income groups with housing finance

Diana Mitlin
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This is one of a number of books, reports and background papers on poverty and on poverty reduction in urban areas prepared by IIED with support from the Swedish International Development Cooperation Agency (Sida). These also serve as background documents for the series of workshops on ***Poverty Reduction in Urban Areas*** organized by IIED in collaboration with the Thai Fund for Community Development, IIED-America Latina and the People's Dialogue with support from the Urban Poverty Alleviation Programme, Ministry of Foreign Affairs, the Netherlands.

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CONTENTS

Reaching Low Income Groups with Housing Finance

Diana Mitlin*

Summary: *This paper describes new models for providing housing finance to low-income households that have been developed by NGOs and governments over the last 15 years. This period has been one of considerable innovation. New programmes have been developed to support a large-scale process of incremental housing development through loan finance. The introduction describes the context within which these initiatives are taking place. The second section concentrates on the NGO programmes, summarising the principles on which they are based and outlining their structures and practices. The third section describes government initiated or supported programmes; these generally arose as a result of the positive results from NGO programmes combined with political pressures on governments for more effective responses to the needs of low-income urban groups. These government programmes drew on NGO experience in developing new housing finance institutions or programmes. The final section reflects on the lessons emerging from these government programmes including the future strategies to greatly expand the scale of housing finance provision for low-income groups.*

I. INTRODUCTION

In most urban centres, a high proportion of the dwellings and residential areas have been developed by low-income households. In the conventional model of urban development, the state and/or private sector have major responsibility for settlement construction. But, in practice, neither the public nor the private formal sector are developing sufficient housing in towns and cities for the 1.5 billion urban dwellers in the South. An estimated 75-90 per cent of all new housing is built outside any officially approved land development and housing construction process and, within this figure, is included most low-income urban development (Hardoy and Satterthwaite, 1989). In a study in nine Asian countries, between 40-95 per cent of all households had no possibility of living in a dwelling produced by the formal sector (ESCAP 1991).

For the many low-income households who organise the construction of their housing, this construction process is, by necessity, incremental as they cannot afford to build complete houses immediately. Since a high proportion of such households also construct a house on land that is illegally occupied (or on a site which, for other reasons, they are

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* This paper could not have been written without my exposure to the ideas, activities and experiences of those practising low-income housing finance. In particular, I would like to thank the participants of the Habitat International Coalition workshop in Bantayan (the Philippines); the workshop on innovative housing finance we organized when preparing *An Urbanizing World: Global Report on Human Settlements 1996* (Oxford University Press, Oxford and New York, 1996) for the United Nations; the formal and informal meetings hosted by People's Dialogue on Land and Shelter and the Homeless People's Federation of South Africa; and the Homeless International workshop on community and housing finance. A condensed version of this paper appears is published in *Third World Planning Review*, 19(1), February 1997, under the title 'Building with credit: housing finance for low-income households.'

uncertain they will remain on), there is also a reluctance to invest in improved housing. A consistent pattern emerges throughout much of the South. Households first obtain a plot of land and the materials to construct a shack. Once they secure legal tenure, or are relatively certain that they will not be evicted, further construction usually takes place. One or two rooms are built using permanent or semi-permanent materials. Services such as water and electricity may be obtained, often illegally. Such services may also be developed incrementally in a number of stages starting from basic water storage and a pit latrine (Varley, 1995). The initial housing development is followed at a later date by further rooms and, maybe, depending on the size of the plot, by the construction of a second storey.

This incremental housing process is supported by few external resources. Housing loans are rarely offered to low-income groups. In some cities, credit for materials may be given by the building contractor or supplier of building materials (see Hasan, 1989, for a discussion of the process in Karachi, Pakistan). Formal sector financial loans are rare. One study of housing finance in India found that only about one-third of all housing finance was provided by formal financing institutions and, for those with an annual income below Rs 18,000, this percentage fell to 24 per cent (National Institute of Urban Affairs, 1992). One source of technical advice is local informal sector construction workers who may also help in the building of the dwelling. Building materials may be purchased in the settlement but are often bought in from other areas of the city. The quality of materials is often low, reflecting a lack of finance, technical expertise and investment capacity by the manufacturers themselves. Further housing investment often involves the demolition of previous improvements which are not strong enough or are otherwise unsuitable for further alteration.

In many cases, households could afford to pay for a much higher quality of housing if they were able to gain access to credit on affordable terms. Without credit, they have to buy small quantities of building materials which means much higher unit costs as no discount for bulk purchase is possible. The costs of transporting the materials to their site is also generally higher than if they could purchase all the materials needed at once. Without credit, low-income households often have to purchase the cheapest building materials - including scrap or non-permanent materials - and this also imposes a cost penalty over time as such materials soon need replacement or repair. Without credit, housing construction is expensive. When houses are extended, rooms may need to be demolished and rebuilt because the previous development was sub-standard. SPARC have estimated that, over 20 years, pavement dwellers spend as much on repairing their pavement shack as they would had have to pay in loan repayments for a single room apartment. With the pavement shack, they are left with little to show for their investments. If they had access to credit, they would have a legal and valuable home in the city (Patel, personal communication).

The importance of housing finance has long been recognised (see, for example, UNCHS, 1991b). In an overview of housing finance in Canada, Mexico and the United States, Diamond and Lee (1995) argue that housing is important because it is a major category of consumer expenditure and the means through which many households hold their assets. They also recognise that housing is important for social welfare. There is now a comprehensive literature both on informal finance in general and on credit schemes for micro-enterprises and income generation in particular (see for example, Adams and Ghate, 1992; Adams and Fitchett, 1992; Hurley, 1990; Remenyi, 1991). But, to date, much of the emphasis on housing finance institutions has been placed on the formal sector servicing the loan requirements of lower-middle income groups and above (see, for example, the papers prepared for the second symposium of the Working Group on Housing in Developing Countries; UNCHS, 1991a; UNCHS, 1991b; IUHFI, 1994). For example, the report of the Inter-Regional Workshop on Integration of Housing Finance into National Finance Systems of Developing Countries (UNCHS, 1991b) considers the importance of housing finance in India, Indonesia, Nepal, Nigeria, the Philippines, Sri Lanka, Thailand, Zambia and Zimbabwe with a strong emphasis on formal finance institutions and little or no discussion of innovative financing initiatives. This workshop was accompanied by a technical report (UNCHS, 1991b) which includes a rigorous analysis of, and argument for, housing finance. However, again there is only a cursory consideration of innovative housing finance. Pugh (1995) also has a primary focus on formal sector finance although he recognises the need to extend access to formal financial institutions to low-income groups and he briefly considers some such initiatives.

This report tries to redress this gap in the literature through a consideration of a number of unconventional programmes to provide housing loans to low-income households. It joins with a small number of others in recognising the strength of experience in this area (see also Mehta, 1994; Arrossi et al, 1994; ESCAP, 1991; UNCHS, 1991c). The paper describes a number of NGO and government programmes that seek to intervene in the incremental process of housing development primarily (though not exclusively) through acting as a financial intermediary by offering loans to community organisations and individuals. There has been growing NGO interest in housing finance as a mechanism for supporting low-income households and it is now difficult to think of a country in Asia and Latin America where some initiative in housing finance for low-income groups is not underway (although in many countries the scale remains very small).

In a number of countries, NGO housing finance initiatives have been carried forward into large-scale government programmes. This has been a deliberate strategy by some of the strongest NGO staff and professionals in order to scale up the innovative housing finance programmes first developed within the voluntary sector. These experiences have relevance beyond housing. Many NGO initiatives start small with relatively high costs per household assisted. However, the projects and programmes that they innovate are considered to have greater relevance for state and official development assistance development strategies (Edwards and Hulme, 1992b). As argued by John Turner (1989), specifically in the context of low-income housing development, the main value in "...the NGO contribution is the leverage it provides for increasing pressures for policy change leading to far more cost-effective uses of the limited amounts of finance aid that can be obtained" (page 175). Community based housing finance is one area in which government programmes have learnt directly from NGO innovation and experience.

A consideration of housing finance for all households currently unable to obtain credit from conventional housing financial institutions is potentially a large task and it may be useful to briefly outline some boundaries for the examples and experiences considered in this paper. The primary focus is on innovative housing finance programmes intended to support low-income households. This paper only considers informal sector finance for housing where it is directly related to innovative housing finance programmes that seek to reach low-income households. It does not discuss the ways in which households draw on informal sector finance such as loans from family members, patrons, informal money-lenders or building merchants for buying, building or improving housing. This is not because such informal systems are of no interest but because it is a practical boundary dictated by space. Issues concerning loan finance for infrastructure and service development are also not fully discussed for similar reasons although some of the programmes described include loan finance for such developments and, in these cases, some details are given.

In many countries, there is a new interest in programmes and policies that support improved access for low-income households to housing finance (ESCAP, 1991). In some cases, these programmes and policies support individual households in having direct access to loans; in other cases there is interest in working through community organisations, offering collective loans which are allocated to individual households and managed by the community organisation. In this report, there is a preference for experiences of collective loan provision as this has been the focus of some of the most interesting attempts to provide finance to low-income groups. However, some references to programmes with individual credit have also been included.

The primary focus on credit is not intended to suggest that credit is the single or even the primary solution to improving housing and neighbourhood development in Southern towns and cities. There is a continuing need for many other types of intervention such as support for land tenure or support for schemes that allow low-income households access to land, and the provision of infrastructure and services. However, a number of innovative small and large-scale credit programmes have been initiated in the last two decades and their experiences should be of interest to many of those concerned with providing improved housing and living conditions to low-income groups.

Section II considers NGO programmes and the lessons emerging from recent experiences. Several critical characteristics are discussed in detail including the terms and conditions of loan finance, the other services provided with credit and the relationship of such NGO programmes to the formal financial sector.

II. NGO HOUSING FINANCE PROGRAMMES

The Growth of Housing Loan Programmes

It is impossible to estimate the number of urban NGOs with housing finance experience. Whilst the Habitat International Coalition (the main international umbrella group for NGOs working on housing issues) has several hundred members, not all of these have housing finance programmes. However, the number of case study reports suggests that NGO housing finance projects are significant and growing (Arrossi et al, 1994; *Environment and Urbanization*, 1993; Anzorena, 1993b and the SELAVIP newsletters; ESCAP, 1991; Bertha Turner, 1989). Jorge Anzorena, a well-known commentator on and advisor to such organisations in Asia and Latin America, identified the provision of finance, and specifically housing finance, as one of the main changes in NGO activity since 1977

(Anzorena, 1993a). Many of the current programmes have been initiated in the last 10 years although a few have a longer history (Anzorena, 1993b). But, equally, it is important not to overestimate the scale of initiatives. Mehta (1994) in her study of 18 Indian NGOs involved in both housing and community finance found that only four were providing (or about to provide) housing finance.

Housing loan programmes have emerged for many reasons. In some cases, they have grown out of housing based activity (for example, some of the programmes described in Anzorena, 1993b); in others, they have developed from credit for income generation programmes (for example, Albee and Gamage 1996). Whatever the origin, two reasons seem to be of particular importance in understanding why NGOs have given priority to housing finance. First, there is the recognition of the inefficiencies involved in housing development that takes place without credit. Second, there is also the need to develop models and programmes appropriate to the scale of need in Southern towns and cities. There are some 600 million urban dwellers living in inadequate accommodation but development assistance agencies give a very low priority to housing programmes that seek to reach low-income groups (including support for upgrading and community development projects) and to housing finance. Between 1980 and 1993, less than 3 per cent of development assistance went to housing finance or housing programmes of all kinds (including upgrading and serviced site schemes) and many development assistance agencies gave no support to either (Satterthwaite, 1995). In this context, the only effective strategies for providing support on a sufficient scale have to work with the resources that people are already investing in housing and urban development, hence the interest in loan finance.

All the NGO loan programmes identified here include a financial subsidy to the low-income residents and settlements. Two mechanisms for distributing the financial subsidy have already been identified: subsidised interest rates and subsidised administration costs. However, a third strategy is also used, the provision of free or subsidised additional services. The following sub-section considers these additional components of neighbourhood development programmes.

The credit schemes that have developed use some of the traditions of informal sector finance and NGO micro-enterprise credit programmes. The advantages of such systems being able to deliver small loans with little delay have long been recognised (Remenyi, 1991; Adams and Ghate, 1992). There are obvious parallels between developing credit systems that build on informal sector expertise in loan management and housing support strategies that build on the process of incremental housing development. Both accept the validity of models developed by low-income communities themselves and seek to build on, rather than replace, the principles and strategies behind such informal activity. The similarities between NGO housing finance programmes and income generation or micro-enterprise lending are referred to again in a later section on repayment strategies.

The discussion in this section explores the strategies and principles of housing finance programmes developed within the NGO sector and provides a background to the next section which describes the challenge of transforming these into government programmes. The discussion starts by considering the terms and conditions of the loan programme through savings and credit, collateral, administration costs and risk and repayment issues. Then some of the NGO services commonly provided with housing finance are described: financial support services, community organisation and capacity-building, technical advice and construction assistance. The final sub-section considers some of the unresolved issues that have emerged from these NGO programmes.

