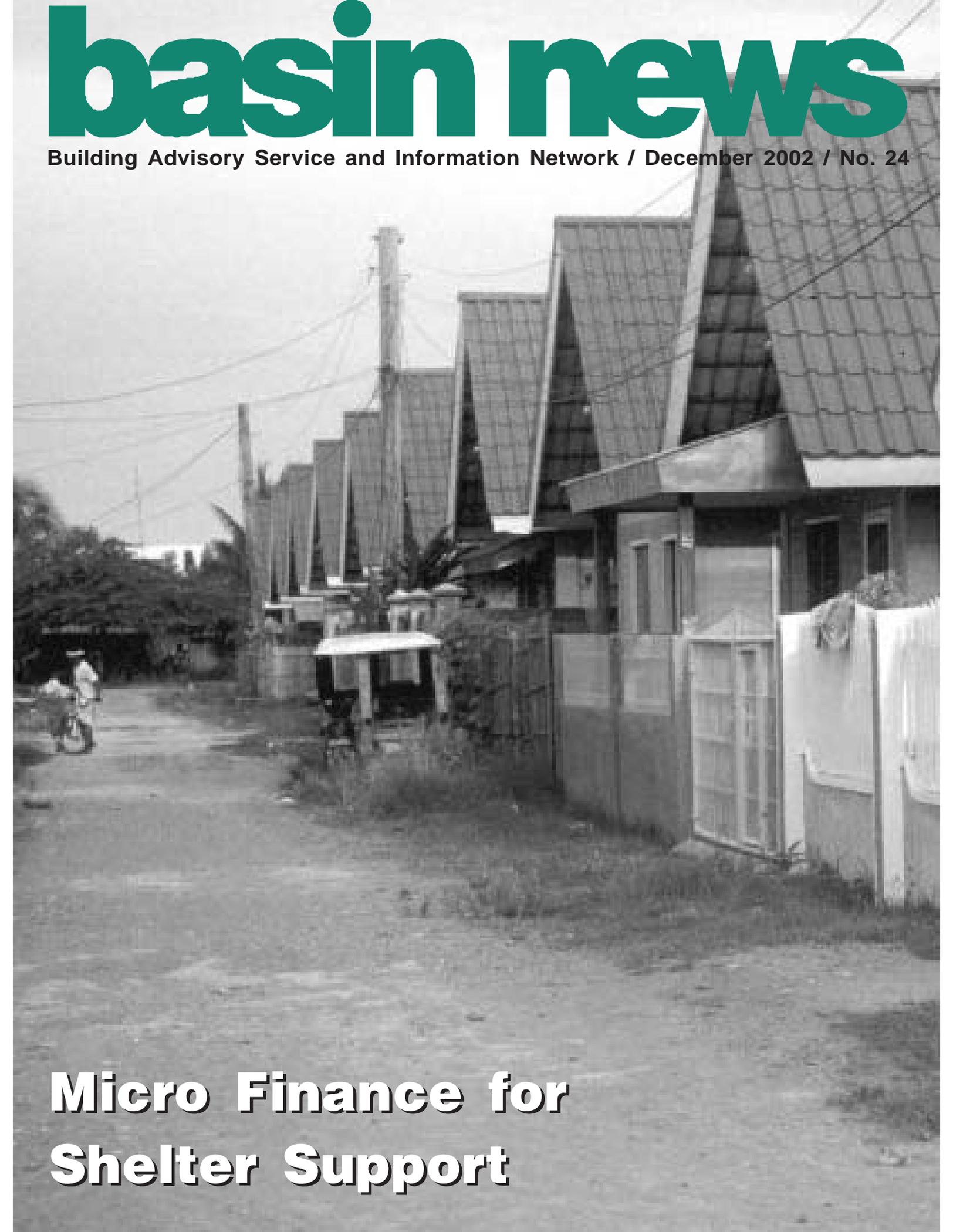


# basin news

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**Micro Finance for  
Shelter Support**

# Responding to the needs of the working poor

Lack of shelter is a major problem in most countries, but if you assume that governments and private business are working hand in hand to alleviate the housing shortage, in most cases, you would be wrong. Providing shelter for growing populations is not exactly an effort shared in good faith among all society's actors. Although they use similar rhetoric and most profess to be concerned about the homeless poor, there are definitely different motives behind the slogans presented by governments, non-government organizations (NGOs), private companies, and the various 'in betweens'.

