

**Africa Union Housing Finance Conference – 7th
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**A growing Opportunity with Unique partnerships to
serve lower down market**

**Habitat for Humanity International's experience (three
case scenarios)**

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1. The Select Partnership - CTA

- Main objective of the pilot program is to:**
- test the market,**
- minimize risks of roll out,**
- have time to work out the partnership relationship at a practical level to minimize undesirable and unexpected results or effects of the program**

Select and Habitat Malawi aim to:

- Serve between 400 to 800 clients;
- Monitor and assess the implementation of the project together on a regular basis.
- At the end of pilot, and after its evaluation, design a formal and longer-term partnership (depending on the outcome of the evaluation)

Habitat's responsibilities

Construction technical support for:

- simple, low cost housing construction or improvements
- such as building in stages, room additions, incremental housing, the renovation or repair of an existing dwelling, and other construction related home improvements.
- two tiers of service
- a) First Tier: CTA service that is provided to all clients receiving SFS Incremental Housing Loan Product

Tier one includes:

- an assessment of suitability of the construction improvement the client wishes to make
- a BOQ (bill of quantities) and cost estimate.
- from the information obtained just referred to above, the CTA Specialist may provide the client some technical advice
- a verification visit - to ascertain if the construction was done to necessary minimum standards and quality
- CTA specialist provides all necessary feedback from the First Tier process to the SFS loan consultant

Second Tier of services

- It is by agreement between the CTA Specialist and the client, additional CTA services
- house visit to ascertain the technical suitability of the desired construction intervention prior to construction may be necessary for complicated construction interventions
- provision of house designs or plans

2. Wholesale/Partnership model (UGAFODE UGANDA)

Habitat Uganda provides:

- Financial assistance: Funds to finance the housing loan portfolio,
- Technical assistance: Capacity building in key areas of Housing Micro-finance,
- Marketing Assistance: Financial and technical support to market and launch the product, while;

UGAFODE Undertakes the following:

- Loan Management: Test the housing loan product, manage the disbursement and recoveries of individual loans issued to its customers and repay the loan capital back to HFHU.

- Partner support: Collaborate with Habitat to enable her make continued assessment of the relevant capacity building and technical assistance to be rendered.
- Disbursement of funds: Disburse loans - loan to any one customer should not exceed UGX 3,000,000/=

Loan Purpose

Incremental and phased home improvement: repairs, rehabilitation, utilities like water connection, water tanks, electricity, latrines/toilets/bathrooms, kitchen, additions, and expansion/ completion

successes

- UGAFODE Ltd has fully integrated this product in its operations with targets to COs
- UGAFODE has been able to create interest amongst other MFIs that are now piloting a housing microfinance product
- discounted interest of rate of 2 percent per month (from 5% if the loan is verified and found to have been used on the intended purpose) makes the loan affordable compared to the normal loans which are charged at 3% per month
- UGAFODE Developed Micro mortgage product

- The product has helped to increase client retention within UGAFODE
- Support to construction, completion or rehabilitation of a house has created a physical impact that is lasting to the client and the neighbours
- By responding to client needs, it has reduced the risk of diversion that is endemic in the lending sector
- less complicated collateral securities and is therefore easy to access – allows as many low income people as possible access

Gaps

- To some of the clients in urban areas, loan amounts are small
- grace period was found to be short especially in villages where there is scarcity of builders
- is risk of diversion given the fact that interest rate is low compared to other business loans on the market
- Limited grace period means prices could increase the risk of misuse of funds and variation in construction costs
- Lack of technical construction adviser to help clients in projecting prices for bills of quantities reduce quality of work

- Lack of adequate capacity amongst staff to properly appraise and assess a housing microfinance loan
- In some instances over indebteding the clients (giving two loans) which affected client's ability to repay the loans and compromised portfolio quality
- delayed loan turnaround period of about 10 days due to centralized loan processing system

3. Makazi Bora – Habitat’s own pilot “Laboratory”

Eligibility

- Age: 21 – 58 years
- Income: Such that a proposed loan installment is no greater than 25% of total household income
- Employment Status: Employed or Informal Sector
- Project Type: Must have a visible home improvement project related to an existing structure.
- New structures must be completed to at least wall plate level.
- Project Location: Must be within designated operating area and show evidence of land security in the form of land title, residential license, sale agreement and/or signed document from local government that the plot is not in public or prohibited land

Fundamental Criteria Questions

- Does the Client have a visibly evident home improvement project in the operating area that is consistent with MAKAZI BORA loan use and purpose?
- Can a loan be created that will add value to that project and result in monthly installments that are 25% or less of household income?
- Is risk effectively minimized through evidence of land security, co-signing with spouse and collateral and guarantees.

Loan Amount and term

- 1st Loan: 200,000 – 800,000 Tanzania Shillings 2nd Loan: 200,000 – 2,000,000 Tanzania Shillings 3rd Loan: 200,000 – 3,000,000 Tanzania Shillings
- 6 months, 12 months, 18 months or 24 months.

Loan use

- Completion: Work on an unoccupied structure resulting in occupation or towards the objective of occupation. (e.g. roofing an unroofed structure)
- Finishing: Work on an occupied structure to add house components that did not previously exist (e.g. flooring, ceiling, plastering, etc.)

- Repair: Work on an occupied structure that replaces existing house components. (e.g. replacement of old roofing material, replacement or upgrading of doors and window.
- Auxiliary Structures: Adding detached structures on the plot of an occupied structure. (e.g. exterior kitchen, improved pit latrine)
- Negotiable: Additional uses such as purchase of an existing structure may be considered with approval of Credit Manager

Emerging lessons and possible areas of improvement

- Change of interest charging modality so that the 5% becomes a penalty rather than the 2% being viewed as a reward for not diverting the loan
- Training of staff in normal lending, portfolio management and credit risk management by. Staff who know credit/management in general are better at delivering housing finance than those whose knowledge is limited to housing finance
- Improvement of the product features: especially a slight extension of the maximum loan period to 36 months, maximum loan amount to anything from TSh 5 million to TSh 10 million.

- Extending the operational area to at least one typical rural Tanzania town– so that the pilot does not only concentrate on the city.
- This should be done after the institution has broken even in its current areas of operation. This is necessary because eventually, HFHT intends to build capacities of MFIs that offer HMP in both urban and rural areas.
- Developing a standard but adaptable “ Technical Assistance Package”, comprised of a practical course on Principles and Practices of Housing Microfinance and Guidelines for Introducing Housing Microfinance.
- These documents should be prepared using the richness of experience gained during the three years of demonstration before HFHT starts working as a housing finance apex.
- Review the training modules and establish a firm procedure for training, orienting and bringing to speed recruits and other staff.

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