Terms and Conditions of Housing Finance

a. Savings

Many housing finance programmes start with informal savings schemes organised between households. These savings schemes encourage residents, often primarily women, to begin saving regularly. The savings are then available for a range of different activities including emergency loans, income generation and housing investment. In some cases, the housing loan programme has developed from the savings groups, such as in the case of the credit union *Kartini* in Kaliurang which emerged from a rotating savings group (ESCAP, 1991). In other projects, savings groups are deliberately initiated as the first stage of a housing loan programme. The savings groups often use the small group structure popularised by the Grameen Bank to act as "collateral": ie. small groups, joint savings and group guarantees, with other group members being responsible for repayment in the case of default (Arrossi et al, 1994). The savings involved may be very small but they offer immediate benefits to participants plus a number of very significant advantages for housing loan programmes.

Financial expertise. The participants develop financial management structures within the settlement organisations. These involve the collection (often daily) of savings contributions and the distribution of loans. The participants have to establish ways of managing the finance so that each member understands their current balance, the administrative costs are covered and the funds are managed honestly.

Affordability. The households become familiar with the process of regular saving and can work out what level of saving (and loan repayment) they can afford.

Emergency loans. Most low-income households face many emergencies. For instance, street sellers may have their stock confiscated. Or a household may need money urgently for medicines or medical treatment as a household member becomes seriously ill or injured. Without a source of funds to assist them in times of emergency, loanees may not maintain repayments on housing loans. Savings provide an alternative source of funds to cope with these emergencies, making it more likely that the repayments to and capital of the housing finance programme remain intact.

Income generation. Income generation is one of the priorities of low-income households. Small-scale funds can provide a means by which households can obtain the capital they need for micro-enterprise investment and thus facilitate the housing finance programme through improving incomes.

Confidence. The experience of successfully managing savings schemes develops in participants and the community a confidence in their ability to manage a grassroots improvement programme. In some cases, through direct involvement in managing and borrowing money, women are able to improve their status within the household (SPARC, 1997).

Savings programmes have not always proved possible, particularly in Latin America where economic problems such as high inflation and financial instability have resulted in a loss of confidence in savings. High inflation rapidly erodes savings and interest rates may not fully compensate for changes in the value of money. For these reasons, one credit programme to improve the water supply in a Bolivian urban settlement expressed some reservations about initiating credit programmes through savings schemes. In this case, an additional deterrent to the high rates of inflation was the fact that the previous savings fund had been stolen by corrupt collectors (McLeod and Mitlin, 1993).

b. What Loans are Used For

Housing construction and improvement requires substantial amounts of money. Table 1 summarises the different costs that households have to meet.

Table 1: Costs which have to be covered in housing finance systems that support incremental housing development

ITEMS FOR WHICH FINANCE IS NEEDED	COSTS THAT HAVE TO BE MET	NOTES
Acquiring the land site **Acquiring legal tenure of the site**	Purchasing the land or the right to use it - although in some instances, land is simply occupied with no payment. If legal tenure is negotiated for an illegal site, there may be the costs of legalization (legal fees, fees to government agencies, funds to NGOs who help in the negotiation), plus the cost of the land itself.	In many cities, even informal land markets have become heavily commercialized so obtaining an illegal land site may represent a high cost for low income households. Getting legal tenure may be important for being able to get a loan from a formal finance institution or for obtaining infrastructure and services from public or private utility companies.
Developing the land site to make it fit for housing	Many 'cheap' land sites are on land subject to flooding or on steep hillsides and may need considerable investment to allow building on it - or to make the building safer. More complex infrastructure may be required.	

Building materials and labour.	If the household is doing the building themselves, this is primarily the cost of building materials and fixtures and fittings (e.g. doors, windows, sanitary and kitchen fittings, electrical fittings where electricity is available....) Many households hire labour or small firms/artisans to undertake some of the work, especially the skilled work. Households often need several loans over time as they improve and extend their home	Building materials banks set up within low income settlements are one way of lowering the price of materials and increasing the ease with which the inhabitants can get them. Alternatively, residents may simply buy together to obtain discounts and reduce transport costs,
Infrastructure to house (piped water, sewers or latrines, drains, electricity)	The costs may arise from connection costs or charges for connections to existing systems or from contributions to neighbourhood-organized schemes. If local authorities complete the work, the quality is often poor.	
Infrastructure for neighbourhood (e.g. roads, drains)	The cost of household contributions towards the cost of paving roads, settlement-wide drainage systems etc.	
Technical, legal and administrative costs	All formal organizations involved in housing projects have costs - and if full cost recovery is to be achieved in any housing finance system, the households taking on loans will also have to contribute towards the salaries of any persons from the community, support NGO or finance institution who organize the programme or provide technical assistance.	This is often one of the most difficult costs to cover, especially where considerable amounts of staff time are needed from support NGOs in initiating, supporting and managing credit programmes. Households are often willing to pay the full costs of loan finance but it is difficult for them to cover the professional fees.
Local services	A community housing finance programme may choose to include funding for some local services e.g. a community centre to which all households contribute costs	This can rarely be funded by direct contributions but may be funded indirectly through additional interest rate charges, user fees on basic services such as water or payments by households that use the centre for personal gatherings such as weddings.

Whilst the loan amounts may be larger than those given for micro-enterprise development, it should also be emphasised that they are generally not sufficient to construct and finish a house, and small-scale housing loans may be given for incremental development. Households may take out several loans as they purchase land, construct a core house, improve water and basic services, build additional rooms and, where plot sizes are small, add a second storey as accommodation needs increase or opportunities for renting become attractive. Obtaining land is critical to low-income households as they seek a secure shelter. It is increasingly rare for low-income households to be able to find a land site on which they can build free of charge, and even illegal and informal land markets have become highly commercialised in most cities. This obviously increases the need for housing credit as, in many cities, land formerly available at little or no charge in illegal or informal settlements now has to be paid for (UNCHS, 1996).

Recognising that the incremental housing process involves many different stages, housing loans programmes offer funds for any part of this process. In some cases, loans are given for land purchase, with the NGO assuming that the household will take responsibility for the construction of the dwelling. In other cases, loans are given for the purchase of materials.

In Latin America, materials "banks" are one way for NGOs to intervene in the construction process. They can considerably reduce the cost of building materials and fixtures and fittings (including windows, doors and electrical fittings, plumbing and sanitary ware) by bulk purchase, often at wholesale prices, and passing on the cost savings to local households. They also save time as they are much closer to the households using them thus reducing transport costs; low-income households often pay considerable amounts to get the materials they need delivered to their site. Materials banks can also be far more accessible, opening after conventional working hours and at week-ends, which makes incremental construction much easier. They may also offer credit and have a delivery service for bulkier and heavier materials direct to the purchaser's site.

The Central American loan programme of the Cooperative Housing Foundation included four basic types of loans: home improvement loans, mortgage and construction loans, community service loans (for infrastructure) and small business loans (Cooperative Housing Foundation, 1993). A further option is loans for a particular part of the construction process. In India, the Integrated Village Development Programme gives loans for the purchase of roofing tiles. The remainder of the house is constructed using locally available low-cost materials but this is not cost-effective for roofing because this needs replacing every two or three years (Homeless International, 1993).

c. Risk and Repayment

A third issue within the terms and conditions of housing finance loans is that of "risk and repayment". Lenders to low-income households have to consider the problem of lending with no or little collateral. They also have to minimise the risk of accepting dishonest borrowers because the lower the level of loan default, the lower the real cost of the housing finance scheme and thus the lower the rate of interest that can be charged to achieve full cost recovery. Such programmes have to identify incentives that encourage households to repay despite low (and often variable) incomes and difficult circumstances. Prior to discussing how risk is minimised in housing loan programmes, the following paragraphs briefly compare income generation/micro-enterprise lending with housing loans.

NGO micro-enterprise credit programmes typically use one or more of three strategies to secure repayments: they give individual loans through group structures (with some group members not receiving loans until others have repaid theirs); they offer small loans with larger loans being dependent on the successful repayment of smaller loans; and/or they insist on a savings record prior to loan approval (see Hurley, 1990 for a discussion of urban micro-enterprise credit programmes). In so-doing, these programmes draw on a tradition in informal finance which involves "small loans and deposits, commonly operates without collateral, typically deals with short term transactions" (Adams and Fitchett, 1992, page 2). As with informal sector finance, NGO programmes for micro-enterprise credit often have decentralised loan allocation systems to ensure that loanees are known to those allocating loan finance and that loans are locally available as needed (UNCHS, 1991b). In some cases, housing loan programmes have emerged from micro-enterprise and income generation programmes as in the case of the Grameen Bank in Bangladesh and the Women's Credit Union in Sri Lanka (Anzorena, 1995; Albee and Gamage, 1996). Here, only those who have successfully managed small enterprise loans are allowed access to housing credits.

As with micro-enterprise programmes, housing finance programmes can be successful in securing high repayment rates. The default rate of the Kartini Credit Union (Indonesia) is "practically nil" (ESCAP, 1991); and repayment rates reach 98 per cent in the case of Catholic Social Services in Pakistan (Ghouri and Nihal, 1993). However, not all projects have obtained high levels of repayment. Bertha Turner (1989) includes a case study of Yayasan Sosial Soegiyapranata (Indonesia) where repayments were not maintained. Here, a major focus was on housing provision for recyclers rather than on credit *per se* and the case study authors argue that the approach, which was primarily charitable rather than emphasising self-reliance, may have had a negative impact on repayments. Mehta (1994) also notes that, in an analysis of 12 NGO schemes, information to assess the claims of high cost recovery was not readily available.

One difference between housing finance and micro-enterprise finance is that the former involves larger loans over longer periods (Diamond and Lee, 1995). The large capital cost of housing means that repayments are often spread over an extended period. Varley (1995) describes micro-enterprise loans as those of US$ 500 or less. The size of housing finance loans is often considerably larger than this (although incremental housing loans may be given for smaller amounts). In most housing projects, both loan size and loan periods are significantly greater than those for micro-enterprise and income generation (Arrossi et al, 1994). For example, those participating with Grameen Bank (Bangladesh) and Koperasi Kredit Borromeus (Indonesia) repay their housing loans over 15 years. Whilst shorter-term loan periods are used, for example, Catholic Social Services requires their borrowers to repay the loan in three years (Ghouri and Nihal 1993), these are still significantly longer than many micro-enterprise loans.

For the household, the shorter the period of repayment the higher the monthly repayment and the smaller the loan which can be afforded. It might be expected that households would prefer longer loan periods. However, they may not wish to have a long loan period extending far into the future with a continuing commitment to pay from uncertain income. Furthermore, if interest rates are high, the cost advantages of taking out several smaller loans may be significant (Mumtaz, 1995). NGOs may also be reluctant to offer long-term loans. Longer loan periods raise the amount of capital needed by the NGO to reach a given number of people. NGOs, under pressure from many households to extend loan opportunities, appear to prefer shorter loans and a more rapid turnover of funds.

Despite these differences, housing finance programmes have drawn on the experience of micro-enterprise programmes to minimise risk and maximise repayments (or have discovered similar strategies). ESCAP (1991) notes the importance of social guarantees and "binding ties between the members" (page 30) in many community based housing finance institutions. For example, the Grameen Bank housing loans programme uses the same group structures they use to provide income generation loans and requires the group to have successfully managed income generation loans before they can obtain housing credits. If the NGO is managing an integrated programme with enterprise and housing loans, then the granting of micro-enterprise loans can be made conditional on housing loan repayments. Financial incentives to repay may also be used with discounts for early repayment and/or penalties for deferred or delayed repayment. For example, in the housing loan programme of FOSOVI (Mexico City), there are no interest payments if repayment schedules are maintained but, if there is a delay, the interest rate charged by the central bank is charged (HIC/ACHR, 1994). Group loans are given where either the community organisation or a smaller group has responsibility for making collective repayments and managing the shortfall for individual households.

d. Land

In many cases, the programme also involves support for secure legal tenure (see below) in which case the land may be used as loan collateral. In one housing finance programme in the Dominican Republic, when legal land tenure was not available it established a legal claim on the housing construction (Lewin, no date). If the settlement or area is being newly constructed through a housing cooperative, ownership may remain with the cooperative until all the finance has been repaid. (In many cases, the cooperative retains the right to have first option to repurchase the unit if the member decides to sell.)

e. Interest Rates

The cost of finance and, in particular, the interest rate charged is a critical area within the "terms and conditions" of loan finance. Whilst it now seems to be commonly accepted that micro-enterprise and income generation loans should charge market interest rates, this is not the case for housing loans. There are a number of reasons why market interest rates are the practice in micro-enterprise and income generation loans. First, it is access to credit rather than the cost of credit that is the problem faced by most low-income households seeking micro-enterprise credit. They simply cannot get hold of finance except (in some countries) through the informal credit markets at very high interest rates of 10 per cent a month or more (Varley, 1995). The returns from the investments may exceed market interest rates, often by several times, suggesting that availability rather than affordability is the critical issue. Second, subsidised interest rates encourage richer groups, who can get access to formal sector finance, to try to capture the funds and this means that the fund managers have a further problem in discriminating between would-be borrowers. Third, the proponents of these projects wish to develop models and strategies than can easily be "scaled up". Hence, charging formal market interest rates is attractive.