If we look at the population of a typical country in the South, it seems there are three different types of people who do not own a house or an apartment:

- The very poor who cannot afford to pay anything.
- The 'working poor' who have a job and are paying rent.
- The young 'better off' who will use a mortgage to buy a house or flat as soon as they are ready.

Only the people in the last of those three groups have a real chance to become homeowners. Even they generally have to rely on commercial builders – who are often speculators, conveniently linked to a bank. The client's choices are rather limited unless they are wealthy. Nonetheless, in many large towns this market does exist, and for those with a good income and a wealthy person who will act as a guarantor for the loan, it works. At least until the next crisis when the well-paying job disappears.

The first group, the unemployed and destitute, have absolutely no chance in the commercial market. While there are civil institutions that provide schemes for their members, such as political parties, trades unions, and church groups, the unemployed and destitute generally have no access to housing. They have to fend for themselves, and social housing programmes will only reach a few of them. Only very massive housing projects, such as those implemented in the past by some socialist governments (Cuba for in-

stance), will alleviate this situation. Few governments are willing even to consider such programmes, and they would not likely be able to fund them.

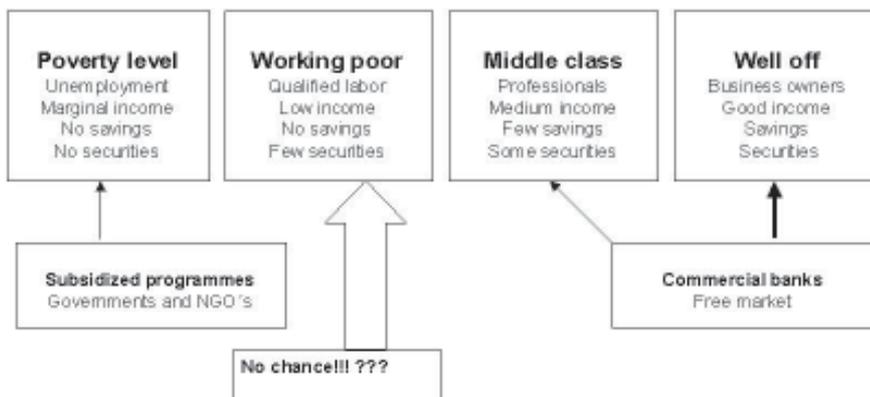
The second group is stranded somewhere between. While they constantly try to qualify for the first group, every day they must realize that the gap is growing and that the commercial housing market is not out to help them, but rather to make profits off them. Argentina is just the latest very dramatic example where this group of 'working poor' is shifting toward the third group, the destitute. At the same time, they cannot expect much help from the government or NGOs whose social housing programmes are usually directed to the 'poorest segments of society' and the working poor are simply too rich for that category. The next hurdle is the condition usually attached to those programmes, that is that clients have to be 'self-builders'. A schoolteacher or nurse or mechanic who catches a bus early every morning to get to their job and comes home late because of rush hour and full buses in the evening is definitely not going to be a self-builder. On Saturday many of these people attend some type of class to improve their qualifications and on Sunday shopping and house cleaning is on the programme.

## Housing for the 'working poor'

Grupo Sofonias in Nicaragua has decided to develop projects for this segment. It began with our workers – the masons, architects, and drivers who spent years

*Le déficit en logements est un problème chronique dans la plupart des pays. Ce projet a choisi de s'orienter vers le développement de logements avec les travailleurs pauvres, ceux qui ont un emploi et qui louent. Un fonds a été créé pour permettre aux gens de préciser le type de logement qu'ils souhaitent, de donner le contrat à l'extérieur et de rembourser leur emprunt de façon abordable en encourageant les remboursements anticipés afin que l'argent puisse être utilisé pour d'autres familles le plus rapidement possible.*

*La falta de vivienda es un problema crónico en la mayoría de los países. Este proyecto eligió comenzar a desarrollar viviendas con los "trabajadores pobres," aquellos con trabajo que alquilan su vivienda. Se creó un fondo que permitía a la gente especificar qué tipo de vivienda quería, sub-contratar la construcción y pagar su crédito en una forma accesible, con incentivos por pagos anticipados para que el dinero pudiera ser re-utilizado para otras familias lo antes posible.*



[Caption?]



*Villa Hermosa. Attractive houses for a middle class market, at prices affordable for people who would not qualify for bank loans.*



*'Economic housing'; the follow-up project uses the repayments into the mortgage fund to build with the working poor.*

helping the very poor to build their houses, while themselves living in shacks or paying high rent for inadequate apartments, often sharing with several other family members. It was not easy, as traditional donors or supporters are not interested in these 'not so poor' families. Nonetheless, one of our colleagues managed to get some private sponsors for his team, and they all improved or built their own houses.