In NGO housing loans projects, subsidised interest rates are a much more common practice. First, government housing programmes commonly use subsidised interest rates and low-income borrowers (plus the groups which work with them) either accept these rates without question or argue for the subsidy on the grounds that low-income households should not have to pay more than richer groups (Diamond and Lee, 1995).

Second, housing loans do not necessarily help the household receiving the loan to earn additional income and, therefore, those operating the credit programmes do not immediately see how they might easily repay the cost of the loan (see, for example, the discussion in McLeod and Mitlin, 1993). In practice, as already noted, lack of access to finance means that housing construction and repairs are often extremely inefficient. However, it is not often clear exactly what households can afford and whether they are able to repay housing loans. Many believe that, without a subsidy, adequate quality housing cannot be afforded. In the Philippines, some NGOs are now encouraging households to rent out one of their rooms in order to assist with loan repayments.

The third reason given for providing subsidised loans is that loans for housing improvements and incremental construction are larger and last longer than many micro-enterprise loans (ESCAP, 1991). The interest costs are therefore greater and this is a further argument for subsidy. Finally, another consideration when setting interest rates is that the structure must be simple to understand and to operate. One study of housing institutions in Asia suggests that many NGO projects set interest rates for normal short-term loans at one per cent per month of the declining balance still owed because this system is simple (ESCAP, 1991).

More recently, some NGOs have started to question this assumption that subsidies are required through charging market interest rates for housing loans. For example, the experience of the Cooperative Housing Foundation in Central America was that market rates could be charged successfully (Cooperative Housing Foundation, 1993). Mehta (1994), discussing the Indian experience, also notes that interest rates rise when the community or group themselves decide the level of interest. This suggests that access to credit rather than affordability may be the main obstacle for housing finance, a conclusion also reached by UNCHS (1994) in a study of three innovative government housing finance programmes.

f. Administration Costs

The administration costs associated with loans are not generally charged back to participants and this review has identified very few projects or programmes where this has even been attempted. The housing loan programme of Catholic Social Services in Karachi now charges Rs.50 a month to each loan recipient (Anzorena, 1995a) but staff recognise that this is a token payment rather than a true reflection of the costs involved. However, some projects, through the use of collective credits managed by neighbourhood or community organisations, have considerably reduced their internal administration costs by passing some of them onto local residents. Within this fund structure, the community meets the costs of loan management (with voluntary labour and very small financial contributions for items such as account books and pens) at the level of the settlement and the NGO covers the costs associated with lending to several communties plus the general fund management including negotiating with donors.

g. Other Services

Although the focus of this paper is on housing loans, it would be a mistake to assume that the primary purpose of many of the programmes discussed here is the distribution of credit. In general, NGO housing finance loan programmes are only one component in a strategy to provide effective support to the residents of low-income settlements (see ESCAP, 1991; Arrossi et al, 1994; *Environment and Urbanization*, 1993). Further support directly related to the delivery of financial services for housing construction may be given in any one of three broad areas: financial support services, community organisation and capacity building, and building and construction advice. In addition to this, some NGOs also have programmes in income generation, the provision of infrastructure and services, and more traditional development support such as health centres and literacy classes. For example, the Women's Credit Union in Sri Lanka is based within a broader programme which includes a cultural education component and health assistance through eye clinics (Albee and Gamage, 1996).[1]

When local residents are responsible for fund management, NGOs often provide guidance on financial management and accounting to assist communities in the successful management of savings and loan finance. This training involves a number of areas such as simple accounting procedures and security measures such as co-signatories. NGOs may act as intermediaries in negotiations with local banks if the community requires a bank account or may train the community leaders (through role play, for example) so that they can interact directly with the branch.

With respect to community organisation and capacity-building, NGOs use many different strategies to develop within residents an understanding of how they can improve their local environment and housing, and improve their capacity to work together on these tasks. The NGO may provide technical advice and equipment such as that needed for writing and designing newsletters in settlements with a high level of literacy and/or drama workshops to prepare street theatre to spread ideas and information throughout the settlement. They may offer training in more specialist skills such as setting up cooperatives and collective activity. Information on legal registration may also be offered. Another area for assistance involves organisational structure and meetings such as annual general meetings and other formal structures required by registration. Training in negotiating skills may also be offered.

Support for community organisation and collective involvement may be designed more for changing minds and attitudes rather than for imparting specific skills. Many programmes involve an exchange of community members from settlements with well-established activities with members of settlements which are just starting the programme or where there are specific problems.[2] Such exchanges have proved effective in both resolving practical problems and in rapidly speeding up the introduction of new strategies and ideas. For example, in Bombay and other Indian cities, SPARC, the National Slum Dwellers' Federation and *Mahila Milan* (a collective of grassroots women's organisations) have collaborated closely in their work in low-income communities. They have established two complementary loan programmes, the first for emergency credit and income generation loans, the second for housing investment. Working with the first communities took approximately 18 months of support and encouragement by workers from all three organisations. Many discussions were necessary to convince residents to take part and for them to develop the confidence required to operate financial systems and negotiate with government agencies. The three organisations now estimate that, using the exchange of community members and direct discussions between residents facing similar challenges, it takes between three and six months for a new community to establish the savings programme and obtain the financial management skills that are needed for the emergency and income generation loans to become operational (Patel and d'Cruz, 1993).

The low quality of housing construction is not simply a problem of lack of finance but also of poor building materials and inadequate design and construction methods. Some NGOs have specialist programmes to improve the quality of building materials, either through working with informal sector producers or through direct production. Alternatively, or in addition, NGOs provide architectural services and/or design advice. A further motivation for such programmes is to provide local employment for settlement residents. Those NGOs giving credit through building materials banks may provide advice at the time of purchase.

More recently, and with the introduction of innovative government finance programmes, NGOs may only be involved in providing supplementary services with the housing loan finance being provided through government programmes (Connolly, 1993 and HIC/ACHR, 1994). Within such programmes, NGOs may provide services in any of the three areas identified above. For example, in Rio de Janeiro, the members of the Nova Holanda cooperative have obtained government loan finance for three different housing development projects. The households have received technical assistance from the Bento Rubiao Centre, a Brazilian NGO. The Centre assisted in building design and in developing a number of options with local residents. It also provided architectural advice during the construction of the houses and has also been involved in documenting and sharing the experiences more widely among other community organisations interested in housing development.

Emerging Issues

NGOs appear to have taken up housing finance programmes with considerable enthusiasm. In many cases, the provision of credit has been successful in helping households to obtain houses, in strengthening communities and in securing significant repayments. As urban based community organisations and NGOs succeeded in their struggles to obtain land and moved from the role of protest into development activities, savings groups and housing loans have become common components of their work (Anzorena, 1993a). This section highlights some of the main issues which have emerged from these experiences and, especially, the difficulties of raising capital.

a. Community Organisation

The strengths of community organisations are critical. One advantage of using community financial mechanisms is that the greater involvement of micro-level organisations enables products and activities to be focused on meeting local needs

(ESCAP, 1991). ESCAP (1991) also notes that one of the frequently attributed characteristics of community based institutions is that they are democratic and respond rapidly to the needs of their members. However, this may be an optimistic assessment. In Fortaleza, the community leaders asked the NGO for training so that they could demonstrate to the residents interested in saving that they would operate transparent and open systems and not keep part of the finance (as previous community leaders had done) (Cabannes, personal communication; see also Cabannes 1997).

b. Financial Issues

Dealing with financial issues may be slow, difficult and controversial. Groups have minimised problems through encouraging a high level of women's participation and by starting with only small amounts of savings; but many problems remain. The issues that need to be considered are complex. For example, to whom do the repayments belong? If a community organisation receives a loan and collects repayments, should these be made available for other community members, the members who have already received loans for further investments, or passed on to another community? The experience of CERES in Bolivia suggests that it is easy for such misunderstandings to arise (McLeod and Mitlin, 1993). There is a further problem of how to minimise the abuse of funds. Albee and Gamage (1996) discuss some of the experiences of a women's credit union in Sri Lanka in which funds have both been stolen and misused by those responsible.

There has been very little exchange of experience and learning on housing finance for low-income groups initiated within the NGO sector (HIC/ACHR, 1994). There is a great scarcity of well-documented case studies and those that do exist rarely focus on financial management and community organisation. As noted above, the main focus of the development professionals has been on formal sector housing finance or on NGO/informal sector income generation and micro-enterprise finance. There are some exceptions to this generalisation (Mehta, 1994; ESCAP, 1991; UNCHS, 1991c) but there is little available to assist NGOs interested in setting up such schemes and to help them avoid repeating mistakes made elsewhere. A further problem suggested by the experiences of the Cooperative Housing Foundation is that many NGOs are weak in a number of areas including financial management (Cooperative Housing Foundation, 1993). In part, this is not surprising because much of the initiative has been taken by professionals specialising in social and community development or architecture and planning, rather than by those experienced in economics or financial management systems.

c. Constraints on Scale

Perhaps the most significant problem faced by NGO housing loan programmes is the availability of capital, the lack of which has inevitably limited their scale. In many cases, NGO experiences start with very small independent revolving loan funds where households make repayments to a capital fund which then makes the funds available to another household. The revolving loan fund of Catholic Social Services in Karachi, Pakistan is typical of such a programme (Ghouri and Nihal, 1992). The fund has a capital base of US$ 150,000 and, between 1981-92, it supported 830 households with about one-third of the loans outstanding at the end of this period.

NGOs wishing to grow need to increase their capital base. In some countries, they have been able to attract government support but, often, there is little government interest. In one study of 12 innovative housing finance programmes, both non-governmental and governmental, the maximum number of households assisted by an individual NGO programme was 2,300 (HIC/ACHR, 1994).

In a few cases, large numbers of households have been reached but this is, in general, only when government (either national or international) finance has been made available through NGOs. In the case of FUNDASAL in El Salvador, about 25,000 improved houses were provided between 1969 and 1995. However, considerable international resources were made available to FUNDASAL due to the political situation in El Salvador and the difficulties that official agencies faced in avoiding working with groups with a clear alignment to one side or other of a military conflict.

Relatively few international funding agencies have supported housing finance initiatives such as those described here. In addition, most housing finance initiatives that have obtained international funding received it from international private voluntary organisations rather than multilateral development banks such as the World Bank and the regional development banks or official government bilateral agencies.[9] In part, this reflects the low priority given by most official development agencies and private voluntary agencies to housing and to urban issues which, in turn, is the main reason why so few private voluntary organisations, including most of the largest ones, give little or no funding to this sector. But for the official donor agencies, it also reflects the difficulties they face in directly supporting local NGO activities since their institutional structure was set up to fund relatively large capital projects through recipient government agencies. In many cases, however, the funds used by the international private voluntary organisations have been obtained from bilateral agencies.

Even when financial resources are available, the size of the loans and the length of loan terms mean that impacts can be limited. The Central American loan programme of the Cooperative Housing Foundation received more than US$ 11 million in capital assistance funds over a five-year period. This was sufficient to offer credit to about 9,000 households (Cooperative Housing Foundation, 1993). Although a relatively large programme, it is evidently small in relation to the scale of need. A similar problem of scale is evident in credit programmes for water and sanitation (Varley, 1995).

d. Expanding a Capital Base

Some NGOs have sought formal sector finance (either state or private) in order to provide the capital base necessary to extend their housing loan programmes. The relationship and, in particular, the point of contact between the informal systems developed by NGOs and the formal financial sector is perhaps one of the most problematic areas in the design of such programmes. Several strategies have been used to link in with the formal sector, with variations in the intensity of the link and the speed with which a direct contact between the commercial banks and the community is established.

One strategy is to facilitate the immediate integration of low-income groups into the formal sector. For instance, NGOs establish loan guarantee schemes to provide the collateral that low-income households need to obtain credit from formal sector credit institutions. In such schemes, the NGO takes on the risk of loan default and relies on the formal sector institution to provide the loan. One example is the Housing and Local Management Unit in Chile that has operated such a guarantee system successfully, persuading a commercial bank to commit its own money (Arrossi et al., 1994). Another, working at international level, is Homeless International which is developing a loan guarantee system to support housing programmes in the South (Homeless International, 1992).

Munjee (1994) argues that most linkages between the formal financial sector and low-income households have used NGOs as the intermediary through which the formal sector institution is willing to provide funding. In some cases, NGOs have lent directly, in others a community organisation has also been involved. A further model is offered by the Fundación Carvajal in Colombia which offers training in self-build techniques and a materials bank with the loans being provided by a formal state housing bank (Cruz, 1994). The Foundation deliberately sought the direct involvement of the bank in loan management, in which it has not itself been involved. To date, the programme has been involved in constructing or improving about 30,000 houses.

There have been also less successful experiences with formal sector finance institutions. The problems of formal sector finance for low-income households are well-known and include the lack of acceptable collateral, a lack of the institution's offices in low-income areas, the reluctance of banks to lend because of the high transaction costs associated with small loans and a belief that the poor will not repay, and the level of bureaucracy associated with the provision of loans including the need for those seeking loans to be literate enough to complete forms (Remenyi, 1991; ESCAP, 1991). Most households have insufficient income to qualify for formal sector housing loans (Derkyi, 1994). Many are employed in the informal sector, so it is difficult, if not impossible, to meet the formal institution's requirements for proof of a job or of a regular income. Most live in areas that are far from the formal institution's offices.

Even where governments have tried to facilitate better relations, difficulties have been encountered. For example, the Development Authority in Indore (India) negotiated loan finance for housing latrine improvements but the banks demanded that the members from each group of applicants all visit the bank on the same day. The Authority is now concerned that the number of approved loans is well below the numbers agreed with the bank.

In India, Northern NGO guarantee finance enabled the National Federation of Slum Dwellers to obtain a loan from a state agency, HUDCO, but numerous problems arose. The agency kept refusing to advance each tranche of funds due to uncertainty about land status (despite the NGO providing an 100 per cent guarantee in hard currency that the money would be repaid). The delays were, in part, responsible for a significant increase in costs. A further problem was that the agency would not permit early repayment and, therefore, the communities will have to repay interest for some 20 years. Some years ago, the Federation concluded that "... the poor could never be participants in that process, only consumers" (Patel and D'Cruz, 1993). Turner (1989) describes a project in Mexico City where NGOs made use of the formal sector for housing finance whilst recognising that their requirements were such that the least well-off were excluded from formal sector finance.

The experience emerging from one workshop on loan finance for community level improvements (McLeod and Mitlin, 1993) was that NGOs needed to have a considerable level of financial expertise to be able to interact successfully with banks and that it takes time for the NGOs to establish their credibility with the banks. The experiences of the Cooperative Housing Foundation in Central America also showed that the formal sector financial institutions were too inflexible to offer long-term financial support to local NGOs and community organisations (Cooperative Housing Foundation, 1993).

Others have remained sceptical about the ability of the formal financial sector to address the needs of low-income households and have sought to establish alternative financial institutions. Such NGOs have sought donor and/or government support to establish alternative institutions that seek to combine the best of formal and informal sector finance. The founder of the Grameen Bank only set up the Bank after failing to persuade conventional banks that people with low incomes (especially women) were credit-worthy and would repay loans. Although this Bank is best known for its credit programme to low-income households (primarily women) for income generation, it has also developed a large housing loan programme that, by December 1993, had given loans to 220,000 households (Yunus, 1994). However, few NGOs are able to raise the capital they need to implement a large-scale programme outside of the formal sector.

One Colombian NGO, FEDEVIVIENDA, has been working with credit unions to provide a source of capital finance. The NGO works with local residents to develop housing improvement plans which are implemented through collective settlement based organisations. The improvements are part-financed by government capital subsidies which are augmented by loans from the credit union. FEDEVIVIENDA, with funds from a Northern NGO, deposited guarantee finance with the credit union equal to 25 per cent of the total capital the union is prepared to advance to local residents. (HIC/ACHR, 1994). Although a few housing loan programmes have emerged from the operations of credit union, see for example, the experience in Sri Lanka described in Albee and Gamage (1996), in general, there is little overlap.

In nearly every case, NGOs have found it difficult to obtain the capital they need to scale up their housing finance activities. As a result of this lack of capital, NGOs have campaigned both to increase general access to credit and to "... bring government finance to the people with the NGO acting as an intermediary" (Anzorena, 1993a, page 127). Anzorena goes on to argue that, whilst the very poor may not be able to make use of such interventions and require on-going support, there are many for whom the provision of credit may allow a greatly improved standard of living. In their strategy to take these programmes into government, NGOs are following a now recognised tradition of NGO strategies for expansion (Edwards and Hulme, 1992b). It is these strategies, and the experiences of the programmes that have resulted, that are the subject of the next section.

III. GOVERNMENT PROGRAMMES

Why Housing Finance?

Certain characteristics of the NGO housing finance schemes described above have been incorporated into a small number of innovative government housing finance institutions offering community based finance. These programmes have taken place in a number of countries and include FONHAPO in Mexico, the *Mutirão* programme in Brazil, the Urban Community Development Office in Thailand and the Community Mortgage Programme in the Philippines. Other government programmes, such as the Build Together programme in Namibia, also share some similar attributes. This section of the paper discusses the structure and form of these programmes and also some of the conclusions that have emerged from this experience.

Governments have been attracted to low-income housing finance because of the need to find programmes that reach the urban poor on a sufficient scale. There is now a widespread recognition that the traditional solutions to inadequate housing have not worked. Few governments have managed to build or finance "low-cost" housing on a scale that has reached more than a few per cent of low-income households. And in those cases where low-cost housing was provided, it was often largely the lower-middle and middle-income groups who benefited most. Previous government involvement in housing finance has tended to be limited to state housing banks offering conventional mortgage finance, much of it benefiting middle-income households. Such initiatives have, in general, offered subsidised finance and, in many cases, not secured high repayment rates. This subsidised finance has often been attractive to middle-income groups who have monopolised the opportunities that it offers (UNCHS, 1991a). Moreover, this has been expensive to governments and has remained on a relatively small scale. Many of these institutions have been closed down or are now being wound up or privatised due to a general withdrawal of state activities.

Several of the initiatives described in this section have, in part, developed from funds for low-income formal sector employees. In the Philippines, the Home Development Mutual Fund and, in Mexico, the INFONAVIT (for private sector employees) and FOVISSSTE (for public sector employees) have preceded the initiatives described here (Diamond and Lee, 1995; Alonzo, 1994). Such schemes continue to be important for low-income formal sector employees. In Indonesia, for example, a new programme started in 1993 for government employees. Up to April 1995, 12,000 housing loans were given and a further 6,600 people have received loans for self-build. However, as with many other such schemes, savings and repayments are deducted automatically from salaries and the scheme has not been extended to low-income households within the informal sector. Pugh (1995) argues that such experiences suggest that it is possible to use a mixture of mandated funds, private finance and (limited) government finance to improve housing. However, to date, these schemes have not reached those outside formal sector employment.

In the last decade, there appears to have been some expansion in the support offered by both national governments and international development assistance agencies for credit and loan provision aimed at low-income households. This section focuses on the specific attributes of housing loan programmes. Prior to this, the text explores in more detail the role of credit within development in order to better understand the approach of these programmes.

Credit for Development

There has been a significant growth in support for micro-enterprise credit programmes and, superficially, many housing loan and micro-enterprise credit programmes appear to be similar. As already noted, the credit schemes that have developed for housing finance use some of the traditions of informal sector finance and NGO micro-enterprise credit programmes. However, closer exploration identifies fundamental differences between different NGO finance programmes in their analysis of the major constraints on development and therefore of the strategies that are most appropriate for addressing poverty (Copestake 1995). This section explores the analytical understanding of these development intervention strategies for addressing poverty through a consideration of both housing lending and micro-enterprise credit.

Many programmes offering loans for micro-enterprise development are based within development strategies that are primarily dependent on improving the efficiency and effectiveness of financial markets. Those arguing for loan provision for reasons of financial efficiency emphasise that credit markets in many Southern countries are "imperfect" and that profitable investment opportunities are foregone because credit is not available to low-income communities at interest rates approaching those of competitive market rates (Remenyi, 1991; ESCAP, 1991). Many such programmes have now taken on a clear financial orientation. The implication is that poverty is not related to an unequal distribution of resources nor is it related to a shortage of resources *per se*. Rather, poverty is related to the imperfect functioning of capital markets and, in particular, to access to credit.

In this context, the benefits to the poor of extending financial services are primarily to enable increased incomes, a better allocation of household income and a reduction in the costs associated with cyclical or unexpected crises (Bennett and Cuevas, 1996). In addition, the poor may be helped further as both employees and consumers benefit from improved support for enterprise formation and growth through the availability of investment capital (Gibson 1993).

Imperfections in the financial markets are based primarily on the reluctance of formal financial institutions to lend to the poor. As already noted, this reluctance is based on both economic and social factors and expresses itself in a number of ways. With this understanding, NGOs have developed financial institutions designed to ensure the better functioning of financial markets for those on low incomes. One implication is that they believe this will, in itself, make a major contribution to poverty reduction. Such financial institutions seek to directly correct the deficiencies of their formal sector counterparts. They try to ensure that bank branches are located where they are needed and are open at convenient hours. Staff are trained to work with their potential clients. More flexible forms of collateral are acceptable and many of these institutions encourage small group formation to enable group collateral and personal guarantees.

The understanding that the cause of the development problem is imperfections within financial markets rather than a lack of finance, skills or personal capacity has resulted in a lack of subsidy finance within such financial institutions (Bennett and Cuaves, 1996). Increasingly, accepted practice in micro-enterprise lending is to offer non-subsidized loans with few additional services to support skill development in marketing and trading. In the past, trading market imperfections have also been seen as important with support for buyers and sellers' cooperatives. However, there appears to be a trend for external agencies to do less rather than more in this respect (see, for example, Copestake, 1995 and the discussion in Dichter, 1996). Whilst there are clearly exceptions to this generalisation, it is increasingly difficult to obtain donor finance to provide additional services in conjunction with micro-enterprise credit (Acord, personal communication).

One reason why micro-enterprise credit programmes have placed such emphasis on non-subsidised loans is in order to secure "financial sustainability" (generally interpreted as the ability of the agency to continue indefinitely into the future). A significant past problem faced by such projects has been the need to secure continued donor finance to pay for subsidised credit. Therefore, strategies to secure "sustainability" or (more precisely) their continuing viability have focused on reducing the need for subsidy finance (which might not be easy to obtain). The discussion below considers how housing finance programmes have approached this issue.

Copestake (1995) describes a number of different NGO perspectives on credit policy (drawing on the experiences with micro-enterprise credit). Within the minimalist perspective, the main constraint faced by the poor is a lack of access to financial services. Within the radical perspective, the major constraint is related more to the distribution of capital and to access to other resources. Within the alternative perspective, the constraint is both a lack of resources and consumption aspirations. In Copestake's analysis, these perspectives on the nature of the resource constraints are associated with different policy recommendations and different attitudes to subsidy finance. Both the radical and alternative perspectives include some element of subsidy finance. Within such an analysis, the housing loan programmes of both government and NGOs may be perceived to be closer to the non-minimalist perspectives although it should also be recognised that, within such programmes, the credit component may not be the only, or indeed the major, route for the delivery of a subsidy.

Many of those working with loan finance for housing also recognise that imperfections exist in financial markets, especially those related to credit. Given the considerable costs of house construction and the wasted resources from incremental developments that have to be replaced as a house grows, there are many cost advantages for households that can obtain access to loan finance. The reluctance of the formal sector to be involved, plus the willingness of low-income communities to pay market rates of interest, provides one reason for government intervention in housing finance markets (Diamond and Lee, 1995). As with small enterprise credit, the formal financial institutions argue that the administrative costs of dealing with many small loans and the problems of securing repayments are too great.

However, the principles underlying many NGO housing finance programmes have, in general, neither been consistent with the belief that the problem of poverty can be resolved through more efficient markets mechanisms nor have NGOs perceived their own development contribution as being simply to improve financial markets. The efficient use of finance (and other resources) is considered to be important but there is no assumption that the problems of the poor can simply be addressed through improving financial markets. On the contrary, most of the staff from these programmes subscribe to a view of development that includes a recognition of structural problems and multiple disadvantages for those with low incomes. Without a redistribution of income and assets, those who will benefit from development will be the individuals and groups who have access to investment resources, ie. the richer groups. Market based development is therefore considered inadequate in addressing the difficulties faced by those with low incomes and a primary consideration is the need to redistribute income and/or assets in favour of the poor.

The rationale for credit provision for housing is based within a development strategy whose objectives are to ensure that the basic needs of low-income households are met and that local community organisations are strengthened in order to better represent the interests of the poor. Within such a perspective, low-income housing loan programmes are seen as a multi-faceted instrument. They can simultaneously address the efficiency of household financial expenditures and investments, can strengthen local institutions (and therefore support a more effective political engagement for low-income groups and offer increased opportunities for self-reliance strategies) and support local economic development. The perceived advantages of innovative housing loans programmes are multiple; they are summarised here and then expanded on in the sub-sections below.

Within the settlement, effective programmes can combine:

- material improvement (in tenure, housing, and infrastructure and services);
- the strengthening of informal networks that particularly address the vulnerability of women;
- and the strengthening of community skills needed to engage effectively with external agencies; and
- if combined with support for income generation and housing production and construction, they can further contribute to local economic development.