It was only in the mid-1990s, when a German NGO was attracted to the idea, that we received modest funds to start a housing project for what we then called the 'middle class in danger of extinction'.

This fund enabled the construction of 34 individual houses on an appropriate piece of land in a small town in Nicaragua. It was a great learning experience, working with small contractors who had no experience with formal construction, and dealing with clients who had somehow managed to come up with a sizeable down payment and had very clear ideas about how their houses should be built. Sofonias Nicaragua had developed the design with another member of the EcoSur Network

and the refined architecture of the development became a milestone of construction and design in Nicaragua. Soon our office was flooded with people wanting houses.

A careful internal analysis revealed that we could target still one level lower, however; not so much the 'disappearing middle class', but actually the 'working poor'. Many of the families lining up for houses spend up to a third of their meagre income on rent, but the big question was how will they come up with a down payment that is more than their yearly income, as the high down payment was the basis of our financing scheme. Much to our surprise there are many who can, as they have parents, brothers, or aunts who will lend their life savings for something like a house.

A Cuban architect criticized this aspect of the programme: 'How can you expect those poor people to come up with three or four thousand dollars?'. I asked her what she would do if she had an opportunity to buy a house for a sum two or three times larger than her yearly salary. She laughed and admitted that she just

had bought a house with loans from several family members, amounting to about seven annual salaries.

For two years now we have been investing the repayments from the first project into the 'Economic Housing Programme' and we expect to attract more funds. Then we could combine the housing scheme with a formal apprentice programme for masons and carpenters. Payment records are excellent, and several of the mortgages have been paid off earlier than contracted. So far, only one family has defaulted, mainly because of alcohol problems and a divorce, and we repossessed the house and sold it to another family.

### *How is the fund organized?*

In Nicaragua and many other places of Latin America the banks charge close to 20 per cent interest for mortgages, over a repayment period of 15 or 20 years, so the client ends up paying for the house three times over. Nowadays even inflation does not help, as loans are usually given in or tied to the US dollar. That means that at the end of the year when the exchange rate is readjusted, the debt in local currency might be even higher than it was at the start. This discourages most people, and the repayment regime can only be kept up through the institutional powers of the banks. A small organization would be an easy target for a debtors' strike.

A bank is not really interested in construction. Their business is to place the money as safely as possible, for as long as possible. We are interested in construction; we want the cash to flow back to us as soon as possible. Therefore, it is better for us to make quick repayment attractive. We have devised a scheme where the client receives a rebate in the form of a lower interest rate if they sign up for a fast repayment plan. In the first project most people signed up for a seven-year period, with a 33 per cent down payment, which brought them down to an interest rate of 7 per cent. To manage this we set up a commercial company authorized to operate mortgage plans.

It is all based on the aim that the clients should feel they are winning throughout the process. It begins from the premise that we embrace the idea of 'social entrepreneurship', meaning that we seek only moderate profits and ensure that none of

our suppliers or contractors makes speculative gains. This, combined with an innovative design and the use of ecologically and economically sustainable building materials – ‘ecomaterials’– allows us to build at considerably lower cost than commercial companies. Thanks to our total independence from the banking system we are not subject to bank inspectors who might be looking for payoffs either.

**Can this system be applied more widely?**

Definitely, if certain basic parameters are built in:

- Small is beautiful: do not target too many people.
- Secure a grant or a ‘very low interest loan’ as base capital.
- Control all aspects of housing delivery, from planning to mortgage management.
- Good architecture and construction technology means saving cash while building attractive homes.

In order to keep costs low and quality high, the endeavor should be of a moderate size, where direct contact between the agency and the clients is possible. We consider that a yearly construction activity of 20 to 50 houses is just right for our way of working. It might be better to establish a different and independent project unit in another town or neighbourhood than to grow larger than that.



*The architect discusses design options with a group of ‘working poor’ in northern Nicaragua.*



*Hollow blocks produced with alternative cement and micro concrete tiles are manufactured nearby, which keeps construction costs low.*

If funds are short, we prefer to work with even smaller numbers and not depend on bank loans. If we had to raise cash at commercial Latin American bank rates, the project would be doomed.