For development agencies, subsidised housing loan finance offers an efficient way of reaching low-income settlements:

- housing loan programmes avoid or reduce problems such as selection of recipients and dependency because households are, in part, self-selected and they contribute directly to the development process as they are required to provide "counterpart" funding through savings and loan repayments;
- subsidy funds are allocated more efficiently than might otherwise be the case because the households and/or communities are also spending their own money and become involved in decisions on the allocation of funds;
- community organisations cover some of the transaction costs associated with small loans; and
- the subsidy finance goes further because it automatically draws in additional resources.

The Benefits of Housing Finance Programmes

a. Within the Settlement

Secures material improvements: Loans finance investment to improve housing conditions and the purchases of land to increase security of tenure (leading in many cases to further capital being invested in the house). The direct benefits on family well-being are evident in many of the projects. Expenditure on housing repairs is reduced, health improves as a result of improved housing and the amount available for other necessary household items increases in real terms.

The importance of the links between poor health and low, unstable incomes are increasingly being understood. Pryer (1995), for example, describes the situation in one settlement in Khulna, Bangladesh in which the poorest households were also those suffering the worst health. Equally, the links between poor housing and ill-health are also being recognised (see, for example, discussions in Cairncross, Hardoy and Sattherthwaite, 1990). Furthermore, the increase in land security and the reduced incidence of illness may contribute to a reduction in mental stress particularly among those women responsible the family's well-being . Although ignored for a long time, the burden of mental stress for the poor is increasingly being recognised (Blue, 1996).

The physical consolidation of housing is maximised through innovative housing loan programmes because they seek to work with, rather than against, people's own attempts to improve their houses. The majority of these programmes minimise terms and conditions on housing construction, thereby allowing people's own analysis and construction strategies to direct the upgrading and extension of their housing. Innovative collateral and guarantee criteria ensure that such programmes reach those in greatest housing need.

Strengthens local networks: Housing loan programmes managed by the community offer further social development benefits through the strengthening of local networks. Whilst there are clearly exceptions to these results, in general, housing loans have proved to be an effective strategy for strengthening both formal and informal organisations (Trialog, 1995).

The importance of informal networks in contributing to the reduction of the worst effects of poverty has long been realised. Montgomery (1996) discusses how groups formed within micro-enterprise credit programmes can address poverty. (As importantly, he also demonstrates that such benefits do not arise automatically but are linked to the form of the credit programme that is established.) Collectively managed housing loan programmes have also helped to establish and strengthen such informal networks.

Such networks are often particularly important for women as they manage the multitude of tasks involved in earning income, of caring for the home and dependents, and of ensuring future livelihoods. It is often hard to identify and represent the benefits of such networks; at their most simple, they involve the sharing of both financial and non-financial resources and the expression of solidarity and friendship. For example, in Rio de Janeiro, one woman (who was the main income earner in her household) joined with her neighbours to buy bricks. The neighbours then shared their labour to construct additional rooms on their houses. The cost of the extra room for this women was Reals 200, at that time (1995) just slightly more than the monthly wage of an informal sector labourer. The cheapest formal sector construction costs for a two-bedroom house were about Reals 9,000, an average per room of just under Reals 2,000 (two bedrooms, kitchen, bathroom and living room).

Solidarity is particularly important at times of crisis. Close informal networks can help women manage their multiple responsibilities whilst maintaining their livelihood strategies. In another example from Brazil, a housing loan programme in Forteleza, one woman's husband died before she had been able to repay the loan. Her neighbours came together to repay the loan for her. These networks can offer much in simply reducing some of the vulnerability and, therefore, the stress associated with poverty.

Supports stronger external negotiations: In general, the residents of low-income settlements cannot effectively address their development needs without some support from external agencies. For example, even when they meet their own housing needs, urban infrastructure and services in most medium and high density areas requires some degree of external institutional, technical and physical structure support. Neighbourhood organisations can do much to provide these facilities but the cheapest and more effective options generally require a given level of service from formal sector institutions located outside the settlement; for example, to remove solid and liquid waste.

The experience of managing housing loans may be helpful to community organisations seeking to obtain the skills they need to deal with such external agencies in several respects. First, housing loan management strengthens internal networks and collective action and this is a pre-requisite to dealing effectively with external agencies. Second, it offers community groups practical experience of financial management and the development of financial trust, a necessary skill in dealing with development projects and programmes. Third, collective housing loan management provides a forum through which collective priorities and strategies can be identified and developed.

Most of these housing finance programmes have replaced the concept of "financial sustainability" (familiar to those with micro-enterprise programmes) with one of "political sustainability". It is through the strengthening of community organisations' capacity to interact with external agencies that the critical strategy for securing the continuation of most housing finance programmes emerges. "Financial sustainability" is used to refer to a situation in which the future of an agency is secured because of its ability to cover all costs, including the cost of new capital, without recourse to sources other than commercial financial markets. "Political sustainability" essentially means securing the future of an agency through distributing subsidy finance (and other resources) in a way which (regardless of the other benefits secured) strengthens the community organisations (or other agencies within civil society) so that they are able to put sufficient pressure on the government (local or national) or other financial sources such that the subsidy finance continues.

Supports local economic development: An additional benefit of housing loan programmes is that they can support local economic development through a number of different strategies. Professionals have long recognised the relationship between housing investment and the strength of the local economy. Through making housing improvements in conjunction with measures to increase the capacity of local producers of building materials, the financial injection into the community can be made more effective by ensuring that it circulates through the community two or three times. Once through the household making the housing investment and once through the local construction company and/or building materials producer.

The housing improvement process can also offer an opportunity to teach local residents new skills, thereby strengthening local livelihood and bringing additional income into the local economy. Housing loans can directly add to household incomes by providing additional space for home based enterprises and by providing additional rooms for rent. At the level of the settlement, community organisations can construct workshops and shops for local enterprises to rent.

In order to encourage an increase in the capacity of the housing construction sector, credit for housing can be linked to credit for building enterprises and training programmes in building skills. Training may be given to existing small producers located in the area or to groups of residents who wish to start a housing construction or building materials cooperative or to residents who choose to self-build during the housing investment process and who, in so-doing, can gain the skills needed for new livelihood strategies. A further intervention in the construction side of local improvement is the introduction of new technologies which benefit both the users of the materials and the local producers.

b. For the Development Agency

Addressing the scale of need: There is an evident need to develop models and programmes appropriate to the scale of need in Southern towns and cities. There are some 600 million urban dwellers living in inadequate accommodation. Development assistance agencies give a very low priority to housing programmes that seek to reach low-income groups (including support for upgrading and community development projects) and to housing finance (Satterthwaite, 1995). Between 1980 and 1993, less than 3 per cent of development assistance went to housing finance or housing programmes and many development assistance agencies gave no support to either (ibid). But even if this finance was greatly increased, it would still be insufficient given the scale of need. In this context, the only effective strategies for providing support on a sufficient scale are those designed to work with the resources that people are already investing in housing and urban development.

Additional resources: Within subsidised development programmes, one attraction of loan finance is that it encourages the subsidy to go further because it draws in additional resources. Some of the money is recycled enabling other households to obtain finance. In the case of FONHAPO in Mexico, a 50 per cent subsidy was offered to residents but this still meant that 50 per cent of the funds were passed over to other households.

The use of loan finance may offer further possibilities if more conventional lending institutions are prepared to help. In Colombia, for example, FedeVivienda involve the credit unions in its housing loan programme to increase its capacity to offer credit.

> "FedeVivienda's ... links with the credit unions meant that they did not have to be involved in directly managing loan finance. Having raised a capital sum (of US $100,000) from the 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."

Reduced dependency: Loans draw in local finance to the programmes with a number of benefits. These include fewer problems related to the selection of recipients and to dependency as households contribute directly to the development process through "counterpart" funding in the form of savings and loan repayments.

Households and communities are, therefore, in part self-selected. The subsidy funds are allocated more effectively within the settlement than would be the case if external agencies tried to select recipients. The funds are also spent more effectively by local people who are familiar with local suppliers and who are more motivated to ensure the efficient expenditure of scarce resources. A further advantage is that products and activities are more likely to be focused on meeting local needs (ESCAP, 1991).

Lower management costs: Collective loan management reduces transaction costs and improves risk management and the resulting cost savings are significant. The cost savings when groups undertake financial management directly and the financial institution simply lends to the group are considerable. Bennett et al. (1996) quote an IFAD appraisal of one NGO project where such local group management involved savings of 30 per cent for the lender and 75 per cent for the borrower when compared to situations where the banks lent directly to individuals. This was for a rural NGO lending micro-enterprise credit so the figures should be treated cautiously; nevertheless, they are indicative of the financial importance of these measures.

Better allocation of finance: Drawing local residents into the plans ensures that the subsidy is allocated to local priorities and it is much more likely that investments will be supplemented by the households' own resources. Funds are also spent more efficiently because households and/or communities are also spending their own monies and become involved in the allocation and management of the finance. Furthermore, by routing funding through collective structures, the programmes can support the development of local structures to reduce the vulnerability of individual households and the settlement as a whole.

Finally, one of the greatest advantages for a development assistance agency is that a good housing finance system allows the agency's funds to reach low-income households and provide them with the resources they need. If this works well, the agency can spend a lot of money with the housing finance system doing all the work. It is very difficult for large, Northern based official development agencies to spend large sums of money reaching low-income groups. They always need to fund intermediaries since they cannot themselves set up the system to get their funds to "the poor". A good housing finance system is one of the best possible intermediaries between the aid and the poor.

Within such a perspective, housing loans for low-income households are seen as an integral component within a poverty reduction programme. For example, in the *Mutirao* programme currently being implemented with state and municipal finance in Fortaleza, Brazil, the repayments are made into a community fund which is then available for residents' association projects.

Although the government receives none of the repayments, the subsidy levels are relatively low (compared to other government programmes for housing) because the community's own finance resources and labour inputs are drawn into the programme (HIC/ACHR, 1994).

In summary (and returning to the earlier comparison between social development and financial efficiency approaches to credit), the differences between the two approaches can be encapsulated by their different attitude to subsidy finance. Within an approach based on economic efficiency, subsidies are considered unnecessary and even detrimental to the effectiveness of such programmes. They are unnecessary because the major problem is a lack of credit not the cost of credit; and they are detrimental because the subsidy is attractive to higher-income groups who try to obtain funds through the programme. Some of those seeking to improve housing finance provision support such a thesis (UNCHS, 1991b and Diamond and Lee, 1995). However, those with a social development approach perceive subsidies as an integral component; indeed, one of the rationales for this credit activity is that it offers a better way of allocating financial support to low-income households and the settlements in which they are living.

In Southern government programmes to date, it is this alternative rationale of social development which appears to be the major reason for supporting housing finance programmes. The discussion below considers how governments have sought to achieve this objective through the structure and form of innovative housing finance programmes.

Terms and Conditions: Going to Scale

Within a social development perspective, housing loans for low-income households are seen as an integral component of a poverty reduction programme. They are undertaken with the understanding that governments "...must change from supplying readymade housing from a central source to supporting the efforts of self-managed, community based organisations and their helpers in producing their own homes and neighbourhoods" (John Turner, 1989, page 169). It is this alternative rationale that appears to be the major reason governments have supported innovative housing finance programmes for low-income households.

The challenge faced by government programmes trying to replicate and transform NGO housing finance strategies is two-fold. First, they have to develop structures and procedures that enable models first used on a small scale to work for much larger programmes. Second, they need to adapt informal financing mechanisms into structures appropriate to an institution located within government. A number of issues have emerged as important and these are discussed below. The first issue is that of collective rather than individual loans, the second that of subsidises and the different ways in which these have been provided. The third area is that of repayment strategies and the fourth is the broader issue of urban development in low-income settlements.

a. Collective and Individual Finance

A common and important feature of these funds is that the loan is taken out by the "community" or some collective grouping within the settlement. Major government programmes such as FONHAPO, *Mutirão*, the Community Mortgage Programme and the Urban Community Development Office (described in Box 1) have been innovative in offering loans as "collective credits".

Box 1: Innovative Government Programmes

Community Mortgage Programme

The Philippines government launched the Community Mortgage Programme in 1988 to help low-income urban households acquire land titles and develop sites and housing. The Programme provides loans to allow community associations to acquire land on behalf of their members, to improve the site, develop individual titling of the land and provide individual housing loans for home improvements or house construction.

To acquire the loan, the residents have to organise themselves into a community association which becomes responsible for collecting repayments and for ensuring that the loan continues to be serviced. The land is purchased on behalf of the members and, initially, remains under the common ownership of the association. It is the association which is responsible for collecting monthly repayments from members until the community loan has been individualised. Both community based organisations and NGOs (and municipal governments) can take out loans and provide assistance in organising beneficiaries and informing them about loan availability. Loans are available for up to 90 per cent of appraised value of property and are provided for 25 years at 6 per cent interest. As of May 1994, 331 communities with just over 40,000 families had acquired security of tenure through the Programme.

Urban Community Development Office

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 organisation, an "Urban Community Development Office", with responsibility for implementing the programme nationwide. By the end of 1996, the Office aims to have more than 850 "savings and credit organisations" in urban communities and more than 120,000 urban community households belonging to "savings and credit organisations". The objectives of the programme are to strengthen the capacity of the urban poor and those living in illegal settlements to obtain increased and secure incomes, appropriate housing with secure rights, an improved environment and better living conditions. 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.

The first loan was granted in mid-December 1992. By August 1994, loans had been given to 33 organisations covering 87 communities and 4,900 households. The total value of the loans disbursed equals US$ 7.2 million, with two-thirds being allocated to housing.

FONHAPO

FONHAPO is a national fund for low-income housing established by the Mexican government in late 1981. The Fund authorised credit principally to public sector organisations (such as municipalities) and to organised community groups seeking housing (such as housing cooperatives, civil associations, unions and peasant organisations). All groups receiving credit had to be legally constituted and credit was authorised as a loan to the group as a whole not to its individual members. Credit could be used to fund any part of the housing process with great flexibility for people to choose how the funding was to be used. Five main programmes were developed; site and services, incremental housing development, improvement and/or extension of existing housing, new finished houses and the production and distribution of building materials.

When the Fund was fully operative, there were 800 accounts and 250,000 households receiving loans. The 4 per cent government allocation to housing which was given to FONHAPO was soon producing 22 per cent of all government funded housing investment. By 1987, 63,000 units had been completed and a further 53,000 started.

***Mutirão*/ FUNDACOM**

In 1986, the federal government in Brazil launched the *Mutirão* (or mutual aid) programme aiming to build 400,000 dwellings by 1990. In 1990, federal support for the programme ended although the original target had not been achieved. However, in Fortaleza and Sao Paulo, the programme continued with funds from the state and municipal authorities.

Communal societies have been established throughout Fortaleza with representation from non-organised communities and already established organisations including federations of CBOs, unions and neighbourhood councils. Through these institutions, the *Mutirão* programme provides funding for the purchase of building materials. Generally, the households within the community build everything together and, once the settlement is complete, the houses are allocated to members. Since 1987, 100 communal societies have been formed in Fortaleza and about 11,000 houses have been constructed in the city (with an additional 3,000 in the remainder of the state). Most communities consist of between 50 and 100 households. The repayments go into a community fund which is managed by community members. Up to half of the community fund may be used by the people to invest in their homes and the remainder is to be used for projects which benefit all members of the community.

In Sao Paulo, the programme was enthusiastically implemented by a new municipality in 1989. The FUNACOM programme was established to finance building materials, land acquisition and development, and infrastructure for low-income households. The community organisation receives the funds and works with a technical assistance team to implement a self-managed programme of housing improvements and/or construction. By 1992, 10,800 houses had been constructed and upgrading projects in more than 120 settlements had been started. An estimated 90,000 households were affected.

Sources: Denaldi (1994), Prisliha (1994), HIC/ACHR (1994)

In some cases, the housing development is also undertaken collectively through the traditional route of cooperative housing associations. However, in others, only the finance is provided (and managed) collectively and the housing construction and improvement activities are undertaken individually or organised with informal assistance from other members of the community.

Collective loan management has a number of advantages for governments pursuing people centred development strategies:

> **Information.** If the development is to assist local people, it must draw on the knowledge of local residents about their needs (Chambers, 1995). Individual voices are not generally heard against those of the professionals who dictate the development of the house and/or neighbourhood. Even if the individual voices are heard, such individuals cannot be representative. Some forum is required for all

the experiences and perceptions of individuals to come together in defining the housing improvement project.

Lower administrative costs. For the programme's managers, administrative costs are lower because the community organisation manages the individual loan allocations and repayments. This allows programmes to reach much larger numbers more quickly than would otherwise be the case.

Lower project costs. Locally managed housing developments are more cost-effective. As community funds are also involved, the residents follow cost-saving strategies. Experience suggests that through local management, costs will be between one-half and one-seventh of formal sector private or public institutions. For example, in Namibia, with finance obtained through the Building Together Programme, women have been able to build one-room houses with a toilet for less than one-fifth of the cost that the government would have had to pay (Lankatilleke, 1995). By working through community organisations, these programmes draw on the use of savings and other resources from the community members. As discovered by NGO programmes, although these savings may be small compared to the scale of housing finance, these resources make a real difference to the success of the project.

Risk management. Community organisations are also in the best position to assess the risks involved in lending to specific households, and to obtain repayments. As UNCHS (1994) argues with respect to conventional government initiatives in housing finance for low-income households: "Unfortunately, interventions frequently take place in an environment lacking the information needed to discriminate between good and poor investment decisions" (page 5). Interventions based on community loan management seek to internalise the local information that is required to make the programme successful.

Democratisation of housing development. Through the housing loan programme and the provision of additional support, housing development offers an opportunity to develop local organisations. Collective loan management offers an opportunity to develop local organisations. Through community based design and management, people themselves have the opportunity to determine housing design and standards.

Reduced vulnerability. The strengthening of local community activity offers a number of further possibilities for residents to reduce their vulnerability. Low-income households' lack of assets means that they are particularly vulnerable to changes in circumstances. Collective management of funds reduces the risk to individual households which arise from the loan agreements. Once communities are actively engaged in the programme, and the programme is structured so that it facilitates their involvement, many creative ideas emerge. One community of 82 households in Guadalajara (Mexico) bought an area of land with 110 plots (HIC/ACHR, 1994). The land was paid for through a revolving fund. The land was sub-divided and the surplus plots sold to reimburse the costs incurred by households in meeting and preparing for the investment. However, the community agreed to retain three plots both to provide some insurance for community members and as a resource that could be rented, thereby providing small amounts of income. Although formal insurance provision has not been a characteristic of these programmes, some NGOs are now starting to explore and innovate in this area.

Programmes generally support a number of activities to help consolidate community organisation. For example, in FONHAPO (Mexico), there were a number of conditions set by the programme before the community could be eligible for a loan; one of these was that community organisations had to convene a number of meetings prior to receiving a loan. In the Community Mortgage Programme (the Philippines), at least 90 per cent of residents in any area or settlement must agree to take part in the mortgage if it is to be given to an existing residential area, as is the case for the majority of loans. Strengthening community organisations is considered to be important in meeting the future and further needs of low-income residents. To acquire the loan, the residents have to organise themselves into an association which becomes responsible for collecting repayments and managing the loan. The land is purchased on behalf of the members and, initially, remains under the common ownership of the association until the land titles are individualised.

Low-income settlements require continuing provision of investment and infrastructure maintenance. In order for communities to secure these services, they need to be able to negotiate and put pressure on municipal government and other state institutions. Anzorena (1993a) describes it thus:

> "Community organisation is essential to strengthen the bargaining position of the community in respect of government. Government is so overwhelmingly important that communities need to acquire some additional skills and strength to deal with it. Finance alone is not generally sufficient to resolve all the problems faced by the urban poor." (page 128)

The community process is sometimes further strengthened by providing direct funds to the community organisation from within the programme. Part of the loan repayment may be returned to a community fund to be managed and allocated by members. This percentage varies between the schemes and may even vary within schemes in order to reflect the preferences of different organisations. In Thailand, between 2 and 5 per cent can be added to the interest rates by the community organisations to provide them with a small fund for collective projects. It is the stated objective of the Urban Community Development Office to "...use the financial process as an instrument to strengthen community capacity and responsibility in a self-determined, self-managed community process" (Boonyabancha, 1994). A similar mechanism was used by FONHAPO who also passed a percentage of the total loan repayment back to community organisations to strengthen their development and by the *Mutirão* programme where all the repayments are returned to the community organisation.

Other government programmes have not used a collective loan structure but have made loans to individual households. Such programmes have not attempted to model themselves on this new generation of NGO housing finance programmes but they are attempts at designing housing finance systems that reach low-income households. In general, these housing loan programmes have been an additional component within a larger-scale programme of support for low-income settlements such as the Kampung Improvement Programme in Indonesia. In some cases, both individual and collective structures have been used. For example, the Million Houses Programme in Sri Lanka made some loans through cooperatives. A preliminary assessment showed that repayment levels in cooperatives were between 80-85 per cent compared to 50-60 per cent in the case of individual repayments (ESCAP, 1991).

In Chile, there is a housing subsidy programme with individual loan finance for low-income households. In 1995, they introduced a modification to the programme to allow for collective applications for the subsidy and the loan finance. One recognised advantage of such collective development is that it allows residents to more closely control the housing that is constructed which is not the case when households use the subsidy to purchase houses developed by the public sector (Rojas and Greene, 1995). In analysing previous programmes, Rojas and Greene (1995) note that the mainly individually based housing loan and subsidy programme has resulted in neighbourhoods of low-income households with few public services and little maintenance of public infrastructure.

b. Subsidies

All of the housing loan programmes discussed here include a subsidy. These are delivered through a number of different mechanisms including capital grants, interest rate subsidies, support for loan administration and/or subsidised complementary services. This complex mix means that it is not possible to compare the value of the subsidies provided through the different programmes. In most of the programmes considered here, subsidies have been delivered through all of these routes. This sub-section further explores the relative merits of interest rate and capital subsidies. Subsidised interest rates for housing finance is a common practice in many countries. A major advantage of interest rate subsidies for the government agency is that they spread the cost over the full period of the loan which makes it attractive for governments concerned about having to meet the full cost of the subsidy immediately (HIC/ACHR, 1994).

In some cases, communities have argued strongly for interest rate subsidies. In Thailand, the Community Development Office currently charges an average rate of 7 per cent a year with differential interest being charged on community revolving funds, housing and micro-enterprise credit. When the Office was being established, the government proposed a market rate of 18 per cent and the community suggested 2 per cent. The long negotiations over interest rates actively involved communities in the development of the Office and, when the final decision partly met their demands, increased their commitment to the loan programme (Boonyabancha, personal communication). The 7 per cent was calculated as the amount that is required to maintain the value of the fund. At present, 4 per cent is allocated to cover the Office's expenses, 1 per cent to bad debts, 1 per cent to a special community development fund and 1 per cent as a reserve. The current annual inflation rate is 4 per cent and, therefore, staff now believe that this interest rate may need to be revised (Boonyabancha, 1994).

In the Community Mortgage Programme in the Philippines, the interest rate charged to communities is 6 per cent, about half the value of market rates during 1993/94. An on-going problem has been to ensure that the conventional government financing institution responsible for the Programme maintains the level of funding. This institution has been reluctant to commit the agreed level of capital to the Programme because it is able to redirect its lending towards loans with higher interest rates and can earn more than 11 per cent from alternative investments.

In Latin America, a common practice in state housing loan programmes is to link repayments to the minimum monthly wage rather than have a repayment structure based on capital and interest repayments. FONHAPO used this practice at a time of rising inflation (when the annual rate varied between 40-165 per cent in Mexico during the 1980s). This repayment strategy, it is argued, enabled the state agencies to maintain the real value of repayments more effectively than conventional interest repayments. Moreover, it reduced uncertainty for the households having to maintain repayments and was seen as "fair" by those repaying loans despite the falling value of real wages. (It was also combined with a maximum 40 per cent capital subsidy for those repaying their loans on time.) For the government, this practice has the advantage of interest rate subsidies in that it spreads the cost of the loan subsidy over several years.

Capital grants may make clearer to both loanee and the lending agency the costs involved. They may also make the programmes very attractive to borrowers and have a clear equity or redistribution aspect to them. A common use of capital subsidies is as an incentive payment to those households that maintain the agreed schedule of repayments.

From the perspective of the community, there is some evidence to suggest that communities benefit from having as much choice as possible with respect to the balance between interest rate and capital subsidies. One NGO programme in Mexico offered households within one credit programme three repayment options where the total subsidy was the same but where it was divided differently between interest rates, capital and the length of the loan. All three options were used with different ones being favoured by households in different circumstances. The range of options enabled each household to optimise their household financial management and, in the opinion of those responsible for the programme, increased the repayment rate (HIC/ACHR, 1994). Government programmes have been unable to copy this flexibility.

Providing subsidises to households (either directly or through a community organisation) has a further advantage. The households can either self-build or negotiate with local contractors for building services. As already argued, one advantage of a community structure for loans is that it can be better value for money. An evaluation at the end of the FONHAPO programme demonstrated that the houses constructed cost about half that it would have cost the government to build a house with equivalent space. This contrasts with a more traditional strategy for urban development in which the subsidy is given to formal sector contractors who absorb a percentage of the money to cover their own costs and make a profit. The suppliers and sub-contractors are often part of the formal sector and little of the finance goes to entrepreneurs living and working in informal settlements.

c. Repayments

High repayment rates have, in general, been secured by the programmes described here. FONHAPO's annual repayment rate at the end of 1988 was 93 per cent. The Community Mortgage Programme had an average repayment rate of 85 per cent in the first three months of 1995. (There was a big differential in repayment rates between those supported by NGOs and those supported by government agencies with the former being 10 per cent higher than the latter. (Community Mortgage Bulletin, 1995a)). Repayment has been encouraged through a number of measures which are common to NGO programmes. Perhaps the most universal requirement is participation in a community operated savings programme prior to loan financing. For example, the Urban Community Development Office requires a compulsory three-month saving period for any community wishing to obtain a loan. Another common incentive is a financial bonus for early repayment.