In the process of housing delivery there are many points where money can be saved. A commercial developer uses a procedure where they contract a design, make all the necessary arrangements for bank approval, contract a formal sector builder, conform to all the demands of the bank and its supervisors, and then contract financial services to recover the loans. This way they can avoid dealing with legal responsibilities and simply take off a sizeable share of the cash. Often the actual construction cost will be less than half the price of the building! By avoiding this complicated system, we end up with much lower production costs.

Last but not least, we are proud to be architects and citizens with a certain awareness of cultural identity and heritage. We know that ugliness and monotony in construction does not lower costs. For the same price we know we can build good-looking houses (please consult the article of Architect Camero in *basin News 22*, ‘Participative design’).

Duration of the mortgage	20 years	20 years	10 years
Interest rate	18%	18%	12%
Situation after .....years	1 year	10 years	1 year
Cost of the house (Initial buying price)	\$ 15,000	\$ 15,000	\$ 15,000
Initial down payment	\$ 3,000	\$ 3,000	\$ 5,000
Installments paid up to now (incl. down payment)	\$ 5,222	\$ 25,224	\$ 6,722
Installments still to be paid	\$ 42,226	\$ 22,224	\$15,494
Commercial value of the house at the moment	\$ 18,000	\$ 25,000	\$ 18,000

*From this table it is clear that the homeowner with an 18 per cent bank loan might feel cheated at certain moments, when he realizes how much has been paid and how much still has to be paid. In Case 2, with a lower interest rate, the homeowner always finds the balance to be in his favour.*

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<http://www.gtz.de/basin>

Providing adequate shelter for the majority of people is one of the great challenges facing the world. The whole field of human settlement is in a great state of flux: the rapidly growing urban areas with their attendant problems of pollution, wealth inequalities, and inadequate and overloaded infrastructure are where the need for shelter is most acute.

Many innovative approaches are being developed, piloted, and implemented around the world to meet this need in an appropriate way: those who support and guide the construction sector need to know of these innovations, and of their effectiveness and suitability, so that their scarce resources can be used to best effect.

The 'building advisory service and information network', **basin**, was set up in 1988 to provide information and advice on appropriate building technologies and to create links between know-how and resources for all those in need of relevant information: government officers, financiers, builders and developers, architects, planners, and producers of building materials, who need up-to-date information and advice on the manufacture, performance, and availability of appropriate outputs and technology from around the world, and on the effective management of local resources.



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The Centro Experimental de la Vivienda Económica (CEVE) is a non-governmental, professional association and member of the Asociación de Vivienda Económica (AVE) in Argentina. Its objectives are the promotion of low-cost housing and the creation of new job sources through technology research and development, training and technology transfer.

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CRATerre is the international centre for earth construction of the School of Architecture in Grenoble, France.



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Development Alternatives is a not-for-profit sustainable development enterprise that designs and promotes programmes and products which, through the use of alternative technology, contribute to the enrichment of human life. Its symbol, a 5-pointed star, depicts a stylised human figure with arms stretched outward, its head pointing skyward, and its feet firmly rooted to the earth.



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EcoSouth, the Network for an Ecologically and Economically Sustainable Habitat promotes a larger scope of activities in the field of ecologically and economically sustainable construction. The network seeks to take advantage of current synergies among countries, persons and entities active in these fields. EcoSouth focuses its activities in southern countries and propagates south/south technology transfer as well as actual trade where equipment and material is concerned.



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The German Appropriate Technology Exchange (gate) of the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) specializes in environmental resource protection and dissemination of appropriate technologies for developing countries.



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The Intermediate Technology Development Group (ITDG), UK, is a sustainable development non-government organisation (NGO) working to build the technical skills of poor people in developing countries, enabling them to improve their quality of life. IT aims to offer locally sustainable solutions to the global problem of poverty, with a distinctive emphasis on technology choices.



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Pagtambayayong - A Foundation for Mutual Aid, Inc. is a non-governmental organization which promotes low-income housing. Its Centre for Appropriate Technology conducts research, production and training on appropriate building technologies. Pagtambayayong is a member of the Sustainable Building Technologies - Philippines, the network of SBT practitioners.



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Shelter Forum is a coalition of non-governmental organizations which deal with issues of low-cost housing shelter in Kenya. Its main goal is to enhance access to affordable shelter for all, particularly the poor, among whom the most vulnerable are women and children, through advocacy, extension, and networking.

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Skat Foundation is a resource centre active in the field of development cooperation. It provides technical back-up to balanced development which is institutionally, ecologically, and economically sound as well as technically realistic.