Repayment periods have varied considerably from a few years to 25 years. Clearly, the repayment period is determined by many factors including the size of the loan and what those taking out loans can afford. Government programmes, in general, appear to have longer loan periods than NGO programmes, perhaps reflecting the easier access to finance and, therefore, a willingness to commit capital for longer periods. However, as discussed in section two, it is not evident that long repayments periods are advantageous to low-income households.

There is some evidence to suggest that more traditional low-income household loan programmes continue to have problems with repayments. UNCHS (1994), in an overview of government's role in providing housing finance, argues that "... governmental housing agencies have an indifferent loan-recovery record" (page 14). In Chile, households in the Basic Housing Programme (household loans to purchase ready constructed houses) receive 12-year loans with a subsidised interest rate of 7 per cent. One recent study suggested that over 60 per cent of households are in arrears (Rojas and Greene, 1995). In Botswana, self-help housing agencies (financed by national government and managed by town councils) have arrears on one-quarter of their building materials loan accounts and on half of their land plot loans (UNCHS, 1994).

d. Economic Development

Within the housing process, programmes require flexibility in order to respond to the needs of many different groups at many different stages of housing development. Some require loans for land purchase, some for housing construction, others want to increase their skills and self-build. FONHAPO recognised this by allowing loans for a number of phases of housing development: renovation, site and service projects, completed houses and incremental development. A number of different activities could also be financed through the programme including land acquisition, project development, services provision, contractor building and self-build.

Government programmes have recognised the relationship between housing investment and the strength of the local economy. Through making housing improvements in conjunction with measures to increase the capacity of local producers of building materials, the financial injection into the community can be made more effective by ensuring that it circulates through the community two or three times: once through the household making the housing investment and once through the local construction company and/or building materials producer. The housing improvement process can also offer an opportunity to teach local residents new skills. In order to encourage an increase in the capacity of the housing construction sector, credit for housing can be linked to credit for building enterprises and training programmes in building skills. Training may be given either to existing small producers located in the area, to groups of residents who wish to start a housing construction or building materials cooperative, or to residents who choose to self-build during the housing investment process and who, in so-doing, can gain a new means of livelihood. A further intervention in the construction side of local improvement is the introduction of new technologies to the benefit of both the users of the materials and the local producers. Piloted by NGOs, some of these strategies are becoming more evident within government programmes through the additional services provided.

However, government loan programmes have also been limited by having a strong focus on housing. Areas outside of housing cannot easily be financed through such programmes because of the division of responsibilities within government ministries. However, FONHAPO permitted loans for building materials production by cooperatives and the new fund in Thailand, despite being under the National Housing Authority, has 50 per cent of the capital allocated to loans for micro-enterprise development. A further development of the *Mutirão* programme in Fortaleza has been the construction of small workshops and commercial centres within the newly developed low-income settlements. These serve the dual purpose of encouraging individual entrepreneurs and offering them a local base, and providing rental income from the units for the community organisation. In one of the first communities, the residents' association tried to manage the commercial centre but placed it with a letting agency because of problems in securing rent payments (Cabannes, personal communication).

e. Technical Assistance

Government credit programmes for low-income housing usually involve a range of institutions to provide technical assistance including national governments, local or municipal governments, NGOs and community organisations. In most of these programmes, loan finance is provided directly to the communities who can then seek technical advice from a range of different groups depending on préference and availability. In practice, in Mexico, Brazil and the Philippines such support seems to have been provided primarily by NGOs.

The link between innovative government housing credit programmes and NGOs has already been noted. In several of these programmes, government agencies recruited NGO staff to work with existing staff in developing and improving housing strategies and programmes. In Thailand, the vice-director of the Fund was involved in establishing an NGO, the Human Settlements Foundation, and has been Secretary to an Asian regional NGO. In FONHAPO, Mexico, the first director had been director of CENVI, a large NGO working in Mexico City. In the Philippines, the first director of the Community Mortgage Programme had previously established and directed another NGO, this time in a regional city.

Within the programmes, NGOs have been given an important role providing technical advice and assistance to communities participating in the programmes. Such support usually involves a broad range of different activities including the development of community organisation and self-help processes, and training and direct assistance in financial management and housing production. In addition to supporting community loan management, NGOs may have further responsibilities in helping communities to secure additional government services and infrastructure once their housing improvement programme has begun.

In the FUNACOM programme in Sao Paulo, for example, a condition of receiving housing finance is that the community organisation identifies a technical assistance team to help realise the project. The role for the team (as outlined in the programme) is to advise on "engineering and architectural matters" and give "...financial and administrative assistance to ensure that the project is carried out properly"; up to 4 per cent of the finance can be allocated to cover these costs (Denaldi, 1994). The number of formally established technical assistance teams grew rapidly once the programme was established. Most were based in universities or NGOs and emerged from small groups which had been doing mainly voluntary work prior to the establishment of a programme which allowed them to be paid for the tasks that they undertook. By 1992, 18 technical assistance teams were working within the FUNACOM programme.

However, there are other strategies for providing technical assistance. The Build Together Programme in Namibia offers individual household loans, working through and with community housing development groups with representation from community organisations, NGOs, regional and local government and staff from the Ministry of Housing and Local Government. Technical assistance is provided to households on request from the Directorate of Housing and is available for such tasks as the reblocking of settlements or community installation of infrastructure. Ministry staff are also responsible for assisting the communities in planning and designing the houses (Namibia Housing Action Group, 1995).

Local government is usually responsible for zoning and for implementing land use and building regulations and, in most cases, for the provision of services. Thus, their involvement is crucial in large-scale programmes for improving housing conditions for low-income groups (ESCAP, 1991). Many local authorities also own land and virtually all will play the main role in providing legal tenure to those living in illegal settlements. Local government also has an important potential role in supporting credit and technical assistance programmes for low-income households but most lack resources, fund-raising capacity and technical staff. Potentially, local government might offer an alternative source of support and training for community organisations. In practice, however, few have taken up these opportunities.

Governments that seek to support households and communities in developing their own housing will usually also have to modify housing standards. Within FONHAPO, the concept of minimum standards (for both improvement and new building) was replaced by that of incremental housing improvements. Standards may be introduced for good reasons - for example, health and safety - but their enforcement usually compounds problems for low-income self-build households. Governments need to find innovative alternatives. For example, within the Sri Lankan government's Million Houses Programme, urban communities were allowed to propose and agree new standards for development within their residential areas which were then accepted by the government authorities (UNCHS, 1993).

Land (and therefore land policy) is an important element both for location and cost reasons and governments are likely to need a favourable land policy in addition to making housing finance available. In the case of FONHAPO, the programme benefited from starting with an available stock of government land. In the Philippines, the high cost of land has meant that many of the loans given through the Community Mortgage Programme have been used solely for land purchase, leaving little to help with improving the quality of development. It was first intended that a future loan would be taken out by households (ESCAP, 1991) but in practice this has proved too expensive for communities with Community Mortgage Programme loan finance.

Another important factor with both direct and indirect influence has been the structural adjustment programmes. Direct impacts include the reduced magnitude of the capital fund available to the programme and reduced expenditure on advisory and technical services. Indirect impacts have been felt as economic recession has made it increasingly difficult for communities to successfully manage credit and afford different housing options. FONHAPO's activities were implemented during one of the most severe economic crises in recent Mexican history; during the period 1983 to 1988, there was a major economic crisis in Mexico related to debt repayment and rescheduling. Successive cuts in government expenditure reduced the extent of technical assistance offered by FONHAPO. A high level of technical assistance later proved to be a critical element in successful loan programmes in Mexico (Ortiz, personal communication). More generally, government policies relating to financial management and credit regulations have affected the opportunities open to low-income households. Interest rate policies are of particular importance as is the government's strategy to control inflation (ESCAP, 1991).

Adverse economic conditions can also be used to the advantage of low-income groups. In Thailand, one argument used to initiate a loan fund for low-income communities was a recognition that those who were not landowners had not benefited from rapid economic growth to the same extent as richer groups. Between 1975/76 and 1992, the share of total income received by the highest 10 per cent of income earners increased from 33 per cent of total income to 43 per cent; and the share received by the lowest 10 per cent fell from 2.43 per cent of total income to 0.9 per cent (Boonyabancha, 1995). As a consequence of putting forward arguments such as these, there was increased support for the establishment of the Urban Community Development Office

Emerging Issues

The involvement of government resources greatly increases the speed with which housing finance can be made available to low-income households. Innovative government housing finance programmes have demonstrated that it is possible to reach large numbers of households. This is particularly the case where such programmes respond to a local demand for such resources and where the local institutions exist with the capacity to draw upon this finance. In Sao Paulo, 90,000 households were affected within three years (Denaldi, 1994). In Mexico, FONHAPO reached one-quarter of a million households through 800 community loans within six years (HIC/ACHR, 1994). Using only 4 per cent of the total allocation to housing, it produced 22 per cent of all government funded housing investment (ibid). And in the Philippines, between 1988 and 1994, 331 communities with just over 40,000 families received loans to purchase land through the Community Mortgage Programme.

Despite these successes, a number of problems have emerged where governments adopted innovative housing finance programmes. Whilst experiences have varied, three consistent lessons have emerged:

- government bureaucracy has proved more resistant than expected to working in new, participatory ways with the residents of low-income settlements;
- the expansion of support services and, in particular, of technical advice and assistance has not been sufficient to keep pace with the people's enthusiasm and the loan allocation process;
- governments' priorities change and the pressure from social movements and people's organisations has not been sufficient to maintain these programmes in their original form.

Edwards and Hulme (1992a) reviewed several papers which focused on NGO strategies for scaling up through working with government. These case studies are not directly comparable as (almost) all involve Northern NGOs working alongside government staff, sometimes on fairly small-scale projects. However, two of the lessons that they identified seem similar to some of the experiences considered here. First, such activities must take place within the constraints of government, ie. "poorly-resourced, poorly-motivated usually bureaucratic agencies that are resistant to change" (page 212). And second, there is the need to plan for long-time horizons in order to achieve their objectives. Despite recognising these and other problems, Edwards and Hulme (1992b) are broadly positive about these strategies. Bebbington and Farrington (1992), in their case study of NGO and government collaboration in agricultural technology development, are less optimistic noting that governments are unlikely to agree to decentralising authority and changing their working style into that practised by NGOs. Recent events in housing finance appear to be similar to the second experience.

a. Working with Government Agencies

A major problem is the interface between the state agency and the low-income community and, in particular, the level of bureaucracy associated with government institutions. Despite attempts to simplify procedures, experience suggests that problems with bureaucracy remain a significant deterrent to the involvement of communities. In the case of FONHAPO, for example, despite repeated simplification, community organisations argued that the procedures were too difficult. The problems were numerous and they were compounded by the multiple agencies involved in the programme. For example, a major problem faced by committed staff was the need for construction licences which were not controlled by FONHAPO. Within low-income communities in Mexico, there is now a move to return to illegal invasions and informal processes because the formal ones are too complex and long (Ortiz, personal communication).

In the Community Mortgage Programme, the complexity of the process is one reason for the increasing costs for NGOs. Philippine NGOs found themselves having to raise additional finance (generally from Northern NGOs) in order to be able to finance their involvement in the Programme because the amount received from government was insufficient (Francisco, personal communication). The NGOs received P500 (US$ 20) per household to cover the costs of their support for the communities within the Community Mortgage Programme. However, in practice, the initial cost estimates underestimated the time that NGOs would need to commit. The bureaucracy of the Programme was complex and time-consuming. NGOs have been forced to think about new strategies for fundraising simply in order to maintain (through a cross-subsidy) their involvement in the programme (Francisco, personal communication). The delays in processing applications have resulted in one group of NGOs seeking additional international donor support for bridging finance. The average time taken to process a community loan, from taking the first step to receiving the advance from government, is now two years; the original target was 46 days (Community Mortgage Bulletin, 1995).

Such delays are not unusual in more conventional programmes. Applicants to the Basic Housing Programme of the Chilean government have to wait over four years between registration and access to a house. Households wishing to undertake collective development also face delays due to the problem of finding land (Rojas and Greene, 1995). However, for programmes putting considerable emphasis on the collective involvement of local residents, these delays are of particular concern. Once residents are ready, projects needs to be implemented rapidly.

A further indication of the importance of flexible procedures is given by the experience in Sao Paulo. The success of FUNACOM is, in part, attributed to a willingness on the part of government agencies not to implement certain procedures such as the need to tender for contracts and the need to wait for land regularisation prior to project implementation.

b. Support Services

In innovative housing programmes, loan finance is distributed directly to communities (as discussed above) with technical assistance being provided (and generally financed or part financed) through a range of external agencies of which the largest group has been NGOs. The experience of government programmes in low-income housing finance to date is that such programmes may have been too dependent on NGOs and on their capacity to support the process.

There are often simply not enough NGOs to support the scale of community initiatives that respond to such programmes. Even in the many Asian and Latin American countries which have long had extensive NGO involvement in housing, there are rarely sufficient experienced NGOs to be able to support a large-scale programme. In many cities, NGOs have only worked with a small number of low-income settlements (see, for example, Desai's study of Bombay, 1995). In Manila, one recent research programme estimates that most NGOs concentrate on ten of the largest squatter settlements. However, there are a total of 2,000 such settlements throughout the city (Dizon and Murphy, 1995).

The role outlined in such government programmes may demand new skills from NGOs. Many are more familiar with health or education interventions with a primary focus on welfare. Even when they have worked in housing, NGOs may have been more involved with legal and/or construction issues. They may not be familiar with housing finance and financial management or the management of community enterprise that is often a component of such programmes.

Even where the necessary skills do exist, the NGOs may be reluctant to being over-committed to government programmes. CENVI, one of the largest NGOs in Mexico City, when analysing the experiences with FONHAPO argued that "... informing, convincing, training and, eventually, accompanying the grassroots organisations themselves along the difficult route of low-cost housing development has taken up much of CENVI's time" (Connolly, 1993, page 74). Between 1980-92, CENVI assisted in 15 housing projects involving over 2,500 housing units (Connolly, 1993). Through FONHAPO, 800 communities obtained housing loans but few received a high level of input from NGOs, even though Mexican NGOs have long been among the most innovative in working on housing issues with low-income groups (HIC/ACHR, 1994). Many of the communities applying for support from FONHAPO received only minimal technical support such as that provided by groups of students. In one project, the community was divided into several groups; the one using an NGO successfully completed the programme, the community being helped by students never finished their new homes. In practice, there were few alternative institutions to NGOs offering assistance to Mexican households and it became evident that there was a lack of capacity within the NGO sector.

Discussing new ideas for linking formal financial institutions with community financial institutions in India, Mehta (1994) emphasises the need for technical support mechanisms to be in place in order for such initiatives to be scaled up effectively. Recent programmes have tried to respond to this constraint. In Fortaleza, a number of complementary training programmes for different levels of professionals have been established in order to reduce the problems of inadequate technical assistance.

In addition to courses at the university and technical school, training has also been provided for community leaders. In South Africa, a programme drawing on many of the experiences described here is investing heavily in training programmes based primarily around community exchanges between experienced and less experienced settlements. Technical expertise is being provided both through professionals and local residents with construction skills (People's Dialogue and SPARC/NSDF/*Mahila Milan*, 1994).

c. Maintaining Programmes

Innovative government programmes for housing credit have been successfully established and have reached many thousands of households. Connolly (1993) argues that FONHAPO was indicative of a major shift in the strategy of urban popular movements in Mexico from a defensive position to one of making positive proposals. However, experience over the last 15 years suggests that such programmes have found it difficult to maintain their momentum and continue their development. For example, in 1986, the federal government in Brazil launched the *Mutirão* (or mutual aid) programme aiming to build 400,000 dwellings by 1990 through collective loans. Nothing like this target was achieved before the programme was ended and it only continued in Fortaleza and Sao Paulo because of the interest of provincial and municipal authorities.

The general impact has been one of a reduction in the scale and content of these programmes. A number of specific difficulties have emerged to explain this impact. Some of the reasons reflect the general nature of the political process, others are related more to recent global trends. They include reductions in government expenditure (and a reluctance to maintain funding for innovative projects), politicians wishing to influence and control successful programmes for political purposes, and the "privatisation" of collective finance.

Working within existing government institutions proved difficult for several of the institutions considered here. The Community Mortgage Programme made a deliberate choice to locate itself within conventional government housing finance institutions to increase access by informal housing producers to formal sector funds. However, even from the outset, existing staff had little incentive to nurture and develop a social programme. The government has, in the Comprehensive and Integrated Shelter Finance Act of 1995, committed itself to allocating just under P13 billion to the Community Mortgage Programme between 1995 and 2002 but about 70 per cent of this finance will be available only in the last four years and there is concern that these funds will not be forthcoming. After allocating P660 million in 1992, commitments have fallen to an estimated P229 million in 1995 (Community Mortgage Programme Bulletin, 1995b). Despite a campaign by NGOs involved in the programme, it has proved difficult to secure additional finance.

In Sao Paulo, a change in the political administration resulted in the interruption of FUNACOM (Denaldi, 1994). The municipality had responded to coordinated pressure from the Union of Housing Movements in Greater Sao Paulo to establish the programme. The Union had been active throughout the 1980s in a number of mutual aid housing projects that served as a pilot for FUNACOM. When the new administration interrupted the programme, the Union organised campaigns and demonstrations. These have not been successful and the Union is now attempting a dual strategy. They are continuing with land invasions to put pressure on the new administration and have started negotiations with the state government to seek new sources of support for self-managed housing development (ibid).

After six successful years of operation, there are now major concerns about the content, scale and direction of FONHAPO. The instigators of FONHAPO found that setting up a programme within government inevitably meant working with staff who were not familiar with the processes required to work effectively with low-income communities. Training these staff members to work with low-income community organisations required time. The ex-director considers that, with a few more years, maybe eight instead of the five available organisational structures, processes and inter-organisational relations would be more consolidated and harder to amend. But, as it was, the success of the programme meant that it became attractive to politicians seeking to strengthen their own power base and in the last five years both its scale and approach have been eroded.

In other countries, loanees become an important political constituency to be promised favours during election time. Anzorena (1993a) describes how Indian local government officials promised to write-off loans during the election campaign. These loans had been obtained by the local government from a central agency and the local government would have to repay them. Allowing some households to be let off the debt merely reduced the funds available for other loanees (who are now less likely to make repayments). In Sri Lanka, the loan programme of the Million Houses Programme was jeopardised by the government decision to exempt certain groups that were classified as poor (those holding food stamps) from loan repayments. The recovery rate in 1989 dropped from 65 per cent to 6 per cent and some years later it still had not returned to its former levels (Anzorena, 1993b)

In recent years, there has been a general tendency for governments to withdraw from many public services including direct involvement in housing and housing finance. The innovative government and NGO initiatives described here have managed to combat this to a degree. In part, this reflects the increased ability of NGOs and people's organisations to demonstrate the strength of their case and negotiate with government to obtain state resources. However, current ideological trends are also evident in the programmes. First, there has been a tendency to individualise housing finance with loans being held by the individual household and not the community. In the Philippines, there is now pressure from the government to individualise community mortgages into individual titles within two years of the beginning of the credit. This trend means that few of the benefits to community organisation for development can be realised. (This problem is also being faced by the traditionally strong housing cooperative movement in Uruguay which is subject to government policies that undermine collective organisation (Miranda and Frigerio, 1994)). Second, there has been a trend towards an emphasis on private sector production rather than on production from local community enterprises. Inevitably, this increases production costs. Third, there has been continued pressure to reduce the value of subsidies. In order to achieve this, governments are trying to target subsidies more accurately towards the poorest groups. As a consequence, there is a reduction in the scope of programmes in Mexico, Brazil and the Philippines.

IV. CONCLUSION

The experiences of the last 15 years have included a number of innovative NGO housing finance programmes developed in response to the needs of low-income communities. Such housing loan programmes have succeeded in securing high levels of repayment. These programmes have been shown to be an effective means of directing development assistance to improve low-income residential areas. In addition to providing direct support for housing investment, they provide an opportunity to consolidate community organisations, improve existing skills and introduce new ones, and reduce low-income households' economic vulnerability through encouraging savings with the added indirect benefit of improved health as a result of the housing investment.

In response to these innovations, and under political pressure to address the needs of the urban poor and the demands of the urban social movements, governments in a small number of countries have been encouraged to establish programmes that have drawn heavily on NGO experiences. The government programmes have reached large numbers of households but a number of unanticipated problems have emerged relating in part to the ability of state institutions to work with low-income households. Some enthusiasm for government management of such funds remains (see, for example, Mumtaz, 1995).

But, as a result of the programmes discussed here, innovative NGOs are now reformulating their strategies. This concluding section looks at the options open to them.

Private sector banks and financial institutions are unlikely to provide credit effectively to low-income households for the reasons already identified. The private sector is, in general, reluctant to be involved in household finance to low-income households. In Chile, for example, the private sector believes that the profit margins in both low-income housing development and low-income housing finance are too low and the risks too high. The banks are not willing to be harsh on individual borrowers who default because of the political implications and, therefore, fear large-scale defaults (Rojas and Greene, 1995). The experiences here also show that the private sector is unlikely to be a significant source of finance.

There has been continuing interest in exploring how conventional housing finance institutions might be modified to more effectively support low-income housing development (UNCHS, 1991b; Pugh, 1995). One experience discussed in Alonzo (1994) is the Home Development Mutual Fund, a Philippine fund for formal sector employees that has tried to reach informal sector employees. It has tried to build on the Community Mortgage Programme with a community based structure to manage loans to informal sector households. However, Prisliha (1995) argues that the vast majority of this housing will not be available to the 50 per cent of Philippine households with the lowest incomes.

Reviewing the problems faced by conventional housing finance institutions in India wishing to lend to low-income groups, Mehta (1994) argues that there is a need to enlarge the market for housing finance through "down-marketing" using existing financial systems including those developed by NGOs in their work with community organisations, and proposes two mechanisms. First, the funds are given to some financial wholesaling agency which then on-lends to an NGO or cooperative agency for further lending to a community association. Second, the formal sector deals directly with community financial institutions. This, she argues, will help larger numbers of people to improve their living conditions and assist in the consolidation of community based finance which is commercially viable.

The first of these mechanisms is similar to the alternative proposed in Patel and Burra (1994) who articulate the kind of financial institution they need to support housing activities within their NGO (SPARC) and the National Slum Dwellers Federation in India. The authors describe their fund thus:

> "It is to be based on the foundation of people's savings and will not be simply an intermediary that brokers finance. It will take care of the flows and eddies in people's lives by making inter-group, inter-society and inter-federation adjustments. The money it accumulates through people's savings will be safeguarded and used as seed money to raise more from other institutions."

There has been previous experience with similar institutions. In the UK, the building societies emerged in the nineteenth century from small groups of low-income households unable to obtain loans from formal sector institutions to finance their housing development. For many years, they remained as mutual companies owned by their shareholders, who were all those with savings accounts. These experiences suggest that it is possible to develop significant funds held in institutions that are neither public nor private but collectively owned by their members. Unlike the building society model in the UK, the experiences described here suggest that such institutions should not give individual housing loans but should work with local collectives or community organisations who would manage the individual loans. A collective ownership (ie. with shares being held by community organisations rather than individual savers) might also help to address some of the problems now emerging within the UK. In this country, developments within the financial sector have resulted in some of these institutions being "privatised" with a change from mutual ownership to commercial status (Hutton, 1995).

The proposed institution is, therefore, likely to be an independent financial institution with a major (but not exclusive) focus on housing finance. It would be owned and controlled by those using its financial services. The objective would not be to maximise profits but to provide loan finance to a range of community initiatives. In South Africa, one group, drawing on the experiences of some of the projects and programmes described here, has established an embryonic fund with support from a Northern NGO and an initial commitment from the government to provide US$ 3 million (Homeless People's Federation of South Africa, 1994). This initiative is learning from and building on previous experience to develop a new strategy to support the efforts of low-income households to invest in their houses and neighbourhoods. The group has no ambition to persuade government to establish a housing loan programme to support communities or individuals directly. It has decided to establish a housing loan fund directly controlled by community organisations and is seeking to draw additional government finance into this independent fund (People's Dialogue, 1996; Bolnick, 1996). In so-doing, they are drawing on the experiences of the last 15 years, to scale up housing finance initiatives in a manner appropriate to the development needs of low-income settlements.

Notes

1. Many of these groups deal primarily with women residents. In part, this reflects the interests and orientation of the NGO. However, it also reflects women's responsibilities for taking care of the house and surrounding residential area and, therefore, their willingness to invest time and savings in projects to improve environmental quality and reduce their vulnerability (Moser and Peake, 1987).

2. Many programmes use the exchange of community leaders between settlements to encourage learning and promote local activity. Such exchanges are common within and between cities and may also involve international exchange visits. In a recent ODA funded research project looking at 21 urban community development programmes in Brazil, India, Pakistan and Tanzania, 11 of them had included community exchange visits to projects in other cities.

3. Among Northern NGOs, the Cooperative Housing Foundation (USA), Homeless International (UK), Misereor (Germany) and SELAVIP (Belgium) have each supported a number of the examples given in this paper.

4. An evaluation at the end of the FONHAPO programme showed that the houses constructed cost about half what it would have cost the government to build a house with an equivalent amount of space.

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